

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-K

**[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

Commission file number: 001-33005

INTEGRITY BANCSHARES, INC.

Georgia
(State or Other Jurisdiction
of Incorporation or Organization)

58-2508612
(I.R.S. Employer Identification Number)

**11140 State Bridge Road
P.O. Box 2008
Alpharetta, Georgia 30022**
(Address of Principal Executive Offices)

(770) 777-0324
(Issuer's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, no par value
Securities registered pursuant to Section 12(g) of the Act: Common Stock, no par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes _____ No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes _____ No X

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _____

Indicate by check mark if disclosure of delinquent filers pursuant in response to Item 405 of Regulation S-K is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer _____ Accelerated filer X Non-accelerated filer _____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes _____ No X

As of June 30, 2006, the aggregate market value of the Common Stock held by persons other than directors and executive officers of the registrant was \$126,813,572, as determined by reference to the quoted closing price for the Common Stock in the Over-the-Counter Market on June 30, 2006. The exclusion of all directors and executive officers of the registrant for purposes of this calculation should not be construed as a determination that any particular director or executive officer is an affiliate of the registrant.

There were 15,511,014 shares of Common Stock outstanding as of March 13, 2007

DOCUMENTS INCORPORATED BY REFERENCE

Part III information is incorporated herein by reference, pursuant to Instruction G to Form 10-K, from Integrity's Proxy Statement for its 2007 Annual Shareholders' Meeting.

INTEGRITY BANCSHARES, INC.

FORM 10-K CROSS-REFERENCE INDEX

| Part I | Page Number |
|--|------------------------|
| 1. Description of Business | 3 |
| 1A. Risk Factors | 17 |
| 1B. Unresolved Staff Comments | 19 |
| 2. Description of Property | 20 |
| 3. Legal Proceedings | 21 |
| 4. Submission of Matters to a Vote of Security Holders | 21 |
| Part II | |
| 5. Market for Common Equity and Related Stockholder Matters | 21 |
| 6. Selected Financial Data | 23 |
| 7. Management's Discussion and Analysis of Financial Condition and Results of Operations | 24 |
| 7A. Quantitative and Qualitative Disclosures About Market Risk | 46 |
| 8. Financial Statements and Supplementary Data | 47 |
| 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 47 |
| 9A. Controls and Procedures | 47 |
| 9B. Other Information | 49 |
| Part III | |
| 10. Directors, Executive Officers, and Corporate Governance | 50 |
| 11. Executive Compensation | 50 |
| 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 50 |
| 13. Certain Relationships and Related Transactions, and Director Independence | 50 |
| 14. Principal Accountant Fees and Services | 50 |
| Part IV | |
| 15. Exhibits and Financial Statement Schedules | 51 |
| Signatures | 52 |

Cautionary Notice Regarding Forward-Looking Statements

Various matters discussed in this Annual Report on Form 10-K may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act. Forward-looking statements may involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of Integrity Bancshares, Inc. (“Integrity” or the “Company”) to be materially different from the results described in such forward-looking statements.

Actual results may differ materially from the results anticipated in forward-looking statements in our Form 10-K due to a variety of factors including, without limitation:

- The effects of future economic conditions in our market areas and generally in the United States;
- United States governmental and international monetary and fiscal policies;
- Legislative and regulatory changes;
- The effects of changes in interest rates on the level and composition of deposits, loan demand, the value of loan collateral, and interest rate risks; and
- The effects of competition from commercial banks, thrifts, consumer finance companies, and other financial institutions operating in our market area and elsewhere.

All forward-looking statements attributable to the Company are expressly qualified in their entirety by this cautionary notice. The Company disclaims any intent or obligation to update these forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Integrity Bancshares, Inc.

Integrity Bancshares, Inc. (“we” or “us”) was organized in November, 1999 as a Georgia corporation for the purpose of acquiring all of the common stock of Integrity Bank (the “Bank”), a Georgia bank which opened for business on November 1, 2000. We are a bank holding company within the meaning of the Bank Holding Company Act of 1956 and the Georgia Bank Holding Company Act.

We were organized to facilitate the Bank’s ability to serve its customers’ requirements for financial services. The holding company structure provides flexibility for expansion of our banking business through the possible acquisition of other financial institutions and the provision of additional banking-related services which the traditional commercial bank may not provide under present laws. We have no present plans to acquire any operating subsidiaries. However, we may make acquisitions in the future if such acquisitions are deemed to be in the best interest of our shareholders. Any acquisitions will be subject to certain regulatory approvals and requirements. Future expansion is planned by opening one or two new branches of the Bank each year in high-growth areas of metro Atlanta.

Integrity Bank

Integrity Bank is a full service commercial bank headquartered at 11140 State Bridge Road, Alpharetta, Fulton County, Georgia 30022. The Bank’s primary service area is Northern Fulton County, Georgia. However, the Bank also serves the adjacent northern metropolitan Atlanta counties, or parts thereof, of Cobb, Gwinnett, and Forsyth to a lesser extent.

The principal business of the Bank is to accept deposits from the public and to make loans and other investments. The principal source of funds for the Bank’s loans and other investments are customer deposit

accounts, which include non-interest bearing demand accounts, time deposits, savings and other interest bearing transaction accounts, and amortization and prepayments of loans and investments. Other sources of funds include time deposits issued through an Internet advertising network, Federal Home Loan Bank borrowings, reverse repurchase agreements, subordinated debentures, and trust preferred securities. The amount and term of each funding source is dependent on our funding needs for loans and investments. When funding needs are identified, each funding source is evaluated to determine which mix would be the best source for the funding need.

The principal sources of income for the Bank are interest and fees collected on loans, and interest and dividends collected on other investments. The principal expenses of the Bank are interest paid on interest bearing deposits and other borrowings, employee compensation, office expenses and other overhead expenses.

Types of Loans

Below is a description of the principal categories of loans made by the Bank and the relative risks involved with each category.

Construction and Development Loans

The Bank makes residential construction and development loans to customers in our market area. Loans are granted for both speculative projects and those being built with end buyers already secured. This type of loan is subject primarily to market and general economic risk caused by inventory build-up in periods of economic prosperity. During times of economic stress this type of loan has typically had a greater degree of risk than other loan types. To mitigate that risk, the board of directors and management review the portfolio on an annual basis. The percentage of our portfolio being built on a speculative basis is tracked very closely. On a quarterly basis the portfolio is segmented by market area to allow analysis of exposure and a comparison to current inventory levels in these areas. Loan policy also provides for limits on speculative lending by borrower and by real estate project.

Construction and development loans totaled \$659 million as of December 31, 2006, which equaled approximately 70% of the total loan portfolio.

Commercial and Residential Real Estate

The Bank grants loans to borrowers secured by commercial and residential real estate located in our market area. In underwriting these types of loans we consider the historic and projected future cash flows of the real estate. We make an assessment of the physical condition and general location of the property and the effect these factors will have on its future desirability from a tenant standpoint.

Commercial real estate offers some risks not found in traditional residential real estate lending. Repayment is dependent upon successful management and marketing of properties and on the level of expense necessary to maintain the property. Repayment of these loans may be adversely affected by conditions in the real estate market or the general economy. Also, commercial real estate loans typically involve relatively large loan balances to single borrowers. To mitigate these risks, we monitor our loan concentration, and loans are audited by a third party auditor on a semi-annual basis. This type of loan generally has a shorter maturity than other loan types, giving the Bank an opportunity to reprice, restructure or decline to renew the credit.

Commercial and residential real estate loans totaled \$234 million as of December 31, 2006, which was approximately 25% of the total loan portfolio.

Commercial and Industrial Loans

To a lesser degree, the Bank makes loans to small and medium-sized businesses in our primary trade area for purposes such as new or upgrades to plant and equipment, inventory acquisition and various working capital purposes. Commercial loans are granted to borrowers based on cash flow, ability to repay and degree of management expertise. This type of loan may be subject to many different types of risk, which will differ depending on the particular industry a borrower is engaged in. General risks to an industry, or segment of an industry, are monitored by senior management on an ongoing basis. On a regular basis, commercial and industrial borrowers are required to submit statements of financial condition relative to their business to the Bank for review.

This type of loan will usually be collateralized by general intangibles, inventory, equipment or real estate. Collateral is subject to risk relative to conversion to a liquid asset, if necessary, as well as risks associated with degree of specialization, mobility and general collectibility in a default situation. To mitigate this risk to collateral, these types of loans are underwritten to strict standards including valuations and general acceptability based on the Bank's ability to monitor its ongoing health and value.

Commercial and industrial loans amounted to \$48 million as of December 31, 2006, which was approximately 5% of the total loan portfolio.

Consumer Loans

On a limited basis, the Bank offers a variety of consumer loans to retail customers in the communities we serve. Consumer loans in general carry a moderate degree of risk compared to other loans. Risk on consumer type loans is generally managed through policy limitations on debt levels consumer borrowers may carry and limitations on loan terms and amounts depending upon collateral type.

Various types of consumer loans include the following:

- Home equity loans – open and closed end
- Vehicle financing
- Loans secured by deposits
- Overdraft protection lines
- Secured and unsecured personal loans

Consumer loans amounted to \$1.2 million as of December 31, 2006, which was considerably less than 1%, (.13%), of the total loan portfolio.

Loan participations

The Bank sells loan participations in the ordinary course of business when an originated loan or loan relationship exceeds its internal loan limit or its legal lending limit as defined by state banking laws. These loan participations are sold to other financial institutions without recourse, and the Bank generally retains a portion of the interest income as a fee for servicing the sold loans.

As of December 31, 2006 the Bank had 71 sold loan participations with a total principal amount of \$102 million..

The Bank will also purchase loan participations from time to time from other banks in the ordinary course of business, in most cases without recourse. Purchased loan participations are underwritten in accordance with the Bank's loan policy and represent a source of loan growth to the Bank. The Bank believes that the risk related to purchased loan participations is consistent with other similar type loans in the loan portfolio. If a purchased loan participation defaults, the Bank usually has no recourse against the selling bank but will take other commercially reasonable steps to minimize its loss.

As of December 31, 2006 the Bank had 12 purchased loan participations. The total principal amount of these participations was \$37 million, which was approximately 3.9% of the total loan portfolio.

Loan participations are also a component of the Bank's liquidity management. Loans can be purchased as a means of increasing interest income when excess liquidity is available, since loans typically yield a higher rate of interest than short-term cash investments. Conversely, loans can be sold as needed as a means of obtaining liquidity.

Management's policy for determining the loan loss allowance

The allowance for loan losses represents management's assessment of the risk associated with extending credit and its evaluation of the quality of the loan portfolio. In calculating the adequacy of the loan loss allowance, management evaluates the following factors:

- The asset quality of individual loans.
- Changes in the national and local economy and business conditions/development, including underwriting standards, collections, charge off and recovery practices.
- Changes in the nature and volume of the loan portfolio.
- Changes in the experience, ability and depth of the lending staff and management.
- Changes in the trend of the volume and severity of past dues and classified loans and trends in the volume of non-accrual loans, troubled debt restructurings and other modifications.
- Possible deterioration in collateral segments or other portfolio concentrations.
- Historical loss experience (when available) used for pools of loans (ie. collateral types, borrowers, purposes, etc.)
- Changes in the quality of the institution's loan review system and the degree of oversight by the Bank's Board of Directors.
- The effect of external factors such as competition and the legal and regulatory requirement on the level of estimated credit losses in the Bank's current loan portfolio.
- Unfunded commitments.

These factors are evaluated at least quarterly and changes in the asset quality of individual loans are evaluated more frequently as needed.

All of our loans are assigned individual loan grades when underwritten. The Bank, using guidance established by the FDIC and the State of Georgia Department of Banking and Finance, has established minimum general reserves based on the asset quality grade of the loan. General reserve factors applied to each rating grade are based upon management's experience and common industry and regulatory guidelines.

After a loan is underwritten and booked, loans are monitored or reviewed by the account officer, management, and external loan review personnel during the life of the loan. Payment performance is monitored monthly for the entire loan portfolio, account officers contact customers during the course of business and may be able to ascertain if weaknesses are developing with the borrower, external loan personnel perform an independent review annually, and federal and state banking regulators perform periodic reviews of the loan portfolio. If weaknesses develop in an individual loan relationship and are detected then the loan is downgraded and higher reserves are assigned based upon management's assessment of the weaknesses in the loan that may affect full collection of the debt. If a loan does not appear to be fully collectible as to principal and interest then the loan is classified as impaired. These loans are monitored closely, and if they become seriously delinquent (over 90 days past due), they are recorded as a non-accruing loans and further accrual of interest is discontinued while previously accrued but uncollected interest is reserved against income. If we believe that a loan will not be collected in full then the allowance for loan and lease losses is increased to reflect management's estimate of potential exposure of loss.

Our net loan loss to average total loans ratio was .01% and 0.26% percent for the years ended 2006 and 2005, respectively. Historical performance is not an indicator of future performance and forward results could differ materially, but management believes that based upon historical performance, known factors, management's

judgment, and regulatory methodologies that the current methodology used to determine the adequacy of the allowance for loan and lease losses is reasonable.

Our allowance for loan losses is also subject to regulatory examinations and determinations as to adequacy, which may take into account such factors as the methodology used to calculate the allowance for loan losses and the size of the allowance for loan losses in comparison to a group of peer banks identified by the regulators. During their routine examinations of banks regulatory agencies may require a bank to make additional provisions to its allowance for loan losses when, in the opinion of the regulators, credit evaluations and allowance for loan loss methodology differ materially from those of management.

While it is our policy to charge off in the current period loans for which a loss is considered probable, there are additional risks of future losses which cannot be quantified precisely or attributed to particular loans or classes of loans. Because these risks include the state of the economy, management's judgment as to the adequacy of the allowance is necessarily approximate and imprecise.

Management's policy for investing in securities

Funds that are not otherwise needed to meet the loan demand of the Bank may be invested in accordance with the Bank's investment policy. The purpose of the investment policy is to provide a guideline by which these funds can best be invested to earn the maximum return for the Bank, yet still maintain sufficient liquidity to meet fluctuations in the Bank's loan demand and deposit structure. The investment policy adheres to the following objectives:

- Provide an investment medium for funds which are not needed to meet loan demand or deposit withdrawal.
- Optimize income generated from the investment account consistent with the stated objectives for liquidity and quality standards.
- Meet regulatory standards.
- Provide collateral which the bank is required to pledge against public monies or borrowings.
- Provide an investment medium for funds which may be needed for liquidity purposes.
- Provide an investment medium which will balance market and credit risk for other assets and the bank's liability structure.

Industry and competition

The Bank currently has four branch offices, all of which are full-service financial centers. Two of the full-service locations are in Northern Fulton County. The third branch is located in neighboring Cobb County, and the fourth branch is located in neighboring Gwinnett County. A loan production office was opened in late 2005 in rapidly growing Forsyth County and is currently in a leased office space. A full-service financial center serving Forsyth County is currently under construction and is expected to be completed in 2007, replacing the loan production office. A second loan production office is located in Gwinnett County. The loan production office is currently in a leased office space, and a full-service financial center is expected to be completed in 2007 to replace the loan production office.

All of these counties have a competitive banking market with established banks of all sizes, including a significant amount of *de novo* activity. However, we believe that the growth in these counties will allow new branches to establish a loan and deposit base and allow them to become profitable in a reasonable period of time. A key component of our growth strategy is to hire experienced bankers in growing areas of metropolitan Atlanta before we acquire building locations. New locations are then built in areas where the employee's customer base is located. Atlanta is one of the fastest growing areas in the country, and we are positioned in the heart of that growth. Compared to surrounding community banks, we have a larger legal lending limit that allows us to grow with our customers and compete very effectively in terms of loan production. Our top quality staff provides the reputable service, and our quick application process provides the ability to compete effectively with the larger banks.

Employees

The Bank had 81 full-time employees as of February 28, 2007. Integrity Bancshares, Inc. does not have any employees who are not also employees of the Bank.

Supervision and Regulation

General

We are subject to state and federal banking laws and regulations that impose specific requirements or restrictions and provide for general regulatory oversight over virtually all aspects of our operations. These laws and regulations generally are intended to protect depositors, not shareholders. This discussion is only a summary of various statutory and regulatory provisions. This summary is qualified by reference to the particular statutory and regulatory provisions. Any change in applicable laws or regulations may have a material effect on our business and prospects.

Beginning with the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, numerous additional regulatory requirements have been placed on the banking industry over the last two decades. On November 12, 1999, the President signed into law a financial services modernization act which effectively repealed the anti-affiliation provisions of the 1933 Glass-Steagall Act and the 1956 Bank Holding Company Act. Legislative changes and the policies of various regulatory authorities may affect our operations. We are unable to reasonably predict the nature or the extent of the effect on our business and earnings that fiscal or monetary policies, economic control or new federal or state legislation may have in the future.

Integrity Bancshares, Inc

Integrity Bancshares, Inc. is a bank holding company registered with the Board of Governors of the Federal Reserve System and the Georgia Department of Banking and Finance under the Bank Holding Company Act of 1956, as amended, and the Georgia Bank Holding Company Act. We are subject to the supervision, examination and reporting requirements of the Bank Holding Company Act and the regulations of the Federal Reserve, and the Georgia Bank Holding Company Act and the regulations of the Georgia Department of Banking and Finance.

The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before:

- it may acquire direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, the bank holding company will directly or indirectly own or control more than 5% of the voting shares of the bank;
- it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank; or
- it may merge or consolidate with any other bank holding company.

The Bank Holding Company Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any part of the United States. In addition, the Federal Reserve will not approve a transaction the effect of which may be substantially to lessen competition or to tend to create a monopoly, or that in any other manner would be in restraint of trade. However, such transactions may be approved in the event the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the communities to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks involved and the convenience and needs of the communities to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues generally focuses on the parties' performance under the Community Reinvestment Act of 1977.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 facilitates interstate branching and permits the establishment of agency relationships across state lines. The Interstate Banking Act also permits bank holding companies to acquire banks in any state without regard to whether the transaction is prohibited under the laws of such state, subject to certain state provisions, including minimum age requirements of banks that are the target of the acquisition. The minimum age of local banks subject to interstate acquisition is three years.

In response to the Interstate Banking Act, the Georgia General Assembly adopted the Georgia Interstate Banking Act, which provides that:

- interstate acquisitions by institutions located in Georgia will be permitted in states which also allow interstate acquisitions; and
- interstate acquisitions of institutions located in Georgia will be permitted by institutions located in states which allow interstate acquisitions.

Additionally, in 1996, the Georgia General Assembly adopted the Georgia Interstate Branching Act, which permits Georgia-based banks and bank holding companies owning banks outside of Georgia and all non-Georgia banks and bank holding companies owning banks in Georgia the right to merge any bank into an interstate branch network. The Georgia Interstate Branching Act also allows banks to establish de novo branches on an unlimited basis throughout Georgia, subject to the prior approval of the Georgia Department of Banking and Finance.

Except as amended by the Gramm-Leach-Bliley Act of 1999 discussed below, the Bank Holding Company Act generally prohibits a bank holding company from engaging in activities other than banking or managing or controlling banks or other permissible subsidiaries. Bank holding companies are also generally prohibited from acquiring or retaining direct or indirect control of any company engaged in any activities other than those activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Activities determined by the Federal Reserve to fall within this category include acquiring or servicing loans, leasing personal property, conducting discount securities brokerage activities, performing certain data processing services, acting as agent or broker in selling certain types of credit insurance, and performing certain insurance underwriting activities. The BHC Act does not place territorial limitations on permissible non-banking activities of bank holding companies. The Federal Reserve has the power to order a bank holding company or its subsidiaries to terminate any non-banking activity when it has reasonable cause to believe that continuation of such activity constitutes a serious risk to the safety and soundness of any bank subsidiary of that bank holding company.

Integrity Bank

Integrity Bank is incorporated under the laws of the State of Georgia and is subject to examination by the Georgia Department of Banking and Finance. The Georgia Department regulates all areas of the Bank's commercial banking operations, including, without limitation, loans, deposits, reserves, mergers, reorganizations, issuance of securities, payment of dividends, and the establishment of branches.

The Bank is also a member of the Federal Deposit Insurance Corporation, and as such, the FDIC, to the maximum extent provided by law, insures its deposits. The Bank is also subject to numerous state and federal statutes and regulations that affect its business, activities, and operations. The FDIC and the Georgia Department of Banking and Finance regularly examine the operations of the Bank and have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law.

Gramm-Leach-Bliley Act of 1999

On November 12, 1999, the President signed into law the Gramm-Leach-Bliley Act of 1999, which breaks down many of the barriers to affiliations among banks and securities firms, insurance companies, and other financial service providers. This law provides financial organizations with the flexibility to structure new affiliations through a holding company structure or a financial subsidiary. As a result, the number and type of entities competing with us in our markets could increase.

The Gramm-Leach-Bliley Act also covers various topics such as insurance, unitary thrifts, privacy protection provisions for customers of financial institutions, the Federal Home Loan Bank system's modernization, automatic teller machine reform, the Community Reinvestment Act and certain changes related to the securities industry.

The legislation amends the Bank Holding Company Act to clarify that a bank holding company may hold shares of any company that the Federal Reserve has determined to be engaged in activities that were sufficiently closely related to banking. This act also amends the Bank Holding Company Act to establish a new type of bank holding company - the "financial holding company." Financial holding companies have the authority to engage in financial activities in which other bank holding companies may not engage. Financial holding companies may also affiliate with companies that are engaged in financial activities. These financial activities include activities that are:

- financial in nature;
- incidental to an activity that is financial in nature; or
- complimentary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system in general.

The Federal Reserve and the Secretary of the Treasury may determine which activities meet these standards. However, the Gramm-Leach-Bliley Act explicitly lists certain activities as being financial in nature. For example, some of these activities are:

- lending, exchanging, transferring or investing for others;
- safeguarding money or securities;
- insuring, guaranteeing, or indemnifying against loss, harm, damage, illness, disability, or death, or providing and issuing annuities, and acting as principal, agent, or broker for these purposes in any state;
- providing financial, investment or economic advice;
- issuing or selling interests in pools of assets that a bank could hold directly;
- underwriting, dealing in or making markets in securities; and

- engaging within the United States in any activity that a bank holding company could engage in outside of the United States, if the Federal Reserve has found that the activity was usual in connection with banking or other financial operations internationally.

The Gramm-Leach-Bliley Act also directs the Federal Reserve to adopt a regulation or order defining certain additional activities as financial in nature, to the extent that they are consistent with that act. These include:

- lending, exchanging, transferring or investing for others or safeguarding financial assets other than money or securities;
- providing any device or other instrumentality for transferring financial assets; and
- arranging, effecting or facilitating financial transactions for third parties.

Not all bank holding companies may become financial holding companies. A bank holding company must meet three requirements before becoming a financial holding company:

- all of the bank holding company's depository institution subsidiaries must be well capitalized;
- all of the bank holding company's depository institution subsidiaries must be well managed; and
- the bank holding company must file with the Federal Reserve a declaration of its election to become a financial holding company, including a certification that its depository institution subsidiaries meet the prior two criteria.

With only a few exceptions, in order to exercise the powers granted to them under the Gramm-Leach-Bliley Act, a financial holding company or insured depository institution also must meet the Community Reinvestment Act's requirements. If any insured depository institution did not receive a Community Reinvestment Act rating of at least "satisfactory" at its most recent examination, the regulatory agencies are to prevent the insured depository institution or financial holding company from exercising the new powers, either directly or through a subsidiary.

Payment of dividends

Integrity Bancshares, Inc. is a legal entity separate and distinct from our banking subsidiary. Our principal source of cash flow, including cash flow to pay dividends to our shareholders, is dividends from Integrity Bank. There are statutory and regulatory limitations on the payment of dividends by the Bank, as well as by us to our shareholders.

If, in the opinion of the federal banking regulators, a depository institution under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the depository institution, could include the payment of dividends), such authority may require, after notice and hearing, that such institution cease and desist from such practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. See "Prompt Corrective Action." Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

In addition, the Georgia Financial Institutions Code and the regulations of the Georgia Department of Banking and Finance provide:

- that dividends of cash or property may be paid only out of the retained earnings of the bank;
- that dividends may not be paid if the bank's paid-in capital and retained earnings which are set aside for dividend payment and other distributions do not, in combination, equal at least 20% of the bank's capital stock; and

- that dividends may not be paid without prior approval of the Georgia Department of Banking and Finance if:
 - the bank's total classified assets exceed 80% of its equity capital;
 - the aggregate amount of dividends to be declared exceeds 50% of the bank's net profits after taxes but before dividends for the previous calendar year; or
 - the ratio of equity capital to total adjusted assets is less than 6%.

