U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

Commission File No. 000-51513

CAPE FEAR BANK CORPORATION

(Name of registrant as specified in its charter)

North Carolina	**20-3035898**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

1117 Military Cutoff Road

Wilmington, North Carolina 28405

(Address of principal executive offices)

(910) 509-2000

Registrant s telephone number, including area code

Securities registered under Section 12(b) of the Act:

Common Stock, $3.50 par value per share	**NASDAQ Capital Market**
(Title of class)	**(Name of exchange on which registered)**

Securities registered under Section 12(g) of the Act: None

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 Exchange Act. **Yes** ¨ **No** x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of 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, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer, and smaller reporting company in Rule 12b-2 of the Act.)

Large accelerated filer ¨ **Accelerated filer** ¨ **Non-accelerated filer** ¨ **Smaller reporting Company** x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** ¨ **No** x

The aggregate market value of the voting and non-voting common equity held by nonaffiliates (computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity), as of the last business day of the Registrant s most recently completed second fiscal quarter was **$36,342,080.**

On March 13, 2008, the number of outstanding shares of Registrant s common stock was 3,841,785.

PART I

[In this Report, the terms we, us, our and similar terms refer to Cape Fear Bank

Corporation separately and, as the context requires, on a consolidated basis with

our banking subsidiary, Cape Fear Bank. Cape Fear Bank is sometimes

referred to separately as the Bank.]

Item 1. Business.

General

We are a North Carolina-chartered bank holding company incorporated on June 20, 2005 for the sole purpose of serving as the parent bank holding company for the Bank. The Bank is a Federal Deposit Insurance Corporation (FDIC) insured, North Carolina-chartered bank that began banking operations on June 22, 1998. On September 1, 2005, we completed a corporate reorganization and share exchange in which the Bank became our wholly-owned bank subsidiary. Upon completion of the reorganization, each of the 3,765,843 (restated for a 5% stock dividend effective June 29, 2007) outstanding shares of the Bank s $3.50 par value common stock was converted into and exchanged for one newly issued share of our $3.50 par value common stock.

Our directors and executive officers serve as the directors and officers of the Bank, and, when the reorganization was completed, the Bank s shareholders became our shareholders owning the same percentages of our common stock as they previously owned of the Bank s stock. The reorganization had no impact on the operations of the Bank. Our consolidated capitalization, assets, liabilities, income and expenses immediately following the reorganization were substantially the same as those of the Bank immediately prior to the reorganization.

Effective on October 1, 2006, our corporate name was changed from Bank of Wilmington Corporation to Cape Fear Bank Corporation, and the corporate name of our banking subsidiary was changed from Bank of Wilmington to Cape Fear Bank.

Our headquarters and operations are located in Wilmington, North Carolina and we engage in a general, community-oriented commercial and consumer banking business. Our deposits are insured by the FDIC to the maximum amount permitted by law. Our Internet website address is www.capefearbank.com.

On October 4, 2005, in order to increase the Bank s regulatory capital, we formed a new unconsolidated wholly-owned subsidiary, BKWW Statutory Trust I (the Trust), a Delaware statutory trust, that issued $10.0 million in trust preferred securities. We issued $10.3 million of our junior subordinated debentures to the Trust in connection with that transaction.

We currently have no operations and conduct no business on our own other than owning all the outstanding common stock of the Bank and supporting its business, and owning all the outstanding common securities of the Trust.

Business Offices

We have eight full-service banking offices. Our Main Office and Pine Valley Offices are located in Wilmington, North Carolina, in New Hanover County, at 1117 Military Cutoff Road and 3702 South College Road, respectively. Our Hampstead Office is located in Hampstead Station Shopping Center at 14572 U.S. Highway 17 in Hampstead, North Carolina, which is in Pender County. Our Surf City Office, is located at 13500 Highway 50, Suite 101 in Surf City, North Carolina, also in Pender County. The Waterford Office, in Brunswick County, is located at 503 Olde Waterford Way, Suite 104 in Leland, North Carolina. Another full-service banking office in New Hanover County, which opened in May 2007, is located at 4008 Oleander Drive in Wilmington, North Carolina. We also have two new full-service banking facilities in the Sunset Beach and Southport communities in Brunswick County that opened in temporary spaces in August and November 2007, respectively. The permanent offices for these locations at 690 Sunset Boulevard, Unit 108 in Sunset Beach, North Carolina and 1669 North Howe Street, Suite A in Southport, North Carolina are currently under renovation and are anticipated to open in September 2008 and May 2008, respectively.

