2007 ANNUAL REPORT

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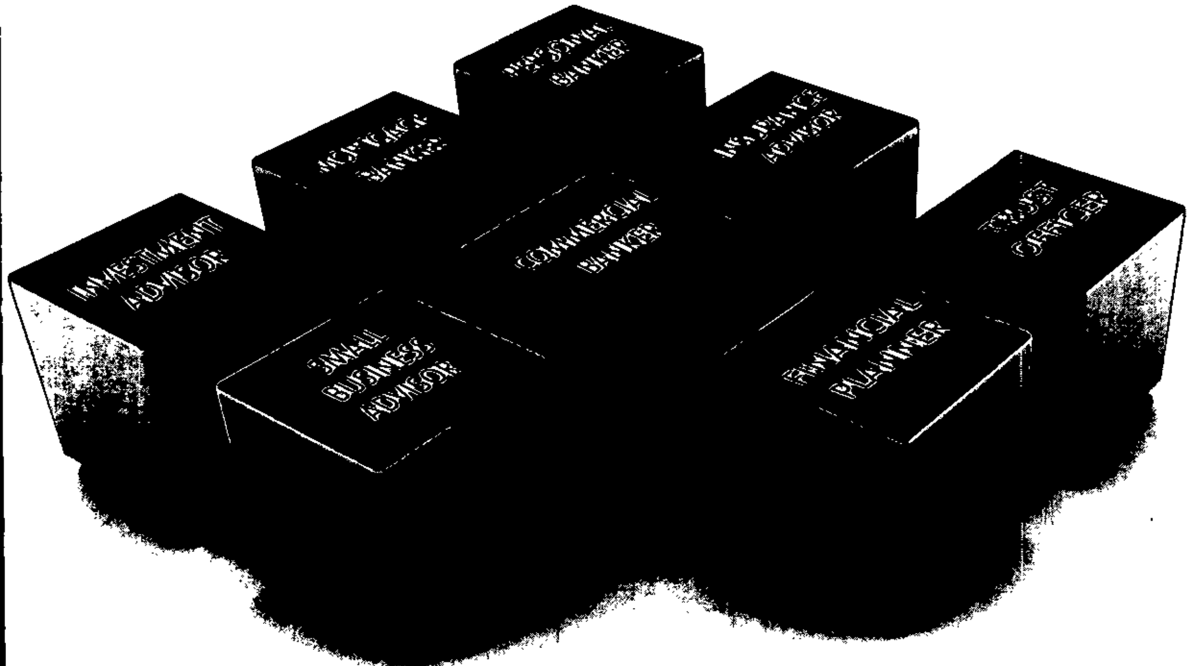
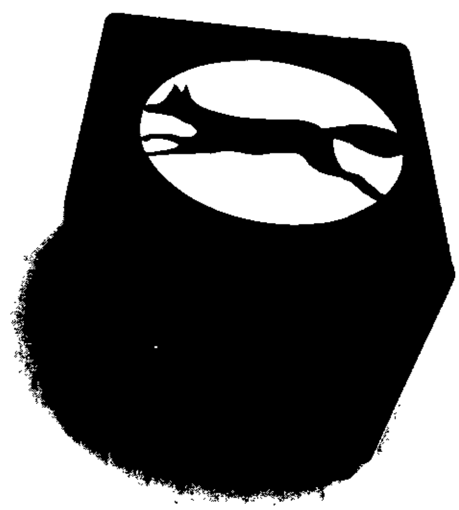




THE COMPLETE FINANCIAL EXPERIENCE COMES TOGETHER

Middleburg Financial Corporation

Banks once were simple businesses. They collected deposits from one group of customers and loaned the money to another. The difference in the interest rates, or net interest margin, provided the bank with a fair profit. That simple concept of banking is but a memory. Our clients today expect a lot more than banking from a bank. They expect an extensive list of services that will allow them to manage an increasingly complex financial portfolio of assets and liabilities. They prefer to keep their lives simple by concentrating those products and services in one place. They expect that place to integrate those services and make them work together. And they expect to deal with trusted financial professionals who can make it all happen seamlessly. The result is a business model that looks quite different from a traditional bank. Sure, we're still a depository for money. But more important, we're a depository of integrated financial solutions.

Dear Shareholders:

GARY R. SHOOK, PRESIDENT AND JOSEPH L. BOLING, CHAIRMAN OF THE BOARD & CEO

Middleburg Financial Corporation continued to grow in 2007 amid an increasingly difficult economic environment. I am pleased to report asset growth of 9.0% during the year, raising total consolidated assets to $841.4 million at December 31, 2007. Net loans increased by 13.1% during the year, standing at $638.7 million at December 31. Middleburg Bank continues to be a dominant financial institution in the region.

The company's continued healthy growth in 2007 was tempered by a decline in net earnings for the year. Net income was $3.1 million or $0.67 per diluted share, a 61.8% decrease from the $8.0 million or $1.90 per diluted share reported for 2006. The decline in net income resulted in a comparative return on average assets for 2007 and 2006 of 0.38% and 1.05% respectively. Return on average equity was 3.83% in 2007 and 12.25% in 2006.

Net earnings for the company were most significantly impacted by a non-cash impairment charge of $5.0 million related to its investment in Southern Trust Mortgage (STM). The impairment charge resulted from an independent valuation of our investment in STM. It concluded that the impairment charge with respect to the carrying value of STM was required under generally accepted accounting principles. The impairment charge was recorded in the fourth quarter of 2007. Like others in the mortgage origination business, Southern Trust Mortgage has been adversely affected by the current real estate and mortgage environment. However, the independent valuation, while recommending the impairment charge, also noted a number of financial and operational strengths of the company relative to its peer group. Those strengths give us confidence in STM's prospects for long-term growth and profits.

Overall earnings were also impacted by the decline in net interest margin as experienced by most U.S. banks in 2007 and a decline in non-interest income due primarily to reduced earnings from Southern Trust Mortgage.

The battle for deposits among various financial institutions continued in 2007. Total deposits, including brokered deposits, increased 3.2% to $588.8 million at December 31, 2007, compared to $570.6 million at December 31, 2006. Total retail deposits, which excludes brokered deposits, increased 0.7% from $545.5 million at December 31, 2006 to $549.3 million at yearend 2007. The unprecedented growth in deposits experienced in recent years within our primary markets continued to slow in 2007 while more financial institutions entered the market. Middleburg Bank will continue to compete aggressively for deposits with innovative products and services in 2008 in order to maintain our position as a market leader.

Middleburg Investment Group, the consolidating brand for the company's wealth management operations, continued to expand its business. Total consolidated assets under administration of Middleburg Trust Company and Middleburg Investment Advisors continued to exceed $1 billion at December 31, 2007. Middleburg Investment Group will continue to play a significant role in Middleburg Financial Corporation's strategy to increase non-interest income. Therefore, wealth management will be a primary focus of the company as we work to bring the complete financial experience together for our clients.

A key component of producing the complete financial experience for our clients is our strategy of placing Middleburg Financial Centers throughout our markets. In 2007, we opened our newest Center in Marshall to serve that community's financial needs. Early this year, we relocated our Ashburn Financial Center and expanded it. During 2008, we will also expand and move our Fort Evans Center and begin construction on our first office in Sterling. We continue to seek opportunities in the region that will allow us to profitably expand our client base through integrated financial services.

We would be less than candid if we didn't note our disappointment in our results for 2007. However, we are not discouraged. To the contrary, we have taken this opportunity to review all of our operations for efficiencies and opportunities. We have been extremely conservative in our reserves for loan losses. And we have focused on reducing expenses that don't affect the quality of service to our clients. As we start 2008 with a clean slate, we are prepared to do well in what many see as a challenging environment.

Middleburg Financial Corporation has always been privileged to have a Board of Directors that provides invaluable direction and advice. At the end of 2007 one of our most valuable Board members, Edward T. Wright, retired after more than 50 years of service to the company, and James R. Treptow joined the board. The management team greatly appreciates the Board's direction and guidance as we have taken the necessary steps to build a dedicated and skilled staff of financial professionals who know their clients, their markets and their products. Those strengths position us better than any other financial institution in our markets to take our business to the next level while delivering a good return for our shareholders. We look forward to a successful 2008.

Cordially,

J L Boling

Joseph L. Boling
Chairman of the Board & CEO

G R Shook

Gary R. Shook
President

	Years Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except ratios and per share amounts)				
Balance Sheet Data:					
Assets (1)	$841,400	$772,305	$739,911	$606,121	$509,404
Loans, net	638,692	564,750	520,511	345,406	258,112
Securities	129,142	135,435	149,591	174,388	194,581
Deposits	588,769	570,599	551,432	424,879	369,986
Shareholders' equity	77,904	77,898	53,746	51,562	47,327
Average shares outstanding, basic (2)	4,506	4,132	3,803	3,804	3,770
Average shares outstanding, diluted (2)	4,578	4,223	3,906	3,920	3,867
Income Statement Data:					
Interest income	$49,628	$45,398	$36,212	$26,667	$24,780
Interest expense	22,441	18,487	11,596	6,033	5,576
Net interest income	27,187	26,911	24,616	20,634	19,204
Provision for loan losses	1,786	499	1,744	796	575
Net interest income after provision for loan losses	25,401	26,412	22,872	19,838	18,629
Noninterest income	7,702	8,115	9,021	8,594	9,921
Noninterest expense	29,455	23,210	21,920	18,559	16,887
Income before income taxes	3,648	11,317	9,973	9,873	11,663
Net income	3,064	8,018	7,174	7,092	8,219
Per Share Data:(2)					
Net income, basic	$0.68	$1.94	$1.89	$1.86	$2.18
Net income, diluted	0.67	1.90	1.84	1.81	2.13
Cash dividends	0.76	0.76	0.76	0.76	0.69
Book value at period end	17.21	17.29	14.05	13.54	12.44
Tangible book value at period end	16.06	16.06	12.50	11.90	10.72
Asset Quality Ratios:					
Non-performing loans to period end loans	1.03%	0.00%	0.02%	0.00%	0.14%
Non-performing loans to total assets	0.79%	0.00%	0.00%	0.00%	0.07%
Net charge-offs (recoveries) to average loans	0.04%	0.01%	0.00%	(0.01%)	0.11%
Allowance for loan losses to loans outstanding at end of period	1.10%	0.98%	0.98%	0.98%	1.00%
Selected Ratios:					
Return on average assets	0.38%	1.05%	1.05%	1.29%	1.78%
Return on average equity	3.83%	12.25%	13.65%	14.31%	18.27%
Dividend payout	111.76%	39.41%	40.21%	40.76%	31.69%
Efficiency (3)	81.25%	63.85%	63.32%	61.92%	57.00%
Net interest margin (4)	3.77%	3.97%	4.11%	4.29%	4.75%
Equity to assets	9.26%	10.09%	7.23%	8.51%	9.30%
Tier 1 risk-based capital	11.55%	12.79%	11.10%	14.20%	14.40%
Total risk-based capital	12.59%	13.70%	12.00%	15.10%	15.60%
Leverage	9.44%	10.26%	8.70%	10.20%	11.30%

(1) Adjusted to reflect the application of FASB Interpretation No. 46R. The common equity portion of the Trust Preferred entities has been deconsolidated and is included in Assets for all years reported.

(2) Adjusted for the two-for-one stock split effective October 17, 2003.

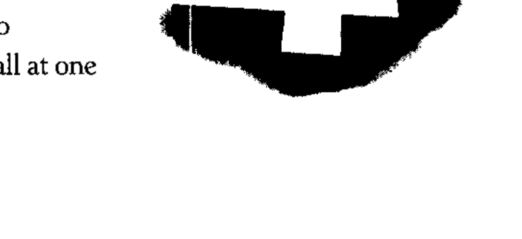
(3) Computed by dividing noninterest expense by the sum of net interest income on a tax equivalent basis and noninterest income, net of securities gains or losses.

(4) Net interest margin is calculated by dividing tax equivalent net interest income by total average earning assets.

Financial planning is no longer the exclusive domain of affluent households in America. The average family today finds itself awash in financial decisions and products, often accompanied by large price tags, complex terminology, and risks. They are frequently confronted with a number of advisors and sales people vying for their business and attention. Few of those advisors or sales people look at the overall financial situation of their clients. The result is a myriad of products and services competing for limited funds and even working in opposition. The cost in money and time and worry can be substantial. The solution is to bring the complete financial experience together in one place.

THE COMPLETE FINANCIAL EXPERIENCE COMES TOGETHER

Several years ago, Middleburg Financial Corporation began to plan for serving the needs of a client base that would require more than basic banking services. We knew that in order to serve client needs and thrive as a company we would have to build an infrastructure unlike any in the region. We began by expanding our products and services based on what our clients told us they needed. We acquired two wealth management companies that became Middleburg Investment Advisors and Middleburg Trust Company. We entered the home mortgage business and acquired an interest in Southern Trust Mortgage. We began to market stocks and bonds and insurance products. More products followed including cash management services, electronic banking, equity lines and loans, and many others. Today, Middleburg Financial Corporation and its affiliate companies offer an extensive list of products and services to meet the needs of an increasingly diverse client base. Equally important we offer them all at one place and coordinated by skilled financial professionals.



Like financial planning, private banking is no longer the exclusive domain of the affluent. The average household needs a person who can be the focal point of their financial management. Of course, it is neither necessary nor practical to expect an individual to be expert in every financial service that might be required by each client. That's why our personal bankers at Middleburg Bank are trained to select the optimal combination of skilled advisors for each client from all the financial disciplines, from banking to investments to mortgages. Clients have the advantage of several trained professionals, all coordinated by one person who knows them and their individual needs. The result is savings in both time and money and the peace of mind that comes with having a financial plan that works today and in the future.

IT'S NOT A BANK. IT'S A FINANCIAL CENTER

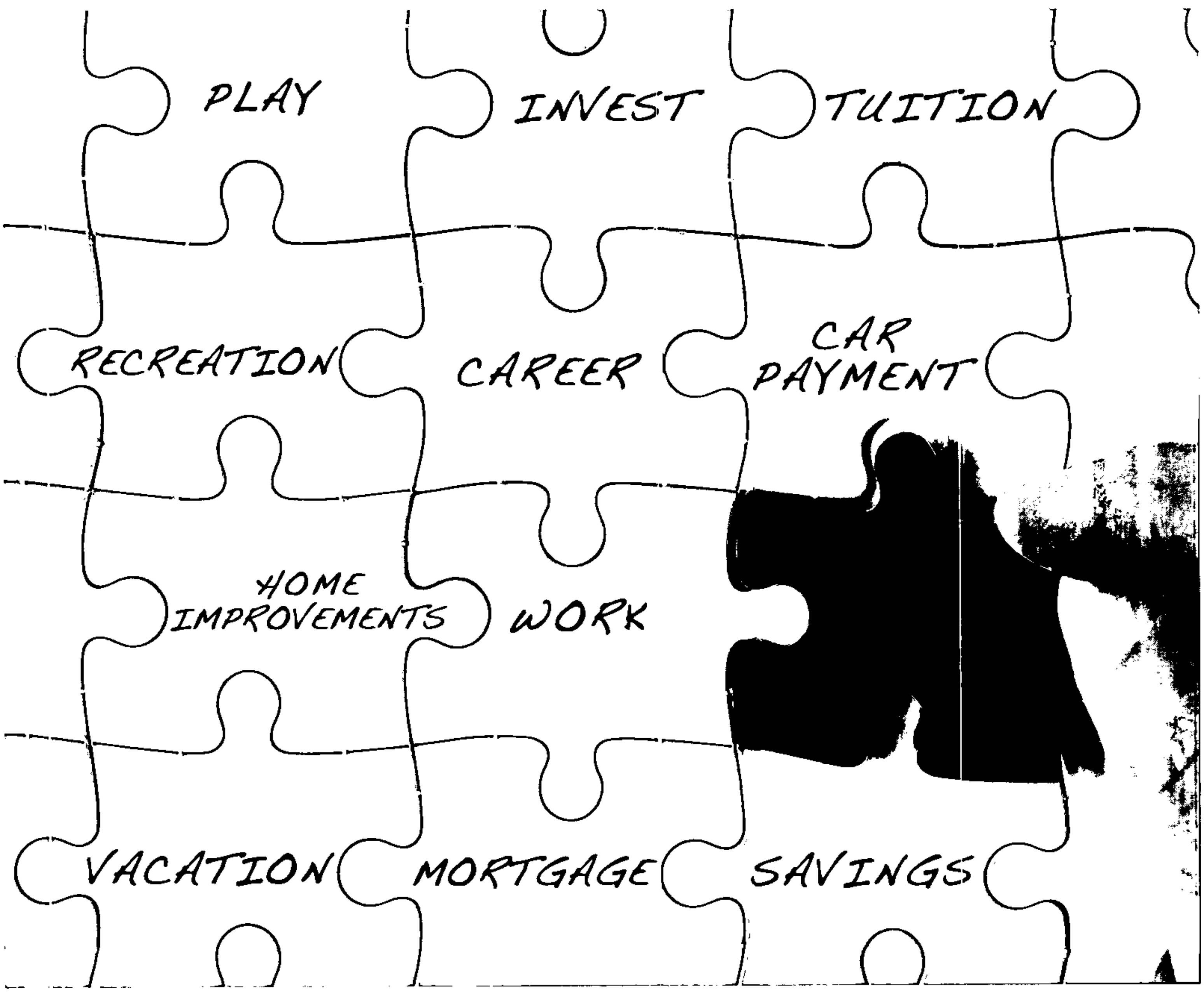
Our new Financial Centers look different than a typical bank branch because they *are* different. In many of our offices, you won't see a lineup of tellers poised to accept deposits and cash checks. You will find a unique environment that is designed to serve basic banking needs efficiently and one that will also meet most other financial needs in a respectful, professional surrounding. Of course, routine banking occurs thousands of times each day at all of our offices. But many of our clients now make appointments and meet in one of our conveniently located Northern Virginia Financial Centers so that the appropriate advisors are there to help.

Ashburn Financial Center

Everyone's financial needs are different. That's why Middleburg Bank never uses a "cookie cutter" approach to designing a client's financial plan. With client participation (and often their accountant's too), we assemble a total financial summary of each client's current situation. We evaluate their needs based on their plans, not ours. And we survey the complete menu of products that we offer to determine which are needed and when. Middleburg Bank and its affiliate companies offer an extensive list of products and services. Obviously nobody needs them all. But from a selection of that magnitude, clients can be assured of finding everything they need.

Purposeful Integration Of Financial Services

Financial plans don't just happen. They require a partnership between a client and a trusted advisor who can make unbiased recommendations without regard to any financial self-interest or corporate pressure. That's why it makes so much sense to work with a Middleburg Bank financial planner to bring a complete financial plan together. Our primary focus is to produce a plan that will serve clients well now and over the long term regardless of what that mix turns out to be. By having an overall view of each client's finances, we can do the best job of integrating the products and services required to achieve individual financial goals.



In today's hectic world, many people feel like their finances are out of control. Or that there is no coordinated plan to what they are doing. Fortunately, many are discovering the great peace of mind that comes with knowing and understanding their current financial situation and setting financial goals for the years ahead. Middleburg Financial Corporation has built the infrastructure, the products and the staffing required to bring our clients that peace of mind. And we can deliver it now.

Middleburg Financial Corporation and Middleburg Bank Board of Directors
Howard M. Armfield
Henry F. Atherton, III
Joseph L. Boling, Chairman
Childs F. Burden
J. Lynn Cornwell, Jr.
John C. Lee, IV
Keith W. Meurlin
Janet A. Neuharth
Gary R. Shook
James R. Treptow
Millicent W. West
Edward T. Wright*
* *retired December 2007*

Middleburg Financial Corporation Officers
Joseph L. Boling,
Chairman of the Board and Chief Executive Officer
Gary R. Shook, *President*
Arch A. Moore, III,
Executive Vice President, Chief Lending Officer
Kathleen J. Chappell,
Senior Vice President, Chief Financial Officer
Rodney J. White, *Vice President, Chief Accounting Officer*

Middleburg Bank Officers
Executive Management
Joseph L. Boling,
Chairman of the Board and Chief Executive Officer
Gary R. Shook, *President*
Arch A. Moore, III,
Executive Vice President, Chief Lending Officer
Kathleen J. Chappell,
Senior Vice President, Chief Financial Officer
Jeffrey H. Culver,
Senior Vice President, Credit Administration and Strategic Planning
Suzanne K. Withers,
Senior Vice President, Human Resources

Middleburg Client Action Team
David L. Hartley,
Senior Vice President, Middleburg Trust Company and Community Executive
Kathleen S. Croson,
Senior Vice President, Retail Banking
Reginald E. Dawson,
Senior Vice President, Commercial Banking
Richard B. Luttrell, *Vice President, Commercial Banking*
Patrick H. Heijmen, *Vice President, Middleburg Investment Services*
Theresa V. O'Dowd,
Senior Mortgage Consultant, Middleburg Mortgage

Purcellville Client Action Team
Mary E. McCauley,
Vice President, Retail Banking and Community Executive
Carolyn L. DiPrinzio,
Vice President, Middleburg Investment Services
Leslie J. Johnson,
Vice President, Commercial Banking
Gwen P. Miller,
Senior Mortgage Consultant, Middleburg Mortgage

Leesburg Client Action Team
George H. Bramhall, Sr.
Senior Vice President, Commercial Banking
James A. Maki, *Vice President, Commercial Banking*
Jared K. Giordano, *Vice President, Commercial Banking*
Nan C. Havens,
Assistant Vice President, Retail Banking Catoctin Circle
Virginia M. Kintz,
Assistant Vice President, Retail Banking Fort Evans
Kevin S. Gower,
Senior Mortgage Consultant, Middleburg Mortgage

Ashburn Client Action Team
William G. Byers, *Vice President, Commercial Banking and Community Executive*
Carolyn L. DiPrinzio,
Vice President, Middleburg Investment Services
Ronald D. Anzalone,
Assistant Vice President, Retail Banking
Tarik Benkirane,
Assistant Vice President, Commercial Banking
Stephen T. Cowen,
Director of Mortgage Production, Middleburg Mortgage

Reston/Fairfax Client Action Team
William G. Byers, *Vice President, Commercial Banking and Community Executive*
Carolyn L. DiPrinzio,
Vice President, Middleburg Investment Services
Efrosine K. Tzaferis,
Vice President, Commercial Banking
Mirvat Awad,
Assistant Vice President, Retail Banking
Kevin S. Gower,
Senior Mortgage Consultant, Middleburg Mortgage

Warrenton/Fauquier Client Action Team
Robert W. Sylcox,
Senior Vice President, Commercial Banking and Community Executive
Jeffrey S. Milnes,
Vice President, Commercial Banking
Stewart Brown,
Assistant Vice President, Retail Banking
Patrick H. Heijmen,
Vice President, Middleburg Investment Services
Laura Wyne,
Senior Mortgage Consultant, Middleburg Mortgage