Applying these dividend restrictions, and without prior approval of the Georgia Department of Banking and Finance, as of December 31, 2006 the Bank could pay a maximum dividend of approximately \$6 million to us. Our ability to pay dividends may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines.

Capital adequacy

We are required to comply with the capital adequacy standards established by the Federal Reserve, and the Federal Deposit Insurance Corporation in the case of the Bank. There are two basic measures of capital adequacy for bank holding companies that have been promulgated by the Federal Reserve: a risk-based measure and a leverage measure. All applicable capital standards must be satisfied for a bank holding company to be considered in compliance.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid, low-risk assets. Assets and off-balance-sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

The minimum guideline for the ratio of total capital to risk-weighted assets is 8.0%. At least half of total capital must be comprised of Tier 1 Capital, which is common stock, undivided profits, minority interests in the equity accounts of consolidated subsidiaries and non-cumulative perpetual preferred stock, less goodwill and certain other intangible assets. The remainder may consist of Tier 2 Capital, which is subordinated debt, other preferred stock and a limited amount of loan loss reserves. As of December 31, 2006, the Bank's total risk-based capital ratio and its Tier 1 risk-based capital ratio were 12.35% and 9.83%, respectively.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average assets, less goodwill and certain other intangible assets, of 3.0% for bank holding companies that meet specified criteria. All other bank holding companies generally are required to maintain a leverage ratio of at least 3%, plus an additional cushion of 100 to 200 basis points. The Bank's leverage ratio as of December 31, 2006 was 10.12%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the Federal Reserve has indicated that it will consider a "tangible Tier 1 Capital leverage ratio" and other indicia of capital strength in evaluating proposals for expansion or new activities.

In 2003 we raised \$6 million through the issuance of trust preferred securities. These securities have a 30-year maturity, are callable without penalty after five years, and pay a floating rate based on three-month LIBOR plus 285 basis points. The principal balance of these securities is includable in tier one capital.

In February 2006 we raised an additional \$27 million through the issuance of trust preferred securities. These securities have a 30-year maturity, are callable without penalty after five years, and pay a floating rate based on three-month LIBOR plus 144 basis points. The principal balance of these securities is includable in total capital, and \$21 million of this balance is includable in tier one capital. Additionally, in October 2006, the Bank raised \$18 million through the issuance of subordinated debentures. These debentures have a seven-year maturity, are callable

without penalty, and pay a floating rate based on the prime rate. The principal balance of these securities is includable in tier two capital.

The capital ratios required for a well-capitalized status are: (i) Total Capital of 10.0% or greater, (ii) Tier I Capital of 6.0% or greater, and (iii) a Leverage Capital Ratio of 5.0% or greater. We exceeded all of the required ratios as of December 31, 2006. The Bank is also subject to risk-based and leverage capital requirements adopted by the Federal Deposit Insurance Corporation, which are substantially similar to those adopted by the Federal Reserve for bank holding companies. The Bank was in compliance with applicable minimum capital requirements as of December 31, 2006.

Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the Federal Deposit Insurance Corporation, a prohibition on the taking of brokered deposits, and certain other restrictions on its business. As described below, substantial additional restrictions can be imposed upon FDIC-insured depository institutions that fail to meet applicable capital requirements. See "Prompt Corrective Action."

The federal bank regulators continue to indicate their desire to raise capital requirements applicable to banking organizations beyond their current levels. In this regard, the Federal Reserve and the Federal Deposit Insurance Corporation have recently adopted regulations requiring regulators to consider interest rate risk in the evaluation of a bank's capital adequacy. The bank regulatory agencies have recently established a methodology for evaluating interest rate risk which sets forth guidelines for banks with excessive interest rate risk exposure to hold additional amounts of capital against such exposures.

Support of subsidiary institution

Under Federal Reserve policy, we are expected to act as a source of financial strength for, and to commit resources to support, the Bank. This support may be required at times when, absent such Federal Reserve policy, we may not be inclined to provide such support. In addition, any capital loans by a bank holding company to its banking subsidiary are subordinate in right of payment to deposits and to certain other indebtedness of such bank. In the event of a bank holding company's bankruptcy, any commitment by a bank holding company to a federal bank regulatory agency to maintain the capital of a banking subsidiary will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Prompt corrective action

The Federal Deposit Insurance Corporation Improvement Act of 1991 was enacted in large measure to improve the supervision and examination of insured depository institutions in an effort to reduce the number of bank failures and the resulting demands on the deposit insurance system. This law establishes a system of prompt corrective action to resolve the problems of undercapitalized institutions. Under this system, the federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and are required to take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions in the three undercapitalized categories. The severity of such actions depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator is required to appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category.

Under the regulations, an FDIC-insured bank will be:

- "well capitalized" if it has a total capital ratio of 10.0% or greater, a tier 1 capital ratio of 6.0% or greater and a leverage ratio of 5.0% or greater and is not subject to any order or written directive by the appropriate regulatory authority to meet and maintain a specific capital level for any capital measure;
- "adequately capitalized" if it has a total capital ratio of 8.0% or greater, a tier 1 capital ratio of 4.0% or greater and a leverage ratio of 4.0% or greater (3.0% in certain circumstances) and is not "well capitalized";

- “undercapitalized” if it has a total capital ratio of less than 8.0%, a tier 1 capital ratio of less than 4.0% or a leverage ratio of less than 4.0% (3.0% in certain circumstances);
- “significantly undercapitalized” if it has a total capital ratio of less than 6.0%, a tier 1 capital ratio of less than 3.0% or a leverage ratio of less than 3.0%; and
- “critically undercapitalized” if its tangible equity is equal to or less than 2.0% of average quarterly tangible assets.

A depository institution may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives an unsatisfactory examination rating in any one of four categories. As a depository institution moves downward through the capitalization categories, the degree of regulatory scrutiny will increase and the permitted activities of the institution will decrease.

An FDIC-insured bank is generally prohibited from making any capital distribution, including dividend payments, or paying any management fee to its holding company if the bank would thereafter be “undercapitalized”. “Undercapitalized” banks are subject to growth limitations and are required to submit a capital restoration plan. The federal regulators may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the bank’s capital. In addition, for a capital restoration plan to be acceptable, the bank’s parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent company is limited to the lesser of an amount equal to 5.0% of the bank’s total assets at the time it became “undercapitalized” and the amount necessary to bring the institution into compliance with all applicable capital standards. If a bank fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized”. “Significantly undercapitalized” institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become “adequately capitalized”, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. “Critically undercapitalized” institutions are subject to the appointment of a receiver or conservator. A bank that is not “well capitalized” is subject to certain limitations relating to so-called “brokered” deposits.

As of December 31, 2006, the Bank had the requisite capital levels to qualify as “well capitalized.”

FDIC insurance assessments

The FDIC merged the Bank Insurance Fund and the Savings Association Insurance Fund to form the Deposit Insurance Fund on March 31, 2006. The Bank is a member of the Deposit Insurance Fund and therefore pays deposit insurance assessments to the Deposit Insurance Fund.

Pursuant to the Federal Deposit Insurance Corporation Improvement Act, the FDIC established a system for setting deposit insurance premiums based upon the risks a particular bank or savings association posed to its deposit insurance fund. Effective January 1, 2007, the FDIC established a risk-based assessment system for determining the deposit insurance assessments to be paid by insured depository institutions. Under the assessment system, the FDIC assigns an institution to one of four risk categories, with the first category having two sub-categories based on the institution’s most recent supervisory and capital evaluations, designed to measure risk. Assessment rates currently range from 0.05% of deposits for an institution in the highest sub-category of the highest category to 0.43% of deposits for an institution in the lowest category. The FDIC is authorized to raise the assessment rates as necessary to maintain the required reserve ratio of 1.25%.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC at an annual rate of approximately 0.0124% of insured deposits to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2017 through 2019.

Under the Federal Deposit Insurance Act, the FDIC may terminate the insurance of an institution’s deposits upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Safety and soundness standards

The federal bank regulatory agencies have adopted a set of guidelines prescribing safety and soundness standards. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal shareholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If an institution fails to submit or implement such a plan, the agency must issue an order directing action to correct the deficiency and may require other actions of the types to which an undercapitalized institution is subject under the “prompt corrective action” provisions described above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Community Reinvestment Act

The Community Reinvestment Act requires federal bank regulatory agencies to encourage financial institutions to meet the credit needs of low- and moderate-income borrowers in their local communities. An institution’s size and business strategy determines the type of examination that it will receive. Large, retail-oriented institutions will be examined using a performance-based lending, investment and service test. Small institutions will be examined using a streamlined approach. All institutions may opt to be evaluated under a strategic plan formulated with community input and pre-approved by the bank regulatory agency.

Community Reinvestment Act regulations provide for certain disclosure obligations. Each institution must post a notice advising the public of its right to comment to the institution and its regulator on the institution’s Community Reinvestment Act performance and to review the institution’s Community Reinvestment Act public file. Each lending institution must maintain for public inspection a public file that includes a listing of branch locations and services, a summary of lending activity, a map of its communities and any written comments from the public on its performance in meeting community credit needs. The Community Reinvestment Act requires public disclosure of a financial institution’s written Community Reinvestment Act evaluations. This promotes enforcement of Community Reinvestment Act requirements by providing the public with the status of a particular institution’s community reinvestment record.

The Gramm-Leach-Bliley Act made various changes to the CRA. Among other changes, CRA agreements with private parties must be disclosed and annual CRA reports must be made to a bank’s primary federal regulator. A bank holding company will not be permitted to become a financial holding company and no new activities authorized under this Act may be commenced by a holding company if any of its bank subsidiaries received less than a “satisfactory” CRA rating in its latest CRA examination.

USA PATRIOT Act

On October 26, 2001 the President signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and “know your customer” standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures and controls generally require financial institutions to take reasonable steps:

- to conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction; and
- to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions.

Under the USA PATRIOT Act, financial institutions must establish anti-money laundering programs. The USA PATRIOT Act sets forth minimum standards for these programs, including:

- the development of internal policies, procedures and controls;
- the designation of a compliance officer;
- an ongoing employee training program; and
- an independent audit function to test the programs.

Under the authority of the USA PATRIOT Act, the Secretary of the Treasury adopted rules on September 26, 2002 increasing the cooperation and information sharing between financial institutions, regulators and law enforcement authorities regarding individuals, entities and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Under the new rules, a financial institution is required to:

- expeditiously search its records to determine whether it maintains or has maintained accounts, or engaged in transactions with individuals or entities, listed in a request submitted by the Financial Crimes Enforcement Network (“FinCEN”);
- notify FinCEN if an account or transaction is identified;
- designate a contact person to receive information requests;
- limit use of information provided by FinCEN to: (1) reporting to FinCEN, (2) determining whether to establish or maintain an account or engage in a transaction and (3) assisting the financial institution in complying with the Bank Secrecy Act; and
- maintain adequate procedures to protect the security and confidentiality of FinCEN requests.

Under the new rules, a financial institution may also share information regarding individuals, entities, organizations and countries for purposes of identifying and, where appropriate, reporting activities that it suspects may involve possible terrorist activity or money laundering. Such information-sharing is protected under a safe harbor if the financial institution:

- notifies FinCEN of its intention to share information, even when sharing with an affiliated financial institution;
- takes reasonable steps to verify that, prior to sharing, the financial institution or association of financial institutions with which it intends to share information has submitted a notice to FinCEN;
- limits the use of shared information to identifying and reporting on money laundering or terrorist activities, determining whether to establish or maintain an account or engage in a transaction, or assisting it in complying with the Bank Security Act; and
- maintains adequate procedures to protect the security and confidentiality of the information.

Any financial institution complying with these rules will not be deemed to have violated the privacy requirements discussed above.

Future Legislation

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of the nation’s financial institutions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

ITEM 1A. RISK FACTORS

Risk Factors

Our business involves a high degree of risk. The following paragraphs describe some of the material risks that could affect us.

The markets for our services are highly competitive and we face substantial competition.

The banking business is highly competitive. We compete as a financial intermediary with other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms soliciting business from residents of and businesses located in Alpharetta, Georgia and our entire primary service area, many of which have greater resources than we have. Many of our competitors enjoy competitive advantages, including greater financial resources, a wider geographic presence or more accessible branch office locations, the ability to offer additional services, more favorable pricing alternatives and lower origination and operating costs. This competition could result in a decrease in loans we originate and could negatively affect our results of operations.

In attracting deposits, we compete with insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Traditional banking institutions, as well as entities intending to transact business solely online, are increasingly using the Internet to attract deposits without geographic or physical limitations. In addition, many non-bank competitors are not subject to the same extensive regulations that govern us. These competitors may offer higher interest rates than we offer, which could result in either attracting fewer deposits or increasing our interest rates in order to attract deposits. Increased deposit competition could increase our cost of funds and could affect adversely our ability to generate the funds necessary for our lending operations, which would negatively affect our results of operations.

Changes in interest rates could have an adverse effect on our income.

Our profitability depends to a large extent upon our net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Our net interest income will be adversely affected if market interest rates change so that the interest we pay on deposits and borrowings increases faster than the interest we earn on loans and investments. Changes in interest rates also can affect the value of our loans. An increase in interest rates could adversely affect borrowers' ability to pay the principal or interest on our loans. This may lead to an increase in our non-performing assets and could have a material and negative effect on our results of operations.

Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Conditions such as inflation, recession, unemployment, money supply and other factors beyond our control may also affect interest rates. Fluctuations in market interest rates are neither predictable nor controllable and may have a material and negative effect on our business, financial condition and results of operations.

We have a significant amount of construction loans, which are subject to additional risks unique to the building industry that could negatively affect our net income.

Historically, our loan portfolio has included a significant number of construction loans consisting of one-to-four family residential construction loans, commercial construction loans and land loans for residential and commercial development. As of December 31, 2006, 70% of our total loan portfolio was in acquisition and development and construction loans. In addition to the risk of nonpayment by borrowers, construction lending poses additional risks in that:

- land values may decline;
- developers or builders may fail to complete or develop projects;

- municipalities may place moratoriums on building;
- developers may fail to sell the improved real estate;
- there may be construction delays and cost overruns;
- collateral may prove insufficient; or
- permanent financing may not be obtained in a timely manner.

Any of these conditions could negatively affect our net income and our financial condition.

Because a significant portion of our loan portfolio is secured by real estate, any negative conditions affecting real estate may harm our business.

A significant portion of our loan portfolio consists of commercial loans that are secured by various types of real estate as collateral, as well as real estate loans on commercial properties. Because these loans rely on real estate as collateral, either totally in the case of real estate loans or partially in the case of commercial loans secured by real estate, they are sensitive to economic conditions and interest rates. Real estate lending also presents additional credit related risks, including a borrower's inability to pay and deterioration in the value of real estate held as collateral.

If our allowance for loan losses is not adequate to cover actual losses, our net income may decrease.

We are exposed to the risk that our customers will be unable to repay their loans in a timely fashion and that collateral securing the payment of loans may be insufficient to assure repayment. Borrowers' inability to repay their loans could erode our bank's earnings and capital. We maintain an allowance for loan losses to cover loan defaults. We base our allowance for loan losses on various assumptions and judgments regarding the collectability of loans, including our prior experience with loan losses, as well as an evaluation of the risks in our loan portfolio. We maintain this allowance at a level we consider adequate to absorb anticipated losses. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond our control.

Actual losses may exceed our estimates and we may have to increase the allowance for loan losses. This would cause us to increase our provision for loan losses, which would decrease our net income. Further, state and federal regulatory agencies, as an integral part of their examination process, review our loans and our allowance for loan losses. Regulators, when reviewing our loan portfolio, may require us to increase our allowance for loan losses, which would negatively affect our net income.

If economic conditions in our market areas deteriorate, our business may be negatively affected.

Our success depends on the general economic conditions of the markets we serve. Our operations are concentrated in Alpharetta, Georgia. We also have branches or loan production offices in Roswell, Smyrna, Duluth, Buford, and Cumming, Georgia. If economic conditions in these markets are unfavorable or deteriorate, the number of borrowers that are unable to repay their loans on a timely basis could increase. This could lead to higher rates of loss and loan payment delinquencies. These factors could have a negative effect on our business, financial condition and results of operations.

Losing key personnel will negatively affect us.

Competition for personnel is stronger in the banking industry than many other industries, and we may not be able to attract or retain the personnel we require to compete successfully. We currently depend heavily on the services of our Chief Executive Officer, Steven M. Skow, and a number of other members of our senior management team. Currently, we do not have employment contracts with any of our executive officers other than Mr. Skow, and his contract is set to terminate in January 2008. Losing Mr. Skow's services or those of other

members of senior management could affect us in a material and adverse way. Our success will also depend on attracting and retaining additional qualified management personnel.

We do not intend to pay dividends on our common stock.

We have never declared or paid cash dividends on our common stock. We have no current intentions to pay dividends and cannot assure that we will be able to pay dividends in the future. In addition, our ability to pay dividends is subject to regulatory limitations.

We have a limited operating history.

We opened for business just over six years ago. Although we have grown very rapidly, we have a relatively short operating history and we may not continue to perform as well in the future as we have in the past.

We encounter technological change continually and have fewer resources than many of our competitors to invest in technological improvements.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to serving customers better, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our success will depend in part on our ability to address our customers' needs by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements than we have. We may not be able to implement new technology-driven products and services effectively or be successful in marketing these products and services to our customers.

We are subject to significant government regulations, including new legislation, that affect our operations and may result in higher operating costs or increased competition for us.

Our success will depend not only on competitive factors, but also on state and federal regulations affecting banks and bank holding companies generally. Regulations now affecting us may change at any time, and these changes may adversely affect our business.

We are subject to extensive regulation by the Board of Governors of the Federal Reserve, the Federal Deposit Insurance Corporation and the Georgia Department of Banking and Finance. Supervision, regulation and examination of banks and bank holding companies by bank regulatory agencies are intended primarily for the protection of depositors rather than shareholders. These agencies examine bank holding companies and commercial banks, establish capital and other financial requirements and approve new branches, acquisitions or other changes of control. Our ability to establish new branches or make acquisitions is conditioned on receiving required regulatory approvals from the applicable regulators.

We believe that changes in legislation and regulations will continue to have a significant impact on the banking industry. Although some of the legislative and regulatory changes may benefit us and our bank, others will increase our costs of doing business and could assist our competitors, some of which are not subject to similar regulation.

One of the regulations affecting all publicly traded companies today is the Sarbanes-Oxley Act of 2002. We have spent a considerable amount of hard and soft dollars ensuring our compliance with this Act over the past two years, and it is unknown how much we will need to spend in the future to maintain our compliance. Smaller, privately held banks in our market may not need to spend as much to comply.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. DESCRIPTION OF PROPERTY

Main Office and Administrative Building

The Bank owns its offices located at 11140 State Bridge Road, Alpharetta, Fulton County, Georgia. This 16,000 square foot location presently houses the main branch, as well as a portion of the administrative functions of the Bank. This location was constructed at a cost of \$3 million. The branch contains four teller stations, four drive up teller windows, five customer service stations, a vault with safe deposit boxes, and one drive-up ATM machine. The second story houses the loan and deposit operation functions, as well as human resources and a meeting room with a state-of-the-art video conferencing system.

In August 2004 the Company sold a 30,000 square foot administrative building and related improvements, with a book value of \$2.9 million, for \$5.0 million cash in a sale-leaseback transaction. A five-year non-renewable operating lease on the building was entered into between the Bank and the buyer, with minimum annual lease payments of \$560,000. The resulting \$2.1 million gain on sale was deferred and through 2006 was being recognized over the life of the lease. This location presently houses additional administrative functions of the bank and the holding company. On January 31, 2007, the bank repurchased this building at a cost of \$6 million. The remaining deferred gain from the original sale, approximately \$1 million, was offset against the purchase price.

Roswell

A full-service branch (financial center) was opened in 2003 in Roswell (Fulton County), Georgia. The 9,000 square foot branch was constructed at a cost of \$2.0 million. In 2006, an additional wing was added to this location at a cost of \$400,000. This branch contains three teller stations, three drive up teller windows, two customer service stations, a vault with safe deposit boxes, and one drive-up ATM machine. It also contains nine offices and a conference room.

Vinings

A full-service branch (financial center) was opened in June, 2004 in Smyrna (Cobb County), Georgia. The 9,000 square foot branch was constructed at a cost of \$2.6 million. In 2006, an additional wing was added to this location at a cost of \$250,000. This branch contains three teller stations, three drive up teller windows, two customer service stations, a vault with safe deposit boxes, and one drive-up ATM machine. It also contains nine offices and a conference room.

Duluth

A full-service branch (financial center) was opened in April, 2006 in Duluth (Gwinnett County), Georgia. The 9,000 square foot branch was constructed at a cost of \$2.9 million. This branch contains three teller stations, three drive up teller windows, two customer service stations, a vault with safe deposit boxes, and one drive-up ATM machine. It also contains nine offices and a conference room.

Cumming

In August 2005 the Bank entered into an operating lease for office space in Cumming (Forsyth County), Georgia for the purpose of opening a loan production office. The loan production office opened in October, 2005. A nearby full-service branch facility is currently under construction and is scheduled to open in 2007, which will then replace the loan production office.

North Gwinnett

In November 2006, the Bank entered into an operating lease for office space in Buford (Gwinnett County), Georgia for the purpose of opening a loan production office. The loan production office opened in December. A nearby full-service branch facility is scheduled to be built in 2007, which will then replace the loan production office.

ITEM 3. LEGAL PROCEEDINGS

We are subject to claims and litigation in the ordinary course of business. We believe that any pending claims and litigation will not have a material adverse effect on our consolidated financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our shareholders, through the solicitation of proxies or otherwise, during the fourth quarter of 2006.

PART II

ITEM 5. MARKET FOR THE COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market information

The Company has at least three market makers in its stock, and joined Nasdaq in September 2006. The stock is now listed on the Nasdaq Global Market under the symbol "ITYC."

During the period beginning in May, 2005 and ending in June, 2005, we issued 1,304,348 shares of common stock at a price of \$11.50 per share, split-adjusted, through a private placement offering (adjusted for subsequent stock splits.)

In January, 2005 we effected a 3-for-2 stock split of our common stock in the form of a common stock dividend payable on January 24, 2005 to shareholders of record as of the close of business on January 10, 2005. In December, 2005 we effected a 2-for-1 stock split of our common stock in the form of a common stock dividend payable on December 12, 2005 to shareholders of record as of the close of business on November 28, 2005.