Banking Market

Our banking market generally consists of a tri-county area in southeastern North Carolina including New Hanover County and the immediately surrounding areas of Pender and Brunswick Counties. Our base of operations is located in Wilmington, the center of trade and commerce for New Hanover County. The economy of New Hanover County includes the historic seaport in Wilmington, with a population of approximately 100,000, but is diversified with tourism, film industry, chemicals, shipping, pharmaceuticals, aircraft engines, and fiber optics. Wilmington is also home to a major regional medical center and the University of North Carolina at Wilmington.

Services

Our operations are primarily retail oriented and directed toward individuals and small- and medium-sized businesses located in our banking market. The majority of our deposits and loans are derived from customers in our banking market, but we also make loans and have deposit relationships with individual and business customers in areas surrounding our immediate banking market. We also market certificates of deposit through the advertising of our deposit rates on the Internet and obtain some funds through deposit brokers. We provide most traditional commercial and consumer banking services, but our principal activities are the taking of demand and time deposits and the making of consumer and commercial loans. Our primary source of revenue is interest income derived from lending activities.

In 2007, we began a third party partnership with Market Street Advisors to give customers access to financial and wealth management services, including professional money management, retirement and education planning, and investment products, such as stocks, bonds, mutual funds, annuities, and insurance products.

Lending Activities

General. We make a variety of types of consumer and commercial loans to individuals and small- and medium-sized businesses for various personal and business purposes, including term and installment loans, equity lines of credit, and overdraft checking credit. For financial reporting purposes, our loan portfolio generally is divided into real estate loans (including home equity lines of credit), commercial loans, and consumer loans. Those categories are discussed further below. We also make credit card services available to our customers through a correspondent bank. On December 31, 2007, we had one agricultural purpose loan totaling $449 thousand.

Analysis of Loan Portfolio: Set forth below is selected data relating to the composition of the Company s loan portfolio by type of loan and type of collateral on the dates indicated.

	At December 31,									
	2007		2006		2005 (In thousands)		2004		2003	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
Real Estate:										
Construction loans	$ 150,701	40.67%	$ 157,689	47.15%	$ 116,633	41.86%	$ 48,655	29.95%	$ 25,804	24.82%
Commercial mortgage loans	116,815	31.52%	93,970	28.10%	87,263	31.32%	68,254	42.01%	44,318	42.63%
Home equity lines of credit	38,864	10.49%	30,726	9.19%	24,286	8.72%	16,174	9.96%	11,480	11.04%
Residential mortgage loans	44,812	12.09%	35,044	10.48%	32,364	11.62%	15,430	9.50%	10,064	9.68%
Total real estate loans	351,192	94.77%	317,429	94.92%	260,546	93.52%	148,513	91.42%	91,666	88.17%
Commercial and industrial loans	15,454	4.17%	14,540	4.35%	14,512	5.21%	11,979	7.37%	9,326	8.97%
Consumer loans	3,937	1.06%	2,457	0.73%	3,546	1.27%	1,965	1.21%	2,976	2.86%
Loans, gross	370,583	100.00%	334,426	100.00%	278,604	100.00%	162,457	100.00%	103,968	100.00%
Less allowance for loan losses	(5,771)		(4,536)		(3,510)		(2,106)		(1,661)	
Less net deferred loan origination (fees) costs	95		(17)		(218)		(58)		74	
Total loans, net	$ 364,907		$ 329,873		$ 274,876		$ 160,293		$ 102,381	

The following table sets forth, as of December 31, 2007, certain information regarding the dollar amount of loans maturing in the Company s loan portfolio based on their contractual terms to maturity.

	At December 31, 2007 (In thousands)			
	Due within one year Amount	Due after one year but within five years Amount	Due after five years Amount	Total Amount
By loan type:				
Commercial and industrial loans	$ 8,348	$ 7,106	$	$ 15,454
Construction loans	123,215	27,486		150,701
Commercial mortgage loans	24,509	88,028	4,278	116,815
Residential mortgage loans	16,565	27,775	472	44,812
Home equity lines of credit	6,811	8,596	23,457	38,864
Consumer loans	755	2,880	302	3,937
Total	180,203	161,871	28,509	370,583

The next table shows, at December 31, 2007, the dollar amount of the Company s loans due after December 31, 2008 that have fixed interest rates and those that have variable rates.