Operational Support
Jeffrey H. Culver,
Senior Vice President, Credit Administration and Strategic Planning
Lisa E. Kilgour,
Senior Vice President, Operations
Robert S. Miller,
Senior Vice President, Marketing
Todd A. Braithwaite,
Vice President, Information Technology
David S. Stalnaker,
Vice President, Risk Management
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Assistant Vice President, Operations
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Assistant Vice President, Corporate Real Estate
Maria J. Boyer,
Assistant Vice President, Corporate Compliance Officer
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Assistant Vice President, Credit Administration
Mary K. Hefestay,
Assistant Vice President, Technical Trainer and Mobile Pool Manager
Keith A. O'Brien,
Assistant Vice President, Director, Middleburg Investment Services
Charles E. Pollow,
Assistant Vice President, Credit Administration
Susan M. Templeton,
Assistant Vice President, Business Analyst
James C. Whirley,
Assistant Vice President, Accounting
JoAnn H. Willis,
Assistant Vice President, Deposit Operations

Middleburg Investment Group Board of Directors
John Mason L. Antrim
Joseph L. Boling,
Chairman of the Board
James V. Duty
Stanley K. Joynes, III
Claiborne W. Minor
James H. Patterson
Russell L. Rabb, Jr.
Gary R. Shook
William E. Teale

Middleburg Investment Group Officers
Middleburg Investment Advisors
James H. Patterson, *President*
Glenn E. Ryhanych,
Senior Vice President, Portfolio Manager
Robert F. Domagala, Jr.,
Vice President, Portfolio Manager

Middleburg Trust Company
John Mason L. Antrim,
President and Chief Executive Officer
Tyler R. Harris,
Senior Vice President, Business Development
David L. Hartley,
Senior Vice President, Middleburg
James E. Abbe, IV,
Vice President, Portfolio Manager
Martha E. Madeira,
Vice President, Williamsburg
Brad E. Mullins, *Vice President, Business Development*
Maxwell C. Wallace,
Vice President, Trust Administration
Rena O. Wynne, *Vice President, Operations Manager*
Julie F. Chambers,
Trust Operations Officer

Warrenton/Fauquier Regional Board
Joseph K. Allen, Jr.
Mildred M. Curtis
Henry C. Day
G. Robert Lee, *Chairman*
Karla S. MacKimmie
Mary Leigh McDaniel
James G. Merritt
William T. Patchett
Thomas M. Sherman
Gary R. Shook
Robert W. Sylcox
James W. Timberlake, V

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

Commission file number 0-24159

MIDDLEBURG FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	**54-1696103** (I.R.S. Employer Identification No.)	SEC Mail Processing Section
111 West Washington Street **Middleburg, Virginia** (Address of principal executive offices)	**20117** (Zip Code)	APR 2 3 2008

Registrant's telephone number, including area code **(703) 777-6327**

Washington, DC
100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	n/a

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $2.50 per share
(Title of class)

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

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 ☑

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 ☐ No ☑

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☑
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last 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. **$146,432,163**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. **4,526,317 shares of Common Stock as of March 14, 2008**

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2008 Annual Meeting of Shareholders – Part III

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PART I

ITEM 1. BUSINESS

General

Middleburg Financial Corporation (the "Company") is a bank holding company that was incorporated under Virginia law in 1993. The Company conducts its primary operations through two wholly owned subsidiaries, Middleburg Bank (the "Bank") and Middleburg Investment Group, Inc., both of which are chartered under Virginia law. The Company has one other wholly owned subsidiary, MFC Capital Trust II, which is a Delaware Business Trust that the Company formed in connection with the issuance of trust preferred debt in December 2003.

Middleburg Bank

The Bank opened for business on July 1, 1924 and has continuously offered banking products and services to surrounding communities since that date. The Bank has seven full service facilities and two limited service facilities. The main office is located at 111 West Washington Street, Middleburg, Virginia 20117. The Bank has two full service facilities and one limited service facility in Leesburg, Virginia. Other full service facilities are located in Ashburn, Purcellville, Reston and Warrenton, Virginia. The Bank has a limited service facility located in Marshall, Virginia. In January 2008, the Bank relocated its Financial Service Center within the community of Ashburn.

The Bank serves the Virginia counties of Loudoun, Fairfax and Fauquier. Loudoun County is in northwestern Virginia and included in the Washington-Baltimore metropolitan statistical area. According to the Loudoun County Department of Economic Development, the county's population was approximately 279,000 as of January 1, 2008, with nearly one-half of the population located in the Company's markets. The local economy is driven by service industries, including but not limited to, professional and technical services requiring a high skill level, federal, state and local government, construction and retail trade. Fairfax County is in northern Virginia and is included in the Washington-Baltimore metropolitan statistical area. According to the latest data on Fairfax County's Web Site, the county's population was approximately 1,077,920 as of January 1, 2008. The local economy is driven by service industries and federal, state and local governments. Fauquier County is in northern Virginia and is included in the Washington-Baltimore metropolitan statistical area. Fauquier County's population was approximately 64,600, according to the latest data published as of September 1, 2007. The local economy is driven by service industries and agriculture.

The Bank has one wholly owned subsidiary, Middleburg Bank Service Corporation. Middleburg Bank Service Corporation is a partner in a limited liability company, Bankers Title Shenandoah, LLC, which sells title insurance through its members. Middleburg Bank Service Corporation has also invested in two other limited liability companies, Virginia Bankers Insurance Center, LLC and Bankers Investment Group, LLC. Virginia Bankers Insurance Center, LLC acts as a broker for insurance sales for its member banks and Bankers Investment Group acts as a broker dealer for sales of investment products to clients of its member banks.

The Bank owns 42.3% of the issued and outstanding membership interest units of Southern Trust Mortgage, LLC. The Bank acquired the membership interest units in equal proportion from the six members of Southern Trust Mortgage, all of who own, in the aggregate, the remaining issued and outstanding units of Southern Trust Mortgage. Southern Trust Mortgage is a regional mortgage lender headquartered in Norfolk, Virginia and has offices in Virginia, Maryland, North Carolina and South Carolina.

Middleburg Investment Group

Middleburg Investment Group is a non-bank holding company that was formed in the fourth quarter of 2005. In December 2005, the Company transferred its investments in Tredegar Trust Company and Gilkison Patterson Investment Advisors, Inc. to Middleburg Investment Group. As part of the transfer, the names of both subsidiary companies were changed. Tredegar Trust Company became Middleburg Trust Company, and Gilkison Patterson Investment Advisors, Inc. became Middleburg Investment Advisors, Inc. Both subsidiaries are wholly owned by Middleburg Investment Group.

Middleburg Trust Company is chartered under Virginia law and opened for business in January 1994. Its main office is located at 821 East Main Street, Richmond, Virginia, 23219. Middleburg Trust Company serves primarily the greater Richmond area including the counties of Henrico, Chesterfield, Hanover, Goochland and Powhatan. Richmond is the capital of the Commonwealth of Virginia, and the greater Richmond area had an estimated population in excess of 1.1 million in 2007 based on the 2000 U.S. Census. Middleburg Trust Company also serves the counties of Fairfax, Fauquier and Loudoun with staff located within several of the Bank's facilities.

Middleburg Investment Advisors, Inc. is an investment advisor registered with the Securities and Exchange Commission (the "SEC"). Its main office is located at 1901 North Beauregard Street, Alexandria, Virginia, 22311. Middleburg Investment Advisors primarily serves the District of Columbia metropolitan area including contingent markets in Virginia and Maryland but also has clients in 24 other states.

Products and Services

The Company, through its subsidiaries, offers a wide range of banking, fiduciary and investment management services to both individuals and small businesses. The banking services include various types of checking and savings deposit accounts, and the making of business, real estate, development, mortgage, home equity, automobile and other installment, demand and term loans. Also, the Bank offers ATMs at eight facilities and at two offsite locations, internet banking, travelers' checks, money orders, safe deposit rentals, collections, notary public, wire services and other traditional bank services to its customers. Middleburg Trust Company provides a variety of investment management and fiduciary services including trust and estate settlement. Middleburg Trust Company can also serve as escrow agent, attorney-in-fact, and guardian of property or trustee of an IRA. Middleburg Investment Advisors provides fee based investment management services for its clients.

Employees

As of December 31, 2007, the Company had a total of 176 full time equivalent employees. The Company considers relations with its employees to be excellent. The Company's employees are not represented by a collective bargaining unit.

SEC Filings

The Company maintains an internet website at www.middleburgbank.com. Shareholders of the Company and the public may access the Company's periodic and current reports (including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports) filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, through the "Shareholder Relations" section of the Company's website. The reports are made available on this website as soon as practicable following the filing of the reports with the SEC. The information is free of charge and may be reviewed, downloaded and printed from the website at any time.

Segment Reporting

The Company operates in a decentralized fashion in two principal business activities: banking services; and trust and investment advisory services. Revenue from banking activities consists primarily of interest earned on loans and investment securities and service charges on deposit accounts. Through the Bank's 42.3% investment in Southern Trust Mortgage, the Company also recognizes its share of the net income from the Southern Trust Mortgage investment in the other income section of the Bank's income statement.

Revenues from trust and investment advisory activities are comprised mostly of fees based upon the market value of the accounts under administration. The trust and investment advisory services are conducted by the two subsidiaries of Middleburg Investment Group; Middleburg Trust Company and Middleburg Investment Advisors.

The banking segment has assets in custody with Middleburg Trust Company and accordingly pays Middleburg Trust Company a monthly fee. The banking segment also pays interest to both Middleburg Trust Company and Middleburg Investment Advisors on deposit accounts each company has at the Bank. Middleburg Investment Advisors pays the Company a management fee each month for accounting and other services provided. Transactions related to these relationships are eliminated to reach consolidated totals.

The following tables present segment information for the years ended December 31, 2007, 2006 and 2005.

	2007			
	Banking	Trust and Investment Advisory Fees	Intercompany Eliminations	Consolidated
Revenues:		(In Thousands)		
Interest income	$ 49,599	$ 58	$ (29)	$ 49,628
Trust and investment advisory fee income	--	4,444	(89)	4,355
Other income	3,388	--	(41)	3,347
Total operating income	52,987	4,502	(159)	57,330
Expenses:				
Interest expense	22,470	--	(29)	22,441
Salaries and employee benefits	11,289	2,268	--	13,557
Provision for loan losses	1,786	--	--	1,786
Other	14,557	1,471	(130)	15,898
Total operating expenses	50,102	3,739	(159)	53,682
Income before income taxes	2,885	763	--	3,648
Provision for income taxes	251	333	--	584
Net income	$ 2,634	$ 430	$ --	$ 3,064
Total assets	$ 836,899	$ 6,900	$ (2,39)	$ 841,400
Capital expenditures	$ 3,734	$ 35	$ --	$ 3,769

	2006			
	Banking	Trust and Investment Advisory Fees	Intercompany Eliminations	Consolidated
Revenues:		(In Thousands)		
Interest income	$ 45,368	$ 62	$ (32)	$ 45,398
Trust and investment advisory fee income	--	4,209	(95)	4,114
Other income	4,041	1	(41)	4,001
Total operating income	49,409	4,272	(168)	53,513
Expenses:				
Interest expense	18,519	--	(32)	18,487
Salaries and employee benefits	11,407	2,283	--	13,690
Provision for loan losses	499	--	--	499
Other	8,202	1,454	(136)	9,520
Total operating expenses	38,627	3,737	(168)	42,196
Income before income taxes	10,782	535	--	11,317
Provision for income taxes	3,045	254	--	3,299
Net income	$ 7,737	$ 281	$ --	$ 8,018
Total assets	$ 767,185	$ 7,147	$ (2,027)	$ 772,305
Capital expenditures	$ 909	$ 49	$ --	$ 958

	2005			
	Banking	Trust and Investment Advisory Fees	Intercompany Eliminations	Consolidated
Revenues:		(In Thousands)		
Interest income	$ 36,193	$ 47	$ (28)	$ 36,212
Trust and investment advisory fee income	--	4,045	(105)	3,940
Other income	5,127	(5)	(41)	5,081
Total operating income	41,320	4,087	(174)	45,233
Expenses:				
Interest expense	11,624	--	(28)	11,596
Salaries and employee benefits	11,199	2,041	--	13,240
Provision for loan losses	1,744	--	--	1,744
Other	7,564	1,262	(146)	8,680
Total operating expenses	32,131	3,303	(174)	35,260
Income before income taxes	9,189	784	--	9,973
Provision for income taxes	2,458	341	--	2,799
Net income	$ 6,731	$ 443	$ --	$ 7,174
Total assets	$ 733,734	$ 7,557	$ (1,380)	$ 739,911
Capital expenditures	$ 3,682	$ 3	$ --	$ 3,685

Competition

The Company faces significant competition for both loans and deposits. Competition for loans comes from commercial banks, savings and loan associations and savings banks, mortgage banking subsidiaries of regional commercial banks, subsidiaries of national mortgage bankers, insurance companies, and other institutional lenders. Its most direct competition for deposits has historically come from commercial banks, credit unions, savings banks, savings and loan associations and other financial institutions. Based upon total deposits at June 30, 2007 as reported to the Federal Deposit Insurance Corporation (the "FDIC"), the Company has the second largest share of deposits with 16.2% market share among the banking organizations operating in Loudoun County, Virginia. The Company's Reston location, as of the latest FDIC report, is 0.02% of the $34.2 billion in deposits in the Fairfax County market. The Company's Warrenton location, as of the latest FDIC report, is 3.1% of the $1.2 billion in deposits in the Fauquier County market. The Company also faces competition for deposits from short-term money market mutual funds and other corporate and government securities funds.

Middleburg Trust Company competes for clients and accounts with banks, other financial institutions and money managers. Even though many of these institutions have been engaged in the trust or investment management business for a considerably longer period of time than Middleburg Trust Company and have significantly greater resources, Middleburg Trust Company has grown through its commitment to quality trust and investment management services and a local community approach to business.

Middleburg Investment Advisors competes for its clients and accounts with other money managers and investment brokerage firms. Like the rest of the Company, Middleburg Investment Advisors is dedicated to quality service and high investment performance for its clients. Middleburg Investment Advisors has successfully operated in its markets for 26 years.

Lending Activities

Credit Policies

The principal risk associated with each of the categories of loans in the Bank's portfolio is the creditworthiness of its borrowers. Within each category, such risk is increased or decreased, depending on prevailing economic conditions. In an effort to manage the risk, the Bank's loan policy gives loan amount approval limits to individual loan officers based on their position and level of experience. The risk associated with real estate mortgage loans, commercial and consumer loans varies, based on market employment levels, consumer confidence, fluctuations in the value of real estate and other conditions that affect the ability of borrowers to repay indebtedness. The risk associated with real estate construction loans varies, based on the supply and demand for the type of real estate under construction.

The Bank has written policies and procedures to help manage credit risk. The Bank utilizes an outside third party loan review process that includes regular portfolio reviews to establish loss exposure and to ascertain compliance with the Bank's loan policy.

The Bank has three levels of lending authority. Individual loan officers are the first level and are limited to their lending authority. The second level is the Officers Loan Committee, which is composed of four officers of the Bank, including the Chairman and Chief Executive Officer, the President and the Senior Lending Officer. The Officers Loan Committee approves loans that exceed the individual loan officers' lending authority and reviews loans to be presented to the Directors Loan Committee. The Directors Loan Committee is composed of six Directors, of which five are independent Directors. The Directors Loan Committee approves new, modified and renewed credits that exceed Officer Loan Committee authorities. The Chairman of the Directors Loan Committee is the Chairman and Chief Executive Officer of the Bank. A quorum is reached when four committee members are present, of which at least three must be independent Directors. An application requires four votes to receive approval by this committee. In addition, the Directors Loan Committee reports all new loans reviewed and approved to the Bank's Board of Directors monthly. Monthly reports shared with the Directors Loan Committee include names and monetary amounts of all new credits in excess of $12,500 or which had been extended; a watch list including names, monetary amounts, risk rating and payment status; non accruals and charge offs as recommended and a list of overdrafts in excess of $1,500 and which have been overdrawn more than four days. The Directors Loan Committee also reviews lending policies proposed by management.

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities which are disclosed but not reflected in its annual financial statements including commitments to extend credit. At December 31, 2007, commitments to extend credit totaled $97.4 million.

Construction Lending

The Bank makes local construction loans, primarily residential, and land acquisition and development loans. The construction loans are primarily secured by residential houses under construction and the underlying land for which the loan was obtained. At December 31, 2007, construction, land and land development loans outstanding were $96.6 million, or 15.0%, of total loans. Approximately 87.0% of these loans are concentrated in the Loudoun, Fairfax and Fauquier County, Virginia markets. The average life of a construction loan is approximately 12 months and it reprices monthly to meet the market, typically the prime interest rate plus one percent. Because the interest rate charged on these loans floats with the market, the construction loans help the Company in managing its interest rate risk. Construction lending entails significant additional risks, compared with residential mortgage lending. Construction loans often involve larger loan balances concentrated with single borrowers or groups of related borrowers. Another risk involved in construction lending is attributable to the fact that loan funds are advanced upon the security of the land or home under construction, which value is estimated prior to the completion of construction. Thus, it is more difficult to evaluate accurately the total loan funds required to complete a project and related loan-to-value ratios. To mitigate the risks associated with construction lending, the Bank generally limits loan amounts to 75% to 85% of appraised value, in addition to analyzing the creditworthiness of its borrowers. The Bank also obtains a first lien on the property as security for its construction loans and typically requires personal guarantees from the borrowing entity's principal owners.

Commercial Business Loans

Commercial business loans generally have a higher degree of risk than residential mortgage loans, but have higher yields. To manage these risks, the Bank generally obtains appropriate collateral and personal guarantees from the borrowing entity's principal owners and monitors the financial condition of its business borrowers. Residential mortgage loans generally are made on the basis of the borrower's ability to make repayment from his employment and other income and are secured by real estate whose value tends to be readily ascertainable. In contrast, commercial business loans typically are made on the basis of the borrower's ability to make repayment from cash flow from its business and are secured by business assets, such as commercial real estate, accounts receivable, equipment and inventory. As a result, the availability of funds for the repayment of commercial business loans is substantially dependent on the success of the business itself. Furthermore, the collateral for commercial business loans may depreciate over time and generally cannot be appraised with as much precision as residential real estate. The Bank has an outside third party loan review and monitoring process to regularly assess the repayment ability of commercial borrowers. At December 31, 2007, commercial loans totaled $46.5 million, or 7.2% of total loans.

Commercial Real Estate Lending

Commercial real estate loans are secured by various types of commercial real estate in the Bank's market area, including multi-family residential buildings, commercial buildings and offices, small shopping centers and churches. At December 31, 2007, commercial real estate loans aggregated $228.2 million, or 35.4%, of the Bank's total loans.

In its underwriting of commercial real estate, the Bank may lend, under internal policy, up to 80% of the secured property's appraised value. Commercial real estate lending entails significant additional risk, compared with residential mortgage lending. Commercial real estate loans typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. Additionally, the payment experience on loans secured by income producing properties is typically dependent on the successful operation of a business or a real estate project and thus may be subject, to a greater extent, to adverse conditions in the real estate market or in the economy generally. The Bank's commercial real estate loan underwriting criteria require an examination of debt service coverage ratios and the borrower's creditworthiness, prior credit history and reputation. The Bank also evaluates the location of the security property and typically requires personal guarantees or endorsements of the borrowing entity's principal owners.

One-to-Four-Family Residential Real Estate Lending

Residential lending activity may be generated by the Bank's loan originator solicitation, referrals by real estate professionals, existing or new bank clients and purchases of whole loans from Southern Trust Mortgage. Loan applications are taken by a Bank loan officer. As part of the application process, information is gathered concerning income, employment and credit history of the applicant. Loans are underwritten using the Bank's underwriting guidelines. Security for the majority of the Bank's residential lending is in the form of owner occupied one-to-four-family dwellings. The valuation of residential collateral is provided by independent fee appraisers who have been approved by the Bank's Board of Directors.

The Bank also originates a non-conforming adjustable rate product ("ARM") with a higher entry level rate and margin than that of the conforming adjustable rate products. This non-conforming loan provides yet another outlet for loans not meeting secondary market guidelines. The Bank keeps these loans in its loan portfolio. Interest rates on ARM products offered by the Bank are tied to fixed rates issued by the Federal Home Loan Bank of Atlanta plus a spread. The Bank's ARM products contain interest rate caps at adjustment periods and rate ceilings based on a cap over and above the original interest rate.

At December 31, 2007, $250.9 million, or 38.9%, of the Bank's loan portfolio consisted of one-to four-family residential real estate loans and home equity lines. Of the $250.9 million, $161.5 million were fixed rate mortgages while the remaining $89.4 million were adjustable rate mortgages. The fixed rate loans are typically 3, 5, 7 or 10 year balloon loans amortized over a 30 year period. The Bank has about $75.5 million in fixed rate loans that have maturities of 15 years or greater. Approximately $51.8 million of fixed rate loans have maturities of 5 years or less.

In connection with residential real estate loans, the Bank requires title insurance, hazard insurance and if required, flood insurance. Flood determination letters with life of loan tracking are obtained on all federally related transactions with improvements serving as security for the transaction.

Consumer Lending

The Bank offers various secured and unsecured consumer loans, including unsecured personal loans and lines of credit, automobile loans, deposit account loans, installment and demand loans and home equity lines of credit and loans. At December 31, 2007, the Bank had consumer loans of $20.2 million or 3.1% of gross loans. Such loans are generally made to customers with whom the Bank has a pre-existing relationship. The Bank currently originates all of its consumer loans in its geographic market area. Most of the consumer loans are tied to the prime lending rate and reprice monthly.

Consumer loans may entail greater risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured, such as lines of credit, or secured by rapidly depreciable assets such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. Such loans may also give rise to claims and defenses by a consumer borrower against an assignee of collateral securing the loan such as the Bank, and a borrower may be able to assert against such assignee claims and defenses which it has against the seller of the underlying collateral. Consumer loan delinquencies often increase over time as the loans age.

The underwriting standards employed by the Bank for consumer loans include a determination of the applicant's payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income. Although creditworthiness of the applicant is of primary consideration, the underwriting process also includes an analysis of the value of the security in relation to the proposed loan amount.