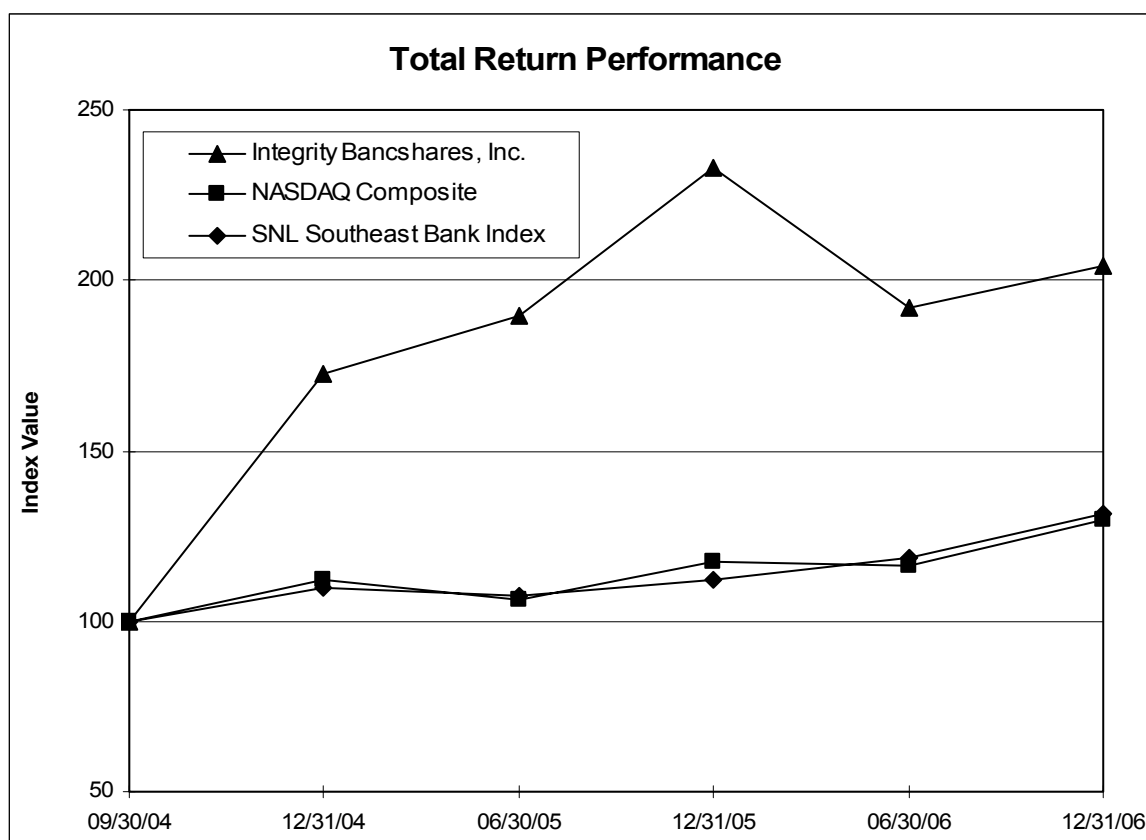
Management has reviewed the limited information available as to the ranges at which our common stock has been sold. The following table sets forth two fiscal years. This information has been adjusted to reflect a 3-for-2 stock split on January 24, 2005, as well as a 2-for-1 stock split on December 12, 2005. The number of shares traded in 2005 does not include the 1,304,348 shares issued by us at a price of \$11.50 during our private placement offering. Market quotations from which the pricing information for periods prior to our Nasdaq listing was taken reflect inter-dealer prices, without retail mark-up, mark-down, or commissions and therefore may not represent actual transactions.

| | <u>Number of shares traded</u> | <u>High selling price</u> | <u>Low selling price</u> |
|----------------|--------------------------------|---------------------------|--------------------------|
| 2006: | | | |
| First Quarter | 743,800 | \$14.75 | \$11.50 |
| Second Quarter | 959,800 | 14.90 | 12.00 |
| Third Quarter | 329,400 | 14.00 | 11.50 |
| Fourth Quarter | 649,754 | 14.49 | 12.50 |
| 2005: | | | |
| First Quarter | 371,900 | \$ 11.00 | \$8.00 |
| Second Quarter | 479,900 | 12.20 | 9.75 |
| Third Quarter | 164,700 | 12.75 | 10.75 |
| Fourth Quarter | 538,600 | 15.95 | 11.00 |

At March 13, 2007 we had 15,511,014 shares of common stock outstanding held by approximately 1,530 shareholders of record. We have not declared any cash dividends on our common stock over the last two years. Statutory and regulatory limitations apply to the Bank's payment of dividends to us, as well as our payment of dividends to our stockholders. For a complete discussion of the restrictions on dividends, see Part I, Item 1, "Supervision and Regulation – Payment of Dividends."

PERFORMANCE GRAPH

The following line graph compares the cumulative, total return on the Company's common stock from September 30, 2004 to December 31, 2006, with that of the Nasdaq Composite Index (an average of all stocks traded on the Nasdaq Stock Market), and with that of the SNL Bank Index, provided by SNL Financial, LP, for our peer group (all banks in the Southeast). Cumulative, total return represents the change in stock price and the amount of dividends received over the indicated period, assuming the reinvestment of dividends.



| <i>Index</i> | <i>Period Ending</i> | | | | | |
|----------------------------|----------------------|----------|----------|----------|----------|----------|
| | 09/30/04 | 12/31/04 | 06/30/05 | 12/31/05 | 06/30/06 | 12/31/06 |
| Integrity Bancshares, Inc. | 100.00 | 172.37 | 189.47 | 232.89 | 191.84 | 204.47 |
| NASDAQ Composite | 100.00 | 112.19 | 106.44 | 117.50 | 116.24 | 129.71 |
| SNL Southeast Bank Index | 100.00 | 109.67 | 107.64 | 112.26 | 118.82 | 131.64 |

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data presented below as of and for each of the five years ended December 31, 2006 is unaudited and has been derived from the Consolidated Financial Statements of the Company and its subsidiary, and from records of the Company. The information presented below should be read in conjunction with the Consolidated Financial Statements, the Notes to Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Averages are derived from daily balances. Share and per share amounts for all years are adjusted for all relevant stock splits and stock dividends during the period.

As of December 31,

(Dollars in thousands, except share and per share data)

| Balance Sheet Data | 2006 | 2005 | 2004 | 2003 | 2002 |
|---------------------------------|--------------------|-------------|-------------|-------------|-------------|
| Total assets | \$1,124,821 | \$753,075 | \$446,175 | \$279,748 | \$144,364 |
| Investment securities | 135,650 | 74,999 | 49,161 | 27,853 | 10,750 |
| Loans | 941,580 | 651,778 | 385,906 | 238,919 | 128,008 |
| Allowance for loan losses | 9,825 | 5,612 | 3,433 | 3,573 | 1,105 |
| Deposits | 928,787 | 674,444 | 373,272 | 231,778 | 120,133 |
| Federal Home Loan Bank advances | 5,000 | 0 | 15,000 | 16,000 | 7,000 |
| Other short-term borrowings | 1,551 | 0 | 4,279 | 10,000 | 3,115 |
| Long-term debentures | 97,022 | 6,186 | 6,186 | 0 | 0 |
| Stockholders’ equity | 80,372 | 66,119 | 43,555 | 19,892 | 13,819 |

Year Ended December 31,

| Statement of Income Data | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|-----------------|-------------|-------------|-------------|-------------|
| Interest income | \$79,635 | \$44,156 | \$22,456 | \$14,190 | \$6,815 |
| Interest expense | 41,135 | 18,684 | 7,571 | 4,964 | 2,884 |
| Net interest income | 38,500 | 25,472 | 14,885 | 9,226 | 3,931 |
| Provision for loan losses | 4,323 | 3,566 | 2,627 | 2,488 | 713 |
| Net interest income after provision for loan losses | 34,177 | 21,906 | 12,258 | 6,738 | 3,218 |
| Noninterest income | 1,268 | 571 | 452 | 189 | 88 |
| Noninterest expenses | 19,388 | 12,466 | 7,922 | 4,671 | 2,481 |
| Income tax expense | 5,920 | 3,688 | 1,776 | 462 | 0 |
| Net income | 10,137 | 6,322 | 3,012 | 1,794 | 825 |

Per Share Data

| | | | | | |
|---|-------------------|------------|------------|-----------|-----------|
| Book value per share at year end | \$5.44 | \$4.60 | \$3.41 | \$2.42 | \$2.15 |
| Basic earnings per share | .69 | .45 | .28 | .23 | .14 |
| Diluted earnings per share | .66 | .42 | .26 | .23 | .14 |
| Weighted-average shares outstanding - basic | 14,594,208 | 14,050,847 | 10,809,936 | 7,717,584 | 5,695,170 |
| Weighted-average shares outstanding - diluted | 15,418,677 | 14,961,547 | 11,552,676 | 7,950,576 | 5,695,170 |
| Dividends declared | 0 | 0 | 0 | 0 | 0 |
| Dividend payout ratio | 0% | 0% | 0% | 0% | 0% |

Ratios

| | | | | | |
|--|---------------|--------|--------|--------|--------|
| Return on average assets | 1.07% | 1.05% | .86% | .81% | .85% |
| Return on average equity | 13.83% | 11.37% | 9.15% | 9.72% | 7.30% |
| Average equity/average assets | 7.75% | 9.22% | 9.34% | 8.35% | 11.65% |
| Net interest margin | 4.23% | 4.33% | 4.39% | 4.37% | 4.23% |
| Non-performing assets/total loans and other real estate | 1.47% | .25% | .20% | 1.28% | 0 % |
| Allowance for loan losses/total loans | 1.04% | .86% | .89% | 1.50% | .86% |
| Noninterest expense/net interest income and noninterest income | 48.75% | 48.25% | 52.15% | 49.61% | 61.74% |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations. The purpose of this discussion is to focus on information about our financial condition and results of operations that is not otherwise apparent from our audited consolidated financial statements. Reference should be made to those statements and the selected financial data presented elsewhere in this report for an understanding of the following discussion and analysis.

Forward-Looking Statements

We may from time to time make written or oral forward-looking statements, including statements contained in our filings with the Securities and Exchange Commission and reports to shareholders. Statements made in the Annual Report, other than those concerning historical information, should be considered forward-looking and subject to various risks and uncertainties. Such forward-looking statements are made based upon management's belief as well as assumptions made by, and information currently available to, management pursuant to "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Our actual results may differ materially from the results anticipated in forward-looking statements due to a variety of factors, including governmental monetary and fiscal policies, deposit levels, loan demand, loan collateral values, securities portfolio values, interest rate risk management, the effects of competition in the banking business from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market funds and other financial institutions operating in our market area and elsewhere, including institutions operating through the Internet, changes in governmental regulation relating to the banking industry, including regulations relating to branching and acquisitions, failure of assumptions underlying the establishment of reserves for loan losses, including the value of collateral underlying delinquent loans, and other factors. We caution that such factors are not exclusive. We do not undertake to update any forward-looking statement that may be made from time to time by, or on behalf of, us.

Critical Accounting Policies

Our accounting and reporting policies are in accordance with accounting principles generally accepted in the United States of America as defined by Public Company Accounting Oversight Board and conform to general practices within the banking industry. Our significant accounting policies are described in the notes to the consolidated financial statements. Certain accounting policies require management to make significant estimates and assumptions, which have a material impact on the carrying value of certain assets and liabilities, and we consider these to be critical accounting policies. The estimates and assumptions used are based on historical experience and other factors that management believes to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and results of operations for the reporting periods.

We believe the following critical accounting policy requires the most significant estimates and assumptions that are particularly susceptible to a significant change in the preparation of our financial statements.

Allowance for Loan Losses

Our allowance for loan losses is based on management's opinion of an amount that is adequate to absorb losses inherent in the existing loan portfolio. The allowance for loan losses is established through a provision for losses based on management's evaluation of current economic conditions, volume and composition of the loan portfolio, the fair market value or the estimated net realizable value of underlying collateral, historical charge off experience, the level of nonperforming and past due loans, and other indicators derived from reviewing the loan portfolio. The evaluation includes a review of all loans on which full collection may not be reasonably assumed. Should the factors that are considered in determining the allowance for loan losses change over time, or should management's estimates prove incorrect, a different amount may be reported for the allowance and the associated provision for loan losses. For example, if economic conditions in our market area experience an unexpected and adverse change, we may need to increase our allowance for loan losses by taking a charge against earnings in the form of an additional provision for loan loss.

Fourth Quarter 2006

The supplemental quarterly financial data is as follows:

| (In thousands) | Quarters ended | | | |
|--------------------------------|-------------------|------------------|-----------------------|----------------------|
| | March 31, 2006 | June 30, 2006 | September 30, 2006 | December 31, 2006 |
| Interest income | \$ 16,572 | \$ 19,265 | \$ 21,046 | \$ 22,752 |
| Interest expense | 7,739 | 9,487 | 11,042 | 12,866 |
| Net interest income | 8,833 | 9,778 | 10,004 | 9,886 |
| Provision for loan losses | 1,291 | 848 | 351 | 1,833 |
| Net income | 2,177 | 2,781 | 3,366 | 1,813 |
| Net income per share – basic | .15 | .19 | .23 | .12 |
| Net income per share – diluted | .14 | .18 | .22 | .12 |

| (In thousands) | Quarters ended | | | |
|------------------------------------|-------------------|------------------|-----------------------|----------------------|
| | March 31, 2005 | June 30, 2005 | September 30, 2005 | December 31, 2005 |
| Interest income | \$ 8,287 | \$ 9,994 | \$ 11,369 | \$ 14,506 |
| Interest expense | 3,206 | 4,118 | 4,926 | 6,434 |
| Net interest income | 5,081 | 5,876 | 6,443 | 8,072 |
| Provision for loan losses | 572 | 664 | 765 | 1,565 |
| Net income | 1,334 | 1,475 | 1,898 | 1,615 |
| Net income per share – basic (1) | 0.10 | 0.11 | 0.13 | 0.11 |
| Net income per share – diluted (1) | 0.09 | 0.10 | 0.12 | 0.11 |

(1) adjusted for the two-for-one stock split declared in fourth quarter 2005.

Interest rates rose steadily during the first half of 2006, and then flattened out. While the rising rates benefited our primarily floating rate loan portfolio, thus increasing interest income, the cost of funds increased steadily during the second half of the year as time deposits rolled into the higher rate instruments after maturing. Interest income and interest expense increased 57% and 100%, respectively, in fourth quarter 2006 compared to the same period in 2005. Consequently, our net interest margin declined to 3.82% from 4.54% for the comparable quarters. The redeeming contributor to the increase in interest income was the growth of the loan portfolio. Average gross loans in the fourth quarter 2006 increased 42% over the comparable quarter in 2005. Loan fee income, which is based on volume during the period and is included in interest income, was \$1,200,000 for fourth quarter 2006 compared to \$1,300,000 in fourth quarter 2005.

While maintaining competitive market rates on time deposits to retain existing funds as they matured, the bank also sought to guard against the rising cost of funds by turning to alternative funding sources in order to fund the continuing loan growth over the past year. In late third quarter and early fourth quarter 2006, we entered into \$45 million of reverse repurchase agreements, costing on average 4.90%, approximately 85 basis points lower than in-market time deposits. Average brokered deposits have also increased 88% to \$232 million in fourth quarter over the same period in 2005. At the time they were issued, these funds cost approximately 50 basis points less than in-market time deposits. Interest expense on the trust preferred securities increased in fourth quarter 2006 to \$625,000 compared to \$113,000 for the same quarter in 2005 primarily because in February 2006, we entered into an additional \$28 million of these securities bringing our total of trust preferred securities to \$34 million. The rate on this debt is tied to LIBOR, which also increased early in the year. Additionally affecting the cost of funds in fourth quarter 2006 was the issuance of \$18 million of subordinated debentures in October 2006 at an interest rate equal to the prime rate, which was 8.25% at year-end. While these instruments allow for additional growth of the loan portfolio since they are includable in Tier two capital, this will have a negative impact on the net interest margin in 2007, as well. Net interest income increased to \$9.9 million from \$8.1 million comparing the fourth quarters of 2006 and 2005.

The loan loss provision increased in the fourth quarter of 2006 to \$1.8 million compared to \$1.6 million in the fourth quarter of 2005 due in part to the down-grading of seven credits totaling \$12.3 million in fourth quarter

2006. These loans, although primarily secured with real estate and at little risk of material loss, became 90 days past due and were consequently reclassified to nonaccrual status. Noninterest income, at \$440,000, was \$255,000 higher in fourth quarter 2006 compared to the same period in 2005 due to the income from bank owned life insurance that was purchased in second quarter 2006.

Noninterest expenses increased 39% to \$5.7 million from \$4.2 million comparing the fourth quarters of 2006 and 2005. This increase was due to the overall growth of the Bank. Salaries and benefits increased \$405,000 for the comparable periods, due to the increase in staff to support the new loan production office and the Cumming (Forsyth County) full-service branch that is currently under construction. We have also added two senior level employees to the executive management team. The Executive Vice President for Risk Management was promoted to this position in February 2006, and the Chief Operating Officer was hired in June 2006. Additional administrative positions have been added to strengthen the infrastructure of the Bank during the year. Other noninterest expenses increased 72% in the fourth quarter of 2006 compared to the same period in 2005. The increase included increases in occupancy and equipment of \$215,000 related to our growth, loan collection fees of \$457,000 largely related to one non-performing loan relationship, audit and exam fees of \$76,000 due to additional costs for outsourced internal and external audits and loan reviews, and non-profit contributions of \$98,000 since our tithing is directly proportionate to our increased income each year.

Diluted net earnings per share for the fourth quarter were \$.12 and \$.11 for 2006 and 2005, respectively, adjusted for the December 2005 2-for-1 stock split. Total assets grew 10%, or \$106 million, during the fourth quarter 2006. Most of this growth was in the loan portfolio which also increased 10% to \$942 million. Funding for the loan growth during the current quarter was mainly provided by increases in interest-bearing deposits and additional repurchase agreements.

2006 Overview

We believe that the past year serves as a testament to the sustainability of the success of our organization. Every year we have challenged ourselves to outperform the year before, and by executing our same proven strategy, we have returned double-digit results far exceeding the prior year. Asset growth during 2006 was 49%, reaching total assets of \$1.1 billion at December 31, 2006. Net income increased 60% over net income for 2005 with a new record level of earnings at \$10.1 million. The Bank converted a loan production office in Gwinnett County into a full service financial center in April, began construction on another branch in Forsyth County to replace its current loan production office, and opened a new loan production office in Buford, Georgia, also located in north Gwinnett County. In September, we joined Nasdaq and are now listed on the Nasdaq Global Market. Our primarily floating-rate loan portfolio grew significantly, 44%, in 2006 despite rumors of a softening real estate market. Because of this strong growth we issued an additional \$28 million in trust preferred securities to maintain a well-capitalized status, as well as \$18 million in subordinated debentures that could sustain our loan growth well into 2007. Asset quality remained very strong with minimal loan charge-offs in 2006. The net interest margin remained stable at 4.23% despite a rising cost of funds necessary to accommodate the loan growth. We have continued to add top quality staff to our family, which is how we have been able to run a successful \$1 billion-sized bank with only 81 employees and an efficiency ratio below 50%. Our primary market areas of Fulton County, Georgia and the surrounding counties of Cobb, Gwinnett, and Forsyth continue to grow, and we believe that we are strategically positioned to take advantage of the growth with additional organic expansion of our organization. The area's growth should provide a base for continued profitability.

Financial Condition as of December 31, 2006 and 2005

As of December 31, 2006, we had total assets of \$1.125 billion, an increase of 49.4% over December 31, 2005 of \$753 million. Total interest-earning assets were \$1.079 billion as of December 31, 2006, or 95.9% of total assets compared to \$735 million or 97.6% of total assets as of December 31, 2005. The percentage decline was largely due to a purchase of \$20 million of bank owned life insurance ("BOLI") that is classified in other assets, although BOLI is also income-producing. Our primary interest-earning assets were loans, which made up 87.3% and 88.7% of total interest-earning assets as of December 31, 2006 and 2005, respectively. The loan portfolio grew by a net increase of \$290 million, or 44.5%, to a record high level of \$942 million. Gross loan production during 2006 was \$847 million. This strong production rate reflects the success of our lending force. Some of the gross production, 18%, was participated to other financial institutions, 26% was unfunded at December 31, 2006, and 22% replaced loans that matured or paid down during the year, leaving the increase of \$290 million of net loans for the year. Our gross loan to deposit and other borrowings ratio was 91.2% as of December 31, 2006, compared to 95.8% as of December 31, 2005.

A large majority of our loan portfolio, 94.8% at December 31, 2006, was collateralized by real estate, of which a substantial portion is located in our primary market area of Fulton County, Georgia and surrounding northern metro Atlanta counties. Our real estate construction portfolio, consisting primarily of loans collateralized by nonresidential properties, comprised 70.0% of the loan portfolio at December 31, 2006. Real estate mortgage loans secured by one to four family and multifamily residential properties comprised 4.7% of the loan portfolio, and nonresidential real estate mortgage loans consisting primarily of small business commercial properties totaled 20.1% of the loan portfolio. We generally require that loans collateralized by real estate not exceed 80%-85% of the collateral value. The remaining 5.2% of the loan portfolio consisted of commercial, consumer, and other loans.

The specific economic and credit risks associated with our loan portfolio, especially the real estate portfolio, include, but are not limited to, a general downturn in the economy that could affect unemployment rates in our market area, general real estate market deterioration, interest rate fluctuations, deteriorated or non-existing collateral, title defects, inaccurate appraisals, financial deterioration of borrowers, fraud and any violation of banking protection laws. Construction lending can also present other specific risks to the lender such as whether the builders can sell the home to a buyer and whether the buyer can obtain permanent financing. While it is generally accepted that the real estate market has slowed on a nationwide basis over the past year, real estate values and employment trends in our specific market area have shown little indications of a significant downturn that would negatively affect our business.

We attempt to reduce these economic and credit risks not only by adhering to loan to value guidelines, but also by investigating the creditworthiness of the borrower and monitoring the borrower's financial position on a regular basis. Also, we periodically review our lending policies and procedures, as well as remaining abreast of trends in the real estate market, comparing these trends to a stratification of our loan portfolio so we can direct our loan activity away from down-turning loan types or geographical areas or areas in which we already have a sufficient concentration. The Bank has an experienced Risk Management department that monitors all aspects of the real estate market as it relates to our loan portfolio which allows us to focus monitoring efforts on any weak areas, geographically or by types of loans, to ensure the integrity of the existing portfolio. We also outsource the loan compliance review to a third party that has a significant amount of experience reviewing loan documentation and that periodically performs this function for us each year. State banking regulations limit exposure by prohibiting secured loan relationships that exceed 25% of the Bank's statutory capital and unsecured loan relationships that exceed 15% of the Bank's statutory capital. The Bank's statutory capital as of December 31, 2006 and 2005 was \$85.0 million and \$60.0 million, respectively.

Our securities portfolio, consisting of Government-sponsored agencies, mortgage-backed securities and equity securities, totaled \$133.9 million as of December 31, 2006. Net unrealized losses on securities totaled \$994,968 as of December 31, 2006 compared to net unrealized losses of \$1,612,898 as of December 31, 2005 on a portfolio totaling \$74.1 million. The change in the net unrealized losses was attributable primarily to changes in interest rates affecting the values of the mortgage-backed securities. These changes were recognized as an adjustment to stockholder's equity and were included in other comprehensive loss, net of tax. Management has not specifically identified any securities for sale in future periods that, if so designated, would require a charge to operations if the market value would not be reasonably expected to recover prior to the time of sale.

Deposits grew \$254 million during the year, or 38%, to a total of \$929 million at December 31, 2006. The growth was realized in time deposits, of which \$98 million was due to an increase in brokered deposits. To augment deposit growth needed for funding the increases in loans and investment securities, we entered into a total of \$45 million of reverse repurchase agreements collateralized with investment securities owned by the Bank. In February 2006 the Company issued \$28 million of trust preferred securities, injecting \$25 million of the received funds into the Bank's capital base. In October 2006, the Bank issued \$18 million of subordinated debt which can be included in its Tier two capital. At December 31, 2006 we had \$5 million outstanding in short-term Federal Home Loan Bank advances and \$1.6 million in federal funds purchased. We were in a net federal funds sold position with \$6.2 million and had no additional other borrowings at December 31, 2005. Because the Atlanta market, particularly the northern metro area, is so competitive on all types of deposit rates, we will continue to focus our efforts on reducing the cost of funds utilizing alternative funding sources such as the FHLB, reverse repurchase agreements, and brokered funds as necessary to supplement deposit growth. We have also hired several employees specifically to develop additional core deposit business, as well as refining our products to more effectively compete for core deposit dollars.

Premises and equipment increased by \$3.5 million in 2006 as we continued to grow organically. Our branch network consists of full-service financial centers housed in 9,000 square foot buildings all located in dynamically growing, demographically affluent areas of north metro Atlanta. We opened one such center in 2006, added additional space to two existing locations, bringing them to the 9,000 square foot size, and began construction on another, as well. Other assets increased in 2006 due to a purchase of \$20 million of bank owned life insurance in May. This product was purchased to offset current and future employee benefit costs with a tax equivalent yield of approximately 8.1%.

Stockholders' equity increased by \$14.3 million in 2006 due to net income of \$10.1 million, decreases of unrealized losses on securities available-for-sale, net of tax, of \$385,000, net proceeds from the sale of common stock of \$1.3 million and paid-in capital from stock compensation expense of \$1.6 million. The common stock issued was due to option exercises during the year.

As of December 31, 2005, total assets increased 68.8% over December 31, 2004. Our primary interest-earning assets were loans, which made up 89% of total interest-earning assets as of both December 31, 2005 and 2004. Our gross loan to deposit and other borrowings ratio was 95.8% as of December 31, 2005, compared to 97.8% as of December 31, 2004. Deposits grew \$301.2 million in 2005, or 81%, primarily due to increased time deposit balances which grew \$294 million comparing December 31, 2005 to December 31, 2004. Since funds were needed to accommodate the strong loan portfolio growth, the Bank supplemented retail growth with brokered deposits during 2005. The costs of the brokered deposits at that time were comparable to the retail business, and could be acquired in much larger blocks, as needed. At December 31, 2005, the Bank had \$151 million of brokered time deposits.