	At December 31, 2007 (In thousands)		
	Due after one year but within five years Amount	Due after five years Amount	Total Amount
Loans maturing after one year with:			
Fixed rates	$ 131,706	$ 2,897	$ 134,603
Variable rates	30,165	25,612	55,777
Total	161,871	28,509	190,380

Real Estate-Secured Loans. Our real estate loan classification includes loans secured by real estate (including home equity lines of credit described below) which are made to purchase, construct or improve residential or commercial real estate, for real estate development purposes, and for various other commercial and consumer purposes (whether or not those purposes are related to our real estate collateral). On December 31, 2007, loans amounting to approximately 94.8% of our loan portfolio were classified as real estate loans. Of those loans, loans totaling approximately 31.5% of our loan portfolio were classified as commercial real estate loans, 40.7% were classified as construction loans, 12.1% were secured by one-to-four family residences, and 10.5% were classified as home equity lines of credit. We do not make long-term residential mortgage loans ourselves, but we originate loans of that type which are closed in the name of and funded by other lenders. That arrangement permits us to make that loan product available to our customers and generate fee income but avoid risks associated with holding loans of that type in our loan portfolio.

Commercial real estate and construction loans typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In the case of commercial real estate loans, loan repayment may be dependent on the successful operation of income producing properties, a business, or a real estate project and, thus, may, to a greater extent than in the case of other loans, be subject to the risk of adverse conditions in the economy generally or in the real estate market in particular.

Construction loans involve special risks due to the fact that loan funds are advanced upon the security of houses or other improvements that are under construction and that are of uncertain value prior to the completion of construction. For that reason, it is more difficult to evaluate accurately the total loan funds required to complete a project and the related loan-to-value ratios. To minimize these risks, we limit loan amounts to 80% of the projected appraised value of our collateral upon completion of construction.

Many of our real estate loans, while secured by real estate, were made for purposes unrelated to the real estate collateral. That generally is reflective of our efforts to minimize credit risk by taking real estate as additional collateral, whenever possible, without regard to loan purpose. All of our real estate loans are secured by first or junior liens on real property, the majority of which is located in or near our banking market. However, we have made a small number of loans which are secured by real property located outside our banking market.

Our real estate loans may be made at fixed or variable interest rates and, generally, they have maturities that do not exceed five years and they provide for payments based on amortization schedules of less than 20 years. However, a real estate loan that has a maturity of more than five years, or which is based on an amortization schedule of more than five years, generally will include contractual provisions which allow us to call the loan in full, or provide for a balloon payment in full, at the end of a period of no more than five years.

Home Equity Lines of Credit. Our home equity lines of credit include lines of credit which generally are used for consumer purposes and which also are secured by first or junior liens on residential real property. Our commitment on each line is for a term of 15 years. During the terms of the lines of credit, borrowers may pay accrued interest only (calculated at variable interest rates), and outstanding principal balances are due in full at the maturity of the lines. On December 31, 2007, our home equity lines of credit amounted to approximately 10.5% of our loan portfolio.

Commercial Loans. Our commercial loan classification includes loans to individuals and small- and medium-sized businesses for working capital, equipment purchases, and various other business purposes, but that classification excludes any such loan that is secured by real estate. These loans generally are secured by inventory, equipment or similar assets, but they also may be made on an unsecured basis. On December 31, 2007, our commercial loans made up approximately 4.2% of our loan portfolio. In addition to loans which are classified on our books as commercial loans, as described above, many of our loans included in the real estate loan classification were made for commercial purposes but are classified as real estate loans on our books because they are secured by first or junior liens on real estate. Commercial loans may be made at variable or fixed rates of interest. However, any loan which has a maturity or amortization schedule of longer than five years normally would be made at an interest rate that varied with our prime lending rate and would include contractual provisions which allowed us to call the loan in full, or provide for a balloon payment in full, at the end of a period of no more than five years.