Supervision and Regulation

General

As a bank holding company, the Company is subject to regulation under the Bank Holding Company Act of 1956, as amended, and the examination and reporting requirements of the Board of Governors of the Federal Reserve System. As a state-chartered commercial bank, the Bank is subject to regulation, supervision and examination by the Virginia State Corporation Commission's Bureau of Financial Institutions. It is also subject to regulation, supervision and examination by the Federal Reserve Board. Other federal and state laws, including various consumer and compliance laws, govern the activities of the Bank, the investments that it makes and the aggregate amount of loans that it may grant to one borrower.

The following description summarizes the significant federal and state laws applicable to the Company and its subsidiaries. To the extent that statutory or regulatory provisions are described, the description is qualified in its entirety by reference to that particular statutory or regulatory provision.

The Bank Holding Company Act

Under the Bank Holding Company Act, the Company is subject to periodic examination by the Federal Reserve and required to file periodic reports regarding its operations and any additional information that the Federal Reserve may require. Activities at the bank holding company level are limited to:

- banking, managing or controlling banks;

- furnishing services to or performing services for its subsidiaries; and
- engaging in other activities that the Federal Reserve has determined by regulation or order to be so closely related to banking as to be a proper incident to these activities.

Some of the activities that the Federal Reserve Board has determined by regulation to be proper incidents to the business of a bank holding company include making or servicing loans and specific types of leases, performing specific data processing services and acting in some circumstances as a fiduciary or investment or financial adviser.

With some limited exceptions, the Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before:

- acquiring substantially all the assets of any bank;
- acquiring direct or indirect ownership or control of any voting shares of any bank if after such acquisition it would own or control more than 5% of the voting shares of such bank (unless it already owns or controls the majority of such shares); or
- merging or consolidating with another bank holding company.

In addition, and subject to some exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with their regulations, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is rebuttably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities and either has registered securities under Section 12 of the Securities Exchange Act of 1934 (the "Exchange Act") or no other person owns a greater percentage of that class of voting securities immediately after the transaction. The regulations provide a procedure for challenging this rebuttable control presumption.

In November 1999, Congress enacted the Gramm-Leach-Bliley Act (the "GLBA"), which made substantial revisions to the statutory restrictions separating banking activities from other financial activities. Under the GLBA, bank holding companies that are well-capitalized and well-managed and meet other conditions can elect to become "financial holding companies." As financial holding companies, they and their subsidiaries are permitted to acquire or engage in previously impermissible activities such as insurance underwriting, securities underwriting and distribution, travel agency activities, insurance agency activities, merchant banking and other activities that the Federal Reserve determines to be financial in nature or complementary to these activities. Financial holding companies continue to be subject to the overall oversight and supervision of the Federal Reserve, but the GLBA applies the concept of functional regulation to the activities conducted by subsidiaries. For example, insurance activities would be subject to supervision and regulation by state insurance authorities. Although the Company has not elected to become a financial holding company in order to exercise the broader activity powers provided by the GLBA, the Company will likely elect do so in the future.

Payment of Dividends

The Company is a legal entity separate and distinct from its banking and non-banking subsidiaries. The majority of the Company's revenues are from dividends paid to the Company by its subsidiaries. The Bank is subject to laws and regulations that limit the amount of dividends it can pay. In addition, both the Company and the Bank are subject to various regulatory restrictions relating to the payment of dividends, including requirements to maintain capital at or above regulatory minimums. Banking regulators have indicated that banking organizations should generally pay dividends only if the organization's net income available to common shareholders over the past year has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition. The Company does not expect that any of these laws, regulations or policies will materially affect the ability of the Bank to pay dividends. During the year ended December 31, 2007, the Bank paid $3.3 million in dividends to the Company and the non-banking subsidiaries paid $837,000 to the Company.

The FDIC has the general authority to limit the dividends paid by insured banks if the payment is deemed an unsafe and unsound practice. The FDIC has indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsound and unsafe banking practice.

Insurance of Accounts, Assessments and Regulation by the FDIC

The deposits of the Bank are insured by the FDIC up to the limits set forth under applicable law. The deposits of the Bank subsidiary are subject to the deposit insurance assessments of the Deposit Insurance Fund ("DIF") of the FDIC.

The FDIC has implemented a risk-based deposit insurance assessment system under which the assessment rate for an insured institution may vary according to regulatory capital levels of the institution and other factors, including supervisory evaluations. For example, depository institutions insured by the DIF that are "well capitalized" and that present few or no supervisory concerns are required to pay a minimum assessment of between .05% and .07% of assessable deposits annually for deposit insurance, while all other banks are required to pay premiums ranging from .10% to .43% of assessable deposits. These rate schedules are subject to future adjustments by the FDIC. In addition, the FDIC has authority to impose special assessments from time to time.

The FDIC is authorized to prohibit any DIF-insured institution from engaging in any activity that the FDIC determines by regulation or order to pose a serious threat to the respective insurance fund. Also, the FDIC may initiate enforcement actions against banks, after first giving the institution's primary regulatory authority an opportunity to take such action. The FDIC may terminate the deposit insurance of any depository institution if it determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed in writing by the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If deposit insurance is terminated, the deposits at the institution at the time of termination, less subsequent withdrawals, shall continue to be insured for a period from six months to two years, as determined by the FDIC. The Company is not aware of any existing circumstances that could result in termination of any of the Bank's deposit insurance.

Capital Requirements

The Federal Reserve Board has issued risk-based and leverage capital guidelines applicable to banking organizations that it supervises. Under the risk-based capital requirements, the Company and the Bank are each generally required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) of 8%. At least half of the total capital must be composed of "Tier 1 Capital," which is defined as common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles. The remainder may consist of "Tier 2 Capital," which is defined as specific subordinated debt, some hybrid capital instruments and other qualifying preferred stock and a limited amount of the loan loss allowance. In addition, each of the federal banking regulatory agencies has established minimum leverage capital requirements for banking organizations. Under these requirements, banking organizations must maintain a minimum ratio of Tier 1 capital to adjusted average quarterly assets equal to 4%, subject to federal bank regulatory evaluation of an organization's overall safety and soundness. In sum, the capital measures used by the federal banking regulators are:

- the Total Capital ratio, which is the total of Tier 1 Capital and Tier 2 Capital;
- the Tier 1 Capital ratio; and
- the leverage ratio.

Under these regulations, a bank will be:

- "well capitalized" if it has a Total Capital ratio of 10% or greater, a Tier 1 Capital ratio of 6% or greater, and a leverage ratio of 5% or greater and is not subject to any written agreement, order, capital directive, or prompt corrective action directive by a federal bank regulatory agency to meet and maintain a specific capital level for any capital measure;

- "adequately capitalized" if it has a Total Capital ratio of 8% or greater, a Tier 1 Capital ratio of 4% or greater, and a leverage ratio of 4% or greater – or 3% in certain circumstances – and is not well capitalized;

- "undercapitalized" if it has a Total Capital ratio of less than 8%, a Tier 1 Capital ratio of less than 4% - or 3% in certain circumstances;

- "significantly undercapitalized" if it has a Total Capital ratio of less than 6%, a Tier 1 Capital ratio of less than 3%, or a leverage ratio of less than 3%; or

- "critically undercapitalized" if its tangible equity is equal to or less than 2% of average quarterly tangible assets.

The risk-based capital standards of the Federal Reserve Board explicitly identify concentrations of credit risk and the risk arising from non-traditional activities, as well as an institution's ability to manage these risks, as important factors to be taken into account by the agency in assessing an institution's overall capital adequacy. The capital guidelines also provide that an institution's exposure to a decline in the economic value of its capital due to changes in interest rates be considered by the agency as a factor in evaluating a banking organization's capital adequacy.

The FDIC may take various corrective actions against any undercapitalized bank and any bank that fails to submit an acceptable capital restoration plan or fails to implement a plan accepted by the FDIC. These powers include, but are not limited to, requiring the institution to be recapitalized, prohibiting asset growth, restricting interest rates paid, requiring prior approval of capital distributions by any bank holding company that controls the institution, requiring divestiture by the institution of its subsidiaries or by the holding company of the institution itself, requiring new election of directors, and requiring the dismissal of directors and officers. The Company and the Bank presently maintain sufficient capital to remain in compliance with these capital requirements.

Other Safety and Soundness Regulations

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance funds in the event that the depository institution is insolvent or is in danger of becoming insolvent. For example, under the requirements of the Federal Reserve Board with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so otherwise. In addition, the "cross-guarantee" provisions of federal law require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated by the FDIC as a result of the insolvency of commonly controlled insured depository institutions or for any assistance provided by the FDIC to commonly controlled insured depository institutions in danger of failure. The FDIC may decline to enforce the cross-guarantee provision if it determines that a waiver is in the best interests of the deposit insurance funds. The FDIC's claim for reimbursement under the cross guarantee provisions is superior to claims of shareholders of the insured depository institution or its holding company but is subordinate to claims of depositors, secured creditors and nonaffiliated holders of subordinated debt of the commonly controlled insured depository institutions.

Monetary Policy

The commercial banking business is affected not only by general economic conditions but also by the monetary policies of the Federal Reserve Board. The instruments of monetary policy employed by the Federal Reserve Board include open market operations in United States government securities, changes in the discount rate on member bank borrowing and changes in reserve requirements against deposits held by all federally insured banks. The Federal Reserve Board's monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. In view of changing conditions in the national and international economy and in the money markets, as well as the effect of actions by monetary fiscal authorities, including the Federal Reserve Board, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or the business and earnings of the Bank.

Federal Reserve System

In 1980, Congress enacted legislation that imposed reserve requirements on all depository institutions that maintain transaction accounts or non-personal time deposits. NOW accounts, money market deposit accounts and other types of accounts that permit payments or transfers to third parties fall within the definition of transaction accounts and are subject to these reserve requirements, as are any non-personal time deposits at an institution. For net transaction accounts in 2008, the first $9.3 million will be exempt from reserve requirements, compared to $8.5 million in 2007. A three percent reserve ratio will be assessed on net transaction accounts over $9.3 million up to and including $34.6 million, compared to $8.5 million up to and including $37.3 million in 2007. A ten percent reserve ratio will be applied above $34.6 million in 2008, compared to $37.3 million in 2007. These percentages are subject to adjustment by the Federal Reserve Board. Because required reserves must be maintained in the form of vault cash or in a non-interest-bearing account at, or on behalf of, a Federal Reserve Bank, the effect of the reserve requirement is to reduce the amount of the institution's interest-earning assets.

Transactions with Affiliates

Transactions between banks and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any bank or entity that controls, is controlled by or is under common control with such bank. Generally, Sections 23A and 23B:

- limit the extent to which the Bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, and maintain an aggregate limit on all such transactions with affiliates to an amount equal to 20% of such capital stock and surplus; and
- require that all such transactions be on terms substantially the same, or at least as favorable, to the association or subsidiary as those provided to a non-affiliate.

The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar other types of transactions.

Loans to Insiders

The Federal Reserve Act and related regulations impose specific restrictions on loans to directors, executive officers and principal shareholders of banks. Under Section 22(h) of the Federal Reserve Act, loans to a director, an executive officer and to a principal shareholder of a bank, and some affiliated entities of any of the foregoing, may not exceed, together with all other outstanding loans to such person and affiliated entities, the bank's loan-to-one borrower limit. Loans in the aggregate to insiders and their related interests as a class may not exceed two times the bank's unimpaired capital and unimpaired surplus until the bank's total assets equal or exceed $100,000,000, at which time the aggregate is limited to the bank's unimpaired capital and unimpaired surplus. Section 22(h) also prohibits loans, above amounts prescribed by the appropriate federal banking agency, to directors, executive officers and principal shareholders of a bank or bank holding company, and their respective affiliates, unless such loan is approved in advance by a majority of the board of directors of the bank with any "interested" director not participating in the voting. The FDIC has prescribed the loan amount, which includes all other outstanding loans to such person, as to which such prior board of director approval is required, as being the greater of $25,000 or 5% of capital and surplus (up to $500,000). Section 22(h) requires that loans to directors, executive officers and principal shareholders be made on terms and underwriting standards substantially the same as offered in comparable transactions to other persons.

Community Reinvestment Act

Under the Community Reinvestment Act and related regulations, depository institutions have an affirmative obligation to assist in meeting the credit needs of their market areas, including low and moderate-income areas, consistent with safe and sound banking practice. The Community Reinvestment Act requires the adoption by each institution of a Community Reinvestment Act statement for each of its market areas describing the depository institution's efforts to assist in its community's credit needs. Depository institutions are periodically examined for compliance with the Community Reinvestment Act and are periodically assigned ratings in this regard. Banking regulators consider a depository institution's Community Reinvestment Act rating when reviewing applications to establish new branches, undertake new lines of business, and/or acquire part or all of another depository institution. An unsatisfactory rating can significantly delay or even prohibit regulatory approval of a proposed transaction by a bank holding company or its depository institution subsidiaries.

The Gramm-Leach-Bliley Act and federal bank regulators have made various changes to the Community Reinvestment Act. Among other changes, Community Reinvestment Act agreements with private parties must be disclosed and annual 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 the GLBA may be commenced by a holding company or by a bank financial subsidiary if any of its bank subsidiaries received less than a "satisfactory" rating in its latest Community Reinvestment Act examination.

Fair Lending; Consumer Laws

In addition to the Community Reinvestment Act, other federal and state laws regulate various lending and consumer aspects of the banking business. Governmental agencies, including the Department of Housing and Urban Development, the Federal Trade Commission and the Department of Justice, have become concerned that prospective borrowers experience discrimination in their efforts to obtain loans from depository and other lending institutions. These agencies have brought litigation against depository institutions alleging discrimination against borrowers. Many of these suits have been settled, in some cases for material sums, short of a full trial.

These governmental agencies have clarified what they consider to be lending discrimination and have specified various factors that they will use to determine the existence of lending discrimination under the Equal Credit Opportunity Act and the Fair Housing Act, including evidence that a lender discriminated on a prohibited basis, evidence that a lender treated applicants differently based on prohibited factors in the absence of evidence that the treatment was the result of prejudice or a conscious intention to discriminate, and evidence that a lender applied an otherwise neutral non-discriminatory policy uniformly to all applicants, but the practice had a discriminatory effect, unless the practice could be justified as a business necessity.

Banks and other depository institutions also are subject to numerous consumer-oriented laws and regulations. These laws, which include the Truth in Lending Act, the Truth in Savings Act, the Real Estate Settlement Procedures Act, the Electronic Funds Transfer Act, the Equal Credit Opportunity Act, and the Fair Housing Act, require compliance by depository institutions with various disclosure requirements and requirements regulating the availability of funds after deposit or the making of some loans to customers.

Gramm-Leach-Bliley Act of 1999

The GLBA covers a broad range of issues, including a repeal of most of the restrictions on affiliations among depository institutions, securities firms and insurance companies. The following description summarizes some of its significant provisions.

The GLBA permits unrestricted affiliations between banks and securities firms. It also permits bank holding companies to elect to become financial holding companies. A financial holding company may engage in or acquire companies that engage in a broad range of financial services, including securities activities such as underwriting, dealing, investment, merchant banking, insurance underwriting, sales and brokerage activities. In order to become a financial holding company, the bank holding company and all of its affiliated depository institutions must be well-capitalized, well-managed and have at least a satisfactory Community Reinvestment Act rating.

The GLBA provides that the states continue to have the authority to regulate insurance activities, but prohibits the states in most instances from preventing or significantly interfering with the ability of a bank, directly or through an affiliate, to engage in insurance sales, solicitations or cross-marketing activities. Although the states generally must regulate bank insurance activities in a nondiscriminatory manner, the states may continue to adopt and enforce rules that specifically regulate bank insurance activities in specific areas identified under the law. Under the new law, the federal bank regulatory agencies adopted insurance consumer protection regulations that apply to sales practices, solicitations, advertising and disclosures.

The GLBA adopts a system of functional regulation under which the Federal Reserve Board is designated as the umbrella regulator for financial holding companies, but financial holding company affiliates are principally regulated by functional regulators such as the FDIC for state nonmember bank affiliates, the SEC for securities affiliates, and state insurance regulators for insurance affiliates. It repeals the broad exemption of banks from the definitions of "broker" and "dealer" for purposes of the Exchange Act, as amended. It also identifies a set of specific activities, including traditional bank trust and fiduciary activities, in which a bank may engage without being deemed a "broker," and a set of activities in which a bank may engage without being deemed a "dealer." Additionally, the new law makes conforming changes in the definitions of "broker" and "dealer" for purposes of the Investment Company Act of 1940, as amended, and the Investment Advisers Act of 1940, as amended.

The GLBA contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, both at the inception of the customer relationship and on an annual basis, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. The law provides that, except for specific limited exceptions, an institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. An institution may not disclose to a non-affiliated third party, other than to a consumer reporting agency, customer account numbers or other similar account identifiers for marketing purposes. The GLBA also provides that the states may adopt customer privacy protections that are stricter than those contained in the act.

Bank Secrecy Act

Under the Bank Secrecy Act, a financial institution is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report cash transactions involving more than $10,000 to the United States Treasury. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than $5,000 and which the financial institution knows, suspects or has reason to suspect, involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose. The USA PATRIOT Act of 2001, enacted in response to the September 11, 2001 terrorist attacks, requires bank regulators to consider a financial institution's compliance with the BSA when reviewing applications from a financial institution. As part of its BSA program, the USA PATRIOT Act also requires a financial institution to follow recently implemented customer identification procedures when opening accounts for new customers and to review lists of individuals and entities who are prohibited from opening accounts at financial institutions.

Future Regulatory Uncertainty

Because federal regulation of financial institutions changes regularly and is the subject of constant legislative debate, the Company cannot forecast how federal regulation of financial institutions may change in the future and impact its operations. Although Congress in recent years has sought to reduce the regulatory burden on financial institutions with respect to the approval of specific transactions, the Company fully expects that the financial institution industry will remain heavily regulated in the near future and that additional laws or regulations may be adopted further regulating specific banking practices.

Middleburg Trust Company

Middleburg Trust Company operates as a trust subsidiary of Middleburg Investment Group, which is a subsidiary of the Company. It is subject to supervision and regulation by the Virginia State Corporation Commission's Bureau of Financial Institutions and the Federal Reserve Board.

State and federal regulators have substantial discretion and latitude in the exercise of their supervisory and regulatory authority over Middleburg Trust Company, including the statutory authority to promulgate regulations affecting the conduct of business and the operations of Middleburg Trust Company. They also have the ability to exercise substantial remedial powers with respect to Middleburg Trust Company in the event that it determines that Middleburg Trust Company is not in compliance with applicable laws, orders or regulations governing its operations, is operating in an unsafe or unsound manner, or is engaging in any irregular practices.

Middleburg Investment Advisors

Middleburg Investment Advisors operates as a non-banking subsidiary of Middleburg Investment Group, which is a subsidiary of the Company. It is subject to supervision and regulation by the Securities and Exchange Commission under the Investment Advisors Act of 1940. The Investment Advisors Act of 1940 requires registered investment advisers to comply with numerous and pervasive obligations, including, among other things, record-keeping requirements, operational procedures, registration and reporting and disclosure obligations. State regulatory authorities also provide similar oversight and regulation.

ITEM 1A. RISK FACTORS

The Company's ("We" or "Our") operations are subject to many risks that could adversely affect our future financial condition and performance and, therefore, the market value of our securities. The risk factors applicable to us are the following:

We may not be able to successfully manage our growth or implement our growth strategies, which may adversely affect our results of operations and financial condition.

A key aspect of our business strategy is our continued growth and expansion. Our ability to continue to grow depends, in part, upon our ability to:

- open new financial service centers;
- attract deposits to those locations; and
- identify attractive loan and investment opportunities.

We may not be able to successfully implement our growth strategy if we are unable to identify attractive markets, locations or opportunities to expand in the future. Our ability to manage our growth successfully also will depend on whether we can maintain capital levels adequate to support our growth, maintain cost controls and asset quality and successfully integrate any new financial service centers into our organization.

As we continue to implement our growth strategy by opening new financial service centers, we expect to incur construction costs and increased personnel, occupancy and other operating expenses. We generally must absorb those higher expenses while we begin to generate new deposits, and there is a further time lag involved in redeploying new deposits into attractively priced loans and other higher yielding earning assets. Thus, our plans to grow could depress our earnings in the short run, even if we efficiently execute this growth.

Our future success is dependent on our ability to compete effectively in the highly competitive banking industry.

Our banking subsidiary faces vigorous competition from banks and other financial institutions, including savings and loan associations, savings banks, finance companies and credit unions for deposits, loans and other financial services in our market area. A number of these banks and other financial institutions are significantly larger than we are and have substantially greater access to capital and other resources, as well as larger lending limits and branch systems, and offer a wider array of banking services. Our non-banking subsidiary faces competition from money managers and investment brokerage firms.

To a limited extent, our banking subsidiary also competes with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies, insurance companies and governmental organizations which may offer more favorable financing than we can. Many of our non-bank competitors are not subject to the same extensive regulations that govern us. As a result, these non-bank competitors have advantages over us in providing certain services. This competition may reduce or limit our margins and our market share and may adversely affect our results of operations and financial condition.

We may incur losses if we are unable to successfully manage interest rate risk.

Our profitability will depend in substantial part upon the spread between the interest rates earned on investments and loans and interest rates paid on deposits and other interest-bearing liabilities. Changes in interest rates will affect our operating performance and financial condition in diverse ways including the pricing of securities, loans and deposits, the volume of loan originations in our mortgage banking business and the value we can recognize on the sale of mortgage and home equity loans in the secondary market. We attempt to minimize our exposure to interest rate risk, but we will be unable to eliminate it. Based on our asset/liability position at December 31, 2007, a rise in interest rates would reduce our net interest income in the short term. Our net interest spread will depend on many factors that are partly or entirely outside our control, including competition, federal economic, monetary and fiscal policies, and economic conditions generally.

Our concentration in loans secured by real estate may increase our credit losses, which would negatively affect our financial results.

We offer a variety of secured loans, including commercial lines of credit, commercial term loans, real estate, construction, home equity, consumer and other loans. Many of our loans are secured by real estate (both residential and commercial) in our market area. At December 31, 2007, approximately 35.4% and 38.9% of our $644.8 million total loan portfolio were secured by commercial and residential real estate, respectively. A major change in the real estate market, such as deterioration in the value of this collateral, or in the local or national economy, could adversely affect our clients' ability to pay these loans, which in turn could negatively impact us. While we are in one of the fastest growing real estate markets in the United States, risk of loan defaults and foreclosures are unavoidable in the banking industry, and we try to limit our exposure to this risk by monitoring our extensions of credit carefully. We cannot fully eliminate credit risk, and as a result credit losses may occur in the future.

We may be adversely affected by economic conditions in our market area.