During 2005, premises and equipment increased \$3.3 million. A site for a new full-service branch location in Gwinnett County was purchased in August 2005 at a cost of \$1.2 million. Construction was completed on the building in 2006. As of December 31, 2005, costs incurred on this construction totaled approximately \$1.1 million. Additional increases to premises included build-out of a portion of the administrative building near the main branch. These costs totaled \$464,000. In August 2005, the Bank changed its core processor which provides outsourced data processing and item processing services. This change resulted in an investment in computer software and additional equipment totaling approximately \$300,000.

Stockholders' equity increased by \$22.6 million in 2005 due to net income of \$6.3 million, net proceeds from the sale of common stock of \$15.7 million, and paid-in capital from stock compensation expense of \$1.3 million. These increases were offset by additional other comprehensive losses of \$818,000 due to higher unrealized losses on securities available for sale.

Liquidity and Capital Resources

The purpose of liquidity management is to ensure that there are sufficient cash flows to satisfy demands for credit, deposit withdrawals and our other needs. Traditional sources of liquidity include asset maturities and growth in core deposits. We achieve our desired liquidity objectives from the management of assets and liabilities and through funds provided by operations. Funds invested in short-term marketable instruments and the continuous maturing of other earning assets are sources of liquidity from the asset perspective. The liability base provides sources of liquidity through deposit growth, the maturity structure of liabilities and accessibility to market sources of funds.

Scheduled loan payments are a relatively stable source of funds, but loan payoffs and deposit flows fluctuate significantly, being influenced by interest rates and general economic conditions and competition. We attempt to price deposits consistent with local market conditions and to meet asset/liability objectives.

Our liquidity and capital resources are monitored on a periodic basis by management and state and federal regulatory authorities. As determined under guidelines established by regulatory authorities and internal policy, our liquidity was considered satisfactory.

As of December 31, 2006 and 2005, we had loan commitments outstanding of \$334.1 million and \$221.4 million, respectively. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. If needed, we have the ability on a short-term basis to borrow funds and purchase federal funds from other financial institutions. As of December 31, 2006 and 2005, we had arrangements with two commercial banks for additional short-term advances (federal funds) of up to \$69.0 million in aggregate. In addition, the Bank can borrow funds from the Federal Home Loan Bank of Atlanta, secured by certain real estate loans and/or investment securities. We can also utilize the brokered deposit market to obtain funds as needed.

As of December 31, 2006, our capital ratios were considered well-capitalized based on regulatory capital requirements. Our stockholders' equity increased primarily due to the retention of all of our net income in 2006.

In the future, the primary source of funds available to the holding company will be the payment of dividends by the Bank. Banking regulations limit the amount of the dividends that may be paid without prior approval of the Bank's regulatory agency. Currently, the Bank could pay approximately \$6,005,000 in dividends without regulatory approval.

The minimum capital requirements to be considered well capitalized under prompt corrective action provisions and the actual capital ratios for the Bank, as well as actual capital ratios for the Company as of December 31, 2006 are as follows:

| | Actual | | Regulatory Minimum Requirement |
|----------------------------|---------------------|-------------|---|
| | Consolidated | Bank | |
| Leverage capital ratios | 10.03 % | 10.12 % | 5.00 % |
| Risk-based capital ratios: | | | |
| Tier one capital | 9.75 | 9.83 | 6.00 |
| Total capital | 12.80 | 12.35 | 10.00 |

These ratios may decline as asset growth continues, but are expected to continue exceeding the regulatory minimum requirements.

We have also obtained regulatory approval and are in the process of building the new branch site in Forsyth County, which we expect to open in 2007. We opened a loan production office in Gwinnett County with the intention of purchasing land and building a full-service branch location nearby. We expect to file for regulatory approval for this location in early 2007. Our stated goal is to open new branches at the rate of one or two per year at

an approximate cost of \$2.5 million per branch. However, except as noted above, no firm plans have been established for these additional branches. In January 2007, we repurchased the administration building near the main branch for a net investment of \$5 million. We do not expect these investments to have a material impact on our liquidity given our total size, funding sources, and the anticipation of attracting deposits to the new branches that will exceed the initial investment. Other than our proposed branch openings, we have no material commitments for capital expenditures.

We also buy and sell loan participations with other community and regional banks. Loan participations are sold to increase liquidity as needed or when the loan amount is above our regulatory lending limit. Sold loan participations made up 10.8% and 14.8% of our loan portfolio as of December 31, 2006 and 2005, respectively. Loan participations are purchased when the Bank has excess liquidity to invest. Purchased loan participations comprised 3.9% and 2.5% of the loan portfolio as of December 31, 2006 and 2005, respectively.

In May, 2005 we began a private placement offering of common stock to provide us with additional capital and liquidity for anticipated growth. The offering was completed in June, 2005 with 1,304,348 shares sold at an offering price of \$11.50 per share. The number of shares and per share price have been adjusted for the 2-for-1 stock split paid on December 12, 2005. Net proceeds from the sale totaled \$15 million.

In February 2006 the Company issued an additional \$28 million of trust preferred securities, allowing a capital injection of \$25 million into the Bank. This capital along with an \$18 million subordinated debenture issuance by the Bank, should provide the Bank with sufficient capital to continue its loan growth trend into 2007.

Results of Operations for the Years Ended December 31, 2006, 2005 and 2004

Net Interest Income

Net interest income, our chief source of revenue, is a function of the yields received on interest-earning assets and the rates paid on interest-bearing liabilities. Interest-earning assets include loans and investments, while interest-bearing liabilities are comprised of deposits and other borrowed funds.

Changes in net interest income from period to period reflect both the increases or the decreases in average interest-earning assets and average interest-bearing liabilities, as well as the increases or decreases in the interest rate spread. The level of mismatch in the maturity and repricing characteristics of our interest-earning assets and our interest-bearing liabilities has a direct effect on the interest rate spread.

Average interest-earning assets for 2006 increased \$322 million. The yield on these assets increased to 8.75% in 2006 from 7.50% in 2005. The largest dollar impact to net interest income in 2006 was the growth in the loan portfolio. Average loans during 2006 increased 53% over the average balance for 2005. Increases in interest income on loans solely due to this strong growth were \$25 million. In addition, during the first six months of 2006, the Federal Reserve raised the discount rate causing increases in the prime rate four times, from 7.25% to a rate of 8.25% in June 2006 where it remained through year-end. Since 94.4% of our loan portfolio is tied to the prime rate, the resulting increase in interest income on loans was \$8.3 million. The average yield on the loan portfolio in 2006 was 9.26%, which included loan fees, compared to 7.87% last year. Interest income from the investment portfolio increased \$2.2 million in 2006 compared to the prior year largely due to additional purchases during the year for a higher average total of securities. The yield on investment securities in 2006 was 4.91% compared to 4.46% in 2005.

Of course, with strong growth in the loan portfolio being largely funded with growth in time deposits and with the rising rate environment early in the year, interest expense increased as well. Average time deposits increased \$305 million, or 97%, in 2006 compared to 2005, resulting in an increase to interest expense of \$19 million. Higher rates in 2006 accounted for an additional \$5.2 million in time deposit interest expense. Brokered deposits made up 33% of total time deposits at December 31, 2006, while national market CD's made up 3%. The rates on these types of time deposits could be up to 50 basis points lower than in-market rates. With prime rate remaining stable through the second half of 2006, maturing time deposits issued at lower rates in 2005 and early 2006 renewed at higher rates. This caused some pressure on our interest rate margin in fourth quarter which we expect will continue through first quarter 2007. Additionally, the \$18 million of subordinated debentures issued in October 2006 have an interest rate equal to prime rate, 8.25% as of year-end, which contributed to the margin

pressure. Interest expense due to these debentures was \$260,000 in 2006. Total interest expense increased \$22.5 million in 2006 over 2005.

Net interest income increased \$13 million in 2006, compared to a \$10.6 million increase in 2005, for a 23% increase compared to the prior year. The growth in interest-earning assets in a general rising rate environment in 2006 was funded by a growth in interest-bearing liabilities. However, while the yield on interest-earning assets increased 125 basis points during the year, the cost of interest-bearing liabilities increased 134 basis points, resulting in a decrease in the net interest margin. The net interest margin was 4.23% in 2006 and 4.33% in 2005.

Overall, average interest-earning assets for 2005 increased \$249 million compared to 2004. The yield on these assets increased to 7.50% in 2005 from 6.62% in 2004. Loan growth was the primary contributor to the increase in net interest income in 2005. Average loans during 2005 increased 75% over the average balance for 2004. This significant increase in loan volume created an increase in interest income on loans of \$17.4 million. In addition, over the course of 2005, the prime rate rose eight times, from 5.25% in January 2005 to 7.25% in December 2005. The resulting increase in interest income on loans due to these rate increases was \$3.2 million since 96.3% of the loan portfolio consisted of variable rate loans. The total impact of strong growth and an increasing rate environment was an increase to interest income on loans of \$20.5 million. Interest income from the investment portfolio increased due to the increase in average volume in 2005 over 2004 by 71%, resulting in an addition to interest income of \$1.1 million. The yield on investment securities in 2005 was 4.46% compared to 4.47% in 2004, a very slight change.

Offsetting some of the increase in interest income in 2005 was an increase in interest expense. This was due primarily to the growth in average time deposits of \$172 million. This growth in volume added \$5.7 million to interest expense. In addition, the majority of the CD portfolio, approximately 90.4%, had a 12-month term to maturity. As prime rate increased over the course of 2005, new deposits were opened and maturing deposits renewed at increasingly higher rates, resulting in an increase to interest expense of \$2.2 million. Thus, total interest expense on time deposits increased \$7.8 million in 2005 over the prior year.

Interest-bearing demand deposits, likewise, increased in average volume during 2005 by \$46.2 million, resulting in an increase in interest expense of \$1.4 million in 2005 compared to 2004. Higher rates caused an additional increase of \$1.1 million to interest on other interest-bearing deposits paid in 2005 compared to 2004.

The net interest margin declined to 4.33% in 2005 compared to 4.39% in 2004, as the yield on interest-earning assets increased only 88 basis points during the same period while the cost of interest-bearing liabilities increased 105 basis points.

Provision for Loan Losses

The provision for loan losses was \$4.3 million in 2006, an increase of \$757,000, or 21%, over the provision recorded in 2005. The increase was due primarily to the increase in the total of non-accrual loans in late 2006. Because of their 90-day past due status, \$12.3 million was classified as non-accrual, and approximately \$1.1 million was recorded as loan loss provision for these loans. Although gross loans increased 44% over 2005, the remaining 2006 provision was considered sufficient by management to cover this growth. Also, since net charge-offs declined to \$110,000 in 2006 from \$1.4 million in 2005 (on a loan portfolio of nearly \$1 billion), additional loan loss provision was not necessary for charge-offs. The ratio of net charge-offs to average loans outstanding was .01% in 2006 compared to .26% on 2005.

Based upon our evaluation of the loan portfolio, we believe the allowance for loan losses to be adequate to absorb possible losses on existing loans that may become uncollectible. This evaluation considers past due and classified loans, past experience, underlying collateral values and current economic conditions that may affect the borrower's ability to repay. As of December 31, 2006, we had non-accrual loans totaling \$13,351,200 compared to \$1,651,700 as of December 31, 2005. Since the loans classified as non-accrual in December 2006 were primarily fully secured with real estate, no additional loan loss provision is anticipated for these loans in 2007. The allowance for loan losses as a percentage of total loans as of December 31, 2006 and 2005 was 1.04% and .86%, respectively. The increase in the allowance was due in part to the increased balance of non-accrual loans at December 31, 2006.

It is our opinion that the current allowance for loan losses of \$9.8 million is adequate to absorb known risks in the loan portfolio. No assurance can be given, however, that increased loan volume, adverse economic conditions, or other circumstances will not result in increased losses in our loan portfolio.

The provision for loan losses was \$3.6 million in 2005, an increase of \$1 million over the \$2.6 million recorded in 2004. This increase was due primarily to the strong loan growth exhibited during the current year. Gross loans increased 69% over the previous year. Net charge-offs declined to \$1.4 million in 2005 from \$2.8 million in 2004. There were five loans that were charged off in 2005, of which \$879,000 was secured with real estate, while the remainder was commercial loans. Relative to the real estate-secured loans in excess of \$600 million that we had at December 31, 2005, the amount of real estate loans charged-off was considered minor. The ratio of net charge-offs to average loans outstanding was .26% in 2005 compared to .92% on 2004.

Noninterest Income

The following table presents the principal components of noninterest income for the years ended December 31, 2006, 2005, and 2004.

| (Dollars in Thousands) | 2006 | 2005 | 2004 |
|---------------------------------------|-----------------|---------------|---------------|
| Income from bank-owned life insurance | \$ 687 | \$ -- | \$ -- |
| Gain on sale of fixed assets | 354 | 410 | 148 |
| Overdraft fees | 45 | 38 | 40 |
| ATM network and surcharge fees | 38 | 24 | 8 |
| Wire transfer fees | 36 | 27 | 21 |
| Service charge income | 34 | 23 | 15 |
| Gain on sale of foreclosed assets | -- | -- | 190 |
| Other | 74 | 49 | 30 |
| Noninterest income | <u>\$ 1,268</u> | <u>\$ 571</u> | <u>\$ 452</u> |

Noninterest income consists of service charges on deposit accounts and other miscellaneous service charges, fees, and income. Total noninterest income increased 122% in 2006 compared to the prior year. The primary reason for the increase was income derived from bank owned life insurance totaling \$687,000. Bank owned life insurance was purchased in May 2006 to offset current and future employee benefit costs. Net losses on sales of various fixed assets during 2006 totaled \$59,000 and partially offset the amortized gain recognized on the sale-leaseback of the administrative building of \$413,000, for a net gain on sale of fixed assets of \$354,000, compared to \$410,000 last year. While minor in dollars, various service charges on customer accounts, including overdraft fees, ATM fees, wire transfer fees, and service charge income, combined, increased 36% over the same in 2005, reflecting the continued growth of the deposit function of the bank.

Total noninterest income increased 26% during 2005 to \$571,000 compared to 2004. The increase was primarily due to the amortized gain recognized on the sale-leaseback of an administrative building of \$413,000 compared to \$144,000 recognized in 2004. A portion of the increase in noninterest income was offset by a decrease since noninterest income in 2004 included a gain on the sale of foreclosed assets of \$190,000, while there were no sales of foreclosed assets in 2005.

Noninterest Expense

The following table presents the principal components of noninterest expenses for the years ended December 31, 2006, 2005, and 2004.

| (Dollars in Thousands) | 2006 | 2005 | 2004 |
|-----------------------------------|-----------|-----------|----------|
| Salaries and employee benefits | \$ 10,733 | \$ 7,214 | \$ 4,582 |
| Net occupancy and equipment | 2,347 | 1,531 | 938 |
| Legal/professional services | 933 | 625 | 181 |
| Loan collection and origination | 856 | 267 | 263 |
| Non-profit contributions | 770 | 380 | 197 |
| Data processing | 713 | 574 | 368 |
| Directors' fees | 593 | 541 | 380 |
| Audit and exam fees | 458 | 237 | 170 |
| Marketing and community relations | 418 | 249 | 235 |
| Supplies/printing | 237 | 140 | 130 |
| Travel and entertainment | 207 | 77 | 40 |
| Telephone | 168 | 85 | 59 |
| Dues and memberships | 156 | 67 | 21 |
| Other | 799 | 479 | 357 |
| Noninterest expense | \$ 19,388 | \$ 12,466 | \$ 7,921 |

Noninterest expenses increased 56% to \$19.4 million in 2006 from \$12.5 million in 2005, as we continued our organic growth. Salaries and employee benefits increased \$3.5 million. Total full-time equivalent employees increased during the current year to 80 from 62 at December 31, 2005. Half of the additions to staff were placed as additional support in the branch network while the other half provided strengthened infrastructure, including a new member of the executive management team – a chief operating officer – as well as experienced additions to the risk management department. While the increase in staff was the primary reason for the increase in salaries and benefits, share-based payment compensation expense increased by \$398,000 to a total of \$1.6 million in 2006 compared to 2005. This increase was due to the acceleration of the vesting of a portion of the CEO's options by one year to February 2007 caused by a revision to his option agreement. Employee bonuses increased \$507,000 in 2006 compared to 2005 due to a goal of paying approximately 10% of net bank earnings as performance bonuses. Commissions and incentives, up \$291,000 from 2005, were also paid throughout the year for business development and new employee sign-on payments. The Bank has a generous incentive program in lieu of spending large dollars on advertising.

Net occupancy and equipment expenses increased 53% to \$2.3 million in 2006, primarily due to branch expansion and leasehold improvements on the administrative building to house additional employees. The Duluth branch construction was completed in early 2006, and the branch opened in April. Construction began on the Forsyth County financial center which is scheduled to open in mid-2007. A second loan production office was opened in December 2006 in Buford (Gwinnett County), Georgia. The Bank has also made a significant investment (\$230,000 in depreciable equipment and \$60,000 for installation and service expenses in 2006) to provide the best communication amongst its employees by installing and utilizing a state-of-the-art video conferencing system at all of its locations. This provides the ability to have weekly bank-wide staff meetings without the complications or down-time of travel on Atlanta roads.

Legal and professional fees increased \$308,000, or 49%, in 2006 compared to 2005. The largest portion of this increase was attributed to outsourcing security services, a measure that was taken in fourth quarter 2005 to protect our branch locations with full-time guards. The cost of this service in 2006 was \$224,000. Legal fees increased \$93,000, or 62%, this year compared to 2005 mainly as a function of our growth and needs of the holding company. Last year was the first year we were required to file a Form 10-K, versus a 10-KSB for small companies, as filed in previous years, and the first year we were required to comply with the proxy rules. We also joined Nasdaq in late 2006, requiring assistance from legal counsel to ensure compliance with Nasdaq guidelines. Joining Nasdaq also affected our dues and memberships for the year, which increased \$89,000 in 2006 compared to the prior year, since the membership fee for joining Nasdaq was \$100,000. The expanded SEC reporting compliance also

accounted for some of the increase in audit and exam fees which were up in total \$221,000. Audit fees alone increased \$166,000, including both higher internal (outsourced) and external audit fees.

Loan collection expenses increased \$589,000, or 220%, in 2006 compared to the prior year. Most of the cost, \$411,000, was related to the sale of \$19 million of loans belonging to one borrower whose financial situation had deteriorated. The loans were sold prior to their reclassification to nonaccrual status, which would have required a significant loan loss provision. Non-profit contributions increased \$390,000, or 103%, in 2006 over 2005 as the amount has typically increased proportionately with the Bank's profitability each year. True to our faith-based culture, our goal is to tithe 10% of the Bank's previous year's net income to a foundation, administered by the Bank, which then distributes those funds to faith-based organizations, as well as other non-profit organizations. Other noninterest expenses, such as data processing, marketing, and travel expenses were also higher in 2006 compared to the previous year as a result of the Bank's growth during the past year.

Noninterest expenses increased 57% to \$12.5 million in 2005 from \$7.9 million in 2004, largely a reflection of the general growth of the organization in 2005. Salaries and employee benefits increased \$2.6 million. Total full-time equivalent employees increased during the current year to 62 from 46 at December 31, 2004. This was the primary reason for the increase in salaries and benefits. Ten of the new employees were hired to staff one new full-service branch and one new loan production office and increase staffing in the existing branches. The remaining employees were hired to strengthen the infrastructure of the Bank as it grows. Additionally, compensation expense related to variable stock options increased \$557,000 and bonuses and incentives increased \$467,000 in 2005 compared to 2004, respectively, due to the Bank's performance-based annual bonus plan. Other bonuses and incentives were paid throughout the year for special projects, business development and new employee sign-on payments.

Net occupancy and equipment expenses increased 63% to \$1.5 million in 2005 compared to 2004, primarily due to branch expansion and leasehold improvements on the administrative building to house additional employees. Equipment and software costs also increased \$300,000 in 2005 due to the conversion to a different core processor.

Legal and professional fees increased \$444,000 in 2005 compared to 2004. Outsourcing costs related to Sarbanes-Oxley compliance, classified as consulting fees, in 2005 alone totaled \$185,000. Employees in every area of the Bank also assisted with this project. Other consulting fees included fees associated with recruiting talented, experienced bankers to support the Bank's growth. In 2005, we utilized staffing firms more than in the past to accomplish this task, resulting in increased consulting fees for employee recruitment of \$134,000 over similar fees incurred in 2004.

Non-profit contributions increased \$183,000, or 93%, in 2005 over 2004 due to the goal of tithing 10% of the Bank's prior year's net income which doubled. Director fees increased \$161,000 since the fees for each monthly meeting were raised in March 2005. Other noninterest expenses, such as data processing, audit/exam fees, and business license expenses were also higher in 2005 compared to the previous year as a result of the Bank's growth during the past year.

Income Tax

We reported income tax expense of \$5.9 million, \$3.7 million, and \$1.8 million for 2006, 2005, and 2004, respectively. The effective tax rate for 2006, 2005, and 2004 was 36.9%, 36.8%, and 37.1%, respectively. There were no loss carryforwards or valuation allowances in 2006, 2005, or 2004.

Asset/Liability Management

Our objective is to manage assets and liabilities to provide a satisfactory, consistent level of profitability within the framework of established cash, loan, investment, borrowing and capital policies. Certain officers are charged with the responsibility for monitoring policies and procedures designed to ensure acceptable composition of the asset/liability mix. Our management's overall philosophy is to support asset growth primarily through growth of core deposits of all categories made by local individuals, partnerships and corporations.

Our asset/liability mix is monitored on a regular basis with a report reflecting the interest rate-sensitive assets and interest rate-sensitive liabilities being prepared and presented to the board of directors on a quarterly basis. The objective of this policy is to monitor interest rate-sensitive assets and liabilities so as to minimize the impact of substantial movements in interest rates on earnings. An asset or liability is considered to be interest rate-sensitive if it will reprice or mature within the time period analyzed, usually one year or less. The interest rate-sensitivity gap is the difference between the interest-earning assets and interest-bearing liabilities scheduled to mature or reprice within such time period. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities. A gap is considered negative when the amount of interest rate-sensitive liabilities exceeds the interest rate-sensitive assets. During a period of rising interest rates, a negative gap would tend to affect net interest income adversely, while a positive gap would tend to result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. If our assets and liabilities were equally flexible and moved concurrently, the impact of any increase or decrease in interest rates on net interest income would be minimal.

A simple interest rate “gap” analysis by itself may not be an accurate indicator of how net interest income will be affected by changes in interest rates. Accordingly, we also evaluate how the repayment of particular assets and liabilities is impacted by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market rates, while interest rates on other types may lag behind changes in general market rates. In addition, certain assets, such as adjustable rate mortgage loans, have features (generally referred to as “interest rate caps and floors”) that limit changes in interest rates. Prepayment and early withdrawal levels also could deviate significantly from those assumed in calculating the interest rate gap. The ability of many borrowers to service their debts also may decrease during periods of rising interest rates.

Changes in interest rates also affect our liquidity position. We currently price deposits in response to market rates, and it is management’s intention to continue this policy. If deposits are not priced in response to market rates, a loss of deposits could occur that would negatively affect our liquidity position.

As of December 31, 2006, our cumulative one year interest rate-sensitivity gap ratio was 1.08. Our targeted ratio is 0.70 to 1.30 in this time horizon. This indicates that our interest-earning assets will reprice during this period at a rate faster than our interest-bearing liabilities.