Commercial loans typically are made on the basis of the borrower s ability to make repayment from business cash flow, and those loans typically are secured by business assets, such as accounts receivable, equipment and inventory. As a result, the ability of borrowers to repay commercial loans may be substantially dependent on the success of their businesses, and the collateral for commercial loans may depreciate over time and cannot be appraised with as much precision as real estate.

Consumer Loans. Our consumer loans consist primarily of loans for various consumer purposes, as well as the outstanding balances on non-real estate secured consumer revolving credit accounts. These loans made up approximately 1.1% of our loan portfolio on December 31, 2007. A majority of these loans are secured by liens on various personal assets of the borrowers, but they also may be made on an unsecured basis. Additionally, our real estate loans include loans secured by first or junior liens on real estate which were made for consumer purposes unrelated to the real estate collateral. Consumer loans generally are made at fixed interest rates and with maturities or amortization schedules which generally do not exceed five years. However, consumer-purpose loans secured by real estate (and, thus, classified as real estate loans as described above) may be made for terms of up to 20 years but under terms which allow us to call the loan in full, or provide for a balloon payment, at the end of a period of no more than five years.

Consumer loans generally are secured by personal property and other personal assets of borrowers which often depreciate rapidly or are vulnerable to damage or loss. In cases where damage or depreciation reduces the value of our collateral below the unpaid balance of a defaulted loan, repossession may not result in repayment of the entire outstanding loan balance. The resulting deficiency often does not warrant further substantial collection efforts against the borrower. In connection with consumer lending in general, the success of our loan collection efforts are highly dependent on the continuing financial stability of our borrowers, so our collection of consumer loans may be more likely to be adversely affected by a borrower s job loss, illness, personal bankruptcy or other change in personal circumstances than is the case with other types of loans.

Loan Administration and Underwriting. Like most community banks, we make loans based, to a great extent, on our assessment of borrowers income, cash flow, character, collateral, and repayment ability. The principal risk associated with the loans is tied to the type of collateral and the creditworthiness of our borrowers. To manage this risk, we have adopted written loan policies and procedures, with the loan portfolio being administered under a defined process. This process includes guidelines for loan underwriting standards and risk assessment, procedures for loan approvals, a loan risk grading system, ongoing identification and management of credit deterioration, and portfolio reviews to assess loss exposure and compliance with credit policies and procedures.

The underwriting standards utilized for our loans include an evaluation of various factors, including a loan applicant s income, cash flow, payment history, and an assessment of the applicant s ability to meet existing obligations as well as payments on the proposed loan. In the case of secured loans, the underwriting process also includes an analysis of the collateral value in relation to the proposed loan amount. Factors considered include the value of collateral and its validity, the stability of the collateral value, and the marketability of the collateral in the event of foreclosure.

Our Board of Directors has established levels of lending authority based upon the loan s collateral type, the bank s aggregate credit exposure to a borrower as well as the secured or unsecured status of the proposed loan. A loan that is within a loan officer s authority may be approved by that officer. A loan that involves an aggregate credit exposure in excess of the lender s assigned loan authority must be approved by an officer having sufficient authority or by one of our designated loan committees.

Our Internal Loan Committee consists of the Chief Executive Officer, the Chief Credit Officer, the Credit Administrator, the Chief Banking Officer, one Business Banking Officer and one Retail Banking Officer (with a required minimum of two Executive Officers present). Our Internal Loan Committee may approve loans secured by real estate with an aggregate credit exposure of up to $1.8 million for new relationships and up to $2.8 million for existing relationships. Additionally, our Internal Loan Committee has loan authority of $800 thousand for loans secured by other collateral, and $250 thousand for unsecured loans.

Our Loan Renewal Committee consists of the Chief Executive Officer, the Chief Credit Officer (one must be present), the Chief Banking Officer and the Credit Administrator (one must be present). The purpose of this committee is to review maturing loans to determine the bank s course of action. This committee provides guidance for underwriting, loan structure, documentation, and pricing. Our Loan Renewal Committee may approve loans secured by real estate with an aggregate credit exposure of up to $1.0 million for any single loan and up to $2.8 million for existing relationships. Additionally, our Loan Renewal Committee has loan authority of $1.0 million for loans secured by other collateral, and $250 thousand for unsecured loans.