Our banking operations are located primarily in the Virginia counties of Loudoun, Fairfax and Fauquier. Because our lending is concentrated in this market, we will be affected by the general economic conditions in the greater Washington, D.C. metropolitan area. Changes in the economy may influence the growth rate of our loans and deposits, the quality of the loan portfolio and loan and deposit pricing. A significant decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond our control would impact the demand for banking products and services generally, which could negatively affect our financial condition and performance.

A loss of our senior officers could impair our relationship with our customers and adversely affect our business.

Many community banks attract customers based on the personal relationships that the banks' officers and customers establish with each other and the confidence that the customers have in the officers. We depend on the performance of our senior officers. These officers have many years of experience in the banking industry and have numerous contacts in our market area. The loss of the services of any of our senior officers, or the failure of any of them to perform management functions in the manner anticipated by our board of directors, could have a material adverse effect on our business. Our success will be dependent upon the board's ability to attract and retain quality personnel, including these individuals. We do not carry key man life insurance on our senior officers.

Many of the loans in our loan portfolio are too new to show any sign of problems.

Due to the economic growth in our market area and the opening of new financial service centers, a significant portion of our loans have been originated in the past several years, and 30.2% were originated in the last 18 months. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process known as 'seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Although we believe we have conservative underwriting standards, it is more difficult to assess the future performance of the loan portfolio due to the recent origination of many of the loans. Thus, there can be no assurance that charge-offs in the future periods will not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required.

If we need additional capital in the future to continue our growth, we may not be able to obtain it on terms that are favorable. This could negatively affect our performance and the value of our common stock.

Our business strategy calls for continued growth. We anticipate that we will be able to support this growth through the generation of additional deposits at new branch locations as well as investment opportunities. However, we may need to raise additional capital in the future to support our continued growth and to maintain our capital levels. Our ability to raise capital through the sale of additional securities will depend primarily upon our financial condition and the condition of financial markets at that time. We may not be able to obtain additional capital in the amounts or on terms satisfactory to us. Our growth may be constrained if we are unable to raise additional capital as needed.

Our profitability and the value of your investment may suffer because of rapid and unpredictable changes in the highly regulated environment in which we operate.

We are subject to extensive supervision by several governmental regulatory agencies at the federal and state levels. Recently enacted, proposed and future banking legislation and regulations have had, and will continue to have, or may have a significant impact on the financial services industry. These regulations, which are intended to protect depositors and not our shareholders, and the interpretation and application of them by federal and state regulators, are beyond our control, may change rapidly and unpredictably and can be expected to influence our earnings and growth. Our success depends on our continued ability to maintain compliance with these regulations. Some of these regulations may increase our costs and thus place other financial institutions that are not subject to similar regulation in stronger, more favorable competitive positions.

Revenue from our mortgage lending investment is sensitive to changes in economic conditions, decreased economic activity, a slowdown in the housing market or higher interest rates and may adversely impact our profits.

Maintaining our revenue stream from our investment in Southern Trust Mortgage is dependent upon its ability to originate loans and sell them to investors. Loan production levels are sensitive to changes in economic conditions and can suffer from decreased economic activity, a slowdown in the housing market or higher interest rates. Generally, any sustained period of decreased economic activity or higher interest rates could adversely affect Southern Trust Mortgage's mortgage originations and, consequently, reduce its income from mortgage lending activities. As a result, these conditions may ultimately adversely affect our net income.

Because we have less than a majority of the ownership interest in Southern Trust Mortgage, its management may make decisions that are not in our best interest.

We, through our bank subsidiary hold, 42.3% of the ownership interest in Southern Trust Mortgage. Because we do not own a majority of the voting rights in Southern Trust Mortgage, we are unable to control the board of directors or management. The management of Southern Trust Mortgage may make decisions that are not in our best interest and reduce the value of either our investment or the revenue stream that it provides through mortgage operations. If this occurs, it may adversely affect our net income and our balance sheet.

Banking regulators have broad enforcement power, but regulations are meant to protect depositors, and not investors.

The Company is subject to supervision by several governmental regulatory agencies. Bank regulations, and the interpretation and application of them by regulators, are beyond our control, may change rapidly and unpredictably and can be expected to influence earnings and growth. In addition, these regulations may limit the Company's growth and the return to investors by restricting activities such as the payment of dividends, mergers with, or acquisitions by, other institutions, investments, loans and interest rates, interest rates paid on depositors and the creation of financial service centers. Information on the regulations that impact the Company are included in "Supervision and Regulation" beginning on page 10 above. Although these regulations impose costs on the Company, they are intended to protect depositors, and should not be assumed to protect the interest of shareholders. The regulations to which we are subject may not always be in the best interest of investors.

Trading in our common stock has been sporadic and volume has been light. As a result, shareholders may not be able to quickly and easily sell their common stock.

Although our common stock trades on the Nasdaq Capital Market and a number of brokers offer to make a market in common stock on a regular basis, trading volume to date has been limited and there can be no assurance that an active and liquid market for the common stock will develop.

Our directors and officers have significant voting power.

Our directors and officers beneficially own 16.5% of our common stock and may purchase additional shares of our common stock by exercising vested stock options. By voting against a proposal submitted to shareholders, the directors and officers may be able to make approval more difficult for proposals requiring the vote of shareholders such as mergers, share exchanges, asset sales and amendment to the Company's articles of incorporation.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company has adopted a business model whereby all of its financial services will be available at each branch, known as a financial service center location. The financial service centers are larger than most traditional retail branches in order to allow commercial, mortgage, retail and wealth management personnel and services to be readily available to serve clients.

The headquarters building of the Company and the Bank, which also serves as a financial service center, was completed in 1981 and is a two-story building of brick construction, with approximately 18,000 square feet of floor space, located at 111 West Washington Street, Middleburg, Virginia 20117. The office operates nine teller windows, including three drive-up facilities and one stand-alone automatic teller machine. The Bank owns the headquarters building.

The Purcellville facility was purchased in 1994. Renovations to double the size of the facility for the conversion into a financial service center were completed during 2005. The new facility is a one-story building with a basement of brick construction, with approximately 6,400 square feet of floor space, located at 431 East Main Street, Purcellville, Virginia 20132. The office operates five teller windows, a client service desk, two drive-up facilities and one drive-up automatic teller machine. The Bank owns this building.

The Catoctin Circle, Leesburg facility was completed in 1997 and is a two-story building of brick construction, with approximately 6,000 square feet of floor space, located at 102 Catoctin Circle, S.E., Leesburg, Virginia 20175. The office operates five teller windows, including three drive-up facilities and one drive-up automatic teller machine. The Bank also owns this building.

The Fort Evans Road, Leesburg facility was completed in July 2002 and is a one-story building of brick construction with approximately 3,500 square feet of floor space, located at 211 Fort Evans Road, NE, Leesburg, Virginia 20176. The office operates five teller windows, including three drive-up facilities and one drive-up automatic teller machine. The Bank owns this building. The Bank is in the process of constructing a new facility near the Fort Evans Road, Leesburg facility with the intention of relocating the Financial Service Center and ultimately selling the Fort Evans Road, Leesburg facility.

The Leesburg limited service facility, located at 200 North King Street, was leased beginning April 1999. The leased space consists of 200 square feet with one teller window and a stand-alone automated teller machine. Transactions in this location are limited to paying and receiving teller functions. The initial term of this lease was five years, with two additional renewal periods of five years each. The lease is in the first renewal period and will expire March 31, 2008. The annual lease expense associated with this location is $6,400.

The Ashburn facility was relocated to 43325 Junction Plaza Ashburn, Virginia 20147 in January 2008 and is a one-story building of brick construction with approximately 4,000 square feet of floor space. The office is a financial service center with three drive-up facilities and a drive-up automated teller machine. The Bank owns this building, but leases the land upon which it resides. The initial term of the lease is 25 years, expiring October 5, 2032, with two five-year renewal options. The annual lease expense associated with this location is $325,000. The Bank is considering sub-leasing the original Ashburn office location at 20955 Professional Plaza, Suite 100, Ashburn, Virginia 20147. The initial term of this lease is 15 years, expiring May 31, 2014, with two five-year renewal options. The annual lease expense associated with this location is $101,000.

The Reston facility opened in November 2004 and consists of a one-story building of brick construction with approximately 3,500 square feet of floor space, located at 1779 Fountain Drive, Reston, Virginia, 20190. The office is a financial service center with three double-stack drive-up facilities and a drive-up automated teller machine. The Bank owns this building but leases the land upon which it resides. The initial term of the lease is 15 years, expiring October 31, 2019, with two five-year renewal options. The annual lease expense associated with this location is $231,000.

The Warrenton facility opened in October 2005 and consists of one-story building of brick construction with approximately 3,500 square feet of floor space, located at 530 Blackwell Road, Warrenton, Virginia, 20186. The office is a financial service center with a non-visible teller line with four tellers, a client service desk, a remote teller station, two drive-up lanes and a drive-up automated teller machine. The Bank leases this office. The initial term of the lease is 20 years, expiring February 28, 2025, with four five-year renewal options. The annual lease expense associated with this location is $154,000.

The Leesburg Operations Center building was completed June 2002. The building is Class A office space and is home to the deposit operations, loan operations, credit administration, mortgage banking and data processing departments of the Bank and the information technology, human resources, training, and marketing departments of the Company. This building is a two story building with 18,000 square feet of floor space, located at 106 Catoctin Circle, SE, Leesburg, Virginia 20175. The Bank owns this building.

Middleburg Trust Company leases its main office at 821 East Main Street in Richmond, Virginia. The lease is for a term of 15 years and will expire November 30, 2015, with no renewal options. The annual lease expense associated with this location is $190,000.

Middleburg Trust Company opened an office at 5372 Discovery Park Boulevard, Williamsburg, Virginia 23188 in February 2008. The office is approximately 2,250 square feet. The lease is for a term of five years, expiring January 14, 2012, with a five-year renewal option. The annual lease expense associated with this location is $49,500.

Middleburg Investment Advisors leases its main office at 1901 North Beauregard Avenue, Alexandria, Virginia, 22311. The lease, which was entered into in May 2003, is for a term of 5 years, with no renewal options. The space includes approximately 3,500 square feet of office space and 900 square feet of storage. The annual lease expense associated with this location is $113,000.

The Marshall limited service facility, located at 8383 West Main Street, was leased beginning December 1, 2006. The leased space consists of 328 square feet. Transactions in this location are limited to paying and receiving teller functions. The initial term of this lease is three years, with two additional renewal periods of one year each. The lease is in its initial term and will expire November 30, 2009. The annual lease expense associated with this location is $10,800.

All of the Company's properties are in good operating condition and are adequate for the Company's present and anticipated future needs.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Company is a party or of which the property of the Company is subject.

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

No matters were submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders of the Company.

PART II

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

Shares of the Company's Common Stock trade on the Nasdaq Capital Market under the symbol "MBRG." The high and low sale prices per share for the Company's Common Stock for each quarter of 2006 and 2007, and the amount of cash dividends per share in each quarter, are set forth in the table below.

Market Price and Dividends

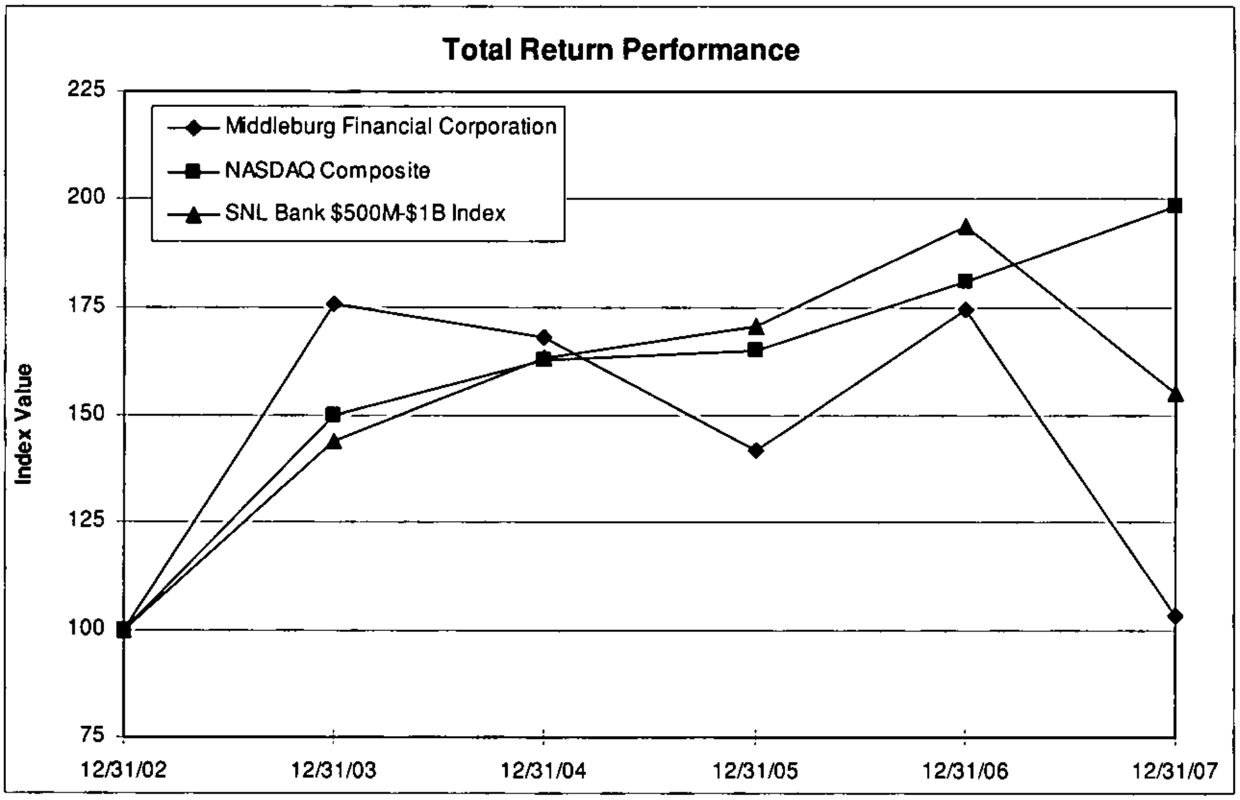
	Sales Price ($)		Dividends ($)
	High	Low	
2006:			
1st quarter	36.25	30.63	0.19
2nd quarter	35.73	29.55	0.19
3rd quarter	34.75	30.65	0.19
4th quarter	36.99	33.50	0.19
2007:			
1st quarter	36.55	32.00	0.19
2nd quarter	34.00	31.64	0.19
3rd quarter	32.80	28.43	0.19
4th quarter	31.50	19.61	0.19

As of March 13, 2007, the Company had approximately 483 shareholders of record and at least 2,072 additional beneficial owners of shares of Common Stock.

The Company historically has paid cash dividends on a quarterly basis. The final determination of the timing, amount and payment of dividends on the Common Stock is at the discretion of the Company's Board of Directors and will depend upon the earnings of the Company and its subsidiaries, principally the Bank, the financial condition of the Company and other factors, including general economic conditions and applicable governmental regulations and policies as discussed in Item 1., "Business – Supervision and Regulation – Payment of Dividends," above. The Company or the Bank has paid regular cash dividends for over 216 consecutive quarters.

The Company did not repurchase any shares of Common Stock during the fourth quarter of 2007. On June 16, 1999, the Company adopted a repurchase plan, which authorized management to purchase up to $5 million of the Company's common stock from time to time. Subsequently, the plan was amended to authorize management to purchase up to 100,000 shares and to eliminate the $5 million limit. As of March 13, 2008, the Company has 24,084 shares eligible for repurchase under the plan.

The following graph compares the cumulative total return to the shareholders of the Company for the last five fiscal years with the total return on the NASDAQ Composite Index and the SNL $500M-$1B Bank Index as reported by SNL Financial LC, assuming an investment of $100 in shares of Common Stock on December 31, 2002, and the reinvestment of dividends.



	Period Ending					
Index	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/30/06**	**12/31/07**
Middleburg Financial Corporation	100.00	175.51	167.98	141.79	174.40	103.26
NASDAQ Composite	100.00	150.01	162.89	165.13	180.85	198.68
SNL $500M-$1B Bank Index	100.00	144.19	163.41	170.41	193.81	155.31

ITEM 6. SELECTED FINANCIAL DATA

The following consolidated summary sets forth the Company's selected financial data for the periods and at the dates indicated. The selected financial data have been derived from the Company's audited financial statements for each of the five years that ended December 31, 2007, 2006, 2005, 2004 and 2003.

	Years Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except ratios and per share data)				
Balance Sheet Data:					
Assets (1)	$841,400	$772,305	$739,911	$606,121	$509,404
Loans, net	638,692	564,750	520,511	345,703	258,112
Securities	129,142	135,435	149,591	174,388	194,581
Deposits	588,769	570,599	551,432	424,879	369,986
Shareholders' equity	77,904	77,898	53,476	51,562	47,327
Average shares outstanding, basic (2)	4,506	4,132	3,803	3,804	3,770
Average shares outstanding, diluted (2)	4,578	4,223	3,906	3,920	3,867
Income Statement Data:					
Interest income	$49,628	$45,398	$36,212	$26,667	$24,780
Interest expense	22,441	18,487	11,596	6,033	5,576
Net interest income	27,187	26,911	24,616	20,634	19,204
Provision for loan losses	1,786	499	1,744	796	575
Net interest income after provision for loan losses	25,401	26,412	22,872	19,838	18,629
Non-interest income	7,832	8,420	8,945	8,476	9,499
Securities gains (losses)	(130)	(305)	76	118	422
Non-interest expense	29,455	23,210	21,920	18,559	16,887
Income before income taxes	3,648	11,317	9,973	9,873	11,663
Income taxes	584	3,299	2,799	2,781	3,444
Net income	3,064	8,018	7,174	7,092	8,219
Per Share Data: (2)					
Net income, basic	$0.68	$1.94	$1.89	$1.86	$2.18
Net income, diluted	0.67	1.90	1.84	1.81	2.13
Cash dividends	0.76	0.76	0.76	0.76	0.69
Book value at period end	17.21	17.29	14.05	13.54	12.44
Tangible book value at period end	16.06	16.06	12.50	11.90	10.72
Asset Quality Ratios:					
Non-performing loans to period end loans	1.03%	0.00%	0.02%	0.00%	0.14%
Non-performing loans to total assets	0.79	0.00	0.00	0.00	0.07
Net charge-offs (recoveries) to average loans	0.04	0.01	0.00	(0.01)	0.11
Allowance for loan losses to loans outstanding at end of period	1.10	0.98	0.98	0.98	1.00
Selected Ratios:					
Return on average assets	0.38%	1.05%	1.05%	1.29%	1.78%
Return on average equity	3.83	12.25	13.65	14.31	18.27
Dividend payout	111.76	39.41	40.21	40.76	31.69
Efficiency ratio (3)	81.25	63.85	63.32	61.92	57.00
Net interest margin (4)	3.77	3.97	4.11	4.29	4.75
Equity to assets	9.26	10.09	7.23	8.51	9.30
Tier 1 risk-based capital	11.55	12.79	11.10	14.20	14.40
Total risk-based capital	12.59	13.70	12.00	15.10	15.60
Leverage	9.44	10.26	8.70	10.20	11.30

(1) Amounts have been adjusted to reflect the application of FASB Interpretation No. 46R. The common equity portion of the Trust Preferred entities has been deconsolidated and is included in Assets for all years reported.

(2) Amounts have been adjusted to reflect a two-for-one stock split of the Common Stock in October 17, 2003.

(3) The efficiency ratio is a key performance indicator in the Company's industry. The Company monitors this ratio in tandem with other key indicators for signals of potential trends that should be considered when making decisions regarding strategies related to such areas as asset liability management, business line development, and growth and expansion planning. The ratio is computed by dividing non-interest expense by the sum of net interest income on a tax equivalent basis and non-interest income, net of any securities gains or losses. It is a measure of the relationship between

operating expenses to earnings. Net interest income on a tax equivalent basis for the years ended December 31, 2007, 2006, 2005, 2004, and 2003 were $28,190,000, $27,705,000, $25,435,000, $21,507,000, and $20,135,000. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation – Critical Accounting Policies," below for additional information.

(4) Net interest margin is calculated by dividing tax equivalent net interest income by total average earning assets.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion provides information about the major components of the results of operations and financial condition, liquidity, and capital resources of the Company. This discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and Notes to Consolidated Financial Statements. It should also be read in conjunction with the "Caution About Forward Looking Statements" section at the end of this discussion.

Overview

The Company is headquartered in Middleburg, Virginia and conducts its primary operations through two wholly owned subsidiaries, the Bank and Middleburg Investment Group. The Bank is a community bank serving Loudoun, Fairfax and Fauquier County, Virginia with seven full service facilities and two limited service facilities. Middleburg Investment Group is a non-bank holding company with two wholly owned subsidiaries, Middleburg Trust Company and Middleburg Investment Advisors. Middleburg Trust Company is a trust company headquartered in Richmond, Virginia. Middleburg Investment Advisors is a registered investment advisor headquartered in Alexandria, Virginia serving clients in 24 states.

The Company generates a significant amount of its income from the net interest income earned by the Bank. Net interest income is the difference between interest income and interest expense. Interest income depends on the amount of interest-earning assets outstanding during the period and the interest rates earned thereon. The Bank's cost of money is a function of the average amount of deposits and borrowed money outstanding during the period and the interest rates paid thereon. The quality of the assets further influences the amount of interest income lost on non-accrual loans and the amount of additions to the allowance for loan losses. Middleburg Investment Group's subsidiaries, Middleburg Trust Company and Middleburg investment Advisors, generate fee income by providing investment management and trust services to its clients. Investment management and trust fees are generally based upon the value of assets under management, and, therefore can be significantly affected by fluctuation in the values of securities caused by changes in the capital markets.

In 2007, the Company continued to realize growth in both assets and net interest income. At December 31, 2007, total assets reached $841.4 million, an increase of 9.0%. Total assets at December 31, 2006 were $772.3 million. Total loans grew 13.2% from $569.5 million at December 31, 2006 to $644.8 million at December 31, 2007. Total deposits increased $18.2 million from $570.6 million at December 31, 2006 to $588.8 million at December 31, 2007. Lower cost deposits, including demand checking, interest checking and savings decreased $20.1 million or 5.4% from the year ended December 31, 2006 to $358.5 million for the year ended December 31, 2007. Higher cost time deposits, excluding brokered certificates of deposit, increased 14.6% or $24.4 million from the year ended December 31, 2006 to $190.8 million for the year ended December 31, 2007. The shift in the composition of deposits from lower cost demand deposits to higher cost time deposits contributed to the 26.5% increase in interest expense. The net interest margin, a non-GAAP measure more fully described in the "Results of Operations" section below, declined from 3.97% for the year ended December 31, 2006 to 3.77% for the year ended December 31, 2007. The decline is attributed to the 41 basis point increase in yield of total interest bearing liabilities as compared to the 15 basis point increase, on a tax equivalent basis, in yield of total interest bearing assets. Total non-interest expenses grew at a rate of 26.9% for the 2007 year compared to 2006. The increase of $6.2 million is primarily the result of a $5.0 million impairment charge the Company recognized on its investment in Southern Trust Mortgage. Although, the Company is focused on keeping growth in non-interest expense low in the future, because of the Company's plans for growth and expansion, it is expected that non-interest expense will continue to grow in the future at a rate similar to previous years, excluding the impairment in equity investment in Southern Trust Mortgage. The Company remains well capitalized with risk-adjusted core capital and total capital ratios well above the regulatory minimums. Asset quality measures also remained consistently strong throughout the year. The loan loss provision increased, when compared to 2006, as a result of loan growth as well as increases in non-performing loans.