The following table sets forth the distribution of the repricing of our interest-earning assets and interest-bearing liabilities as of December 31, 2006, the interest rate-sensitivity gap, the cumulative interest rate-sensitivity gap, the interest rate-sensitivity gap ratio and the cumulative interest rate-sensitivity gap ratio. The table also sets forth the time periods in which interest-earning assets and interest-bearing liabilities will mature or may reprice in accordance with their contractual terms. However, the table does not necessarily indicate the impact of general interest rate movements on the net interest margin as the repricing of various categories of assets and liabilities is subject to competitive pressures and the needs of our customers. In addition, various assets and liabilities indicated as repricing within the same period may in fact reprice at different times within this period and at different rates.

| (Dollars in Thousands) | 0 - 3 Months | 4 - 6 Months | 7 - 12 Months | 1 - 5 Years | Over 5 Years | Total |
|--|-------------------------|-------------------------|--------------------------|------------------------|-------------------------|--------------|
| Interest-earning assets: | | | | | | |
| Interest-bearing deposits in banks | \$ 86 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 86 |
| Securities | 1,022 | 0 | 9 | 117,920 | 14,972 | 133,923 |
| Federal Home Loan Bank Stock | 1,727 | 0 | 0 | 0 | 0 | 1,727 |
| Loans | 900,956 | 5,304 | 10,835 | 23,344 | 1,141 | 941,580 |
| Total interest-earning assets | \$ 903,791 | \$ 5,304 | \$ 10,844 | \$ 141,264 | \$ 16,113 | \$ 1,077,316 |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing demand deposits | \$ 125,446 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 125,446 |
| Savings and money markets | 31,963 | 0 | 0 | 0 | 0 | 31,963 |
| Time deposits | 108,532 | 135,244 | 346,682 | 160,774 | 0 | 751,232 |
| Federal funds purchased | 1,551 | 0 | 0 | 0 | 0 | 1,551 |
| Other borrowings | 50,000 | 0 | 0 | 0 | 0 | 50,000 |
| Long-term debentures | 52,022 | 0 | 0 | 0 | 0 | 52,022 |
| Total interest-bearing liabilities | \$ 369,514 | \$ 135,244 | \$ 346,682 | \$ 160,774 | \$ 0 | \$ 1,012,214 |
| Interest rate sensitivity gap | \$ 534,277 | \$ (129,940) | \$ (335,838) | \$ (19,510) | \$ 16,113 | \$ 65,102 |
| Cumulative interest rate sensitivity gap | \$ 534,277 | \$ 404,337 | \$ 68,499 | \$ 48,989 | \$ 65,102 | |
| Interest rate sensitivity gap ratio | 2.45 | 0.04 | 0.03 | 0.88 | -- | |
| Cumulative interest rate sensitivity gap ratio | 2.45 | 1.80 | 1.08 | 1.05 | 1.06 | |

Selected Financial Information and Statistical Data

The tables and schedules on the following pages set forth certain significant financial information and statistical data with respect to: the distribution of our assets, liabilities and stockholders' equity; the interest rates we experience; our investment portfolio; our loan portfolio, including types of loans, maturities and sensitivities of loans to changes in interest rates and information on non-performing loans; summary of the loan loss experience and reserves for loan losses; types of deposits and the return on equity and assets.

Average balances, interest income, and interest expense

The following table contains condensed average balance sheets (using daily average balances) for the years indicated. In addition the amount of our interest income and interest expense for each category of interest-earning assets and interest-bearing liabilities and the related average interest rates, net interest spread and net yield on average interest earning assets are included.

Analysis of Net Interest Income for the Years Ended December 31, 2006, 2005, and 2004

| (Dollars in thousands) | 2006 | | | 2005 | | | 2004 | | |
|---|--------------------|--------------------|----------------|--------------------|--------------------|----------------|--------------------|--------------------|----------------|
| | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate |
| Assets: | | | | | | | | | |
| Deposits in banks..... | \$ 113 | \$ 3 | 2.65% | \$ 209 | \$ 5 | 2.39% | \$ 301 | \$ 4 | 1.33% |
| Taxable investment securities | 100,732 | 4,945 | 4.91 | 60,812 | 2,710 | 4.46 | 35,599 | 1,593 | 4.47 |
| Federal funds sold | 6,568 | 316 | 4.81 | 1,858 | 62 | 3.34 | 2,460 | 28 | 1.14 |
| Loans (1)..... | 803,026 | 74,371 | 9.26 | 525,836 | 41,379 | 7.87 | 301,040 | 20,831 | 6.92 |
| Allowance for loan losses ... | (7,250) | | | (4,572) | | | (3,639) | | |
| Cash and due from banks | 5,172 | | | 3,575 | | | 2,634 | | |
| Other assets | 36,973 | | | 15,118 | | | 13,404 | | |
| Total Assets | <u>\$ 945,334</u> | | | <u>\$ 602,836</u> | | | <u>\$ 351,799</u> | | |
| Total interest-earning assets..... | <u>\$ 910,439</u> | <u>79,635</u> | <u>8.75</u> | <u>\$ 588,715</u> | <u>44,156</u> | <u>7.50</u> | <u>\$ 339,400</u> | <u>22,456</u> | <u>6.62</u> |
| Liabilities: | | | | | | | | | |
| Noninterest-bearing demand | \$ 16,552 | | | \$ 11,961 | | | \$ 9,971 | | |
| Interest bearing demand and savings | 165,380 | 6,799 | 4.11 | 183,121 | 5,974 | 3.26 | 137,661 | 3,432 | 2.49 |
| Time | 619,090 | 30,435 | 4.92 | 313,816 | 11,319 | 3.61 | 142,106 | 3,512 | 2.47 |
| Total deposits | 801,022 | | | 508,898 | | | 289,738 | | |
| Other borrowings..... | 62,341 | 3,901 | 6.26 | 34,040 | 1,391 | 4.09 | 27,100 | 627 | 2.31 |
| Other liabilities | 8,662 | | | 4,309 | | | 2,099 | | |
| Stockholders' equity..... | 73,309 | | | 55,589 | | | 32,862 | | |
| Total liabilities and stockholders' equity..... | <u>\$945,334</u> | | | <u>\$ 602,836</u> | | | <u>\$ 351,799</u> | | |
| Total interest-bearing liabilities | <u>\$846,811</u> | <u>41,135</u> | <u>4.86</u> | <u>\$ 530,977</u> | <u>18,684</u> | <u>3.52</u> | <u>\$ 306,867</u> | <u>7,571</u> | <u>2.47</u> |
| Net interest income..... | | <u>\$ 38,500</u> | | | <u>\$ 25,472</u> | | | <u>\$ 14,885</u> | |
| Net interest margin (2) | | | 4.23 | | | 4.33 | | | 4.39 |
| Net interest spread (3) | | | 3.89 | | | 3.98 | | | 4.15 |

(1) Interest income from loans includes total fee income of approximately \$5.2 million, \$4.4 million, and \$2.8 million for the years ended December 31, 2006, 2005 and 2004, respectively. The average balance of non-accrual loans included in average loans was \$2,019,000, \$1,127,000, and \$2,138,000 in 2006, 2005 and 2004, respectively.

(2) Net interest margin is net interest income divided by average interest-earning assets.

(3) Interest rate spread is the weighted average yield on interest-earning assets minus the average rate on interest-bearing liabilities.

Rate and Volume Analysis

The following table describes the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities have affected our interest income and expense during the year indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to:

- change in rate (change in rate multiplied by old volume); and

- change in volume (change in volume multiplied by old rate);
- a combination of change in rate and change in volume.

The changes in interest income and interest expense attributable to both volume and rate have been allocated proportionately on a consistent basis to the change due to volume and the change due to rate.

| (Dollars in Thousands) | Year Ended December 31, 2006 vs. 2005 Changes Due To: | | | Year Ended December 31, 2005 vs. 2004 Changes Due To: | | |
|--|---|----------|-----------|---|----------|-----------|
| | Volume | Rate | Total | Volume | Rate | Total |
| Increase (decrease) in: | | | | | | |
| Income from interest-earning assets: | | | | | | |
| Loans | \$ 24,702 | \$ 8,290 | \$ 32,992 | \$ 17,358 | \$ 3,190 | \$ 20,548 |
| Investment securities | 1,864 | 371 | 2,235 | 1,124 | (7) | 1,117 |
| Federal funds sold | 216 | 38 | 254 | (5) | 39 | 34 |
| Deposits with other banks | (3) | 1 | (2) | (1) | 2 | 1 |
| Total interest income | 26,779 | 8,700 | 35,479 | 18,476 | 3,224 | 21,700 |
| Expense from interest-bearing liabilities: | | | | | | |
| NOW accounts | (554) | 990 | 436 | 1,371 | 1,161 | 2,532 |
| Money market accounts | 190 | 195 | 385 | (10) | 19 | 9 |
| Savings accounts | 1 | 3 | 4 | 0 | 1 | 1 |
| Time deposits | 13,922 | 5,194 | 19,116 | 5,656 | 2,151 | 7,807 |
| Federal funds purchased | 5 | 70 | 75 | 46 | 57 | 103 |
| Federal Home Loan Bank advances | 437 | (549) | (112) | 101 | 448 | 549 |
| Subordinated debentures | 259 | 0 | 259 | 0 | 112 | 112 |
| Long-term debt | 2,292 | (4) | 2,288 | - | - | - |
| Total interest expense | 16,552 | 5,899 | 22,451 | 7,164 | 3,949 | 11,113 |
| Net interest income | \$ 10,227 | \$ 2,801 | \$ 13,028 | \$ 11,312 | \$ (725) | \$ 10,587 |

Investment Portfolio

Types of Investments

The carrying amounts of securities at the dates indicated, which are all classified as available-for-sale, are summarized as follows:

| (Dollars in Thousands) | 2006 | December 31, 2005 | 2004 |
|------------------------------------|-------------------|----------------------|------------------|
| Mortgage-backed securities | \$ 114,211 | \$ 74,847 | \$ 47,553 |
| U.S. Government Sponsored Agencies | 18,995 | - | - |
| Equity securities | 3,439 | 1,765 | 2,109 |
| | <u>\$ 136,645</u> | <u>\$ 76,612</u> | <u>\$ 49,662</u> |

The mortgage-backed securities consist of government agency mortgage pool securities with stated maturities up to thirty years. However, the portfolio balance reduces monthly as the underlying mortgages are paid down. Most will have an effective life that is much shorter than the stated maturity of the security. Although the exact maturity date is uncertain, the portfolio is predicted to have an effective maturity of less than five years.

The equity securities in 2006 consist of \$1,727,100 in Federal Home Loan Bank of Atlanta stock, a \$690,000 common stock investment in Integrity Bank of Florida, and \$1,022,000 in investments in trusts created to issue trust preferred securities. The equity securities in 2005 consist of \$889,300 in Federal Home Loan Bank of Atlanta stock, a \$690,000 common stock investment in Integrity Bank of Florida and \$186,000 in investments in trusts created to issue trust preferred securities. The equity securities in 2004 consisted of \$1,232,600 in Federal Home Loan Bank of Atlanta stock, a \$690,000 common stock investment in Integrity Bank of Florida, and \$186,000 in investments in trusts created to issue trust preferred securities. Banks with borrowings from Federal Home Loan Banks are required to buy stock in proportion to the amount of their outstanding advances and total assets. There is no market for the stock, which is normally bought or sold to the Federal Home Loan Bank at a set price of \$100 per share. The stock has historically paid a quarterly dividend, although the issuer is not required to pay dividends.

Maturities

The amounts of available for sale securities, including the weighted average yield in each category are shown in the following table according to contractual maturity classifications one through five years, after five through ten years and after ten years. There were no investment securities classified as held to maturity in 2006, 2005, or 2004.

| (Dollars in Thousands) | December 31, | | | | | | |
|---|-------------------|-------------------|--|-------------------|------------------|-------------------|------------------|
| | 2006 | | | 2005 | | 2004 | |
| | Amortized Cost | Fair Value | Year-end Weighted Avg. Yield(1) | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Mortgage-backed securities | | | | | | | |
| Over one year through five years | \$ 2,618 | \$ 2,581 | 4.14% | \$ 3,120 | \$ 3,045 | \$ 4,038 | \$ 4,072 |
| Over five years through ten years | 7,026 | 7,004 | 5.46 | 2,496 | 2,499 | - | - |
| Over ten years | 104,567 | 103,546 | 5.03 | 69,232 | 67,690 | 43,515 | 43,166 |
| U.S. Government Sponsored Agencies | | | | | | | |
| Over one year through five years | 18,995 | 19,080 | 5.16 | | | | |
| | <u>\$ 133,206</u> | <u>\$ 132,211</u> | <u>5.05%</u> | <u>\$ 74,848</u> | <u>\$ 73,234</u> | <u>\$ 47,553</u> | <u>\$ 47,238</u> |

- (1) Yields were computed using coupon interest, adding discount accretion or subtracting premium amortization, as appropriate, on a ratable basis over the life of each security. The weighted average yield for each maturity range was computed using the carrying value of each security in that range.

Loan Portfolio

Types of Loans

The amount of loans outstanding at the indicated dates is shown in the following table according to the type of loan.

| (Dollars in Thousands) | 2006 | | 2005 | | December 31, 2004 | | 2003 | | 2002 | |
|--------------------------------|------------------|-------|------------------|-------|----------------------|-------|------------------|-------|------------------|-------|
| | % of | | % of | | % of | | % of | | % of | |
| | Amount | Loans | Amount | Loans | Amount | Loans | Amount | Loans | Amount | Loans |
| Commercial | \$ 47,803 | 5% | \$ 46,296 | 7% | \$ 11,181 | 3% | \$ 16,071 | 7% | \$11,751 | 9% |
| Real estate-construction | 658,971 | 70 | 384,990 | 59 | 214,104 | 56 | 123,882 | 52 | 51,715 | 40 |
| Real estate-commercial | 189,420 | 20 | 191,400 | 30 | 141,129 | 36 | 81,481 | 34 | 62,487 | 49 |
| Real estate-mortgage | 44,598 | 5 | 27,974 | 4 | 18,972 | 5 | 16,920 | 7 | 1,453 | 1 |
| Consumer installment and other | 1,193 | -- | 1,426 | -- | 614 | -- | 723 | -- | 856 | 1 |
| | 941,985 | 100% | 652,086 | 100% | 386,000 | 100% | 239,077 | 100% | 128,262 | 100% |
| Less: | | | | | | | | | | |
| Allowance for loan losses | (9,825) | | (5,612) | | (3,433) | | (3,573) | | (1,104) | |
| Deferred loan fees | (405) | | (308) | | (94) | | (158) | | (255) | |
| Net loans | <u>\$931,755</u> | | <u>\$646,166</u> | | <u>\$382,473</u> | | <u>\$235,346</u> | | <u>\$126,903</u> | |

Maturities and Sensitivities of Loans to Changes in Interest Rates

Total loans as of December 31, 2006 and 2005 are shown in the following table according to contractual maturity classifications one year or less, after one year through five years and after five years.

| (Dollars in Thousands) | December 31, | |
|------------------------------|-------------------|-------------------|
| | 2006 | 2005 |
| Commercial | | |
| One year or less | \$ 43,933 | \$ 16,036 |
| After one through five years | 2,504 | 28,202 |
| After five years | 1,366 | 2,058 |
| | <u>47,803</u> | <u>46,296</u> |
| Construction | | |
| One year or less | 392,356 | 81,371 |
| After one through five years | 266,147 | 298,639 |
| After five years | 468 | 4,980 |
| | <u>658,971</u> | <u>384,990</u> |
| Real Estate Mortgage | | |
| One year or less | 100,299 | 17,053 |
| After one through five years | 121,458 | 164,557 |
| After five years | 12,261 | 37,764 |
| | <u>234,018</u> | <u>219,374</u> |
| Consumer & Other | | |
| One year or less | 850 | 1,202 |
| After one through five years | 308 | 220 |
| After five years | 35 | 4 |
| | <u>1,193</u> | <u>1,426</u> |
| | <u>\$ 941,985</u> | <u>\$ 652,086</u> |

The following table summarizes loans as of December 31, 2006 and 2005 with the due dates after one year that have predetermined and floating or adjustable interest rates.

| (Dollars in Thousands) | December 31, | |
|---------------------------------------|-------------------|-------------------|
| | 2006 | 2005 |
| Predetermined interest rates | \$ 21,643 | \$ 1,092 |
| Floating or adjustable interest rates | 382,904 | 535,332 |
| | <u>\$ 404,547</u> | <u>\$ 536,424</u> |

Risk Elements

Information with respect to non-accrual, past due and restructured loans as of December 31, 2006 and 2005 is as follows:

| (Dollars in Thousands) | December 31, | | | | |
|---|--------------|----------|-------|---------|------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Non-accrual loans | \$13,351 | \$ 1,652 | \$779 | \$2,869 | \$ 0 |
| Loans contractually past due 90 days or more as to interest or principal payments and still accruing | 0 | 0 | 0 | 0 | 0 |
| Restructured loans | 0 | 0 | 0 | 0 | 0 |
| Loans, now current about which there are serious doubts as to the ability of the borrower to comply with loan repayment terms | 389 | 817 | 307 | 480 | 0 |
| Interest income that would have been recorded on non-accrual and restructured loans under original terms | 141 | 186 | 19 | 141 | 0 |
| Interest income that was recorded on non-accrual and restructured loans | 0 | 0 | 0 | 0 | 0 |

Non-accrual loans increased to \$13.4 million as of December 31, 2006 from \$1.7 million as of December 31, 2005. The increase is attributable to seven credits totaling \$12.3 million that were classified as non-accrual in December 2006 due to a delinquency status of over 90 days. Six of these loans, totaling \$12.2 million, were fully collateralized with real estate. The remainder, \$100,000, was commercial loans. Additionally, there were five loans on non-accrual status prior to December which were also fully collateralized with real estate. While no significant losses were anticipated on the loans for which we had real estate collateral due to solid loan to value ratios, collectibility of the non-real estate loans was less certain. In January 2007, the Bank foreclosed on one of the real estate loans totaling \$457,000, recording the property securing the loan as Other Real Estate, and subsequently selling a portion of it. We recognized a loss of \$2,000 on the sale. The remaining lots on this property were on the market in the first quarter of 2007. Collection efforts were in place at December 31, and management believes it has adequately reserved for its non-accrual loans, therefore, we anticipate minimal loss on liquidation, if any.

It is our policy to discontinue the accrual of interest income when, in the opinion of management, collection of interest becomes doubtful. A non-accrual status is applied when there is a significant deterioration in the financial condition of the borrower and full repayment of principal and interest is not expected, and the principal or interest is more than 90 days past due, unless the loan is both well-secured and in the process of collection.

Loans now current about which there are serious doubts as to the ability of the borrower to comply with loan repayment terms decreased to \$389,000 at December 31, 2006 from \$817,000 at December 31, 2005. The loans included in the 2006 total consisted of two loans in amounts of \$150,000 to \$238,000. These loans were classified for regulatory purposes as substandard, but are currently in compliance with their payment terms. They do not represent or result from trends or uncertainties that management reasonably expects will materially impact future operating results, liquidity or capital resources.

Summary of Loan Loss Experience

The following table summarizes average loan balances for the year determined using the daily average balances during the year; changes in the allowance for loan losses arising from loans charged off and recoveries on loans previously charged off; additions to the allowance which have been charged to operating expense; and the ratio of net charge-offs during the year to average loans.

| | Year Ended December 31, | | | | |
|---|-------------------------|-----------|-----------|-----------|-----------|
| (Dollars in Thousands) | 2006 | 2005 | 2004 | 2003 | 2002 |
| Average amount of loans outstanding | \$803,026 | \$525,836 | \$301,040 | \$184,430 | \$ 79,864 |
| Balance of allowance for loan losses at beginning of year | \$5,612 | \$ 3,433 | \$ 3,573 | \$ 1,104 | \$ 392 |
| Loans charged off: | | | | | |
| Consumer | - | - | - | (20) | - |
| Real estate mortgage | (159) | (879) | (550) | - | - |
| Commercial | - | (563) | (2,292) | - | - |
| | (159) | (1,442) | (2,842) | (20) | - |
| Loans recovered: | | | | | |
| Real estate mortgage | - | 55 | 75 | - | - |
| Commercial | 49 | - | - | - | - |
| | 49 | 55 | 75 | - | - |
| Net charge-offs | (110) | (1,387) | (2,767) | (20) | - |
| Additions to allowance charged to operating expense during year | 4,323 | 3,566 | 2,627 | 2,489 | 712 |
| Balance of allowance for loan losses at end of year | \$ 9,825 | \$ 5,612 | \$ 3,433 | \$ 3,573 | \$ 1,104 |
| Ratio of net loans charged off during the year to average loans outstanding | 0.01% | 0.26% | 0.92% | 0.01% | - |

Allowance for Loan Losses

The allowance for loan losses is maintained at a level that is deemed appropriate by management to adequately cover all known and inherent risks in the loan portfolio. Our evaluation of the loan portfolio includes a periodic review of loan loss experience, current economic conditions that may affect the borrower's ability to pay and the underlying collateral value of the loans.

The allowance for loan losses represents management's assessment of the risk associated with extending credit and its evaluation of the quality of the loan portfolio. Management analyzes the loan portfolio to determine the adequacy of the allowance for loan losses and the appropriate provision required to maintain a level considered adequate to absorb anticipated loan losses. In assessing the adequacy of the allowance, management reviews the size, quality and risk of loans in the portfolio. Management also considers such factors as our loan loss experience, the amount of past due and nonperforming loans, specific known risk, the status and amount of nonperforming assets, underlying collateral values securing the loans, current and anticipated economic conditions and other factors which affect the allowance for potential credit losses. An analysis of the credit quality of the loan portfolio and the adequacy of the allowance for loan losses is prepared by the loan committee on a quarterly basis and presented to the Board of Directors.

All of our loans are assigned individual loan grades when underwritten. The Bank has established minimum general reserves based on the asset quality grade of the loan. These reserves are regularly reviewed by the FDIC and the State of Georgia Department of Banking and Finance. General reserve factors applied to each rating grade are based upon management's experience and common industry and regulatory guidelines.

As of December 31, 2006 and 2005, we made no formal allocations of our allowance for loan losses to specific categories of loans. Based on our best estimate, the allocation of the allowance for loan losses to types of loans, as of the indicated dates, is as follows:

| (Dollars in Thousands) | December 31, 2006 | | December 31, 2005 | | December 31, 2004 | | December 31, 2003 | | December 31, 2002 | |
|--------------------------------------|-------------------|--|-------------------|--|-------------------|--|-------------------|--|-------------------|--|
| | Amount | Percent of loans in each category to total loans | Amount | Percent of loans in each category to total loans | Amount | Percent of loans in each category to total loans | Amount | Percent of loans in each category to total loans | Amount | Percent of loans in each category to total loans |
| Commercial | \$435 | 5.07% | \$ 427 | 7.10% | \$ 243 | 2.90% | \$ 1,368 | 6.73% | \$ 101 | 9.16% |
| Real estate-construction | 6,363 | 69.96 | 3,156 | 59.04 | 1,828 | 55.46 | 1,087 | 51.85 | 446 | 40.32 |
| Real estate-commercial | 2,442 | 20.11 | 1,761 | 29.35 | 1,196 | 36.56 | 921 | 34.08 | 538 | 48.72 |
| Real estate-mortgage | 575 | 4.73 | 257 | 4.29 | 161 | 4.92 | 191 | 7.04 | 13 | 1.13 |
| Consumer installment loans and other | 10 | 0.13 | 11 | .22 | 5 | 0.16 | 6 | .30 | 6 | .67 |
| | <u>\$9,825</u> | <u>100.00</u> | <u>\$ 5,612</u> | <u>100.00</u> | <u>\$ 3,433</u> | <u>100.00</u> | <u>\$ 3,573</u> | <u>100.00</u> | <u>\$ 1,104</u> | <u>100.00</u> |

Deposits

Average amount of deposits (determined using daily average balances) and average rates paid thereon, classified as to non-interest-bearing demand deposits, interest-bearing demand deposits, savings deposits and time deposits is presented below.

| (Dollars in Thousands) | Year Ended December 31, | | | | | |
|--------------------------------------|-------------------------|---------|-------------------|---------|-------------------|---------|
| | 2006 | | 2005 | | 2004 | |
| | Amount | Percent | Amount | Percent | Amount | Percent |
| Non-interest-bearing demand deposits | \$ 16,552 | -% | \$ 11,961 | -% | \$ 9,971 | -% |
| Interest-bearing demand deposits | 165,046 | 4.12 | 182,877 | 3.27 | 137,384 | 2.50 |
| Savings deposits | 334 | 1.73 | 244 | 0.82 | 277 | 0.47 |
| Time deposits | 619,090 | 4.92 | 313,816 | 3.61 | 142,106 | 2.47 |
| Total | <u>\$ 801,022</u> | | <u>\$ 508,898</u> | | <u>\$ 289,738</u> | |

The amounts of time certificates of deposit issued in amounts of \$100,000 or more as of December 31, 2006 are shown below by category, which is based on time remaining until maturity of three months or less, over three through six months, over six through twelve months and over twelve months.

| (Dollars in Thousands) | December 31, 2006 |
|--------------------------------|-------------------|
| Three months or less | \$ 44,613 |
| Over three through six months | 54,562 |
| Over six through twelve months | 57,022 |
| Over twelve months | 13,418 |
| Total | <u>\$ 169,615</u> |

The Bank had approximately \$156 million in jumbo CD's maturing in one year or less at December 31, 2006. We believe the large percentage, 23%, of jumbo CD's in relation to total CD's is attributable to our affluent customer base. It is our experience that a large portion of these deposits are retained by the Bank as they mature because our deposit interest rates are comparable to other rates in our market.