Our Directors Loan Committee consists of three outside directors (a minimum of two must be present) and our Chief Executive Officer. This committee approves loans to new relationships in excess of $1.8 million and loans whose aggregate credit exposure exceeds $2.8 million but is less than the Bank s legal lending limit. North Carolina law generally limits a bank s direct and indirect extensions of credit to a single borrower to 15% of the unimpaired capital of the bank. An additional 10% of unimpaired capital may be lent if secured by readily marketable collateral having a market value at least equal to the additional loans.

Any loans or renewals for bank directors and executive officers must be approved by our Board of Directors. The Board of Directors reviews a monthly list of all loans made during the month.

As part of the underwriting process by our lenders, new loan requests are analyzed using an integrated underwriting software package which includes a loan risk grading component. The risk grading component of the software package initially assigns a risk grade to the proposed loan based on information input into the system by the lender. The lender either confirms this assigned grade or overrides the system due to mitigating factors associated with the loan by inputting a different loan grade prior to final approval. The loan grade is further reviewed by Credit Administration for concurrence either as part of the approval process or in the post-closing review. Any proposed loan whose risk grade is below the threshold established by the Board of Directors must be reviewed by the Chief Credit Officer for final approval, regardless of whether the loan amount is within the loan officer s approval authority. The final risk grade assigned to the proposed loan helps determine the level of ongoing review that is required on behalf of the lender in order to protect the Bank s position and reduce any potential loss exposure.

After funding, all loans are reviewed by Credit Administration to ensure adequate documentation, compliance with regulatory requirements, and that all loan underwriting criteria are met. Periodically, throughout the life of a loan, loans are reviewed to ensure that the assigned risk grade is still applicable. This typically occurs upon receipt of current financial data or other pertinent information from the borrower, but may also happen as a result of a new loan request or as part of the monthly review of our past due loan report. Additionally, we have an internal loan review officer who periodically reviews larger bank relationships along with some smaller loans to ensure that the loans are risk graded appropriately. Finally, an independent credit risk management consultant firm is retained by our Bank to review our loan portfolio on an annual basis. These consultants typically review a portion of our Problem and Watch List loans along with a random sample of all other performing loans which may be further segregated based on aggregate exposure and/or loan type. One of the primary objectives of this review is to reaffirm the assigned risk grade of those loans that are selected for review.

During the life of each loan, the assigned risk grade is reviewed and validated or modified to reflect changes in circumstances and risk. Loans generally are placed in a non-accrual status if they become 90 days past due or whenever it is believed that collection has become doubtful. Loans are charged off when the collection of principal and interest has become doubtful, and the loans no longer can be considered sound collectible assets (or, in the case of unsecured loans, when they become 90 days past due).

Allowance for Loan Losses. Our Board of Directors reviews all impaired loans at least monthly, and our management meets regularly to review asset quality trends and to discuss loan policy issues. Based on these reviews and our current judgments about the credit quality of our loan portfolio and other relevant internal and external factors, we have established an allowance for loan losses. The adequacy of the allowance is assessed by our management and reviewed by our Board of Directors each quarter. On December 31, 2007, our allowance was $5.8 million and amounted to approximately 1.56% of our total loans and approximately 69.5% of our nonperforming loans.

On December 31, 2007, our nonperforming assets amounted to approximately $8.3 million and consisted solely of our nonaccruing loans. The total nonaccruing loans included $3.3 million of restructured loans. On that date, we had no loans that were 90 days or more past due but still accruing interest, and we had no other real estate owned.

The following table sets forth information with respect to the Company s nonperforming assets for the periods indicated.

	At December 31,				
	2007	2006	2005	2004	2003
	(In thousands)				
Nonaccrual loans	$ 4,987	$ 350	$ 1,174	$ 993	$ 866
Past due 90 days or more and still accruing					
Restructured loans	3,322				
Total nonperforming loans	8,309	350	1,174	993	866
Repossessed Assets					
Other real estate owned		616		195	
Total nonperforming assets	$ 8,309	$ 966	$ 1,174	$ 1,188	$ 866
Accruing loans past due 90 days or more	$	$	$	$	$
Allowance for loan losses	5,771	4,536	3,510	2,106	1,661
Nonperforming loans to year end loans	2.24%	0.10%	0.42%	0.61%	0.83%
Allowance for loan losses to year end loans	1.56%	1.36%	1.26%	1.30%	1.60%
Nonperforming assets to loans and other real estate	2.24%	0.29%	0.42%	0.73%	0.83%
Nonperforming assets to total assets	1.79%	0.23%	0.34%	0.59%	0.67%
Allowance for loan losses to nonperforming loans	69.45%	1296.00%	298.98%	212.02%	191.80%

Interest on nonaccrual loans foregone was approximately $200 thousand, $113 thousand, and $76 thousand for the years ended December 31, 2007, 2006, and 2005, respectively.