With the creation of Middleburg Investment Group, the Company has expanded the integration of Middleburg Trust Company, Middleburg Investment Advisors and the Bank's investment services department into a more focused wealth management program for all of the Company's clients. The Company intends to make each of its wealth management services available within all of its financial service centers. Also, through the affiliation with Southern Trust Mortgage, the Bank plans to continue to increase its loan portfolio by purchasing high credit quality, low loan to value first deeds of trusts on residential property. The Bank plans to continue its focus on low cost deposit growth with advertising campaigns and product development. Management has developed a growth strategy that includes expansion into Sterling, Virginia (Loudoun County) in 2008. Other markets under consideration include Herndon and Chantilly (Fairfax County). Management will look for key lenders in those markets to join the Company's team to generate earning assets and awareness prior to the facility opening.

The Company is not aware of any current recommendations by any regulatory authorities that, if they were implemented, would have a material effect on the registrant's liquidity, capital resources or results of operations.

Recent Financial Developments

In February 2008, one of the owners of an interest in Southern Trust Mortgage withdrew from the partnership. The departure of the owner changed the Bank's ownership percentage to 42.3%. Prior to the departure, the Bank's ownership interest was 41.8%.

In February 2008, the Company opened a $5.0 million line of credit to Southern Trust Mortgage. As of March 13, 2008, $4.0 million was outstanding. The line of credit is secured by residential construction loans.

In February 2008, the Company opened a trust facility in Williamsburg, Virginia. The Company is currently leasing a 2,250 square foot office. The annual lease expense associated with this location is $49,500.

In January 2008, the Company relocated the Ashburn Financial Service Center. The new facility is owned by the Company, while the land is leased. The annual lease expense associated with this location is $325,000. The Company has closed the old Ashburn Financial Service Center and is currently considering options, including subleasing the facility. The annual lease expense associated with the old location is $101,000.

During the third quarter of 2007, the Company offered a high yield, short-term certificate of deposit. The certificate of deposit promotion resulted in $36.0 million in new deposits.

The Company had $25.1 million in brokered deposits at December 31, 2006. During the second quarter of 2007 the Company issued $26.8 million in brokered certificates of deposit. At December 31, 2007, $39.4 million of the brokered certificates remained outstanding. These new brokered certificates of deposits contributed to a 2.5% increase in total deposits at December 31, 2007.

In May 2007, the Company purchased an additional bank-owned life insurance policy on the Company's President in the amount of $485,000.

In February 2007, the Company opened a limited service facility in Marshall, Virginia. The Company is currently leasing a 900 square foot office. The Company plans to expand its presence in this community in the future.

Critical Accounting Policies

General

The financial condition and results of operations presented in the Consolidated Financial Statements, the accompanying Notes to the Consolidated Financial Statements and this section are, to some degree, dependent upon the accounting policies of the Company. The selection and application of these accounting policies involve judgments, estimates, and uncertainties that are susceptible to change.

Presented below is discussion of those accounting policies that management believes are the most important ("Critical Accounting Policies") to the portrayal and understanding of the Bank's financial condition and results of operations. The Critical Accounting Policies require management's most difficult, subjective and complex judgments about matters that are inherently uncertain. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of materially different financial condition or results of operations is a reasonable likelihood.

Allowance for Loan Losses

The Bank monitors and maintains an allowance for loan losses to absorb an estimate of probable losses inherent in the loan portfolio. The Bank maintains policies and procedures that address the systems of controls over the following areas of maintenance of the allowance: the systematic methodology used to determine the appropriate level of the allowance to provide assurance they are maintained in accordance with accounting principles generally accepted in the United States of America; the accounting policies for loan charge-offs and recoveries; the assessment and measurement of impairment in the loan portfolio; and the loan grading system.

The Bank evaluates various loans individually for impairment as required by Statement of Financial Accounting Standard ("SFAS") No. 114, *Accounting by Creditors for Impairment of a Loan*, and SFAS No. 118, *Accounting by Creditors for Impairment of a Loan – Income Recognition and Disclosures*. Loans evaluated individually for impairment include non-performing loans, such as loans on non-accrual, loans past due by 90 days or more, restructured loans and other loans selected by management. The evaluations are based upon discounted expected cash flows or collateral valuations. If the evaluation shows that a loan is individually impaired, then a specific reserve is established for the amount of impairment. If a loan evaluated individually is not impaired, then the loan is assessed for impairment under SFAS No. 5, *Accounting for Contingencies*, with a group of loans that have similar characteristics.

For loans without individual measures of impairment, the Bank makes estimates of losses for groups of loans as required by SFAS No. 5. Loans are grouped by similar characteristics, including the type of loan, the assigned loan grade and the general collateral type. A loss rate reflecting the expected loss inherent in a group of loans is derived based upon estimates of default rates for a given loan grade, the predominant collateral type for the group and the terms of the loan. The resulting estimate of losses for groups of loans are adjusted for relevant environmental factors and other conditions of the portfolio of loans, including: borrower and industry concentrations; levels and trends in delinquencies, charge-offs and recoveries; changes in underwriting standards and risk selection; level of experience, ability and depth of lending management; and national and local economic conditions.

The amount of estimated impairment for individually evaluated loans and groups of loans is added together for a total estimate of loans losses. This estimate of losses is compared to the allowance for loan losses of the Bank as of the evaluation date and, if the estimate of losses is greater than the allowance, an additional provision to the allowance would be made. If the estimate of losses is less than the allowance, the degree to which the allowance exceeds the estimate is evaluated to determine whether the allowance falls outside a range of estimates. If the estimate of losses is below the range of reasonable estimates, the allowance would be reduced by way of a credit to the provision for loan losses. The Bank recognizes the inherent imprecision in estimates of losses due to various uncertainties and variability related to the factors used, and therefore a reasonable range around the estimate of losses is derived and used to ascertain whether the allowance is too high. If different assumptions or conditions were to prevail and it is determined that the allowance is not adequate to absorb the new estimate of probable losses, an additional provision for loan losses would be made, which amount may be material to the Consolidated Financial Statements.

Intangibles and Goodwill

The Company has approximately $5.2 million in intangible assets and goodwill at December 31, 2007, a decrease of $338,000 since December 31, 2006. On April 1, 2002, the Company acquired Middleburg Investment Advisors, a registered investment advisor, for $6.0 million. Approximately $5.9 million of the purchase price was allocated to intangible assets and goodwill. In connection with this investment, a purchase price valuation (using FAS 141 and 142 as a guideline) was completed to determine the appropriate allocation to identified intangibles. The valuation concluded that approximately 42% of the purchase price was related to the acquisition of customer relationships with an amortizable life of 15 years. Another 19% of the purchase price was allocated to a non-compete agreement with an amortizable life of 7 years. The remainder of the purchase price has been allocated to goodwill. Approximately $1.0 million of the $5.2 million in intangible assets and goodwill at December 31, 2007 is attributable to the Company's investment in Middleburg Trust Company.

The purchase price allocation process requires management estimates and judgment as to expectations for the life span of various customer relationships as well as the value that key members of management add to the success of the Company. For example, customer attrition rates were determined based upon assumptions that the past five years may predict the future. If the actual attrition rates, among other assumptions, differed from the estimates and judgments used in the purchase price allocation, the amounts recorded in the Consolidated Financial Statements could result in a possible impairment of the intangible assets and goodwill or require acceleration in the amortization expense.

In addition, FAS 142 requires that goodwill be tested annually using a two-step process. The first step is to identify a potential impairment. The second step measures the amount of the impairment loss, if any. Processes and procedures have been identified for the two-step process.

When the Company completes its ongoing review of the recoverability of intangible assets and goodwill, factors that are considered important to determining whether impairment might exist include loss of customers acquired or significant withdrawals of the assets currently under management and/or early retirement or termination of key members of management. Any changes in the key management estimates or judgments could result in an impairment charge, and such a charge could have an adverse effect on the Company's financial condition and results of operations.

Tax-Equivalent Interest Income

Tax-equivalent interest income is gross interest income adjusted for the non-taxable interest income earned on loans, municipal securities and corporate securities, which are dividend-received deduction eligible. The effective tax rate of 34% is used in calculating tax equivalent income related to loans, municipal securities and corporate securities. A dividend-received deduction of 70% is used in determining tax-equivalent income related to corporate securities, as well.

Results of Operations

Net Income

Net income for 2007 was $3.1 million, a decrease of 61.8% from the 2006 net income of $8.0 million. Net income for 2006 increased 11.8% from 2005's net income of $7.2 million. For 2007, earnings per diluted share were $0.67, which includes a loss, net of tax of $0.72 per diluted share as the result of the impairment in equity investment in Southern Trust Mortgage, compared to $1.90 and $1.84 for 2006 and 2005, respectively.

Return on average assets ("ROA") measures how effectively the Company employs its assets to produce net income. The ROA for the Company decreased to 0.38% for the year ended December 31, 2007 from 1.05% for same period in 2006. The ROA for 2005 was 1.05%. Return on average equity ("ROE"), another measure of earnings performance, indicates the amount of net income earned in relation to the total average equity capital invested. ROE decreased to 3.8% for the year ended December 31, 2007. ROE was 12.3% and 13.7% for the years ended December 31, 2006 and 2005, respectively.

The following table reflects an analysis of the Company's net interest income using the daily average balances of the Company's assets and liabilities as of December 31. Non-accrual loans are included in the loan average balances.

Average Balances, Income and Expenses, Yields and Rates
(Years Ended December 31)

	2007			2006			2005		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
				(Dollars in thousands)					
Assets:									
Securities:									
Taxable	$ 86,776	$ 4,524	5.21%	$ 113,978	$ 5,641	4.95%	$ 131,007	$ 5,649	4.31%
Tax-exempt (1) (2)	41,524	2,947	7.10%	31,992	2,330	7.28%	32,773	2,404	7.34%
Total securities	$ 128,300	$ 7,471	5.82%	$ 145,970	$ 7,971	5.46%	$ 163,780	$ 8,053	4.92%
Loans									
Taxable	$ 615,198	$ 42,958	6.98%	$ 550,805	$ 38,156	6.93%	$ 453,566	$ 28,940	6.38%
Tax-exempt (1)	27	3	11.11%	77	7	9.09%	163	13	7.98%
Total loans	$ 615,225	$ 42,961	6.98%	$ 550,882	$ 38,163	6.93%	$ 453,729	$ 28,953	6.38%
Federal funds sold	3,195	160	4.98%	953	48	5.04%	546	18	3.30%
Interest bearing deposits in other financial institutions	730	39	5.34%	235	11	4.68%	250	7	2.80%
Total earning assets	$ 747,450	$ 50,631	6.77%	$ 698,040	$ 46,193	6.62%	$ 618,305	$ 37,031	5.99%
Less: allowances for credit losses	(6,005)			(5,377)			(4,331)		
Total nonearning assets	70,433			68,387			64,736		
Total assets	$ 811,878			$ 761,050			$ 678,710		
Liabilities:									
Interest-bearing deposits:									
Checking	$ 140,045	$ 3,427	2.45%	$ 141,160	$ 3,289	2.33%	$ 95,837	$ 1,111	1.16%
Regular savings	52,167	1,021	1.96%	54,242	934	1.72%	44,784	555	1.24%
Money market savings	54,558	618	1.13%	67,305	665	0.99%	88,939	597	0.67%
Time deposits:									
$100,000 and over	118,964	5,958	5.01%	97,140	4,442	4.57%	77,995	2,584	3.31%
Under $100,000	86,083	3,773	4.38%	62,609	2,365	3.78%	60,764	1,677	2.76%
Total interest-bearing deposits	$ 451,817	$ 14,797	3.27%	$ 422,456	$ 11,695	2.77%	$ 368,319	$ 6,524	1.77%
Federal Home Loan Bank Advances	51,659	2,825	5.47%	34,795	1,830	5.26%	30,563	1,083	3.54%
Securities sold under agreements to repurchase	43,769	1,868	4.27%	36,838	1,529	4.15%	34,696	934	2.69%
Long-term debt	60,018	2,926	4.88%	68,814	3,390	4.93%	65,759	3,021	4.59%
Federal funds purchased	447	25	5.59%	860	44	5.12%	987	34	3.44%
Total interest-bearing liabilities	$ 607,710	$ 22,441	3.69%	$ 563,763	$ 18,488	3.28%	$ 500,324	$ 11,596	2.32%
Non-interest bearing liabilities									
Demand deposits	117,942			127,943			122,978		
Other liabilities	6,128			3,918			2,667		
Total liabilities	$ 731,780			$ 695,624			$ 625,969		
Shareholders' equity	80,098			65,426			52,741		
Total liabilities and Shareholders' equity	$ 811,878			$ 761,050			$ 678,710		
Net interest income		$ 28,190			$ 27,705			$ 25,435	
Interest rate spread			3.08%			3.34%			3.67%
Interest expense as a percent of average earning assets			3.00%			2.65%			1.88%
Net interest margin			3.77%			3.97%			4.11%

(1) Income and yields are reported on tax equivalent basis assuming a federal tax rate of 34%.
(2) Income and yields include dividends on preferred securities that are 70% excludable for tax purposes.

Net Interest Income

Net interest income represents the principal source of earnings of the Company. Net interest income is the amount by which interest generated from earning assets exceeds the expense of funding those assets. Changes in volume and mix of interest earning assets and interest bearing liabilities, as well as their respective yields and rates, have a significant impact on the level of net interest income.

Net interest income on a fully tax-equivalent basis was $28.2 million for the year ended December 31, 2007. This is an increase of 1.7% over the $27.7 million reported for the same period in 2006. Net interest income for 2006 increased 9.1% over the $25.4 million reported for 2005. The increase in net interest income in 2006 resulted primarily from the 12.9% growth in average earning assets. The net interest margin decreased 20 basis points to 3.77% in 2007. The net interest margin is calculated by dividing tax equivalent net interest income by total average earning assets. Because a portion of interest income earned by the Company is nontaxable, the tax equivalent net interest income is considered in the calculation of this ratio. Tax equivalent net interest income is calculated by adding the tax benefit realized from interest income that is nontaxable to total interest income then subtracting total interest expense. The tax rate utilized in calculating the tax benefit for each of 2007, 2006 and 2005 is 34%. The reconciliation of tax equivalent net interest income, which is not a measurement under accounting principles generally accepted in the United States, to net interest income is reflected in the table below.

Reconciliation of Net Interest Income to Tax Equivalent Net Interest Income

	For the Year Ended December 31,		
(in thousands)	2007	2006	2005
GAAP measures:			
Interest Income – Loans	$ 42,960	$ 38,161	$ 28,949
Interest Income - Investments & Other	6,668	7,237	7,263
Interest Expense – Deposits	14,797	11,694	6,524
Interest Expense - Other Borrowings	7,644	6,793	5,072
Total Net Interest Income	$ 27,187	$ 26,911	$ 24,616
Plus:			
NON-GAAP measures:			
Tax Benefit Realized on Non-Taxable Interest Income - Loans	$ 1	$ 2	$ 4
Tax Benefit Realized on Non-Taxable Interest Income - Municipal Securities	1,002	792	807
Tax Benefit Realized on Non-Taxable Interest Income - Corporate Securities	--	--	8
Total Tax Benefit Realized on Non-Taxable Interest Income	$ 1,003	$ 794	$ 819
Total Tax Equivalent Net Interest Income	$ 28,190	$ 27,705	$ 25,435

The increase in net interest income in 2007 resulted from the 13.1% growth in loans, net of deferred costs and allowance for loan losses. The average balance in the securities portfolio decreased by $17.7 million, while the tax-equivalent yield increased 36 basis points to 5.82%. The average loan portfolio volume increased 11.7% during 2007. The average yield on the loan portfolio increased five basis points. Loan demand was strongest in the second and third quarters of 2007.

The average balance of interest bearing accounts (interest bearing checking, savings and money market accounts) declined 6.1% to $246.8 million at December 31, 2007. The cost of such funding increased 19 basis points over the year ended December 31, 2006. The average balance of interest bearing checking decreased 0.8% with a corresponding cost increase of 12 basis points. The average balances in time deposits increased 28.4%, while the interest expense associated with these deposits increased 43.0% or $2.9 million. The Company offered a high yield, short-term certificate of deposit in the third quarter of 2007. As of December 31, 2007 the interest expense related to this certificate of deposit was $896,000. The increase of time deposits greater than $100,000 was $21.8 million. These deposits typically have higher cost when compared to all other interest bearing deposits and do not include brokered certificates of deposit.

During 2007, the Company's reliance on other funding sources increased on average by $14.6 million with a related increase in interest expense of $851,000. The Company increased its average Federal Home Loan Bank advances by $16.9 million. Much of the increase in borrowings was related to the funding the growth in the Bank's loan portfolio. Total interest expense for 2007 was $22.4 million, an increase of $4.0 million compared to the total interest expense for 2006.

Management believes that the net interest margin could continue to compress during 2008. Based on conservative internal interest rate risk models and the assumption of a sustained declining rate environment, the Company expects net interest income to trend downward slightly throughout the next 12 months as loan related assets reprice and funding costs gradually decline. The expected decrease to net interest income could be 1.79% or $501,000 in a 12 month period of falling rates of 200 basis points. It is anticipated that increased growth in earning assets will help mitigate the above mentioned impact to the Company's net interest margin. The Asset/Liability Management Committee continues to focus on various strategies to maintain the net interest margin.

The average yield on the loan portfolio increased 55 basis points in 2006. Growth in the loan portfolio combined with the increase in loan yields to produce a 31.8% increase in loan interest income. Loan demand continued to remain strong and the Bank added commercial lenders in markets in which the Bank opened new facilities.

The average balance in the securities portfolio decreased by $17.8 million in 2006, while the tax-equivalent yield increased 54 basis points to 5.46%. The decrease in balance resulted in a decrease in income of $82,000 or 1.0% for the year ended December 31, 2006, compared with the same period in 2005. The increase in yield helped offset the impact of the decrease in the portfolio balance.

The average balance of low cost interest bearing accounts (interest bearing checking, savings and money market accounts) grew 14.4% to $262.7 million at December 31, 2006. The cost of such funding increased 87 basis points during the year ended December 31, 2006. The average balances in certificates of deposit increased 15.1%, while the cost of such funding increased 119 basis points or $2.5 million as a result of the steady rise in short term interest rates.

During 2006, the Company's reliance on other funding sources increased on average by $9.3 million with a related increase in interest expense of only $1.7 million. The Company increased its average long term borrowings (from the Federal Home Loan Bank) by $4.2 million. Much of the increase in borrowings was related to the funding the growth in the Bank's loan portfolio. Total interest expense for 2006 was $18.5 million, an increase of $6.9 million compared to the total interest expense for 2005.

The following table analyzes changes in net interest income attributable to changes in the volume of interest-bearing assets and liabilities compared to changes in interest rates. The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each. Non-accruing loans are included in the average outstanding loans.

Volume and Rate Analysis
(Tax Equivalent Basis)
(Years Ended December 31)

	2007 vs. 2006 Increase (Decrease) Due to Changes in:			2006 vs. 2005 Increase (Decrease) Due to Changes in:		
	(In Thousands)					
	Volume	Rate	Total	Volume	Rate	Total
Earning Assets:						
Securities:						
Taxable	$ (1,439)	$ 322	$ (1,117)	$ (66)	$ 58	$ (8)
Tax-exempt (1) (2)	675	(58)	617	(57)	(17)	(74)
Loans:						
Taxable	4,494	308	4,802	6,584	2,632	9,216
Tax-exempt (1)	(6)	2	(4)	(8)	2	(6)
Federal funds sold	113	(1)	112	18	12	30
Interest bearing deposits in other financial institutions	26	2	28	--	4	4
Total earning assets	$ 3,863	$ 575	$ 4,438	$ 6,471	$ 2,691	$ 9,162
Interest-Bearing Liabilities:						
Interest checking	$ (26)	$ 164	$ 138	$ 695	$ 1,483	$ 2,178
Regular savings deposits	(34)	121	87	133	246	379
Money market deposits	(207)	160	(47)	(72)	140	68
Time deposits						
$100,000 and over	1,065	451	1,516	729	1,129	1,858
Under $100,000	986	422	1,408	52	636	688
Total interest bearing deposits	$ 1,784	$ 1,318	$ 3,102	$ 1,537	$ 3,634	$ 5,171
Federal Home Loan Bank Advances	$ 920	$ 75	$ 995	$ 166	$ 581	$ 747
Securities sold under agreement to repurchase	295	44	339	61	534	595
Long-term debt	(429)	(35)	(464)	144	225	369
Federal funds purchased	(24)	5	(19)	(4)	14	10
Total interest bearing liabilities	$ 2,546	$ 1,407	$ 3,953	$ 1,904	$ 4,988	$ 6,892
Change in net interest income	$ 1,317	$ (832)	$ 485	$ 4,567	$ (2,297)	$ 2,270

(1) Income and yields are reported on tax equivalent basis assuming a federal tax rate of 34%.
(2) Income and yields include dividends on preferred securities that are 70% excludable for tax purposes.

Provision for Loan Losses

The Company's loan loss provision during 2007 and 2006 was $1.8 million and $499,000, respectively. The Company is committed to making loan loss provisions that maintain an allowance that adequately reflects the risk inherent in the loan portfolio. This commitment is more fully discussed in the "Asset Quality" section below.

Non-interest Income

Non-interest income has been and will continue to be an important factor for increasing profitability. Management recognizes this and continues to review and consider areas where non-interest income can be increased. Non-interest income includes fees generated by the retail banking and investment services departments of the Bank as well as by Middleburg Trust Company and Middleburg Investment Advisors. The Bank's share of income from its equity investment in Southern Trust Mortgage is also included in non-interest income. Non-interest income (excluding securities gains and losses) decreased 7.0% to $7.8 million for the year ended December 31, 2007, compared to $8.4 million for 2006.