The Bank also obtains brokered funds in order to supplement retail deposits for funding loan growth during the year. The rates paid on these funds, including fees, were comparable to or slightly lower than retail time deposits issued at the same time. The total in brokered funds was \$247,988,000 and \$150,511,000 at December 31, 2006 and 2005, respectively.

Deposits of directors and executive officers totaled \$2,539,370 at December 31, 2006.

Return on Assets and Stockholders' Equity

The following rate of return information for the years indicated is presented below.

| | Year Ended December 31, | |
|----------------------------|--------------------------------|-------------|
| | 2006 | 2005 |
| Return on assets (1) | 1.07% | 1.05% |
| Return on equity (2) | 13.83 | 11.37 |
| Dividend payout ratio (3) | 0 | 0 |
| Equity to assets ratio (4) | 7.75 | 9.22 |

- (1) Net income divided by average total assets.
- (2) Net income divided by average equity.
- (3) Dividends declared per share of common stock divided by net income per share.
- (4) Average common equity divided by average total assets

Commitments and Contractual Obligations

The following table reflects a summary of the Company's commitments to extend credit, commitments under contractual leases, as well as the Company's contractual obligations, consisting of deposits, FHLB Advances and borrowed funds, by contractual maturity date.

| (Dollars in Thousands) | 2007 | 2008 | 2009 | 2010 | 2011 | Thereafter |
|--|---------------------|-------------------|------------------|-----------------|-----------------|-------------------|
| Demand and Savings | \$ 177,556 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Time Deposits | 596,862 | 112,261 | 29,623 | 5,785 | 6,700 | - |
| FHLB Advances | 5,000 | - | - | - | - | - |
| Other borrowed funds | - | - | - | - | - | 45,000 |
| Long-term debentures | - | - | - | - | - | 52,022 |
| Commitments to customers under lines of credit | 334,126 | - | - | - | - | - |
| Commitments under lease agreements | 594 | 560 | 373 | - | - | - |
| | \$ 1,114,138 | \$ 112,821 | \$ 29,996 | \$ 5,785 | \$ 6,700 | \$ 97,022 |

Off-Balance Sheet Arrangements

Our only material off-balance sheet arrangements consist of commitments to extend credit and standby letters of credit issued in the ordinary course of business. For a complete description of these obligations please refer to footnote number 12 to our financial statements included herein.

Effects of Inflation

The impact of inflation on banks differs from its impact on non-financial institutions. Banks, as financial intermediaries, have assets that are primarily monetary in nature and that tend to fluctuate in concert with inflation. A bank can reduce the impact of inflation if it can manage its rate sensitivity gap. This gap represents the difference between rate sensitive assets and rate sensitive liabilities. We, through our asset-liability committee, attempt to structure the assets and liabilities and manage the rate sensitivity gap, thereby seeking to minimize the potential effects of inflation. For information on the management of our interest rate sensitive assets and liabilities, see “Asset/Liability Management.”

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk reflects the risk of economic loss resulting from adverse changes in market prices and interest rates. This risk of loss can be reflected in either diminished current market values or reduced potential net interest income in future periods. The Company's primary market risk exposure is currently the interest rate risk inherent in its lending and deposit taking activities. The structure of the Company's loan and deposit portfolios is such that a significant decline in the prime rate may adversely impact net market values and interest income. The Company manages its interest rate risk through the use of various tools, including managing the composition and size of the investment portfolio so as to reduce the interest rate risk in the deposit and loan portfolios, at the same time maximizing the yield generated by the portfolio.

The table below presents the contractual balances and the estimated fair value of the Company's financial instruments at their expected maturity dates as of December 31, 2006. The expected maturity categories for investment securities take into consideration historical prepayment experience, as well as Management's expectations based on the interest rate environment as of December 31, 2006. For core deposits without contractual maturity (i.e., interest-bearing checking, savings, and money market accounts), the table presents principal cash flows based on Management's judgment concerning their most likely runoff or repricing behaviors. Weighted average variable rates are based on implied forward rates in the yield curve as of December 31, 2006.

| (Dollars in thousands) | Expected Maturity Date | | | | | | Total | Fair Value |
|--|------------------------|----------|-----------|-----------|-----------|------------|-----------|------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | Thereafter | | |
| Assets | | | | | | | | |
| Investment Securities | | | | | | | | |
| Fixed rate | \$ 10,497 | \$ 9,320 | \$ 11,265 | \$ 29,792 | \$ 27,910 | \$ 1,493 | \$ 90,277 | \$ 89,622 |
| Average interest rate | 5.24% | 5.24% | 5.23% | 5.19% | 5.18% | 4.85% | 5.16% | |
| Variable rate | 4,373 | 4,006 | 4,253 | 9,244 | 20,660 | 2,104 | 44,640 | 44,301 |
| Average interest rate | 4.74% | 4.79% | 5.48% | 6.71% | 6.95% | 7.00% | 6.35% | |
| Loans | | | | | | | | |
| Fixed rate | 28,061 | 9,779 | 13,053 | 213 | 1,172 | 51 | 52,329 | 52,862 |
| Average interest rate | 7.39% | 8.40% | 8.63% | 7.73% | 6.69% | 5.75% | 7.87% | |
| Variable rate | 528,857 | 283,904 | 64,390 | 2,674 | 8,993 | 433 | 889,251 | 889,251 |
| Average interest rate | 8.89% | 8.83% | 8.67% | 8.88% | 9.20% | 9.04% | 8.86% | |
| Interest-bearing deposits with other banks | | | | | | | | |
| Variable rate | 86 | - | - | - | - | - | 86 | 86 |
| Average interest rate | 2.65% | - | - | - | - | - | 2.65% | |
| Liabilities | | | | | | | | |
| Interest-bearing deposits and savings | | | | | | | | |
| Variable rate | 156,523 | - | - | - | - | - | 156,523 | 156,523 |
| Average interest rate | 4.12% | - | - | - | - | - | 4.12% | |
| Time deposits | 597,037 | 112,763 | 29,777 | 12,541 | - | - | 752,118 | 752,694 |
| Average interest rate | 5.31% | 5.05% | 5.31% | 5.15% | - | - | 5.26% | |
| Variable rate short-term borrowings | 6,551 | - | - | - | - | - | 6,551 | 6,551 |
| Average interest rate | 5.35% | - | - | - | - | - | 5.35% | |
| Variable rate long-term borrowings | - | - | - | - | - | 97,022 | 97,022 | 96,453 |
| Average interest rate | - | - | - | - | - | 6.14% | 6.14% | |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

The financial statements of the Company are incorporated herein by reference to Exhibit 13.1 of this Annual Report on Form 10-K for the year ended December 31, 2006.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

We have not had any change in accountants or disagreements with accountants on accounting and financial disclosure during the two most recent fiscal years.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company conducted an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2006. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported on a timely basis. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2006 to give reasonable assurance in alerting them in a timely fashion to material information relating to the Company that is required to be included in the reports that the Company files under the Exchange Act.

Management's Report on Internal Control over Financial Reporting

The management of Integrity Bancshares, Inc. and its subsidiary is responsible for establishing and maintaining adequate internal control over financial reporting. This internal control system has been designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of the Company's published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The management of Integrity Bancshares, Inc. and subsidiary has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. To make this assessment, we used the criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of December 31, 2006, the Company's internal control over financial reporting met those criteria.

Our independent auditors have issued an attestation report on our assessment of the Company's internal control over financial reporting, which immediately follows.

/s/ Steven M. Skow
Steven M. Skow
President and Chief Executive Officer

/s/ Suzanne Long
Suzanne Long
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors
Integrity Bancshares, Inc.
Alpharetta, Georgia

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Integrity Bancshares, Inc. and subsidiary maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Integrity Bancshares, Inc. and subsidiary's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Integrity Bancshares, Inc. and subsidiary maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, Integrity Bancshares, Inc. and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Integrity Bancshares, Inc. and subsidiary as of December 31, 2006 and 2005, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006, and our report dated March 12, 2007 expressed an unqualified opinion on.

/s/ MAULDIN & JENKINS, LLC

Atlanta, Georgia
March 12, 2007

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the fourth quarter of 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

We have adopted a code of ethics applicable to all of its officers and employees, which was last revised in November, 2004. The revised code of ethics satisfies the criteria set forth in Item 406(b) of the SEC's Regulation S-K. We believe that it promotes ethical conduct and prevents conflicts of interest. A copy of the code of ethics is posted on our Internet website at www.myintegritybank.com. If we make an amendment to, or a waiver from, a provision of our code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and that relates to any element of the code of ethics definition enumerated in paragraph (b) to Item 406 of the SEC's Regulation S-K we will post such information on our website. Additional information regarding the Company's directors and executive officers is incorporated by reference to the Definitive Proxy Statement for the 2007 Annual Shareholders' Meeting nt.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference to the Definitive Proxy Statement for the 2007 Annual Shareholders' Meeting.

ITEM 12. SECURITY OWNERSHIP OF BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information relating to our 2003 Directors Stock Option Plan and our 2003 Stock Option Plan, which are our only equity compensation plans, as of December 31, 2006.

Equity Compensation Plan Table

| Plan category | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted- average exercise price of outstanding options, warrants and rights | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|--|---|--|
| Equity compensation plans approved by security holders | 1,511,466 | \$4.81 | 334,538 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | 1,511,466 | \$4.81 | 334,538 |

Additional disclosure is incorporated by reference to the Definitive Proxy Statement for the 2007 Annual Shareholders' Meeting.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference to the Definitive Proxy Statement for the 2007 Annual Shareholders' Meeting.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference to the Definitive Proxy Statement for the 2007 Annual Shareholders' Meeting.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following exhibits, which include all financial statements filed as a part of this report, are filed as a part of or incorporated by reference in this report:

| <u>Exhibit Number</u> | <u>Description</u> |
|----------------------------------|---|
| 3.1 | Articles of incorporation, as amended (incorporated by reference to Exhibit 3.1 to Form SB-2 filed by the Registrant on January 25, 2000 – File No. 333-95335) |
| 3.2 | Bylaws (incorporated by reference to Exhibit 3.2 to Form SB-2 filed by the Registrant on January 25, 2000 – File Nos. 333-95335) |
| 10.1 | Employment agreement with Steven M. Skow (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-QSB for the period ended June 30, 2003 as filed with the SEC on August 29, 2003)* |
| 10.2 | 2003 Stock Option Plan (incorporated by reference to Exhibit 10.5 to the Registrant's Form 10-QSB for the period ended June 30, 2003 as filed with the SEC on August 29, 2003)* |
| 10.3 | Amendment No. 1 to 2003 Stock Option Plan (incorporated by reference to Exhibit 10.6 to the Registrant's Form 10-KSB for the period ended December 31, 2004 as filed with the SEC on March 30, 2005)* |
| 10.4 | Amendment No. 2 to 2003 Stock Option Plan (incorporated by reference to Exhibit 10.7 to the Registrant's Form 10-KSB for the period ended December 31, 2004 as filed with the SEC on March 30, 2005)* |
| 10.5 | 2003 Directors Stock Option Plan (incorporated by reference to Exhibit 10.6 to the Registrant's Form 10-QSB for the period ended June 30, 2003 as filed with the SEC on August 29, 2003)* |
| 10.6 | Amendment No. 3 to 2003 Stock Option Plan* |
| 13.1 | Integrity Bancshares, Inc. Financial Statements as of December 31, 2006 |
| 21 | Subsidiaries of the Registrant |
| 23 | Consent of Mauldin & Jenkins, LLC |
| 31.1 | Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

* Denotes management contract or compensatory plan or arrangement.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTEGRITY BANCSHARES, INC.
(Registrant)

By: /s/ Steven M. Skow
Steven M. Skow
President and Chief
Executive Officer
Date: March 13, 2007

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Steven M. Skow
Steven M. Skow, President,
Chief Executive Officer and Director
[Principal Executive Officer]

Date: March 13, 2007

/s/ Suzanne Long
Suzanne Long, Senior Vice-
President & C.F.O
[Principal Financial Officer and
Principal Accounting Officer]

Date: March 13, 2007

/s/ Clinton M. Day
Clinton M. Day, Director

Date: March 12, 2007

/s/ Joseph J. Ernest
Joseph J. Ernest, Director

Date: March 12, 2007

/s/ Don C. Hartsfield
Don C. Hartsfield, Director

Date: March 13, 2007

/s/ Jack S. Murphy
Jack S. Murphy, Director

Date: March 12, 2007

/s/ Richard H. Peden, Sr.
Richard H. Peden, Sr, Director

Date: March 12, 2007

/s/ Charles J. Puckett
Charles J. Puckett, Director

Date: March 12, 2007

/s/ Gerald O. Reynolds
Gerald O. Reynolds, Director

Date: March 12, 2007

/s/Robert S. Wholey
Robert S. Wholey, Director

Date: March 12, 2007

**AMENDMENT NO. 3 TO
INTEGRITY BANCSHARES, INC.
2003 STOCK OPTION PLAN**

This Amendment No. 3 to the Integrity Bancshares, Inc. 2003 Stock Option Plan is made effective as of the 17th day of May, 2006.

W I T N E S S E T H:

WHEREAS, Integrity Bancshares, Inc. (the “Company”) has adopted a 2003 Stock Option Plan (the “Plan”) which, as amended to date (and adjusted for stock splits), currently authorizes 1,650,000 shares of the Company’s common stock upon the exercise of options issued under the Plan;

WHEREAS, the Board of Directors of the Company has authorized this Amendment No. 3 to the Plan to increase the number of shares authorized and reserved for issuance under the Plan to 1,950,000 and directed that the amendment be presented to the Company’s shareholders for ratification at the next annual shareholders’ meeting;

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 3 of the Plan is hereby deleted and replaced with a new Section 3 which reads as follows:

“3. SHARES SUBJECT TO THE PLAN

Subject to adjustments pursuant to the provisions of Section 14, there shall be authorized and reserved for issuance upon the exercise of Options to be granted under the Plan, One Million Nine Hundred Fifty Thousand (1,950,000) shares of Common Stock.”

As herein amended, the Plan continues in full force and effect.

**INTEGRITY BANCSHARES, INC.
AND SUBSIDIARY
CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2006**

**INTEGRITY BANCSHARES, INC.
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2006**

TABLE OF CONTENTS

Page

| | |
|---|----------|
| REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM..... | 1 |
|---|----------|

FINANCIAL STATEMENTS

| | |
|--|-------------|
| Consolidated balance sheets..... | 2 |
| Consolidated statements of income | 3 |
| Consolidated statements of comprehensive income..... | 4 |
| Consolidated statements of stockholders' equity | 5 |
| Consolidated statements of cash flows | 6 |
| Notes to consolidated financial statements | 8-33 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Integrity Bancshares, Inc.
Alpharetta, Georgia

We have audited the consolidated balance sheets of **Integrity Bancshares, Inc. and subsidiary** as of December 31, 2006 and 2005, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Integrity Bancshares, Inc. and subsidiary as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Integrity Bancshares, Inc. and subsidiary's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 12, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of Integrity Bancshares, Inc. and subsidiary's internal control over financial reporting and an unqualified opinion on the effectiveness of Integrity Bancshares, Inc. and subsidiary's internal control over financial reporting.

/s/ MAULDIN & JENKINS, LLC

Atlanta, Georgia
March 12, 2007

**INTEGRITY BANCSHARES, INC.
AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005**

| <u>Assets</u> | <u>2006</u> | <u>2005</u> |
|--|-----------------------------|---------------------------|
| Cash and due from banks | \$ 5,718,668 | \$ 5,068,295 |
| Interest-bearing deposits in banks | 85,515 | 66,786 |
| Federal funds sold | - | 6,243,000 |
| Securities available for sale | 133,923,121 | 74,109,900 |
| Restricted equity securities, at cost | 1,727,100 | 889,300 |
| Loans | 941,579,864 | 651,778,460 |
| Less allowance for loan losses | 9,824,866 | 5,612,162 |
| Loans, net | 931,754,998 | 646,166,298 |
| Premises and equipment | 15,372,097 | 11,864,983 |
| Bank owned life insurance | 20,686,796 | -- |
| Other assets | 15,553,029 | 8,666,516 |
| Total assets | \$ 1,124,821,324 | \$ 753,075,078 |
| <u>Liabilities and Stockholders' Equity</u> | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing | \$ 20,146,126 | \$ 13,046,167 |
| Interest-bearing | 908,640,657 | 661,397,590 |
| Total deposits | 928,786,783 | 674,443,757 |
| Federal funds purchased | 1,551,000 | - |
| Other borrowings | 50,000,000 | - |
| Subordinated long-term debentures | 52,022,000 | 6,186,000 |
| Other liabilities | 12,089,477 | 6,326,137 |
| Total liabilities | 1,044,449,260 | 686,955,894 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, no par value, 50,000,000 shares authorized; 14,764,538 and 14,361,542 shares issued, respectively | 60,723,092 | 56,991,897 |
| Retained earnings | 20,280,356 | 10,143,755 |
| Accumulated other comprehensive loss | (631,384) | (1,016,468) |
| Total stockholders' equity | 80,372,064 | 66,119,184 |
| Total liabilities and stockholders' equity | \$ 1,124,821,324 | \$ 753,075,078 |

See Notes to Consolidated Financial Statements.

**INTEGRITY BANCSHARES, INC.
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|----------------------|---------------------|---------------------|
| Interest income: | | | |
| Loans, including fees | \$ 74,371,120 | \$ 41,379,076 | \$ 20,830,692 |
| Securities | 4,943,988 | 2,709,786 | 1,593,333 |
| Federal funds sold | 316,305 | 62,170 | 27,906 |
| Deposits in banks | 3,343 | 5,015 | 3,700 |
| Total interest income | <u>79,634,756</u> | <u>44,156,047</u> | <u>22,455,631</u> |
| Interest expense: | | | |
| Deposits | 37,233,791 | 17,293,051 | 6,943,923 |
| Federal funds purchased and other borrowings | 3,900,660 | 1,391,202 | 627,188 |
| Total interest expense | <u>41,134,451</u> | <u>18,684,253</u> | <u>7,571,111</u> |
| Net interest income | <u>38,500,305</u> | <u>25,471,794</u> | <u>14,884,520</u> |
| Provision for loan losses | <u>4,323,396</u> | <u>3,566,212</u> | <u>2,627,348</u> |
| Net interest income after provision for loan losses | <u>34,176,909</u> | <u>21,905,582</u> | <u>12,257,172</u> |
| Other income: | | | |
| Service charges on deposit accounts | 79,186 | 61,009 | 54,781 |
| Income from bank owned life insurance | 686,796 | -- | -- |
| Other operating income | 501,652 | 509,719 | 397,385 |
| Total other income | <u>1,267,634</u> | <u>570,728</u> | <u>452,166</u> |
| Other expenses: | | | |
| Salaries and employee benefits | 10,733,253 | 7,214,234 | 4,581,670 |
| Equipment and occupancy expenses | 2,346,768 | 1,530,606 | 937,537 |
| Other operating expenses | 6,307,846 | 3,720,845 | 2,402,075 |
| Total other expenses | <u>19,387,867</u> | <u>12,465,685</u> | <u>7,921,282</u> |
| Income before income taxes | <u>16,056,676</u> | <u>10,010,625</u> | <u>4,788,056</u> |
| Income taxes | <u>5,920,075</u> | <u>3,688,273</u> | <u>1,775,674</u> |
| Net income | <u>\$ 10,136,601</u> | <u>\$ 6,322,352</u> | <u>\$ 3,012,382</u> |
| Basic earnings per share | <u>\$ 0.69</u> | <u>\$ 0.45</u> | <u>\$ 0.28</u> |
| Diluted earnings per share | <u>\$ 0.66</u> | <u>\$ 0.42</u> | <u>\$ 0.26</u> |

See Notes to Consolidated Financial Statements.

**INTEGRITY BANCSHARES, INC.
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|-----------------------------|----------------------------|----------------------------|
| Net income | \$ 10,136,601 | \$ 6,322,352 | \$ 3,012,382 |
| Other comprehensive income (loss): | | | |
| Unrealized gains (losses) on securities available-for-sale: | | | |
| Net unrealized holding gains (losses) arising during period, net of (tax) benefits of (\$232,846), \$479,730, and \$155,280, respectively | <u>385,084</u> | <u>(817,720)</u> | <u>(261,694)</u> |
| Comprehensive income | <u>\$ 10,521,685</u> | <u>\$ 5,504,632</u> | <u>\$ 2,750,688</u> |

See Notes to Consolidated Financial Statements.

**INTEGRITY BANCSHARES, INC.
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**

| | Common Stock | | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|--|---------------------|---------------------------|------------------------------|--|---|
| | Shares | Amount Paid-in | | | |
| Balance, December 31, 2003 | 2,744,157 | \$ 19,020,303 | \$ 809,021 | \$ 62,946 | \$ 19,892,270 |
| Net income | - | - | 3,012,382 | - | 3,012,382 |
| Issuance of common stock | 1,512,935 | 20,309,609 | - | - | 20,309,609 |
| Stock compensation expense | - | 602,259 | - | - | 602,259 |
| 3-for-2 common stock split | 2,128,546 | - | - | - | - |
| Other comprehensive loss | - | - | - | (261,694) | (261,694) |
| Balance, December 31, 2004 | 6,385,638 | 39,932,171 | 3,821,403 | (198,748) | 43,554,826 |
| Net income | - | - | 6,322,352 | - | 6,322,352 |
| Issuance of common stock | 795,133 | 15,744,996 | - | - | 15,744,996 |
| Stock compensation expense | - | 1,159,512 | - | - | 1,159,512 |
| Tax benefit from exercise of stock options | - | 155,218 | - | - | 155,218 |
| 2-for-1 common stock split | 7,180,771 | - | - | - | - |
| Other comprehensive loss | - | - | - | (817,720) | (817,720) |
| Balance, December 31, 2005 | 14,361,542 | 56,991,897 | 10,143,755 | (1,016,468) | 66,119,184 |
| Net income | - | - | 10,136,601 | - | 10,136,601 |
| Issuance of common stock | 402,996 | 1,260,491 | - | - | 1,260,491 |
| Stock compensation expense | - | 1,557,357 | - | - | 1,557,357 |
| Tax benefit from exercise of stock options | - | 913,347 | - | - | 913,347 |
| Other comprehensive income | - | - | - | 385,084 | 385,084 |
| Balance, December 31, 2006 | <u>14,764,538</u> | <u>\$ 60,723,092</u> | <u>\$ 20,280,356</u> | <u>\$ (631,384)</u> | <u>\$ 80,372,064</u> |

See Notes to Consolidated Financial Statements.