The following table analyzes activity in the Company s allowance for loan losses for the periods indicated.

	At or for the Year Ended December 31,				
	2007	2006	2005	2004	2003
			(In thousands)		
Net loans outstanding at the end of the year	$ 370,678	$ 334,409	$ 278,386	$ 162,399	$ 104,042
Average loans outstanding during the year	$ 349,805	$ 311,226	$ 217,604	$ 130,734	$ 92,269
Allowance for loan losses at beginning of year	$ 4,536	$ 3,510	$ 2,106	$ 1,661	$ 1,481
Provision for loan losses	1,095	1,340	1,499	892	291
	5,631	4,850	3,605	2,553	1,772
Loans charged off:					
Real estate-mortgage				(50)	(44)
Home equity lines of credit		(92)	(43)	(32)	
Commercial and industrial loans	(6)	(292)	(131)	(415)	(43)
Consumer loans	(10)	(23)	(10)	(6)	(91)
Total charge-offs	(16)	(407)	(184)	(503)	(178)
Recoveries of loans previously charged off:					
Real estate-mortgage	3	4	4	11	43
Home equity lines of credit			74		
Commercial and industrial loans	153	84	10	42	13
Loans to individuals		5	1	3	11
Total recoveries	156	93	89	56	67
Net recoveries/(charge-offs)	140	(314)	(95)	(447)	(111)
Allowance for loan losses at end of year	$ 5,771	$ 4,536	$ 3,510	$ 2,106	$ 1,661
Ratios:					
Net charge-offs/(recoveries) as a percent of average loans	(0.04%)	0.10%	0.04%	0.34%	0.12%
Allowance for loan losses as a percent of loans at end of year	1.56%	1.36%	1.26%	1.30%	1.60%

Management believes that it has established our existing allowance for loan losses in accordance with generally accepted accounting principles. Additions to the allowance may be necessary due to changes in economic conditions, real estate market values, growth in the portfolio, or other factors. In addition, bank regulators may require Cape Fear Bank to make adjustments to the allowance for loan losses in the course of their examinations based on their judgments as to the value of our assets. For further information regarding our allowance for loan losses, see Management s Discussion and Analysis and Note D of Notes to Consolidated Financial Statements.

The following table sets forth information about the Company s allowance for loan losses by asset category at the dates indicated. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

	At December 31, (In thousands)									
	2007		2006		2005		2004		2003	
	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)
Real estate loans:										
Construction loans	$ 2,816	40.67%	$ 2,675	47.15%	$ 1,271	41.86%	$ 526	29.95%	$ 334	24.82%
Commercial mortgage loans	829	31.52%	1,310	28.10%	1,019	31.32%	720	42.01%	556	42.63%
Home equity lines of credit	570	10.49%	27	9.19%	298	8.72%	206	9.96%	133	11.04%
Residential mortgage loans	163	12.09%	131	10.48%	321	11.62%	222	9.50%	121	9.68%
Total real estate loans	4,378	94.77%	4,143	94.92%	2,909	93.52%	1,674	91.42%	1,144	88.17%
Commercial and industrial loans	1,173	4.17%	286	4.35%	410	5.21%	303	7.37%	320	8.97%
Consumer loans	131	1.06%	38	0.73%	38	1.27%	48	1.21%	45	2.86%
Subtotal	5,682		4,467		3,357		2,025		1,509	
Unallocated loss allowance	89		69		153		81		152	
Total	$ 5,771	100.00%	$ 4,536	100.00%	$ 3,510	100.00%	$ 2,106	100.00%	$ 1,661	100.00%

(1) Represents total of all outstanding loans in each category as a percent of total loans outstanding