Service charges, which include deposit fees and certain loan fees, increased 5.7% to $2.6 million for the year ended December 31, 2007, compared to $2.5 million for the year ended December 31, 2006. ATM fees and overdraft fees increased 9.9% and 9.8%, respectively for the year ended December 31, 2007 compared to December 31, 2006. Investment advisory fees from Middleburg Investment Advisors were $2.2 million for the year ended December 31, 2007. Investment advisory fees were relatively unchanged for the year ended December 31, 2007 compared to the 2006 investment advisory fee amount of $2.2 million. Middleburg Investment Advisors is predominantly a fixed income money manager that bases its fee upon the market value of the accounts under management. Assets under management at Middleburg Investment Advisors decreased 4.7% or $27.3 million to $555.2 million at December 31, 2007. Middleburg Trust Company produced fiduciary fees that increased 11.2% to $2.2 million for the year ended December 31, 2007, compared to $1.9 million for the same period in 2006. Assets under management at Middleburg Trust Company decreased 7.1% or $45.8 million to $602.3 million at December 31, 2007. The decline in assets under management at both Middleburg Investment Advisors and Middleburg Trust Company resulted mostly from distributions, not account closings. Assets under management include intercompany assets of $97.8 million. Fiduciary fees are also based primarily upon the market value of the accounts under administration.

Investment services fees decreased to $535,000 for the year ended December 31, 2007, compared to $554,000 for the year ended December 31, 2006. The Company currently has two financial consultants who are available to each of the Company's clients, compared to three financial consultants in 2006. The Company is currently recruiting to fill open positions within this department.

The equity earnings in Southern Trust Mortgage decreased 144.6% or $983,000 from $680,000 for the year ended December 31, 2006 to a loss of $303,000 for the 2007 year. Southern Trust Mortgage closed $822.7 million in loans for the year ended 2007, compared to $938.8 million in loans for the year ended 2006, with 56.4% of its production attributable to purchase money financings in 2007 compared with 58.8% in 2006. Mortgage banking operations were negatively impacted by decreased production levels and narrowed margins resulting from shifts in the mix of retail and wholesale loan volume. Additionally, earnings were negatively impacted by increased operational expenses with the hiring of several loan producers and support staff with the objective of increasing future loan production levels. Southern Trust Mortgage experienced an increase in problem and repurchased loans during the third quarter of 2007. Accordingly, Southern Trust Mortgage's earnings were also negatively impacted by the need to establish an adequate allowance for estimated loan losses during the fourth quarter of 2007 in connection with these loans. The majority of the problem loans are due to credit risk in their construction portfolio and early payment defaults of loans sold to investors, both of which are issues facing mortgage bankers in the current economic climate. Southern Trust Mortgage had taken a proactive approach in addressing the problem loans. In early 2007, Southern Trust Mortgage implemented credit overlays or increased underwriting thresholds and re-negotiated early payment default periods. These steps have helped mitigate the risks inherent in its portfolio. Southern Trust Mortgage continues to analyze the problem loans and its construction portfolio as well as refine its methodology to estimate the expected loss and required reserve.

Income earned from the Bank's $11.3 million investment in Bank Owned Life Insurance (BOLI) contributed $450,000 to total other income for the year ended December 31, 2007. The Company purchased $6.0 million of BOLI in the third quarter of 2004, $4.8 million in the fourth quarter of 2004 and an additional 485,000 in the second quarter of 2007 to help subsidize increasing employee benefit costs and expenses related to the restructuring of its supplemental retirement plans.

Non-interest income (excluding securities gains and losses) decreased 5.9% to $8.4 million for the year ended December 31, 2006, compared to $8.9 million for 2005.

Service charges, which include deposit fees and certain loan fees, increased 6.8% to $2.5 million for the year ended December 31, 2006, compared to $2.3 million for the year ended December 31, 2005. Investment advisory fees of $2.2 million for the year ended December 31, 2006 are from Middleburg Investment Advisors. Investment advisory fees increased 2.5% for the year ended December 31, 2006 compared to 2005 investment advisory fee amount. Middleburg Trust Company produced fiduciary fees that increased 6.6% to $1.9 million for the year ended December 31, 2006, compared to $1.8 million for the same period in 2005.

Investment sales fees decreased to $554,000 for the year ended December 31, 2006, compared to $676,000 for the year ended December 31, 2005. At December 31, 2006, the Company had three financial consultants available to the Company's clients, compared to four financial consultants in 2005.

Non-interest income (excluding securities gains and losses) for 2005 increased 5.5% to $8.9 million from $8.5 million in 2004.

Non-interest Income
(Years Ended December 31)

	2007	2006	2005
		(In thousands)	
Service charges, commissions and fees	$ 2,619	$ 2,477	$ 2,319
Trust fee income	2,162	1,945	1,824
Investment advisory fee income	2,193	2,169	2,116
Commission on investment sales	535	554	676
Equity earnings in affiliate	(303)	680	1,529
Bank-owned life insurance	450	436	458
Other operating income	176	159	23
Non-interest income	$ 7,832	$ 8,420	$ 8,945
Gains (losses) on securities available for sale, net	(130)	(305)	76
Total non-interest income	$ 7,702	$ 8,115	$ 9,021

Non-interest Expense

Non-interest expense increased 26.9% to $29.5 million for the year ended December 31, 2007, compared to $23.2 million for 2006. Non-interest expense includes employee-related costs, occupancy and equipment expense and other overhead costs. In the fourth quarter of 2007, the Company recognized impairment on its investment in Southern Trust Mortgage of $5.0 million, which is included in the $6.2 million increase in non-interest expense. When taken as a percentage of total average assets for the year ended December 31, 2007, the expense was 3.6% of total average assets, an increase from 3.0% for the same period in 2006.

Salaries and employee benefits decreased $133,000 to $13.6 million when comparing the year ended December 31, 2007 to the same period in 2006. The Company had 176 full-time equivalent employees at December 31, 2007 compared with 168 at December 31, 2006.

Net occupancy and equipment expenses increased 9.1% to $3.3 million for the year ended December 31, 2007, compared to $3.0 million for the same period in 2006. As growth efforts continue to progress, the Company anticipates higher levels of occupancy expense to be incurred.

Advertising expense decreased 6.5% in 2007 to $535,000, compared to $572,000 in 2006.

Computer operations expense increased from $982,000 for the year ended December 31, 2006 to $1.1 million for the year ended December 31, 2007. The increase is related to increased maintenance costs of in-house core operating and support systems resulting mostly from the Company's growth.

Advisory fees expense increased 17.3% to $359,000 for the year ended December 31, 2007. The increase is the result of additional costs related to the valuation of the Company's investment in Southern Trust Mortgage.

Other tax expense increased 27.4% or $137,000 to $637,000 for the year ended December 31, 2007 from $500,000 for the year ended December 31, 2006. The increase was mainly the result of the Bank's franchise tax, which is paid to the state in lieu of an income tax and is based on the Bank's equity capital. The Bank's equity capital increased as a result of the stock offering in 2006.

Impairment on equity investment is due to a one-time reduction in the carrying value of the Company's equity investment in Southern Trust Mortgage. As previously disclosed in the September 30, 2007 Form 10-Q, the Company engaged an independent firm to assist in valuing its investment in Southern Trust Mortgage. As a result of the valuation, the Company recognized a non-cash impairment charge of $5.0 million.

The Company experienced increases in various other expense categories including audit fees, legal fees, educational expenses, recruiting expenses and travel expenses. Additionally, approximately $247,000 in due diligence costs was recognized in other expense during the fourth quarter of 2007 as potential financial service center locations became no longer viable or desirable.

Non-interest expense increased 5.9% to $23.2 million in 2006. The growth in salary expense was 3.4% during 2006. Additions to staff to support retail branching, commercial lending and wealth management contributed to the increase in salaries and employee benefits during 2006. Additions to building and premises contributed to the 8.1% increase in net occupancy and equipment expenses for the year ended December 31, 2006, compared to the same period in 2005. Advertising expense increased 49.0% in 2006 to $572,000. Computer operations expense increased from $868,000 for the year ended December 31, 2005 to $982,000 for the year ended December 31, 2006. The increase is related to additional software for the set-up of the new non-bank holding company, Middleburg Investment Group and client relationship management software. Other tax expense increased 7.5% to $500,000 for the year ended December 31, 2006. The increase was mainly the result of the Bank's franchise tax, which is paid to the state in lieu of an income tax and is based on the Bank's equity capital.

Total non-interest expenses increased 18.1% to $21.9 million in 2005. Included in 2005 other operating expenses were one time charges related to severance payments, reductions in cash surrender values related to split-dollar insurance policies and some equity adjustments for ownership in BI Investments, the Company's broker-dealer.

Non-interest Expenses
(Years Ended December 31)

	2007	2006	2005
		(In thousands)	
Salaries and employee benefits	$ 13,557	$ 13,690	$ 13,240
Net occupancy and equipment expense	3,300	3,024	2,798
Advertising	535	572	384
Computer operations	1,075	982	868
Advisory fees	359	306	280
Other taxes	637	500	465
Impairment in affiliate	5,012	--	--
Other operating expenses	4,980	4,136	3,885
Total	$ 29,455	$ 23,210	$ 21,920

Income Taxes

Reported income tax expense was $584,000 for the year ended December 31, 2007, compared to $3.3 million for the same period in 2006. The effective tax rate for 2007 was 16.0% compared to 29.2% in 2006 and 28.1% in 2005. Note 10 of the Company's Consolidated Financial Statements provides a reconciliation between the amount of income tax expense computed using the federal statutory rate and the Company's actual income tax expense. Also included in Note 10 to the Consolidated Financial Statements is information regarding the principal items giving rise to deferred taxes for the two years ended December 31, 2007.

Summary of Financial Results by Quarter

The following table summarizes the major components of the Company's results of operations for each quarter of the last three fiscal years.

	2007 Quarter Ended			
(Dollars in thousands except per share)	**March 31**	**June 30**	**September 30**	**December 31**
Net interest income	$ 6,809	$ 6,7776	$ 6,795	$ 6,807
Net interest income after provision for loan losses	6,657	6,369	6,516	5,859
Non-interest income	2,057	2,352	2,166	1,257
Net securities gains (losses)	--	--	--	(130)
Non-interest expense	5,719	6,139	6,077	11,520
Income before income taxes	2,995	2,582	2,605	(4,534)
Net income	2,146	1,865	1,888	(2,835)
Diluted earnings per common share	$ 0.47	$ 0.41	$ 0.41	$ (0.62)
Dividends per common share	0.19	0.19	0.19	0.19

(Dollars in thousands except per share)	2006 Quarter Ended March 31	June 30	September 30	December 31
Net interest income	$ 6,611	$ 6,717	$ 6,786	$ 6,797
Net interest income after provision for loan losses	6,361	6,604	6,731	6,716
Non-interest income	2,091	2,251	2,213	1,865
Net securities gains (losses)	--	1	--	(306)
Non-interest expense	5,546	5,869	5,589	6,206
Income before income taxes	2,906	2,987	3,355	2,069
Net income	2,048	2,102	2,336	1,532
Diluted earnings per common share	$ 0.52	$ 0.54	$ 0.52	$ 0.32
Dividends per common share	0.19	0.19	0.19	0.19

(Dollars in thousands except per share)	2005 Quarter Ended March 31	June 30	September 30	December 31
Net interest income	$ 5,623	$ 6,107	$ 6,352	$ 6,534
Net interest income after provision for loan losses	5,151	5,438	6,035	6,248
Non-interest income	1,976	2,285	2,628	2,056
Net securities gains (losses)	-	(21)	273	(176)
Non-interest expense	5,120	5,315	5,559	5,926
Income before income taxes	2,007	2,387	3,377	2,202
Net income	1,409	1,737	2,409	1,619
Diluted earnings per common share	$ 0.36	$ 0.45	$ 0.62	$ 0.41
Dividends per common share	0.19	0.19	0.19	0.19

Financial Condition

Assets, Liabilities and Shareholders Equity

The Company's total assets were $841.4 million as of December 31, 2007 up $69.1 million or 9.0% from the $772.3 million level at December 31, 2006. Securities decreased $6.3 million or 4.7% from 2006 to 2007. Loans, net of allowance for loan losses and deferred loan costs, increased by $73.9 million or 13.1% from 2006 to 2007. Total liabilities were $763.5 million as of December 31, 2007, compared to $694.4 million as of December 31, 2006. The increase in borrowings and other liabilities of $50.9 million was offset by the increase in deposits of $18.2 million. Total shareholders' equity at year end 2007 and 2006 was $77.9 million and $77.9 million, respectively.

Loans

The Company's loan portfolio is its largest and most profitable component of earning assets, totaling 82.3% of average earning assets. In 2007, the Company placed greater focus to maintaining high credit quality loans and increasing loan yields. The tax equivalent yield on loans increased five basis points to 6.98% while non-accrual loans and loans past due more than 90 days was less than 1.04% of average loans. The Company continues to focus on loan portfolio growth and diversification as a means of increasing earnings. Total loans were $644.8 million at December 31, 2007, an increase of 13.2% from December 31, 2006's total of $569.5 million.

Total loans increased 8.5% from $524.8 million at December 31, 2005 to $569.5 million at December 31, 2006. The total loan to deposit ratio increased to 109.5% at December 31, 2007, compared to 99.8% at December 31, 2006 and 95.2% at December 31, 2005.

Loan Portfolio
(At December 31)

	2007	2006	2005	2004	2003
			(In thousands)		
Commercial, financial and agricultural	$ 46,482	$ 37,501	$ 28,388	$ 27,162	$ 20,360
Real estate construction	96,576	69,033	88,312	45,503	30,239
Real estate mortgage:					
Residential (1-4 family)	202,822	189,341	174,998	114,418	83,919
Home equity lines	48,039	39,670	35,880	21,247	11,275
Non-farm, non-residential (1)	228,217	216,232	177,198	125,284	100,655
Agricultural	2,476	2,473	2,894	3,135	2,441
Consumer installment	20,237	15,253	17,128	12,075	11,828
Total Loans	$ 644,849	$ 569,503	$ 524,798	$ 348,824	$ 260,717
Add: Deferred loan costs (2)	936	829	856	297	-
Less: Allowance for loan losses	7,093	5,582	5,143	3,418	2,605
Net loans	$ 638,692	$ 564,750	$ 520,511	$ 345,703	$ 258,112

(1) This category generally consists of commercial and industrial loans where real estate constitutes a source of collateral.
(2) The Company implemented SFAS No. 91 in 2004.

At December 31, 2007, residential real estate (1-4 family) portfolio loans constituted 31.5% of total loans and increased $13.5 million during the year. Real estate construction loans consist primarily of pre-sold 1-4 family residential loans along with a marginal amount of commercial construction loans. Real estate construction loans increased to $96.6 million at December 31, 2007 and represent 15.0% of the total loan portfolio. The Company's one time closing construction/permanent loan product competes successfully in a high growth market like Loudoun County because the Company is local and can respond quickly to inspections and construction draw requests. Non-farm, non-residential real estate loans are typically owner-occupied commercial buildings. Non-farm, non-residential loans were 35.4% of the total loan portfolio at December 31, 2007. The increase in the non-farm, non-residential real estate loans is the result of the Company's diversification strategy. The branch network has helped to support the loan portfolio diversification, such as increased commercial real estate loans. Home equity lines and agricultural real estate loans were 7.5% and 0.4% of total loans, respectively, at December 31, 2007.

The Company's commercial, financial and agricultural loan portfolio consists of secured and unsecured loans to small businesses. At December 31, 2007, these loans comprised 7.2% of the total loan portfolio. This portfolio increased 24.0% in 2007 to $46.5 million. The Company's market area, Loudoun County, had been identified as one of the fastest growing counties with the fastest rate of job creation in the country. The market's growth has contributed to the improved local economy, commercial spending and therefore the Company's increased commercial loan demand. Consumer installment loans primarily consist of unsecured installment credit and account for 3.1% of the total loan portfolio.

Consistent with its focus on providing community-based financial services, the Company generally does not extend loans outside its principal market area. The Company's market area for its lending services encompasses Fairfax, Fauquier and Loudoun Counties, where it operates full service financial centers.

The Company's unfunded loan commitments totaled $97.4 million at December 31, 2007 and $103.3 million at December 31, 2006. The decrease in the amount of unfunded commitments is attributed to the decline in real estate construction credit line products.

At December 31, 2007, the Company had no concentration of loans in any one industry in excess of 10% of its total loan portfolio. However, because of the nature of the Company's market, loan collateral is predominantly real estate.

The following table reflects the maturity distribution of selected loan categories:

Remaining Maturities of Selected Loan Categories
(At December 31, 2007)

	Commercial, Financial and Agricultural	Real Estate Construction
	(In thousands)	
Within 1 year	$ 5,976	$ 56,280
Variable Rate:		
1 to 5 years	$ 23,143	$ 11,428
After 5 years	749	574
Total	$ 23,897	$ 12,002
Fixed Rate:		
1 to 5 years	$ 12,806	$ 27,245
After 5 years	3,803	1,049
Total	$ 16,609	$ 28,294
Total Maturities	$ 46,482	$ 96,576

Asset Quality

The Company has policies and procedures designed to control credit risk and to maintain the quality of its loan portfolio. These include underwriting standards for new originations and ongoing monitoring and reporting of asset quality and adequacy of the allowance for loan losses. There were $6.6 million total non-performing assets, which consist of non-accrual loans, restructured loans and foreclosed property at December 31, 2007. This is an increase of $6.6 million from the December 31, 2006 balance of $0. The increase is in the category of non-accrual loans, which are loans with payments that are typically more than 90 days past due. Non-performing assets were $88,000 at December 31, 2005.

Non-performing Assets

Loans are placed on non-accrual status when collection of principal and interest is doubtful, generally when a loan becomes 90 days past due. There are three negative implications for earnings when a loan is placed on non-accrual status. First, all interest accrued but unpaid at the date that the loan is placed on non-accrual status is either deducted from interest income or written off as a loss. Second, accruals of interest are discontinued until it becomes certain that both principal and interest can be repaid. Finally, there may be actual losses that require additional provisions for loan losses to be charged against earnings. For real estate loans, upon foreclosure, the balance of the loan is transferred to "Other Real Estate Owned" ("OREO") and carried at the lower of the outstanding loan balance or the fair market value of the property based on current appraisals and other current market trends, less selling costs. If a write down of the OREO property is necessary at the time of foreclosure, the amount is charged-off against the allowance for loan losses. A review of the recorded property value is performed in conjunction with normal loan reviews, and if market conditions indicate that the recorded value exceeds the fair market value, additional write downs of the property value are charged directly to operations.

Non-performing Assets
(At December 31)

	2007	2006	2005	2004	2003
			(Dollars in thousands)		
Non-accrual loans	$ 6,635	$ -	$ 88	$ 1	$ 365
Restructured loans	-	-	-	-	-
Foreclosed property	-	-	-	-	-
Total non-performing assets	$ 6,635	$ -	$ 88	$ 1	$ 365
Accruing loans greater than 90 days past due	$ 30	$ 19	$ 31	$ -	$ -
Allowance for loan losses to non-performing assets	107%	0%	5844%	341800%	714%
Non-performing assets to period end loans	1.03%	0.00%	0.02%	0.00%	0.14%

During 2007 and 2006, approximately $240,000 and $0, respectively, in additional interest income would have been recorded if the Company's non-accrual loans had been current and in accordance with their original terms.

At December 31, 2007, the Bank had $1.3 million in potential problem loans not included in its impaired loan disclosure in the notes to the financial statements, which the Bank defines as loans in which management has information about possible credit problems of borrowers that causes serious doubts as to the ability of the borrowers to comply with the present loan payment terms and would require disclosure regardless of status.

The allowance for loan losses was 107% of non-performing loans at December 31, 2007 as the Bank had $6.6 million in non-performing assets on that date. At December 31, 2006 and 2005 the allowance for loan losses was 0% and 5,844% of non-performing loans, respectively. Management evaluates non-performing loans relative to their collateral value and makes appropriate reductions in the carrying value of those loans based on that review.

Allowance For Loan Losses

For a discussion of the Company's accounting policies with respect to the allowance for loan losses, see "Critical Accounting Policies – Allowance for Loan Losses" above.

The following table depicts the transactions, in summary form, that occurred to the allowance for loan losses in each year presented:

Allowance for Loan Losses
(Years Ended December 31)

	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Balance, beginning of period	$ 5,582	$ 5,143	$ 3,418	$ 2,605	$ 2,307
Loans charged off:					
Commercial, financial, and agricultural	76	-	5	31	-
Real estate construction	-	-	-	-	-
Real estate mortgage	-	-	-	-	-
Consumer installment	263	112	74	137	304
Total loans charged off	$ 339	$ 112	$ 79	$ 168	$ 304
Recoveries:					
Commercial, financial, and agricultural	$ -	$ -	$ 5	$ 57	$ 2
Real estate construction	-	-	-	-	-
Real estate mortgage	-	-	-	67	-
Consumer installment	64	52	55	61	25
Total recoveries	$ 64	$ 52	$ 60	$ 185	$ 27
Net charge offs (recoveries)	275	60	19	(17)	277
Provision for loan losses	1,786	499	1,744	796	575
Balance, end of period	$ 7,093	$ 5,582	$ 5,143	$ 3,418	$ 2,605
Ratio of allowance for loan losses to loans outstanding at end of period	1.10%	0.98%	0.98%	0.98%	1.00%
Ratio of net charge offs to average loans outstanding during period	0.04%	0.01%	0.00%	-0.01%	0.11%

The allowance for loan losses was $7.1 million at December 31, 2007, an increase of $1.5 million from $5.6 million at December 31, 2006. During 2007, the Bank increased its provision to the allowance for loan losses in response to the loan growth experienced during the year and the increase in non-performing loans. The allowance was $5.1 million at December 31, 2005. In 2007, the Company's net charge-offs increased $215,000 from the previous year's net charge-offs of $60,000. Net charge-offs as a percentage of average loans were 0.04% and 0.01% for 2007 and 2006, respectively. The provision for loan losses was $1.8 million for 2007 and $499,000 for 2006.