**INTEGRITY BANCSHARES, INC.
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**

| | 2006 | 2005 | 2004 |
|---|----------------------|----------------------|----------------------|
| OPERATING ACTIVITIES | | | |
| Net income | \$ 10,136,601 | \$ 6,322,352 | \$ 3,012,382 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation, accretion and amortization | 783,080 | 571,115 | 429,654 |
| Provision for loan losses | 4,323,396 | 3,566,212 | 2,627,348 |
| Stock compensation | 1,557,357 | 1,159,512 | 602,259 |
| Deferred income taxes | (2,056,451) | (1,321,872) | (531,655) |
| Increase in interest receivable | (2,858,859) | (2,114,063) | (842,526) |
| Increase in interest payable | 5,775,878 | 1,239,945 | 940,688 |
| Excess tax benefits from exercise of options | (913,347) | (155,218) | - |
| Increase (decrease) in income taxes payable | 976,437 | 1,016,244 | (1,701,759) |
| Income from bank owned life insurance | (686,796) | - | - |
| (Gain) loss on sale of other real estate | 120,715 | - | (190,024) |
| Gain on sale of premises and equipment | (354,400) | (412,500) | (147,923) |
| Net other operating activities | (3,729,617) | 671,956 | 436,326 |
| Net cash provided by operating activities | <u>13,073,994</u> | <u>10,543,683</u> | <u>4,634,770</u> |
| INVESTING ACTIVITIES | | | |
| Net (increase) decrease in interest-bearing deposits in banks | (18,729) | 221,176 | (174,008) |
| Net decrease (increase) in federal funds sold | 6,243,000 | (6,243,000) | 2,439,000 |
| Proceeds from maturities of securities available-for-sale | 15,257,774 | 14,650,628 | 15,283,233 |
| Purchases of securities available-for-sale | (74,438,353) | (41,944,145) | (36,425,538) |
| (Purchases) redemptions of restricted equity securities | (837,800) | 343,300 | (582,600) |
| Purchase of bank owned life insurance | (20,000,000) | - | - |
| Net increase in loans | (289,912,095) | (267,259,858) | (152,033,595) |
| Proceeds from sale of other real estate | 1,329,225 | - | 2,693,669 |
| Proceeds from sale of premises and equipment | - | - | 4,996,500 |
| Purchase of premises and equipment | (3,950,507) | (4,155,702) | (2,333,013) |
| Net cash used in investing activities | <u>(366,327,485)</u> | <u>(304,387,601)</u> | <u>(166,136,352)</u> |
| FINANCING ACTIVITIES | | | |
| Net increase in deposits | 254,343,026 | 301,171,506 | 141,494,529 |
| Net increase (decrease) in federal funds purchased | 1,551,000 | (4,279,000) | (5,721,000) |
| Net increase in long-term debentures | 45,836,000 | - | - |
| Net proceeds (repayments) from other borrowings | 50,000,000 | (15,000,000) | 5,000,000 |
| Proceeds from exercise of stock options | 1,260,491 | 595,427 | - |
| Excess tax benefits from exercise of options | 913,347 | 155,218 | - |
| Net proceeds from sale of common stock | - | 14,994,351 | 20,309,609 |
| Net cash provided by financing activities | <u>353,903,864</u> | <u>297,637,502</u> | <u>161,083,138</u> |
| Net increase (decrease) in cash and due from banks | 650,373 | 3,793,584 | (418,444) |
| Cash and due from banks at beginning of year | <u>5,068,295</u> | <u>1,274,711</u> | <u>1,693,155</u> |
| Cash and due from banks at end of year | <u>\$ 5,718,668</u> | <u>\$ 5,068,295</u> | <u>\$ 1,274,711</u> |
| SUPPLEMENTAL DISCLOSURE | | | |

Cash paid for:

| | | | | | | |
|--------------|----|------------|----|------------|----|-----------|
| Interest | \$ | 35,358,573 | \$ | 17,444,308 | \$ | 6,630,423 |
| Income taxes | \$ | 8,501,455 | \$ | 4,149,119 | \$ | 4,009,088 |

NONCASH TRANSACTIONS

| | | | | | | |
|---|----|-----------|----|---|----|---|
| Other real estate acquired in settlement of loans | \$ | 2,535,027 | \$ | - | \$ | - |
|---|----|-----------|----|---|----|---|

See Notes to Consolidated Financial Statements.

**INTEGRITY BANCSHARES, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Integrity Bancshares, Inc. (the “Company”) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Integrity Bank (the “Bank”). The Bank is a commercial bank located in Alpharetta, Fulton County, Georgia with additional full service branches located in Roswell, Smyrna, and Duluth, Georgia. The Bank also has two loan production offices located in Buford and Cumming, Georgia. The Bank provides a full range of banking services in its primary market area of Fulton County and the surrounding counties of the north metro Atlanta area. These services include providing loans to customers in our primary service area who may have credit needs outside of this area. The Bank occasionally purchases loan participations from local and non-local banks resulting in loans collateralized by properties not located in our primary service area.

Basis of Presentation and Accounting Estimates

The consolidated financial statements include the accounts of the Company and its subsidiary. Significant intercompany transactions and balances have been eliminated in consolidation.

In preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the balance sheet date 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 foreclosed real estate, deferred taxes, stock compensation costs, and contingent assets and liabilities. The determination of the adequacy of the allowance for loan losses is based on estimates that are susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans and the valuation of foreclosed real estate, management obtains independent appraisals for significant collateral.

Cash, Due From Banks and Cash Flows

For purposes of reporting cash flows, cash and due from banks includes cash on hand, cash items in process of collection and amounts due from banks. Cash flows from loans, interest-bearing deposits in banks, federal funds purchased and sold, deposits, securities sold under repurchase agreements and other borrowings are reported net.

The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank, based on a percentage of deposits. The total of those reserve balances was approximately \$209,000 and \$305,000 at December 31, 2006 and 2005, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities

Securities are classified as available for sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive loss, net of the related deferred tax effect. Equity securities, including restricted equity securities without a readily determinable fair value, are reported at cost.

The amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the life of the securities. Realized gains and losses, determined on the basis of the cost of specific securities sold, are included in earnings on the settlement date. Declines in the fair value of 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 cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans

Loans are reported at their outstanding principal balances less net deferred fees and the allowance for loan losses. Interest income is accrued on the outstanding principal balance.

Nonrefundable loan fees and loan origination costs on loans are deferred and amortized over the estimated life of the loans using the straight-line method.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, unless the loan is well-secured. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income, unless management believes that the accrued interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is recognized on the cost-recovery method, until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts are brought current and future payments are reasonably assured.

A loan is considered impaired when it is probable, based on current information and events, the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans are measured 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. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status.

The Company sells and purchases participations in certain loans to unrelated financial institutions. Any gain or loss is determined and recognized at the time the sale or purchase is consummated. The amount of gain or loss recognized on the sale or purchase of a specific loan is equal to the percentage resulting from determining the fair value of the portion of the loan sold or purchased relative to the fair value of the entire loan. The Company recognized no gains or losses on the sale or purchase of participations, nor did it recognize servicing right assets or liabilities as of and for the years ended December 31, 2006 or 2005, respectively, because the servicing fees received or paid approximate adequate compensation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the collectibility of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectibility of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, concentrations and current economic conditions that may affect the borrower's ability to pay. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are any significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses, and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either 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 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.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the following estimated useful lives of the assets.

| | |
|-----------|-----------|
| Buildings | 40 years |
| Equipment | 3-7 years |

Other Real Estate Owned

Other real estate owned represents properties acquired through or in lieu of loan foreclosure and is initially recorded at the lower of cost or fair value less estimated costs to sell. Any write-down to fair value at the time of transfer to other real estate owned is charged to the allowance for loan losses. Costs of improvements are capitalized, whereas costs relating to holding other real estate owned and subsequent adjustments to the value are expensed. The Company had \$541,893 of other real estate owned at December 31, 2006 and none at December 31, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Earnings Per Share

Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted earnings per share are computed by dividing net income by the sum of the weighted-average number of shares of common stock outstanding and potential common shares. Potential common shares consist of stock options.

Stock-Based Compensation

The Company has two stock-based employee compensation plans, which are described more fully in Note 8. Prior to January 1, 2006, the Company accounted for those plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. For fixed stock options, no stock-based employee compensation cost was reflected in net income, as all fixed options granted under those plans had an exercise price equal to the market value of the underlying stock on the date of grant. For variable stock options, stock-based compensation amounted to \$1,159,512 and \$602,259 for the years ended December 31, 2005 and 2004, respectively.

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), entitled Share-Based Payment ("SFAS No. 123R") using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 2006 includes compensation cost for all share-based payments granted prior to but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. Results for prior periods have not been restated.

As a result of adopting SFAS 123R on January 1, 2006, the Company's income before income taxes and net income for the year ended December 31, 2006, were \$2.3 million and \$1.4 million lower, respectively, than if it had continued to account for share-based compensation under the provisions of APB Opinion No. 25. Basic and diluted earnings per share for the year ended December 31, 2006 would have been \$0.85 and \$0.81, respectively, if the Company had not adopted SFAS 123R, compared to reported basic and diluted earnings per share of \$0.69 and \$0.66, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation, in all periods presented.

| | Years Ended December 31, | |
|---|---------------------------------|---------------------|
| | 2005 | 2004 |
| Net income, as reported | \$ 6,322,352 | \$ 3,012,382 |
| Stock-based employee compensation expense included in net income, net of tax | (39,719) | 230,673 |
| Pro forma net income | <u>\$ 6,282,633</u> | <u>\$ 3,243,055</u> |
| Earnings per share: | | |
| Basic - as reported | \$ 0.45 | \$ 0.28 |
| Basic - pro forma | <u>\$ 0.45</u> | <u>\$ 0.30</u> |
| Diluted - as reported | \$ 0.42 | \$ 0.26 |
| Diluted - pro forma | <u>\$ 0.42</u> | <u>\$ 0.28</u> |

Prior to the adoption of Statement 123(R), the Company would have presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the statement of cash flows. Statement 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows.

Comprehensive Income

Accounting principles generally 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.

Reclassification of Certain Expenses

Certain expenses on the statements of income for the years ended December 31, 2005 and 2004, have been reclassified, with no effect on net income or earnings per common share, to be consistent with the classifications adopted for the year ended December 31, 2006.

Recent Developments

Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS 154, *Accounting Changes and Error Corrections, a Replacement of APB Opinion 20 and FASB Statement 3*. SFAS 154 amends the existing guidance and applies to the accounting for and reporting of a change in accounting principle. Additionally, SFAS 154 applies to changes required by accounting pronouncements when the pronouncement does not include explicit transition provisions. SFAS 154 is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005. Accordingly, on January 1, 2006, the Company adopted the provisions of SFAS 154. The adoption of this standard did not have an impact on the financial condition or the results of operations of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting for Servicing of Financial Assets

In March 2006, the FASB issued SFAS 156, *Accounting for Servicing of Financial Assets — an amendment of FASB Statement 140*. SFAS 156 amends SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the initial recognition and subsequent accounting for separately recognized servicing assets and servicing liabilities. This Statement is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006, with early adoption allowed. The adoption of this standard is not expected to have a material impact on the financial condition or the results of operations of the Company.

Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued FASB Interpretation 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement 109*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement 109, *Accounting for Income Taxes*. FIN 48 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. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with early adoption allowed. The adoption of this interpretation is not expected to have a material impact on the financial condition or the results of operations of the Company.

Fair Value Measurements

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 applies to existing accounting pronouncements that require or permit fair value measurements in which FASB had previously concluded fair value is the most relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, with early adoption encouraged. Management does not believe the adoption of this standard will have a material impact on the financial condition or the results of operations of the Company.

Considering the Effects of Misstatements

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") 108, *Financial Statements - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB 108 provides guidance on the consideration of prior year misstatements in determining whether the current year's financial statements are materially misstated. In providing this guidance, SAB 108 allows two alternatives, the "iron curtain" or the "rollover" method, in quantifying a current year misstatement for purposes of determining materiality. The iron curtain method focuses on how the current year's balance sheet would be affected in correcting misstatements without considering the year in which the misstatement originated. The rollover method focuses on the amount of the misstatements that originated in the current year's income statement. SAB 108 indicates that companies should quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

adoption of this standard did not have a material impact on the financial condition or the results of operations of the Company.

NOTE 2. SECURITIES AVAILABLE FOR SALE

The amortized cost and fair value of securities available for sale are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|-------------------------------|-----------------------|------------------------------|-------------------------------|-----------------------|
| December 31, 2006: | | | | |
| Equity securities | \$ 1,712,000 | \$ - | \$ - | \$ 1,712,000 |
| Government sponsored agencies | 18,995,102 | 119,288 | (34,350) | 19,080,040 |
| Mortgage-backed securities | 114,210,987 | 191,349 | (1,271,255) | 113,131,081 |
| | <u>\$ 134,918,089</u> | <u>\$ 310,637</u> | <u>\$ (1,305,605)</u> | <u>\$ 133,923,121</u> |
| December 31, 2005: | | | | |
| Equity securities | \$ 876,000 | \$ - | \$ - | \$ 876,000 |
| Mortgage-backed securities | 74,846,798 | 27,040 | (1,639,938) | 73,233,900 |
| | <u>\$ 75,722,798</u> | <u>\$ 27,040</u> | <u>\$ (1,639,938)</u> | <u>\$ 74,109,900</u> |

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

| | Amortized Cost | Fair Value |
|----------------------------|-----------------------|-----------------------|
| Due from one to five years | \$ 18,995,102 | \$ 19,080,040 |
| Mortgage-backed securities | \$ 114,210,987 | \$ 113,131,081 |
| | <u>\$ 133,206,089</u> | <u>\$ 132,211,121</u> |

The market value of securities is based on quoted market values and is significantly affected by the interest rate environment.

At December 31, 2006, all unrealized losses in the securities portfolio were for debt securities. From the December 31, 2006 tables above, 51 out of 79 securities purchased from Government sponsored agencies, including mortgage-backed securities, contained unrealized losses. The amortized cost and fair value of these securities at December 31, 2006 was \$78,529,615 and \$77,224,010, respectively. At December 31, 2006, 9 of the 51 securities with unrealized losses have been in a continuous unrealized loss position for less than twelve months, and 42 securities with unrealized losses have been in a continuous unrealized loss position for more than 12 months. These unrealized losses are considered temporary because of acceptable investment grades on each security and the repayment sources of principal and interest are government backed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SECURITIES AVAILABLE FOR SALE (Continued)

The following table shows the gross unrealized losses and fair value of securities, aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2006 and 2005.

| | Less Than 12 Months | | 12 Months or More | | Total | |
|-------------------------------|----------------------|---------------------|----------------------|-----------------------|----------------------|-----------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| December 31, 2006 | | | | | | |
| Government sponsored agencies | \$ 4,965,650 | \$ (34,350) | \$ - | \$ - | \$ 4,965,650 | \$ (34,350) |
| Mortgage-backed securities | 20,273,163 | (41,818) | 51,985,197 | (1,229,437) | 72,258,360 | (1,271,255) |
| Total | <u>\$ 25,238,813</u> | <u>\$ (76,168)</u> | <u>\$ 51,985,197</u> | <u>\$ (1,229,437)</u> | <u>\$ 77,224,010</u> | <u>\$ (1,305,605)</u> |
| December 31, 2005 | | | | | | |
| Mortgage-backed securities | <u>\$ 43,274,798</u> | <u>\$ (853,476)</u> | <u>\$ 22,009,964</u> | <u>\$ (786,462)</u> | <u>\$ 65,284,762</u> | <u>\$ (1,639,938)</u> |

Securities with a carrying value of \$55,143,196 and \$5,401,855 at December 31, 2006 and 2005, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The Company had no gains or losses on sales of securities for the years ended December 31, 2006, 2005, or 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS

The composition of loans is summarized as follows:

| | December 31, | |
|--------------------------------|------------------------------|------------------------------|
| | 2006 | 2005 |
| Commercial | \$ 47,802,843 | \$ 46,295,635 |
| Real estate – construction | 658,970,814 | 384,989,612 |
| Real estate - commerical | 189,419,723 | 191,399,868 |
| Real estate – mortgage | 44,598,285 | 27,974,565 |
| Consumer installment and other | 1,193,707 | 1,426,619 |
| | 941,985,372 | 652,086,299 |
| Deferred loan fees | (405,508) | (307,839) |
| Allowance for loan losses | (9,824,866) | (5,612,162) |
| Loans, net | <u>\$ 931,754,998</u> | <u>\$ 646,166,298</u> |

Changes in the allowance for loan losses are as follows:

| | Years Ended December 31, | | |
|--|---------------------------------|----------------------------|----------------------------|
| | 2006 | 2005 | 2004 |
| Balance, beginning of year | \$ 5,612,162 | \$ 3,433,130 | \$ 3,572,984 |
| Provision for loan losses | 4,323,396 | 3,566,212 | 2,627,348 |
| Loans charged off | (159,959) | (1,442,451) | (2,841,802) |
| Recoveries of loans previously charged off | 49,267 | 55,271 | 74,600 |
| Balance, end of year | <u>\$ 9,824,866</u> | <u>\$ 5,612,162</u> | <u>\$ 3,433,130</u> |

The total recorded investment in impaired loans consisting solely of loans on nonaccrual status was \$13,351,247 and \$1,651,746 at December 31, 2006 and 2005, respectively. There were no impaired loans that had related allowances determined in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, at December 31, 2006 and 2005. The average recorded investment in impaired loans for 2006, 2005 and 2004 was \$2,019,261, \$1,127,053 and \$2,138,069, respectively. Interest income recognized for cash payments received on impaired loans was not material for the years ended December 31, 2006, 2005 and 2004, respectively.

There were no loans past due ninety days or more and still accruing interest at December 31, 2006, 2005 or 2004.

In the ordinary course of business, the Company has granted loans to certain related parties, including executive officers, directors and their affiliates. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan. Changes in related party loans for the year ended December 31, 2006 are as follows:

| | |
|----------------------------|-----------------------------|
| Balance, beginning of year | \$ 11,926,835 |
| Advances | 13,290,233 |
| Repayments | (1,934,599) |
| Change in Directors | (2,258,878) |
| Balance, end of year | <u>\$ 21,023,591</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

| | December 31, | |
|--------------------------|----------------------|----------------------|
| | 2006 | 2005 |
| Land | \$ 5,362,270 | \$ 4,145,780 |
| Buildings | 7,015,395 | 4,770,443 |
| Construction in progress | 792,601 | 1,707,171 |
| Equipment | 3,696,924 | 2,601,626 |
| Leasehold Improvements | 603,618 | 24,856 |
| | 17,470,808 | 13,249,876 |
| Accumulated depreciation | (2,098,711) | (1,384,893) |
| | <u>\$ 15,372,097</u> | <u>\$ 11,864,983</u> |

In 2003, the Company purchased from a director of the Company, an administrative building adjacent to its main office building at a cost of \$2.6 million. In August, 2004 the Company sold to an unrelated party the administrative building and related improvements, with a book value of \$2.9 million, for \$5.0 million cash in a sale-leaseback transaction. A five year non-renewable operating lease on the building was entered into between the Bank and the buyer, with minimum annual lease payments of \$560,000. The resulting \$2.1 million gain on sale was deferred and is being recognized over the life of the lease. The unamortized balance of \$1,099,875 and \$1,512,375 of the deferred gain is included in other liabilities at December 31, 2006 and 2005, respectively.

On January 31, 2007, the Bank repurchased the administrative building at a cost of \$6 million. The balance of unamortized gain on sale of \$1,066,000 was offset against the purchase price.

The Company has a loan production office in Cumming (Forsyth County), Georgia in which office space is leased. A one-year non-renewable operating lease was entered into in August, 2005. Extended for a period of nine months, this lease expires on May 31, 2007. In 2006, the Company entered into a contract with a third party builder to construct an additional branch banking facility in Cumming to replace the loan production office. The full-service branch was under construction at December 31, 2006, and is scheduled to open in mid-2007. A second loan production office was opened in December 2006 in Buford (Gwinnett County), Georgia in which office space is also leased. A 12.5 month non-renewable operating lease was entered into in December 2006. There was also an expansion project under way at December 31, 2006 to build out additional space in the above administrative building. The same party that was building the Cumming office was also completing this project. As of December 31, 2006, the total estimated costs to complete this project and the Cumming office were \$1.1 million.

Total rental expense was \$641,581, \$614,540, and \$210,457 for the years ended December 31, 2006, 2005 and 2004, respectively.

Future minimum lease payments as of December 31, 2006 are as follows:

| | |
|------|---------------------|
| 2007 | \$ 593,800 |
| 2008 | 560,000 |
| 2009 | 373,333 |
| | <u>\$ 1,527,133</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. DEPOSITS

The aggregate amount of time deposits in denominations of \$100,000 or more at December 31, 2006 and 2005 was \$169,614,614 and \$135,473,297, respectively. The scheduled maturities of time deposits at December 31, 2006 are as follows:

| | | |
|------|----|--------------------|
| 2007 | \$ | 596,862,139 |
| 2008 | | 112,260,900 |
| 2009 | | 29,623,427 |
| 2010 | | 5,784,899 |
| 2011 | | 6,700,073 |
| | \$ | <u>751,231,438</u> |

At December 31, 2006, total time deposits included \$247,988,365 of brokered deposits. At December 31, 2005, total time deposits included \$150,585,785 of brokered deposits.

Overdraft demand deposits reclassified to loans totaled \$1,183 and \$2,688 at December 31, 2006 and 2005, respectively.

NOTE 6. OTHER BORROWINGS

Other borrowings consist of the following:

| | <u>December 31,</u> | |
|--|----------------------|--------------|
| | <u>2006</u> | <u>2005</u> |
| Reverse Repurchase Agreement, interest payable quarterly at the three month LIBOR minus 0.50% until August 14, 2007, then fixed at 4.84% until maturity at August 13, 2013, callable on August 14, 2007 or any quarterly period thereafter | \$ 15,000,000 | \$ -- |
| Reverse Repurchase Agreement, interest payable quarterly at the three month LIBOR minus 0.50% until September 13, 2007, then fixed at 4.48% until maturity at September 13, 2013, callable on September 13, 2007 or any quarterly period thereafter | 15,000,000 | -- |
| Reverse Repurchase Agreement, interest payable quarterly at the three month LIBOR minus 0.87% until June 5, 2008, then fixed at 4.57% until maturity at December 5, 2013, callable on June 8, 2008 or any quarterly period thereafter | 15,000,000 | -- |
| Federal Home Loan Bank Daily Rate Credit Advance, interest payable monthly at variable rates set daily, due December 27, 2007 | <u>5,000,000</u> | <u>--</u> |
| | <u>\$ 50,000,000</u> | <u>\$ --</u> |

In late 2006, the Company entered into several reverse repurchase agreements which have seven-year terms, and the rates are floating for a portion of the term and fixed for the balance. These instruments are collateralized with mortgage-backed securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. OTHER BORROWINGS (Continued)

The Company has a line of credit with the Federal Home Loan Bank that was \$57 million at December 31, 2006. Any advances from the Federal Home Loan Bank are collateralized with certain qualifying loans of approximately \$52 million, mortgage-backed securities of \$5.0 million, and Federal Home Loan Bank stock of \$1.7 million. The Company also had available unused lines of credit with various financial institutions totaling \$69 million at December 31, 2006. There were no other advances outstanding at December 31, 2006 or 2005.

NOTE 7. SUBORDINATED LONG-TERM DEBENTURES

Subordinated long-term debentures consist of the following:

| | December 31, | |
|---|----------------------|---------------------|
| | 2006 | 2005 |
| Floating rate junior subordinated debentures, interest payable quarterly at the three month LIBOR plus 2.85%, due December 17, 2033. The rate at December 31, 2006 was 8.21%. | \$ 6,186,000 | \$ 6,186,000 |
| Floating rate junior subordinated debentures, interest payable quarterly at the three month LIBOR plus 1.44%, due March 15, 2036. The rate at December 31, 2006 was 6.80%. | 27,836,000 | -- |
| Floating rate subordinated debentures, interest payable quarterly at prime, due October 30, 2014. The rate at December 31, 2006 was 8.25%. | 18,000,000 | -- |
| | \$ 52,022,000 | \$ 6,186,000 |

In 2003, the Company formed a wholly-owned grantor trust to issue cumulative trust preferred securities to the public. The grantor trust has invested the proceeds of the trust preferred securities in junior subordinated debentures of the Company. The trust preferred securities can be redeemed prior to maturity at the option of the Company on or after December 17, 2008. The sole assets of the grantor trust are the Junior Subordinated Deferrable Interest Debentures of the Company (the "Debentures") held by the grantor trust. The Debentures have the same interest rate (three month LIBOR plus 2.85%, floating) as the trust preferred securities. The Company has the right to defer interest payments on the Debentures at any time or from time to time for a period not exceeding 20 consecutive quarters provided that no extension period may extend beyond the stated maturity of the related Debentures. During any such extension period, distributions on the trust preferred certificates would also be deferred.

In February 2006, the Company formed a second wholly-owned grantor trust to issue cumulative trust preferred securities to the public. The grantor trust has invested the proceeds of the trust preferred securities in junior subordinated debentures of the Company. The trust preferred securities can be redeemed prior to maturity at the option of the Company on or after March 15, 2011. The sole assets of the grantor trust are the Junior Subordinated Deferrable Interest Debentures of the Company (the "Debentures") held by the grantor trust. The Debentures have the same interest rate (three month LIBOR plus 1.44%, floating) as the trust preferred securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. SUBORDINATED LONG-TERM DEBENTURES (Continued)

The Company has the right to defer interest payments on the Debentures at any time or from time to time for a period not exceeding 20 consecutive quarters provided that no extension period may extend beyond the stated maturity of the related Debentures. During any such extension period, distributions on the trust preferred certificates would also be deferred.

Payment of periodic cash distributions and payment upon liquidation or redemption with respect to the trust preferred securities are guaranteed by the Company to the extent of funds held by the grantor trusts (the "Preferred Securities Guarantee"). The Preferred Securities Guarantee, when taken together with the Company's other obligations under the Debentures, constitute a full and unconditional guarantee, on a subordinated basis, by the Company of payments due on the trust preferred securities.