Deposit Activities

Our deposit services include business and individual checking accounts, savings accounts, NOW accounts, certificates of deposit and money market checking accounts. We monitor our competition in order to keep the rates paid on our deposits at a competitive level. On December 31, 2007, our transaction accounts and noninterest-bearing accounts equaled approximately 17.4% and 7.3%, respectively, of our total deposits, and our time deposits of $100,000 or more amounted to approximately $178.2 million, or approximately 61.2% of our total deposits. The majority of our deposits are derived from within our banking market. However, we also market certificates of deposit through the advertising of our deposit rates on the Internet and obtain funds through deposit brokers, and we have a significant amount of out-of-market deposits that were generated in that manner. Although we accept these deposits primarily for liquidity purposes, we also use them to manage our interest rate risk. On December 31, 2007, our Internet and brokered deposits amounted to approximately $42.5 million, or approximately 11.0% of our total deposits and approximately 14.6% of our total certificates of deposit.

The following table contains information relating to the Company s average time deposits and average cost for the periods indicated.

	For the Year Ended December 31,					
	2007		2006		2005	
	Average Amount	Average Rate	Average Amount (In thousands)	Average Rate	Average Amount	Average Rate
NOW and Money Market	$ 59,730	3.82%	$ 42,502	3.54%	$ 31,780	1.90%
Savings deposits	6,877	3.42%	5,071	3.49%	2,826	0.50%
Time Deposits	276,937	5.23%	254,313	4.64%	168,090	3.39%
Total interest-bearing deposits	343,544	4.95%	301,886	4.47%	202,696	3.12%
Non-interest-bearing deposits	31,273		32,487		24,127	
Total deposits	$ 374,817	4.54%	$ 334,373	4.03%	$ 226,823	2.79%

The following table indicates the amount of the Company s certificates of deposit of $100,000 or more by time remaining until maturity as of December 31, 2007.

	At December 31, 2007				
	3 Months or Less	Over 3 Months to 6 Months	Over 6 Months to 12 Months (In thousands)	Over 12 Months	Total
Time Deposits less than $100,000	$ 28,401	$ 22,127	$ 52,888	$ 9,530	$ 112,946
Time Deposits of $100,000 or more	41,358	16,094	78,486	42,287	178,225
Total	$ 69,759	$ 38,221	$ 131,374	$ 51,817	$ 291,171

Borrowings

Although deposits are the primary sources of funds for our lending and investment activities and for our general business purposes, if the need arises, we may obtain advances from the Federal Home Loan Bank of Atlanta (FHLB) to supplement our lendable funds and to meet withdrawal requirements. Advances from the FHLB are typically secured by a lien on a portion of our loans and investment securities. We also have borrowing lines of credit with correspondent banks.

We also have $10.3 million of long-term debt in debentures and trust preferred securities payable to the Trust in a transaction completed in October 2005.

For further information regarding our borrowings, see Note G of Notes to Consolidated Financial Statements.

Investment Portfolio

On December 31, 2007, our investment portfolio totaled approximately $70.2 million and included municipal securities, corporate bonds, mortgage-backed securities guaranteed by GNMA or issued by FNMA and FHLMC (including collateralized mortgage obligations), and securities issued by a U.S. government-sponsored agency. We have classified all of our securities as available for sale, and we analyze the portfolio s performance at least quarterly. Our securities have various interest rate features, maturity dates and call options.

The following table sets forth the carrying value of the Company s investment securities portfolio at the dates indicated. For additional information regarding the Company s investments, see Note C of Notes to Consolidated Financial Statements.

	At December 31 2007	2006 (In thousands)	2005
Securities available for sale:			
U. S. Government agencies	$ 6,021	$ 9,914	$ 5,858
Municipals	29,892	24,463	17,148
Corporate bonds	852	525	524
Mortgage-backed securities	33,462	34,663	25,125
Total securities available for sale	$ 70,227	$ 69,565	$ 48,655

The following table sets forth the scheduled maturities, carrying values, market values and average yields for the Company s investment securities portfolio at December 31, 2007. The weighted average yields have not been calculated on a tax equivalent basis.

For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal prepayments.

	As of December 31, 2007		
	Amortized Cost	**Fair Value**	**Weighted Average Yield**
	(In thousands)		
Securities available for sale:			
U. S. Government agencies			
Due within one year or less	$ 1,000	$ 995	4.00