In October 2006, the Bank issued subordinated debentures with a term of seven years. Interest is payable quarterly, and there is no prepayment penalty. The debentures were issued to three financial institutions and totaled \$18 million. For regulatory purposes, these debt instruments can be included in Tier two capital. The Bank is required to establish reserves to fund the repayment of the subordinated debentures.

NOTE 8. STOCK-BASED COMPENSATION

As of December 31, 2006, the Company has two stock-based compensation plans that allow for grants of incentive stock options and nonqualified stock options. One of the plans is an employee plan which permits the granting of stock options to employees for up to 1,950,000 shares of common stock, and the other is a director plan which permits the granting of stock options to directors for up to 585,000 shares of common stock. Under both plans, stock options granted generally have an exercise price no less than the fair market value of the underlying stock at the date of grant. The general terms of the plans include a vesting period (usually five years) with an exercisable period not to exceed ten years. Dividends are not paid on unexercised options and dividends are not subject to vesting. Option awards provide for accelerated vesting if there is a change in control (as defined in the plan). As of December 31, 2006, approximately 332,536 awards could be granted under the employee plan, and 2,000 awards could be granted under the director plan.

In January 2003 the Company granted to its President options to acquire 5% of the Company's outstanding shares. The options were divided into two groups: (1) the fixed number of options equal to 5% of the Company's outstanding shares on the grant date (the "Original Option"); and (2) the additional options that accrue by virtue of increases in the Company's outstanding shares (the "Additional Option"). In August 2006 the President's option agreement was amended to limit the shares obtainable under the Additional Option. Specifically, the option agreement was amended to provide that the total number of shares obtainable pursuant to both the Original Option and the Additional Option will not exceed 731,672 (as adjusted for stock splits, stock dividends, and similar recapitalizations), which equaled 5% of the outstanding shares on the date of the amendment. The effect of this amendment was to cut off further increases of the Additional Option when the number of outstanding shares of the Company increased.

The fair value of each option granted was estimated on the date of grant using the Black-Scholes-Merton option valuation model. Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercise, employee termination, forfeitures and expected dividends within the valuation model. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is estimated based on the short-cut method. The risk-free rate for periods within the estimated life of the option is based on the U.S. Treasury yield

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. STOCK-BASED COMPENSATION (Continued)

curve in effect at the time of grant. The key assumptions used to determine the fair value of options are presented in the table below.

| | Years Ended December 31, | | |
|-------------------------|--------------------------|----------|----------|
| | 2006 | 2005 | 2004 |
| Dividend yield | 0.00% | 0.00% | 0.00% |
| Average expected life | 2.08 - 7.50 years | 10 years | 10 years |
| Expected volatility | 30.00% | 30.40% | 0.01% |
| Forfeiture rate | 3.00% | 3.00% | 3.00% |
| Risk-free interest rate | 4.60% - 5.07% | 4.25% | 4.52% |

Employee Plan

The following table summarizes our stock options activity for year ended December 31, 2006:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|----------------------------------|-----------|---------------------------------|---|---------------------------|
| Outstanding at beginning of year | 1,409,072 | \$ 4.67 | | |
| Granted (below market) | 13,590 | 2.45 | | |
| Granted (at market) | 124,000 | 12.19 | | |
| Exercised | (161,996) | 3.29 | | |
| Terminated | (170,200) | 9.70 | | |
| Outstanding at end of year | 1,214,466 | \$ 4.89 | 4.92 | \$ 9,862,000 |
| Options exercisable at year-end | 573,710 | \$ 3.97 | 6.75 | \$ 5,166,000 |

The weighted-average grant-date fair value of options granted during the years ended December 31, 2006, 2005 and 2004 was \$5.86, \$6.72 and \$3.28, respectively.

Total intrinsic value of options exercised was \$1,426,784, \$1,604,889 and \$ 0 for the years ended December 31, 2006, 2005 and 2004, respectively. The total fair value of options vested during the years ended December 31, 2006, 2005 and 2004 was \$562,744, \$1,478,574 and \$674,870, respectively.

The compensation cost charged against income for the years ended December 31, 2006, 2005 and 2004 were \$1,557,358, \$1,159,512 and \$602,259, respectively. Income tax benefits recognized for the respective years were \$460,953, \$455,031 and \$227,267.

Cash received from the exercise of options was \$533,714 for the year ended December 31, 2006. The tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements totaled \$8,059 for the year ended December 31, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. STOCK-BASED COMPENSATION (Continued)

As of December 31, 2006, there was \$1.1 million of total unrecognized compensation cost related to the nonvested share based compensation arrangements granted under the option plan. That cost is expected to be recognized over a weighted-average period of 1.68 years.

Information pertaining to employee options outstanding at December 31, 2006 is as follows:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
| | Number Outstanding | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| \$2.45 | 789,466 | 3.03 years | \$ 2.45 | 379,255 | \$ 2.45 |
| 4.50 | 153,000 | 7.67 years | 4.50 | 127,600 | 4.50 |
| 11.00 – 14.25 | 272,000 | 8.88 years | 12.18 | 66,855 | 11.62 |
| | <u>1,214,466</u> | 4.92 years | 4.89 | <u>573,710</u> | 3.97 |

Director Plan

The following table shows option activity of the Director Plan for the year ended December 31, 2006.

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|----------------------------------|-----------|---------------------------------|---|---------------------------|
| Outstanding at beginning of year | 538,000 | \$ 3.85 | | |
| Granted | -- | -- | | |
| Exercised | (241,000) | 3.01 | | |
| Terminated | <u>--</u> | <u>--</u> | | |
| Outstanding at end of year | 297,000 | \$ 4.52 | 6.75 | \$ 2,504,000 |
| Options exercisable at year-end | 297,000 | \$ 4.52 | 6.75 | \$ 2,504,000 |

The weighted-average grant-date fair value of options granted during the years ended December 31, 2006, 2005 and 2004 was \$0, \$5.80 and \$0, respectively.

Total intrinsic value of options exercised was \$2.3 million, \$405,000, and \$0 for the years ended December 31, 2006, 2005 and 2004, respectively. The total fair value of options vested during the years ended December 31, 2006, 2005 and 2004 was \$0, \$510,400 and \$0, respectively.

There was no compensation cost charged against income for the years ended December 31, 2006, 2005 and 2004 for options under this plan, therefore, no income tax benefits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. STOCK-BASED COMPENSATION (Continued)

Cash received from the exercise of options was \$658,850 for the year ended December 31, 2006. The tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements totaled \$905,305 for the year ended December 31, 2006.

As of December 31, 2006, there was no unrecognized compensation cost related to nonvested share based compensation arrangements granted under the option plan.

Information pertaining to director options outstanding at December 31, 2006 is as follows:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|-----------------------------|-----------------------|--|---|-----------------------|---|
| | Number Outstanding | Weighted- Average Remaining Contractual Life | Weighted- Average Exercise Price | Number Exercisable | Weighted- Average Exercise Price |
| \$2.45 | 225,000 | 6.22 years | \$ 2.45 | 225,000 | \$ 2.45 |
| 11.00 | 72,000 | 8.42 years | 11.00 | 72,000 | 11.00 |
| | <u>297,000</u> | 6.75 years | 4.52 | <u>297,000</u> | 4.52 |

NOTE 9. EMPLOYEE BENEFIT PLAN

The Company has a 401(k) retirement plan covering substantially all employees. Contributions to the plan charged to expense amounted to \$255,507, \$191,075 and \$104,132 for the years ended December 31, 2006, 2005 and 2004, respectively.

NOTE 10. INCOME TAXES

Income tax expense consists of the following:

| | Years Ended December 31, | | |
|--------------------|--------------------------|---------------------|---------------------|
| | 2006 | 2005 | 2004 |
| Current | \$ 7,976,526 | \$ 5,010,145 | \$ 2,307,329 |
| Deferred | (2,056,451) | (1,321,872) | (531,655) |
| Income tax expense | <u>\$ 5,920,075</u> | <u>\$ 3,688,273</u> | <u>\$ 1,775,674</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. INCOME TAXES (Continued)

The Company's income tax differs from the amounts computed by applying the federal income tax statutory rates to income before income taxes. A reconciliation of the differences is as follows:

| | Years Ended December 31, | | |
|--------------------------------------|---------------------------------|---------------------|---------------------|
| | 2006 | 2005 | 2004 |
| Income tax at statutory federal rate | \$ 5,619,837 | \$ 3,404,056 | \$ 1,627,939 |
| State taxes | 405,527 | 319,025 | 144,432 |
| Bank owned life insurance income | (240,379) | - | - |
| Stock-based compensation | 129,547 | - | - |
| Other items | 5,543 | (34,808) | 3,303 |
| Income tax expense | <u>\$ 5,920,075</u> | <u>\$ 3,688,273</u> | <u>\$ 1,775,674</u> |

The components of deferred income taxes are as follows:

| | December 31, | |
|---------------------------------|---------------------|---------------------|
| | 2006 | 2005 |
| Deferred tax assets: | | |
| Deferred gain on sale-leaseback | \$ 425,424 | \$ 584,975 |
| Deferred loan fees | 156,847 | 119,070 |
| Loan loss reserves | 3,518,189 | 1,808,175 |
| Stock compensation | 1,175,826 | 716,617 |
| Nonaccrual loan interest | 36,445 | 52,041 |
| Securities available for sale | 363,583 | 596,430 |
| | <u>5,676,314</u> | <u>3,877,308</u> |
| Deferred tax liabilities: | | |
| Depreciation | 234,459 | 259,057 |
| Net deferred taxes | <u>\$ 5,441,855</u> | <u>\$ 3,618,251</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. EARNINGS PER SHARE

Presented below is a summary of the components used to calculate basic and diluted earnings per common share.

| | Years Ended December 31, | | |
|---|--------------------------|--------------|--------------|
| | 2006 | 2005 | 2004 |
| Basic Earnings Per Share: | | | |
| Weighted average common shares outstanding | 14,594,208 | 14,050,847 | 10,809,936 |
| Net income | \$ 10,136,601 | \$ 6,322,352 | \$ 3,012,382 |
| Basic earnings per share | \$ 0.69 | \$ 0.45 | \$ 0.28 |
| Diluted Earnings Per Share: | | | |
| Weighted average common shares outstanding | 14,594,208 | 14,050,847 | 10,809,936 |
| Net effect of the assumed exercise of stock options based on the treasury stock method using average market prices for the year | 824,469 | 910,700 | 742,740 |
| Total weighted average common shares and common stock equivalents outstanding | 15,418,677 | 14,961,547 | 11,552,676 |
| Net income | \$ 10,136,601 | \$ 6,322,352 | \$ 3,012,382 |
| Diluted earnings per share | \$ 0.66 | \$ 0.42 | \$ 0.26 |

NOTE 12. COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Company 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 standby letters of credit. They involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets. The majority of all commitments to extend credit and standby letters of credit are variable rate instruments.

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

| | December 31, | |
|------------------------------|-----------------------|----------------|
| | 2006 | 2005 |
| Commitments to extend credit | \$ 332,168,227 | \$ 220,048,484 |
| Standby letters of credit | 1,958,215 | 1,396,042 |
| | \$ 334,126,442 | \$ 221,444,526 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. COMMITMENTS AND CONTINGENCIES (Continued)

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies as specified above and is required in instances which the Company deems necessary.

At December 31, 2006 and 2005, the carrying amount of liabilities related to the Company's obligation to perform under financial standby letters of credit was insignificant. The Company has not been required to perform on any financial standby letters of credit, and the Company has not incurred any losses on financial standby letters of credit for the years ended December 31, 2006 and 2005.

Employment Agreements

The Company has an employment agreement with its president with an initial term of five years that requires an annual salary of \$160,000. The president's annual salary as of December 31, 2006 is \$400,000. The agreement is automatically extended for an additional year on the initial termination date and each anniversary thereafter. The president is entitled to receive an annual salary increase and is eligible for incentives and performance bonuses as may be determined by the Company's Board of Directors.

Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Company's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. CONCENTRATIONS OF CREDIT

The Company originates primarily commercial, commercial real estate, residential real estate, and consumer loans to customers in Fulton County and surrounding counties. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the economy in these areas.

Ninety-five percent of the Company's loan portfolio is secured by real estate, of which a substantial portion is secured by real estate in the Company's primary market area. Accordingly, the ultimate collectibility of the loan portfolio is susceptible to changes in market conditions in the Company's primary market area.

The Company, as a matter of policy, does not generally extend credit to any single borrower or group of related borrowers in excess of 25% of the Bank's statutory capital, or approximately \$21,000,000.

NOTE 14. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2006, approximately \$6,005,000 of dividends could be declared without regulatory approval.

The Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet 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 Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. 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 Company and Bank to maintain minimum amounts and ratios of Total and Tier I capital to risk-weighted assets, as defined, and of Tier I capital to average assets, as defined. Management believes, as of December 31, 2006 and 2005, the Company and Bank met all capital adequacy requirements to which they are subject.

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, the Bank must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category. Prompt corrective action provisions are not applicable to bank holding companies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. REGULATORY MATTERS (Continued)

The Company and Bank's actual capital amounts and ratios are presented in the following table:

| (Dollars in thousands) | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|------------|--------|-------------------------------|-------|--|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| December 31, 2006: | | | | | | |
| Total Capital to Risk Weighted Assets | | | | | | |
| Consolidated | \$ 141,827 | 12.80% | \$ 88,655 | 8% | N/A | N/A |
| Bank | \$ 136,393 | 12.35% | \$ 88,370 | 8% | \$ 110,463 | 10% |
| Tier I Capital to Risk Weighted Assets | | | | | | |
| Consolidated | \$ 108,004 | 9.75% | \$ 44,327 | 4% | N/A | N/A |
| Bank | \$ 108,568 | 9.83% | \$ 44,185 | 4% | \$ 66,278 | 6% |
| Tier I Capital to Average Assets | | | | | | |
| Consolidated | \$ 108,004 | 10.03% | \$ 43,092 | 4% | N/A | N/A |
| Bank | \$ 108,568 | 10.12% | \$ 42,929 | 4% | \$ 53,661 | 5% |
| December 31, 2005: | | | | | | |
| Total Capital to Risk Weighted Assets | | | | | | |
| Consolidated | \$ 78,747 | 10.60% | \$ 59,408 | 8% | N/A | N/A |
| Bank | \$ 76,655 | 10.35% | \$ 59,247 | 8% | \$ 74,059 | 10% |
| Tier I Capital to Risk Weighted Assets | | | | | | |
| Consolidated | \$ 73,135 | 9.85% | \$ 29,704 | 4% | N/A | N/A |
| Bank | \$ 71,044 | 9.59% | \$ 29,623 | 4% | \$ 44,435 | 6% |
| Tier I Capital to Average Assets | | | | | | |
| Consolidated | \$ 73,135 | 10.06% | \$ 29,082 | 4% | N/A | N/A |
| Bank | \$ 71,044 | 9.80% | \$ 28,999 | 4% | \$ 36,248 | 5% |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair value is based on discounted cash flows or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments.

Cash, Due From Banks and Interest-Bearing Deposits in Banks: The carrying amounts of cash, due from banks and interest-bearing deposits in banks approximate fair values.

Securities: Fair values for securities are based on available quoted market prices. The carrying values of equity securities with no readily determinable fair value approximate fair values.

Loans: The carrying amount of variable-rate loans that reprice frequently and have no significant change in credit risk approximates fair value. The fair value of fixed-rate loans is estimated based on discounted contractual cash flows, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. The fair value of impaired loans is estimated based on discounted contractual cash flows or underlying collateral values, where applicable.

Deposits: The carrying amount of demand deposits, savings deposits, and variable-rate certificates of deposit approximates fair value. The fair value of fixed-rate certificates of deposit is estimated based on discounted contractual cash flows using interest rates currently being offered for certificates of similar maturities.

Federal Funds Purchased and Other Borrowings: The carrying amount of variable rate borrowings, federal funds purchased, and securities sold under repurchase agreements approximate fair value. The fair value of fixed rate other borrowings are estimated based on discounted contractual cash flows using the current incremental borrowing rates for similar type borrowing arrangements.

Long-term debentures: The fair value of the long-term debentures estimates their carrying value due to the variable rate nature of the debentures.

Accrued Interest: The carrying amounts of accrued interest approximate their fair values.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Off-Balance sheet Instruments: The carrying amount of commitments to extend credit and standby letters of credit approximates fair value. The carrying amount of the off-balance sheet financial instruments is based on fees charged to enter into such agreements.

The carrying amount and estimated fair value of the Company's financial instruments were as follows:

| | December 31, 2006 | | December 31, 2005 | |
|---|-------------------|--------------|-------------------|--------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash, due from banks and interest-bearing deposits in banks | \$ 5,804,184 | \$ 5,804,184 | \$ 5,135,081 | \$ 5,135,081 |
| Federal funds sold | -- | -- | 6,243,000 | 6,243,000 |
| Securities | 135,650,221 | 135,650,221 | 74,999,200 | 74,999,200 |
| Loans, net | 931,754,998 | 932,287,998 | 646,166,298 | 645,746,165 |
| Accrued interest receivable | 6,796,616 | 6,796,616 | 3,937,756 | 3,937,756 |
| Financial liabilities: | | | | |
| Deposits | 928,786,783 | 929,362,783 | 674,443,757 | 674,056,559 |
| Federal funds purchased | 1,551,000 | 1,551,000 | -- | -- |
| Other borrowings | 50,000,000 | 50,000,000 | -- | -- |
| Accrued interest payable | 8,315,189 | 8,315,189 | 2,539,311 | 2,539,311 |
| Long-term debentures | 52,022,000 | 52,022,000 | 6,186,000 | 6,186,000 |

NOTE 16. SUPPLEMENTAL FINANCIAL DATA

Components of other operating expenses in excess of 1% of revenue are as follows:

| | Years Ended December 31, | | |
|------------------------|--------------------------|------------|------------|
| | 2006 | 2005 | 2004 |
| Data processing | \$ 713,006 | \$ 573,864 | \$ 368,421 |
| Board of Director fees | 592,610 | 540,570 | 379,500 |
| Consulting fees | 467,416 | 462,494 | 120,747 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. PARENT COMPANY FINANCIAL INFORMATION

The following information presents the condensed balance sheets as of December 31, 2006 and 2005 and statements of income and cash flows of Integrity Bancshares, Inc. for each of the years in the three-year period ended December 31, 2006.

| CONDENSED BALANCE SHEETS | | 2006 | 2005 |
|---|----|------------------------------|-----------------------------|
| | | <u>2006</u> | <u>2005</u> |
| Assets | | | |
| Cash | \$ | 1,947,625 | \$ 55,200 |
| Interest-bearing deposits in banks | | 53,926 | 53,470 |
| Investment in subsidiary | | 107,936,702 | 70,027,935 |
| Securities available for sale | | 1,712,000 | 876,000 |
| Other assets | | <u>2,852,948</u> | <u>1,310,253</u> |
| Total assets | | <u>\$ 114,503,201</u> | <u>\$ 72,322,858</u> |
| Liabilities | | | |
| Other borrowings | \$ | 34,022,000 | \$ 6,186,000 |
| Other liabilities | | <u>109,137</u> | <u>17,674</u> |
| Total liabilities | | <u>34,131,137</u> | <u>6,203,674</u> |
| Stockholders' equity | | <u>80,372,064</u> | <u>66,119,184</u> |
| Total liabilities and stockholders' equity | | <u>\$ 114,503,201</u> | <u>\$ 72,322,858</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. PARENT COMPANY FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF INCOME

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|---------------------------------|--------------------------------|--------------------------------|
| Income: | | | |
| Dividend income from subsidiary | \$ 800,000 | \$ 250,000 | \$ -- |
| Interest income | <u>61,322</u> | <u>11,437</u> | <u>8,817</u> |
| Total income | <u>861,322</u> | <u>261,437</u> | <u>8,817</u> |
| Expenses: | | | |
| Stock compensation | 243,647 | 1,159,512 | 602,259 |
| Interest | 2,132,537 | 401,195 | 288,675 |
| Other | <u>678,143</u> | <u>402,300</u> | <u>212,521</u> |
| Total expenses | <u>3,054,327</u> | <u>1,963,007</u> | <u>1,103,455</u> |
| Loss before income tax benefits and undistributed income of subsidiary | (2,193,005) | (1,701,570) | (1,094,638) |
| Income tax benefits | <u>(1,119,634)</u> | <u>(761,727)</u> | <u>(413,070)</u> |
| Loss before equity in undistributed income of subsidiary | (1,073,371) | (939,843) | (681,568) |
| Equity in undistributed income of subsidiary | <u>11,209,972</u> | <u>7,262,195</u> | <u>3,693,950</u> |
| Net income | <u><u>\$ 10,136,601</u></u> | <u><u>\$ 6,322,352</u></u> | <u><u>\$ 3,012,382</u></u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. PARENT COMPANY FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|---------------------|---------------------|---------------------|
| OPERATING ACTIVITIES | | | |
| Net income | \$ 10,136,601 | \$ 6,322,352 | \$ 3,012,382 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | |
| Equity in undistributed income of subsidiary | (11,209,972) | (7,262,195) | (3,693,950) |
| Stock compensation | 243,647 | 1,159,512 | 602,259 |
| Excess tax benefits from exercise of options | (913,347) | (155,218) | - |
| Deferred income taxes | (56,329) | (441,659) | (211,015) |
| (Increase) decrease in income tax receivable | (588,019) | 37,206 | (250,496) |
| Net other operating activities | (729,538) | 23,226 | 24,433 |
| Net cash used in operating activities | <u>(3,116,957)</u> | <u>(316,776)</u> | <u>(516,387)</u> |
| INVESTING ACTIVITIES | | | |
| Net increase in interest-bearing deposits in banks | (456) | (341) | (321) |
| Investment in subsidiary | (25,000,000) | (15,600,000) | (20,000,000) |
| Net cash used in investing activities | <u>(25,000,456)</u> | <u>(15,600,341)</u> | <u>(20,000,321)</u> |
| FINANCING ACTIVITIES | | | |
| Proceeds from other borrowings | 27,836,000 | - | - |
| Proceeds from exercise of stock options | 1,260,491 | 595,427 | - |
| Excess tax benefits from exercise of options | 913,347 | 155,218 | - |
| Net proceeds from sale of common stock | - | 14,994,351 | 20,309,609 |
| Net cash provided by financing activities | <u>30,009,838</u> | <u>15,744,996</u> | <u>20,309,609</u> |
| Net increase (decrease) in cash | 1,892,425 | (172,121) | (207,099) |
| Cash at beginning of year | <u>55,200</u> | <u>227,321</u> | <u>434,420</u> |
| Cash at end of year | <u>\$ 1,947,625</u> | <u>\$ 55,200</u> | <u>\$ 227,321</u> |

EXHIBIT 21

Integrity Bank, a Georgia banking institution

Integrity (GA) Statutory Trust I, a Connecticut statutory trust

Integrity (GA) Statutory Trust II, a Connecticut statutory trust

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statements on Forms S-8 Nos. 333-121190 and 333-121191 (both dated December 31, 2004) of our report dated March 12, 2007 with respect to the consolidated financial statements of Integrity Bancshares, Inc. included in this Annual Report on Form 10-K for the year ended December 31, 2006.

/s/ Mauldin & Jenkins, LLC

Atlanta, Georgia
March 12, 2007

CERTIFICATION

I, Steven M. Skow, certify that:

1. I have reviewed this annual report on Form 10-K of Integrity Bancshares, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2007

/s/ Steven M. Skow
Steven M. Skow
Principal Executive Officer

CERTIFICATION

I, Suzanne Long, certify that:

1. I have reviewed this annual report on Form 10-K of Integrity Bancshares, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designated such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designated such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2007

/s/ Suzanne Long
Suzanne Long
Principal Financial Officer

CERTIFICATE OF CEO

I, Steven M. Skow, Chief Executive Officer of Integrity Bancshares, Inc. (the “Registrant”), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

- (1) the annual report on Form 10-K of the Registrant, to which this certificate is attached as an exhibit (the “Report”), fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: March 13, 2007

/s/ Steven M. Skow
Steven M. Skow, Chief Executive Officer

CERTIFICATE OF SENIOR VICE PRESIDENT & C.F.O.

I, Suzanne Long, Senior Vice President & C.F.O. of Integrity Bancshares, Inc. (the "Registrant"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

- (3) the annual report on Form 10-K of the Registrant, to which this certificate is attached as an exhibit (the "Report"), fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a)); and
- (4) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: March 13, 2007

/s/ Suzanne Long
Suzanne Long, Senior Vice President & C.F.O.