The following table shows the balance and percentage of the Company's allowance for loan losses allocated to each major category of loan:

Allocation of Allowance for Loan Losses
(At December 31)

	Commercial, Financial, Agricultural		Real Estate Construction		Real Estate Mortgage		Consumer	
	Allowance for Loan Losses	Percent of Loan in Category to Total Loans	Allowance for Loan Losses	Percent of Loan in Category to Total Loans	Allowance for Loan Losses	Percent of Loan in Category to Total Loans	Allowance for Loan Losses	Percent of Loan in Category to Total Loans
	(Dollars in thousands)							
2007	$ 943	7.21%	$ 1,392	14.98%	$ 4,099	74.67%	$ 659	3.14%
2006	$ 771	6.58%	$ 964	12.12%	$ 3,642	78.62%	$ 205	2.68%
2005	$ 620	5.40%	$ 869	16.80%	$ 3,392	74.54%	$ 262	3.26%
2004	$ 640	7.79%	$ 114	13.04%	$ 2,441	75.71%	$ 223	3.46%
2003	$ 498	7.81%	$ 103	11.60%	$ 1,857	76.05%	$ 147	4.54%

The Company has allocated the allowance according to the amount deemed reasonably necessary to provide for the possibility of losses being incurred within each of the above categories of loans. The allocation of the allowance as shown in the table above should not be interpreted as an indication that loan losses in future years will occur in the same proportions that they may have in prior years or that the allocation indicates future loan loss trends. Additionally, the proportion allocated to each loan category is not the total amount that may be available for the future losses that could occur within such categories since the total allowance is a general allowance applicable to the total portfolio.

Securities

The Company manages its investment securities portfolio consistent with established policies that include guidelines for earnings, rate sensitivity, liquidity and pledging needs. The Company holds bonds issued from the Commonwealth of Virginia and its political subdivisions with an aggregate market value of $6.5 million at December 31, 2007. The aggregate holdings of these bonds approximate 8.3% of the Company's shareholders' equity.

The Company accounts for securities under Financial Accounting Standards Board ("FASB") Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. This standard requires classification of investments into three categories, "held to maturity" ("HTM"), "available for sale" ("AFS"), or "trading," as further defined in Note 1 to the Company's Consolidated Financial Statements. The Company does not maintain a trading account and has classified no securities in this category. HTM securities are required to be carried on the financial statements at amortized cost. AFS securities are carried on the financial statements at fair value. The unrealized gains or losses, net of deferred income taxes, are reflected in shareholders' equity. The HTM classification places restrictions on the Company's ability to sell securities or to transfer securities into the AFS classification. Since the Company desires the flexibility to respond to changing balance sheet needs through investment portfolio management, it has chosen to classify only a small portion of its portfolio in this category. At December 31, 2007, 0.5% of the portfolio was classified as HTM.

The Company holds in its loan and securities portfolios investments that adjust or float according to changes in "prime" lending rate. These holdings are not considered speculative but instead necessary for good asset/liability management.

The carrying value of the securities portfolio was $129.1 million at December 31, 2007, a decrease of $6.3 million or 4.7% from the carrying value of $135.4 million at December 31, 2006. The market value of the

AFS securities at December 31, 2007 was $128.4 million. The unrealized loss on the AFS securities was $1.7 million at December 31, 2007. This loss was offset by the December 31, 2007 unrealized gain of $959,000. The net market value loss at December 31, 2007 is reflective of the continued rise in market interest rates. The net unrealized loss on the AFS securities was $682,000 at December 31, 2006.

Investment Securities Portfolio
(Years Ended December 31)

The carrying values of securities held to maturity at the dates indicated were as follows:

	2007	2006	2005
		(In thousands)	
State and political subdivision obligations	$ 674	$ 1,229	$ 1,699
Mortgage-backed securities	32	33	34
	$ 706	$ 1,262	$ 1,733

The carrying values of securities available for sale at the dates indicated were as follows:

	2007	2006	2005
		(In thousands)	
U.S. Government securities	$ 343	$ 1,465	$ 9,228
State and political subdivision obligations	41,937	38,827	30,145
Mortgage-backed securities	72,914	74,343	87,577
Other securities	13,242	19,538	20,908
	$ 128,436	$ 134,173	$ 147,858

The following table indicates the increased return experienced by the Company during 2007 on a tax equivalent basis. Given the flattened yield curve, the 2007 purchasing strategy, for securities other than mortgage-backed securities, was focused on replacing called and matured securities with longer term municipal securities. Mortgage-backed securities, which make up 56.5% and 54.9% of the securities portfolio on December 31, 2007 and 2006, respectively, had a decrease in overall balance of $1.5 million from $74.4 million at December 31, 2006 to December 31, 2007. The focus on mortgage-backed securities was in maintaining the maturity distribution and proportion with regard to the total securities portfolio without sacrificing yields. Securities with maturities greater than five years total $74.9 million, of which $44.5 million or 59.4% are mortgage-backed securities with a weighted average yield of 5.0%. The securities portfolio represents approximately 17.2% of the average earning assets of the Company. For that reason, it is managed primarily to provide superior returns without sacrificing interest rate, market and credit risk. Secondarily, through the asset/liability process, the Company considers the securities portfolio as a liquidity source in the event that funding is needed quickly within a 30-day period of time.

Maturity Distribution and Yields of Investment Securities
Taxable-Equivalent Basis
(At December 31, 2007)

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years and Equities		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
					(Dollars in thousands)					
Securities held for investment:										
Mortgage backed securities	$ 1	6.58%	$ 6	6.59%	$ 10	6.59%	$ 15	6.55%	$ 32	6.57%
Tax-exempt securities (1)	370	7.77%	304	7.80%	-	-	-	-	674	7.80%
Total	$ 371	7.77%	$ 310	7.80%	$ 10	6.59%	$ 15	6.55%	$ 706	7.74%
Securities available for sale:										
U.S. Government securities	$ 25	4.89%	$ 148	4.37%	$ 170	5.92%	$ -	-	$ 343	5.18%
Mortgage backed securities	7,410	4.97%	21,054	4.91%	16,358	5.00%	28,092	5.00%	72,914	4.97%
Other (2)	249	4.10%	631	4.00%	304	6.05%	5,983	7.46%	7,167	6.98%
Total taxable	$ 7,684	4.94%	$ 21,833	4.88%	$ 16,832	5.02%	$ 34,075	5.43%	$ 80,432	5.15%
Tax-exempt securities (1)	4,261	7.66%	12,334	7.77%	6,397	7.17%	17,560	6.39%	40,552	7.06%
Total	$ 11,945	5.91%	$ 34,167	5.92%	$ 23,229	5.62%	$ 51,635	5.75%	$ 120,976	5.79%
Total securities (3)	$ 12,316	5.97%	$ 34,477	5.94%	$ 23,239	5.62%	$ 51,650	5.75%	$ 121,682	5.79%

(1) Yields on tax-exempt securities, which includes tax-exempt obligations of states and political subdivisions have been computed on a tax-equivalent basis assuming a federal tax rate of 34%.
(2) Includes taxable obligations of states and political subdivisions.
(3) Amounts exclude Federal Reserve Stock of $1,133,400 and Federal Home Loan Bank Stock of $6,327,100.

Other Earning Assets

The Company's average investments in federal funds sold in 2007 were $3.2 million, an increase of $2.2 million from the 2006 amounts. Average investments in federal funds sold in 2006 were $953,000.

Deposits

Deposits continue to be an important funding source and primary supply of the Company's growth. The Company's strategy has been to increase its core deposits at the same time that it is controlling its cost of funds. The maturation of the branch network, as well as increased advertising campaigns and bank mergers, have contributed to the significant growth in deposits over the last several years. By monitoring interest rates within the local market and that of alternative funding sources, the Company is able to price the deposits effectively to develop a core base of deposits in each market.

The following table is a summary of average deposits and average rates paid on those deposits:

Average Deposits and Rates Paid
(Years Ended December 31)

	2007		2006		2005	
	Amount	Rate	Amount	.Rate	Amount	Rate
			(Dollars in thousands)			
Non-interest-bearing deposits	$ 117,942		$ 127,943		$ 122,978	
Interest-bearing accounts:						
Interest checking	140,045	2.45%	141,160	2.33%	95,837	1.16%
Regular savings	52,167	1.96%	54,242	1.72%	44,784	1.24%
Money market accounts	54,558	1.13%	67,305	0.99%	88,939	0.67%
Time deposits:						
$ 100,000 and over	118,964	5.01%	97,140	4.57%	77,995	3.31%
Under $ 100,000	86,083	4.38%	62,609	3.78%	60,764	2.76%
Total interest-bearing deposits	$ 451,817	3.27%	$ 422,456	2.77%	$ 368,319	1.77%
Total	$ 569,759		$ 550,399		$ 491,297	

Average total deposits increased 3.5% during 2007, 12.0% during 2006 and 24.1% during 2005. At December 31, 2007, the average balance of non-interest bearing deposits decreased 7.8%.

The average balance in interest checking and regular savings accounts decreased 0.8% and 3.8%, respectively, during 2007. In March of 2004, the Bank developed an interest bearing product that integrates the use of the cash within client accounts at Middleburg Trust Company for overnight funding at the Bank. The overall balance of this product was $41.9 million at December 31, 2007 and is partially reflected in interest bearing deposit and partially reflected in securities sold under agreement to repurchase amounts on the balance sheet. At December 31, 2007, $37.1 million was classified as an interest bearing deposit balance.

The Company will continue to focus on core deposit growth as the primary source of liquidity and stability. The Company offers individuals and small to medium-sized businesses a variety of deposit accounts, including demand and interest checking, money market, savings and time deposit accounts. In the second quarter of 2007, the Company returned to the brokered certificate of deposit market as an alternative to long-term borrowings. The new issuances, totaling $18.8 million, have maturity dates ranging from 8 to 24 months. The Company had $39.4 million in brokered time deposits as of December 31, 2007. During the third quarter of 2007, the Company offered a high yield, short-term certificate of deposit to its markets in order to obtain deposits and broaden its client base. The certificate of deposit promotion resulted in $36.0 million in new deposits.

The following table is a summary of the maturity distribution of certificates of deposit equal to or greater than $100,000 as of December 31, 2007:

Maturities of Certificates of Deposit of $100,000 and Greater
(At December 31, 2007)

Within Three Months	Three to Six Months	Six to Twelve Months	Over One Year	Total	Percent of Total Deposits
(In thousands)					
$ 45,214	$ 50,632	$ 21,544	$ 17,537	$ 134,927	22.9%

Financial Instruments with Off-Balance-Sheet Risk and Credit Risk and Contractual Obligations

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit and interest rate swaps. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

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

A summary of the contract amount of the Bank's exposure to off-balance-sheet risk as of December 31, 2007 and 2006 is as follows:

	2007	2006
Financial instruments whose contract amounts represent credit risk:	(In thousands)	
• Commitments to extend credit	$ 97,390	$ 103,314
• Standby letters of credit	3,266	4,143

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 Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. Those lines of credit may not be drawn upon to the total extent to which the Bank is committed.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The

Bank holds certificates of deposit, deposit accounts, and real estate as collateral supporting those commitments for which collateral is deemed necessary.

A summary of the Company's contractual obligations at December 31, 2007 is as follows:

	Payment Due by Period (In thousands)				
Contractual Obligations	Total	Less than 1 Year	1-3 years	3-5 Years	More than 5 Years
Long-Term Debt Obligations	$ 110,000	$ 42,000	$ 68,000	$ --	$ --
Operating Leases	17,826	1,049	2,040	2,003	12,734
Trust Preferred Capital Notes	5,155	--	--	--	5,155
Total Obligations	$ 132,981	$ 43,049	$ 70,040	$ 2,003	$ 17,889

The Company does not have any capital lease obligations, as classified under applicable FASB statements, or other purchase or long-term obligations.

Capital Resources and Dividends

The Company has an ongoing strategic objective of maintaining a capital base that supports the pursuit of profitable business opportunities, provides resources to absorb risks inherent in its activities and meets or exceeds all regulatory requirements.

The Federal Reserve Board has established minimum regulatory capital standards for bank holding companies and state member banks. The regulatory capital standards categorize assets and off-balance sheet items into four categories that weigh balance sheet assets according to risk, requiring more capital for holding higher risk assets. The minimum ratio of qualifying total capital to risk-weighted assets is 8.0%, of which at least 4.0% must be Tier 1 capital, composed of common equity and retained earnings. The Company had a ratio of total capital to risk-weighted assets of 12.6% and 13.7% at December 31, 2007 and 2006, respectively. The ratio of Tier 1 capital to risk-weighted assets was 11.6% and 12.8% at December 31, 2007 and 2006, respectively. Both ratios exceed the minimum capital requirements adopted by the federal banking regulatory agencies.

Analysis of Capital
(At December 31)

	2007	2006
	(Dollars in thousands)	
Tier 1 Capital:		
Common stock	$ 11,316	$ 11,264
Capital surplus	23,817	23,503
Retained earnings	43,773	44,139
Trust preferred debt	5,000	5,000
Goodwill	(5,215)	(5,552)
Total Tier 1 capital	$ 78,691	$ 78,354
Tier 2 Capital:		
Disallowed trust preferred	$ -	$ -
Allowance for loan losses	7,093	5,582
Total tier 2 capital	$ 7,093	$ 5,582
Total risk-based capital	$ 85,784	$ 83,936
Risk weighted assets	$ 681,415	$ 612,812
CAPITAL RATIOS:		
Tier 1 risk-based capital ratio	11.6%	12.8%
Total risk-based capital ratio	12.6%	13.7%
Tier 1 capital to average total assets	9.4%	10.3%

As noted above, regulatory capital levels for the Company meet those established for well-capitalized institutions. While we are currently considered well-capitalized, we may from time-to-time find it necessary to access the capital markets to meet our growth objectives or capitalize on specific business opportunities.

The Company's core equity to asset ratio decreased to 9.4% at December 31, 2007, compared to 10.2% at December 31, 2006. The decrease is the result of asset growth of 8.9%, while core equity remained unchanged at December 31, 2007, when compared to 2006.

The primary source of funds for dividends paid by the Company to its shareholders is the dividends received from its subsidiaries. Federal regulatory agencies impose certain restrictions on the payment of dividends and the transfer of assets from the banking subsidiaries to the holding company. Historically, these restrictions have not had an adverse impact on the Company's dividend policy.

Short-term Borrowings

Federal funds purchased and securities sold under agreements to repurchase have been a significant source of funds for the Bank. The Company has various unused lines of credit available from certain of its correspondent banks in the aggregate amount of $147.4 million. These lines of credit, which bear interest at prevailing market rates, permit the Company to borrow funds in the overnight market, and are renewable annually subject to certain conditions. Securities sold under agreements to repurchase include an interest bearing product that the Company has developed which integrates the use of the cash within client accounts at Middleburg Trust Company for overnight funding at the Bank. This account is referred to as Tredegar Institutional Select. The overall balance of this product was $41.9 million at December 31, 2007, of which $4.8 million is included in securities sold under agreements to repurchase amounts on the balance sheet.

The following table shows the distribution of the Company's short-term borrowings and the weighted-average interest rates thereon at the end of each of the last three years. Also provided are the maximum amount of borrowings and the average amount of borrowings as well as weighted-average interest rates for the last three years.

	Federal Funds Purchased		Securities Sold Under Agreements To Repurchase		Federal Home Loan Bank Advances	
			(Dollars in Thousands)			
At December 31:						
2007	$	500	$	51,781	$	22,000
2006		--		38,474		34,000
2005		--		38,317		24,100
Weighted-average interest rate at year end:						
2007		4.25%		3.29%		5.08%
2006		0.00%		4.34%		5.42%
2005		0.00%		3.54%		4.44%
Maximum amount outstanding at any month's end:						
2007	$	1,000	$	55,736	$	97,400
2006		2,250		42,569		53,400
2005		4,600		42,937		53,200
Average amount outstanding during the year:						
2007	$	447	$	43,769	$	51,659
2006		860		36,838		34,795
2005		987		34,689		30,563
Weighted-average interest rate during the year:						
2007		5.59%		4.27%		5.47%
2006		5.12%		4.15%		5.26%
2005		3.44%		2.69%		3.54%

Liquidity

Liquidity represents an institution's ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest-bearing deposits with banks, federal funds sold, short-term investments, securities classified as available for sale and loans and securities maturing within one year. As a result of the Company's management of liquid assets and the ability to generate liquidity through liability funding, management believes the Company maintains overall liquidity sufficient to satisfy its depositors' requirements and meet its customers' credit needs.

The Company also maintains additional sources of liquidity through a variety of borrowing arrangements. The Bank maintains federal funds lines with large regional and money-center banking institutions. These available lines total approximately $8 million, none of which were outstanding at December 31, 2006. Federal funds purchased during 2007 averaged $447,000 compared to an average of $860,000 during 2006. At December 31, 2007 and 2006, the Bank had $51.8 million and $38.5 million, respectively, of outstanding borrowings pursuant to securities sold under agreement to repurchase transactions ("Repo Accounts"), with maturities of one day. The Repo Accounts are long-term commercial checking accounts with average balances that typically exceed $100,000. These accounts include $4.8 million from the non-FDIC portion of the Tredegar Institutional Select.

The Bank has a credit line in the amount of $249.9 million at the Federal Home Loan Bank of Atlanta. This line may be utilized for short and/or long-term borrowing. The Bank has utilized the credit line for short-term funding throughout 2007 with an average balance of $51.7 million.

At December 31, 2007, cash, interest-bearing deposits with financial institutions, federal funds sold, short-terms investments, securities available for sale, loans and securities maturing within one year were 27.7% of total deposits and liabilities.

Caution About Forward Looking Statements

Certain information contained in this discussion may include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are generally identified by phrases such as "the Company expects," "the Company believes" or words of similar import.

Such forward-looking statements involve known and unknown risks including, but not limited to, the following factors:

- competition with other banks and financial institutions, and companies outside of the banking industry, including those companies that have substantially greater access to capital and other resources;
- changes in interest rates and interest rate policies;
- changes in general economic and business conditions in the Company's market area;
- the ability to continue to attract low cost core deposits to fund asset growth;
- the ability to successfully manage the Company's growth or implement its growth strategies if it is unable to identify attractive markets, locations or opportunities to expand in the future;
- maintaining cost controls and asset qualities as the Company opens or acquires new facilities;
- risks inherent in making loans such as repayment risks and fluctuating collateral values;
- reliance on the Company's management team, including its ability to attract and retain key personnel;
- demand, development and acceptance of new products and services;
- problems with technology utilized by the Company;
- changing trends in customer profiles and behavior;
- changes in banking and other laws and regulations applicable to the Company;
- maintaining capital levels adequate to support the Company's growth; and
- other factors described in Item 1A, "Risk Factors," above.

Although the Company believes that its expectations with respect to the forward-looking statements are based upon reliable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates or prices such as interest rates, foreign currency exchange rates, commodity prices and equity prices. The

Company's primary market risk exposure is interest rate risk, though it should be noted that the assets under management by Middleburg Trust Company are affected by equity price risk. The ongoing monitoring and management of this risk is an important component of the Company's asset/liability management process, which is governed by policies established by its Board of Directors that are reviewed and approved every three years baring any significant changes. The Board of Directors delegates responsibility for carrying out asset/liability management policies to the Asset/Liability Committee ("ALCO") of the Bank. In this capacity, ALCO develops guidelines and strategies that govern the Company's asset/liability management related activities, based upon estimated market risk sensitivity, policy limits and overall market interest rate levels and trends.

Interest rate risk represents the sensitivity of earnings to changes in market interest rates. As interest rates change, the interest income and expense streams associated with the Company's financial instruments also change, affecting net interest income, the primary component of the Company's earnings. ALCO uses the results of a detailed and dynamic simulation model to quantify the estimated exposure of net interest income to sustained interest rate changes. While ALCO routinely monitors simulated net interest income sensitivity over a rolling two-year horizon, it also employs additional tools to monitor potential longer-term interest rate risk.

The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all assets and liabilities reflected on the Company's balance sheet. The simulation model is prepared and updated four times during each year. This sensitivity analysis is compared to ALCO policy limits, which specify a maximum tolerance level for net interest income exposure over a one-year horizon, assuming no balance sheet growth, given a 200 basis point (bp) upward shift and a 200 basis point downward shift in interest rates. A parallel and pro rata shift in rates over a 12-month period is assumed. The following reflects the range of the Company's net interest income sensitivity analysis during the fiscal years of 2007 and 2006 as compared to the 10% Board-approved policy limit.

Rate Change	2007 Estimated Net Interest Income Sensitivity		
	High	Low	Average
+ 200 bps	(3.31%)	(1.55%)	(1.50%)
- 200 bps	(2.90%)	(1.38%)	(0.23%)

Rate Change	2006 Estimated Net Interest Income Sensitivity		
	High	Low	Average
+ 200 bps	(2.77%)	(1.17%)	(2.09%)
- 200 bps	3.61%	0.58%	2.25%

At the end of 2007, the Company's final 2007 interest rate risk model indicated that in a rising rate environment of 200 basis points over a 12 month period net interest income could decrease by 3.31%. For the same time period, the final 2007 interest rate risk model indicated that, in a declining rate environment of 200 basis points over a 12 month period, net interest income could increase by 1.79%. While these numbers are subjective based upon the parameters used within the model, management believes the balance sheet is very balanced with little risk to rising rates in the future.

Since December 31, 2006, the Company's balance sheet has grown by $69.1 million. Deposit inflows, increased borrowings from the Federal Home Loan Bank and the reduction in the securities portfolio have provided the funding for the growth in the loan portfolios. Overall, the Bank continues to have minimal interest rate risks to either falling or rising interest rates. Based upon final 2007 simulation, the Bank could expect an average negative impact to net interest income of $925,000 over the next 12 months if rates rise 200 basis points. If rates were to decline 200 basis points, based upon final 2007 simulation the Bank could expect an average positive impact to net interest income of $501,000 over the next 12 months.

The Company maintains an interest rate risk management strategy that used derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility. The Company's specific goal is to lower (where possible) the cost of its borrowed funds.

The Company enters into interest rate swaps to lock in the interest cash outflows on its floating-rate debt. On December 8, 2004, the Company borrowed a $15,000,000 variable rate advance from FHLB. On that same date, the Company also entered into an interest rate swap with SunTrust Bank. The total notional amount of the swap is $15,000,000. This cash flow hedge effectively changes the variable-rate interest on the FHLB advance to a fixed-rate of interest. Under the terms of the swap (which expired December 2006), the Company paid SunTrust Bank a fixed interest rate of 3.35%. SunTrust Bank paid the Company a variable rate of interest indexed to the three month LIBOR, plus 0.02%. The interest receivable from Suntrust Bank repriced quarterly. Changes in the fair value of the interest rate swap designated as a hedging instrument of the variability of cash flows associated with the long-term debt was reported in other comprehensive income. This amount was subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on floating-rate debt obligation affects earnings. Because there were no differences between the critical terms of the interest rate swap and the hedged debt obligation, the Company determined that there was no ineffectiveness in the hedging relationship.

The preceding sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions, including the nature and timing of interest rate levels including yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment or replacement of asset and liability cashflows. While assumptions are developed based upon current economic and local market conditions, the Company cannot make any assurances about the predictive nature of these assumptions, including how customer preferences or competitor influences might change.

Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to factors such as prepayment and refinancing levels likely deviating from those assumed, the varying impact of interest rate change, caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other internal and external variables. Furthermore, the sensitivity analysis does not reflect actions that ALCO might take in response to or anticipation of changes in interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are filed as a part of this report following Item 15 below:

- Report of Independent Registered Public Accounting Firm;
- Consolidated Balance Sheets as of December 31, 2007 and 2006;
- Consolidated Statements of Income for the Years Ended December 31, 2007, 2006 and 2005;
- Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2007, 2006 and 2005;
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2007, 2006 and 2005; and
- Notes to Consolidated Financial Statements.

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

There were no changes in or disagreements with accountants on accounting and financial disclosure during the last two fiscal years.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, that are designed to ensure that information required to be disclosed in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating its disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

The management of the Company is responsible for the preparation, integrity and fair presentation of the Company's financial statements for the year ended December 31, 2007. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect management's judgments and estimates concerning the effects of events and transactions that are accounted for or disclosed.

Management is also responsible for establishing and maintaining an effective internal control structure over financial reporting. The Company's internal control over financial reporting includes those policies and procedures that pertain to the Company's ability to record, process, summarize and report reliable financial data. The internal control system contains monitoring mechanisms, and appropriate actions are taken to correct identified deficiencies. Management believes that internal controls over financial reporting, which are subject to scrutiny by management and the Company's internal auditors, support the integrity and reliability of the financial statements. Management recognizes that there are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of internal controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. In addition, because of changes in conditions and circumstances, the effectiveness of internal control over financial reporting may vary over time.

In order to insure that the Company's internal control structure over financial reporting is effective, management assessed these controls as they conformed to accounting principles generally accepted in the United States of America and related call report instructions as of December 31, 2007. This assessment was based on criteria for effective internal control over financial reporting as described in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that the Company maintained effective internal controls over financial reporting as of December 31, 2007. Management's assessment did not determine any material weakness within the Company's internal control structure.

The financial statements for the year ended December 31, 2007 have been audited by the independent registered public accounting firm of Yount, Hyde & Barbour, P.C. Personnel from that firm were given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and Committees thereof.

Management believes that all representations made to the independent registered public accounting firm auditors were valid and appropriate. The resulting report from Yount, Hyde & Barbour, P.C accompanies the financial statements.

Yount, Hyde & Barbour, P.C. has also issued an attestation report on the effectiveness of the Company's internal controls over financial reporting. That report has also been made a part of the consolidated financial statements of the Company. See Item 8, "Financial Statements and Supplementary Data," above for more information.

Changes in Internal Control over Financial Reporting

There was no change in the internal control over financial reporting that occurred during the quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Pursuant to General Instruction G(3) of Form 10-K, the information contained under the headings "Election of Directors – Nominees for Election for Terms Expiring in 2009" and " – Executive Officers Who Are Not Directors," "Security Ownership – Section 16(a) Beneficial Ownership Reporting Compliance," and "Corporate Governance and the Board of Directors – Committees of the Board – Audit Committee" and "– Code of Ethics" in the Company's Proxy Statement for the 2008 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Pursuant to General Instruction G(3) of Form 10-K, the information contained under the headings "Corporate Governance and the Board of Directors – Director Compensation" and "Executive Compensation" in the Company's Proxy Statement for the 2008 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Pursuant to General Instruction G(3) of Form 10-K, the information contained under the headings "Security Ownership – Security Ownership of Management" and "– Security Ownership of Certain Beneficial Owners" and "Executive Compensation – Equity Compensation Plans" in the Company's Proxy Statement for the 2008 Annual Meeting of Shareholders is incorporated herein by reference.

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

Pursuant to General Instruction G (3) of Form 10-K, the information contained under the heading "Executive Compensation – Transactions with Management" in the Company's Proxy Statement for the 2008 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Pursuant to General Instruction G(3) of Form 10-K, the information contained under the headings "Audit Information – Fees of Independent Public Accountants" and "– Pre-Approval Policies" in the Company's Proxy Statement for the 2008 Annual Meeting of Shareholders is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) and (2). The response to this portion of Item 15 is submitted as a separate section of this report.

(3). Exhibits:

3.1 Articles of Incorporation of the Company (restated in electronic format as of October 2, 2003), attached as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2003, incorporated herein by reference.

3.2 Bylaws of the Company (restated in electronic format as of September 28, 2005), attached as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on October 4, 2005, incorporated herein by reference.

3.3 Amendments to the Bylaws of the Company (restated in electronic format as of March 15, 2006), attached as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on March 15, 2006, incorporated herein by reference.

3.4 Amendments to the Bylaws of the Company (restated in electronic format as of November 15, 2006), attached as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on November 21, 2006, incorporated herein by reference.

10.1 Employment Agreement, dated as of January 1, 1998, between the Company and Joseph L. Boling, attached as Exhibit 10.1 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1998, incorporated herein by reference.*

10.2 Middleburg Financial Corporation 2006 Equity Compensation Plan, as amended, attached as Exhibit 10.1 to the Current Report on Form 8-K, Registration No. 000-24159, filed with the Commission on April 26, 2006, incorporated herein by reference.*

10.3 Middleburg Financial Corporation 2007 Performance Share Award Agreements.*

10.4 Middleburg Financial Corporation 2007 Restricted Share Award Agreements.*

10.5 Middleburg Financial Corporation 2006 Management Incentive Plan.*

10.6 Employment Agreement, dated as of August 15, 2007, between the Company and Gary R Shook, attached as Exhibit 10.1 to the Current Report on Form 8-K, Registration No. 000-24159, filed with the Commission on August 21, 2007, incorporated herein by reference.*

10.7 Employment Agreement, dated as of September 17, 2007, between the Company and Arch A. Moore, III, attached as Exhibit 10.1 to the Current Report on Form 8-K, Registration No. 000-24159, filed with the Commission on September 20, 2007, incorporated herein by reference.*

21.1 Subsidiaries of the Company.

23.1 Consent of Yount, Hyde & Barbour, P.C.

31.1 Rule 13a-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a) Certification of Chief Financial Officer.

32.1 Statement of Chief Executive Officer Pursuant to 18 U.S.C. § 1350.

32.2 Statement of Chief Financial Officer Pursuant to 18 U.S.C. § 1350.

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* Management contracts and compensatory plans and arrangements.

(All exhibits not incorporated herein by reference are attached as exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission.)

(b) Exhibits

The response to this portion of Item 15 as listed in Item 15(a)(3) above is submitted as a separate section of this report.

(c) Financial Statement Schedules

The response to this portion of Item 15 is submitted as a separate section of this report.

(All signatures are included with the Company's Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission.)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MIDDLEBURG FINANCIAL CORPORATION

March 17, 2008

By: /s/ Joseph L. Boling
Joseph L. Boling
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Joseph L. Boling Joseph L. Boling	Chairman of the Board and Chief Executive Officer and Director (Principal Executive Officer)	March 17, 2008
/s/ Kathleen J. Chappell Kathleen J. Chappell	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 17, 2008
/s/ Rodney J. White Rodney J. White	Vice President and Controller (Principal Accounting Officer)	March 17, 2008
Howard M. Armfield	Director	
Henry F. Atherton, III	Director	
/s/ Childs Frick Burden Childs Frick Burden	Director	March 17, 2008
/s/ J. Lynn Cornwell, Jr. J. Lynn Cornwell, Jr.	Director	March 17, 2008
/s/ John C. Lee, IV John C. Lee, IV	Director	March 17, 2008
Keith W. Meurlin	Director	
/s/ Janet A. Neuharth Janet A. Neuharth	Director	March 17, 2008
James R. Treptow	Director	
/s/ Millicent W. West Millicent W. West	Director	March 17, 2008

Exhibit Index

Exhibit No.	Description
3.1	Articles of Incorporation of the Company (restated in electronic format as of October 2, 2003), attached as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2003, incorporated herein by reference.
3.2	Bylaws of the Company (restated in electronic format as of September 28, 2005), attached as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on October 4, 2005, incorporated herein by reference.
3.3	Amendments to the Bylaws of the Company (restated in electronic format as of March 15, 2006), attached as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on March 15, 2006, incorporated herein by reference.
3.4	Amendments to the Bylaws of the Company (restated in electronic format as of November 15, 2006), attached as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on November 21, 2006, incorporated herein by reference.
10.1	Employment Agreement, dated as of January 1, 1998, between the Company and Joseph L. Boling, attached as Exhibit 10.1 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1998, incorporated herein by reference.*
10.2	Middleburg Financial Corporation 2006 Equity Compensation Plan, as amended, attached as Exhibit 10.1 to the Current Report on Form 8-K, Registration No. 000-24159, filed with the Commission on April 26, 2006, incorporated herein by reference.*
10.3	Middleburg Financial Corporation 2007 Performance Share Award Agreements.*
10.4	Middleburg Financial Corporation 2007 Restricted Share Award Agreements.*
10.5	Middleburg Financial Corporation 2006 Management Incentive Plan.*
10.6	Employment Agreement, dated as of August 15, 2007, between the Company and Gary R Shook, attached as Exhibit 10.1 to the Current Report on Form 8-K, Registration No. 000-24159, filed with the Commission on August 21, 2007, incorporated herein by reference.*
10.7	Employment Agreement, dated as of September 17, 2007, between the Company and Arch A. Moore, III, attached as Exhibit 10.1 to the Current Report on Form 8-K, Registration No. 000-24159, filed with the Commission on September 20, 2007, incorporated herein by reference.*
21.1	Subsidiaries of the Company.
23.1	Consent of Yount, Hyde & Barbour, P.C.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Statement of Chief Executive Officer Pursuant to 18 U.S.C. § 1350.
32.2	Statement of Chief Financial Officer Pursuant to 18 U.S.C. § 1350.

* Management contracts and compensatory plans and arrangements.

MIDDLEBURG FINANCIAL CORPORATION

Middleburg, Virginia

FINANCIAL REPORT

DECEMBER 31, 2007

CONTENTS

Yount, Hyde & Barbour, P.C.
Certified Public Accountants
and Consultants

To the Board of Directors and Shareholders
Middleburg Financial Corporation and subsidiaries
Middleburg, Virginia

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheets of Middleburg Financial Corporation and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007. We also have audited Middleburg Financial Corporation and subsidiaries' internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control— Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Middleburg Financial Corporation and subsidiaries' management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report Regarding the Effectiveness of Internal Controls over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Middleburg Financial Corporation and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Middleburg Financial Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 14, 2008

MIDDLEBURG FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 2007 and 2006
(In Thousands, Except for Share Data)

Assets	**2007**	**2006**
Cash and due from banks	$ 19,413	$ 18,392
Interest-bearing deposits in banks	803	164
Securities (fair value: 2007, $129,146; 2006, $135,443)	129,142	135,435
Loans, net of allowance for loan losses of $7,093 in 2007 and $5,582 in 2006	638,692	564,750
Premises and equipment, net	20,639	18,429
Accrued interest receivable and other assets	32,711	35,135
Total assets	$ 841,400	$ 772,305
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing demand deposits	$ 119,556	$ 128,300
Savings and interest-bearing demand deposits	238,992	250,748
Time deposits	230,221	191,551
Total deposits	$ 588,769	$ 570,599
Federal funds purchased	500	- -
Securities sold under agreements to repurchase	51,781	38,474
Federal Home Loan Bank advances	22,000	34,000
Long-term debt	88,000	40,000
Trust preferred capital notes	5,155	5,155
Accrued interest payable and other liabilities	7,291	6,179
Commitments and contingent liabilities	- -	- -
Total liabilities	$ 763,496	$ 694,407
Shareholders' Equity		
Common stock, par value, $2.50 per share; authorized, 20,000,000 shares; issued and outstanding, 2007, 4,526,317 shares; 2006, 4,505,605 shares	$ 11,316	$ 11,264
Capital surplus	23,817	23,503
Retained earnings	43,773	44,139
Accumulated other comprehensive loss, net	(1,002)	(1,008)
Total shareholders' equity	$ 77,904	$ 77,898
Total liabilities and shareholders' equity	$ 841,400	$ 772,305

See Notes to Consolidated Financial Statements.

MIDDLEBURG FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

Years Ended December 31, 2007, 2006 and 2005

(In Thousands, Except for Per Share Data)

	2007	2006	2005
Interest and Dividend Income			
Interest and fees on loans	$ 42,960	$ 38,161	$ 28,949
Interest on investment securities:			
Taxable	2	2	2
Tax-exempt	49	82	113
Interest and dividends on securities available for sale:			
Taxable	4,075	5,277	5,387
Tax-exempt	1,896	1,456	1,453
Dividends	447	362	283
Interest on deposits in banks	39	11	7
Interest on federal funds sold	160	47	18
Total interest and dividend income	$ 49,628	$ 45,398	$ 36,212
Interest Expense			
Interest on deposits	$ 14,797	$ 11,694	$ 6,524
Interest on securities sold under agreements to repurchase	1,868	1,529	934
Interest on short-term debt	2,850	1,874	1,117
Interest on long-term debt	2,926	3,390	3,021
Total interest expense	$ 22,441	$ 18,487	$ 11,596
Net interest income	$ 27,187	$ 26,911	$ 24,616
Provision for loan losses	1,786	499	1,744
Net interest income after provision for loan losses	$ 25,401	$ 26,412	$ 22,872
Noninterest Income			
Service charges on deposit accounts	$ 2,024	$ 1,869	$ 1,783
Trust and investment advisory fee income	4,355	4,114	3,940
Gains (losses) on securities available for sale, net	(130)	(305)	76
Commissions on investment sales	535	554	676
Equity in earnings of affiliate	(303)	680	1,529
Other service charges, commissions and fees	595	608	536
Bank-owned life insurance	450	436	458
Other operating income	176	159	23
Total noninterest income	$ 7,702	$ 8,115	$ 9,021
Noninterest Expenses			
Salaries and employees' benefits	$ 13,557	$ 13,690	$ 13,240
Net occupancy and equipment expense	3,300	3,024	2,798
Advertising	535	572	384
Computer operations	1,075	982	868
Advisory fees	359	306	280
Other taxes	637	500	465
Impairment of equity investment	5,012	- -	- -
Other operating expenses	4,980	4,136	3,885
Total noninterest expenses	$ 29,455	$ 23,210	$ 21,920
Income before income taxes	$ 3,648	$ 11,317	$ 9,973
Income tax expense	584	3,299	2,799
Net income	$ 3,064	$ 8,018	$ 7,174
Earnings per Share, basic	$ 0.68	$ 1.94	$ 1.89
Earnings per Share, diluted	$ 0.67	$ 1.90	$ 1.84

MIDDLEBURG FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2007, 2006 and 2005
(In Thousands, Except Share and Per Share Data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Compre-hensive Income	Total
Balance, December 31, 2004	$ 9,523	$ 5,684	$ 34,997	$ 1,358		$ 51,562
Comprehensive income:						
Net income – 2005	--	--	7,174	--	$ 7,174	7,174
Other comprehensive loss net of tax:						
Unrealized holding losses arising during the period (net of tax, $1,131)	--	--	--	--	(2,195)	--
Reclassification adjustment (net of tax, $26)	--	--	--	--	(50)	--
Change in fair value of derivatives for interest rate swap (net of tax $70)	--	--	--	--	136	
Other comprehensive loss (net of tax, $1,086)	--	--	--	(2,109)	$ (2,109)	(2,109)
Total comprehensive income	--	--	--	--	$ 5,065	--
Cash dividends – 2005 ($0.76 per share)	--	--	(2,890)	--		(2,890)
Repurchase of common stock (11,000 shares)	(28)	(380)	--	--		(408)
Issuance of common stock (8,000 shares)	20	127	--	--		147
Balance, December 31, 2005	$ 9,515	$ 5,431	$ 39,281	$ (751)		$ 53,476
Comprehensive income:						
Net income – 2006	--	--	8,018	--	$ 8,018	8,018
Other comprehensive income net of tax:						
Unrealized holding gains arising during the period (net of tax, $122)	--	--	--	--	236	--
Reclassification adjustment (net of tax, $104)	--	--	--	--	201	--
Change in fair value of derivatives for interest rate swap (net of tax $70)	--	--	--	--	(136)	--
Other comprehensive income (net of tax, $156)	--	--	--	301	$ 301	301
Total comprehensive income	--	--	--	--	$ 8,319	--
Adjustment to initially apply SFAS No. 158 (net of tax, $288)	--	--	--	(558)		(558)
Cash dividends – 2006 ($0.76 per share)	--	--	(3,160)	--		(3,160)
Issuance of common stock (699,552 shares)	1,749	18,072	--	--		19,821
Balance, December 31, 2006	$ 11,264	$ 23,503	$ 44,139	$ (1,008)		$ 77,898

See Notes to Consolidated Financial Statements.

MIDDLEBURG FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity
(Continued)
Years Ended December 31, 2007, 2006 and 2005
(In Thousands, Except Share and Per Share Data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Compre-hensive Income	Total
Balance, December 31, 2006	$ 11,264	$ 23,503	$ 44,139	$ (1,008)		$ 77,898
Comprehensive income:						
Net income – 2007	--	--	3,064	--	$ 3,064	3,064
Other comprehensive income net of tax:						
Unrealized holding losses arising during the period (net of tax, $54)	--	--	--	--	(104)	-
Reclassification adjustment (net of tax, $44)					86	
Change in benefit obligation and plan assets for defined benefit pension plan (net of tax, $13)	--	--	--		24	-
Other comprehensive income (net of tax, $3)	--	--	--	6	$ 6	6
Total comprehensive income	--	--	--	--	$ 3,070	-
Cash dividends – 2007 ($0.76 per share)	--	--	(3,430)	--		(3,43
Equity compensation	--	57	--	--		5
Issuance of common stock (20,712 shares)	52	257	--	--		30
Balance, December 31, 2007	$ 11,316	$ 23,817	$ 43,773	$ (1,002)		$ 77,90

See Notes to Consolidated Financial Statements.

MIDDLEBURG FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years Ended December 31, 2007, 2006 and 2005
(In Thousands)

	2007	2006	2005
Cash Flows from Operating Activities			
Net income	$ 3,064	$ 8,018	$ 7,174
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,215	1,138	1,174
Amortization	545	610	418
Equity in (distributions in excess of) earnings of affiliate	592	351	(646)
Impairment of equity investment	5,012	- -	- -
Provision for loan losses	1,786	499	1,744
Net (gain) loss on securities available for sale	130	305	(76)
Net (gain) loss on sale and disposal of assets	341	47	(12)
Discount accretion and premium amortization on securities, net	(25)	22	104
Deferred income tax benefit	(2,320)	(484)	(718)
Origination of loans held for sale	- -	- -	(88,084)
Proceeds from sales of loans held for sale	- -	- -	109,391
Equity compensation	57	- -	- -
Changes in assets and liabilities:			
(Increase) in other assets	(446)	(546)	(13)
Increase in other liabilities	666	1,656	407
Net cash provided by operating activities	$ 10,617	$ 11,616	$ 30,863
Cash Flows from Investing Activities			
Proceeds from maturity, principal paydowns and calls of investment securities	$ 557	$ 785	$ 1,007
Proceeds from maturity, principal paydowns and calls of securities available for sale	24,729	22,994	29,803
Proceeds from sale of securities available for sale	16,865	25,092	32,980
Purchase of securities available for sale	(35,991)	(34,068)	(42,424)
Proceeds from sale of equipment	3	- -	16
Purchases of bank premises and equipment	(3,769)	(958)	(3,685)
Net (increase) in loans	(75,728)	(44,738)	(176,849)
Purchase of bank-owned life insurance	(485)	- -	- -
Net cash (used in) investing activities	$ (73,819)	$ (30,893)	$ (159,152)

MIDDLEBURG FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(Continued)
Years Ended December 31, 2007, 2006 and 2005
(In Thousands)

	2007	2006	2005
Cash Flows from Financing Activities			
Net increase (decrease) in noninterest-bearing and interest-bearing demand deposits and savings accounts	$ (20,500)	$ (23,163)	$ 81,821
Net increase in certificates of deposit	38,670	42,330	44,732
Increase (decrease) in securities sold under agreements to repurchase	13,307	4,157	(6,595)
Net increase in federal funds purchased	500	- -	- -
Proceeds from Federal Home Loan Bank advances	421,500	328,975	343,980
Payments on Federal Home Loan Bank advances	(433,500)	(319,075)	(335,880)
Proceeds from long-term debt	63,000	- -	30,000
Payments on trust preferred capital notes	- -	(10,310)	- -
Payments on long-term debt	(15,000)	(17,500)	(26,000)
Payment for the repurchase of common stock	- -	- -	(408)
Net proceeds from issuance of common stock	309	19,821	147
Cash dividends paid	(3,424)	(3,027)	(2,890)
Net cash provided by financing activities	$ 64,862	$ 22,208	$ 128,907
Increase in cash and and cash equivalents	$ 1,660	$ 2,931	$ 618
Cash and Cash Equivalents			
Beginning	18,556	15,625	15,007
Ending	$ 20,216	$ 18,556	$ 15,625
Supplemental Disclosures of Cash Flow Information			
Cash payments for:			
Interest paid to depositors	$ 14,109	$ 12,354	$ 7,209
Interest paid on short-term obligations	4,740	1,890	1,044
Interest paid on long-term debt	2,622	3,497	3,132
	$ 21,471	$ 17,741	$ 11,385
Income taxes	$ 3,510	$ 3,857	$ 3,373
Supplemental Disclosure of Noncash Investing and Financing Activities			
Unrealized loss on securities available for sale	$ (28)	$ (664)	$ (3,403)
Change in market value of interest rate swap	$ - -	$ (206)	$ 206
Change in benefit obligation and plan assets for defined benefit pension plan	$ 37	$ (846)	$ - -

See Notes to Consolidated Financial Statements.

Note 1. Nature of Banking Activities and Significant Accounting Policies

Middleburg Financial Corporation's banking subsidiary, Middleburg Bank, grants commercial, financial, agricultural, residential and consumer loans to customers principally in Loudoun County, Fauquier County and Fairfax County, Virginia. The loan portfolio is well diversified and generally is collateralized by assets of the customers. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers. Middleburg Trust Company and Middleburg Investment Advisors, Inc., non-banking subsidiaries of Middleburg Financial Corporation, offer a comprehensive range of fiduciary and investment management services to individuals and businesses.

The accounting and reporting policies of the Company conform to U. S. generally accepted accounting principles and to accepted practice within the banking industry.

Principles of Consolidation

The consolidated financial statements of Middleburg Financial Corporation and its wholly-owned subsidiaries, Middleburg Bank, Middleburg Investment Group, Inc., Middleburg Trust Company, Middleburg Investment Advisors, Inc., Middleburg Bank Service Corporation, and MFC Capital Trust II include the accounts of all companies. All material intercompany balances and transactions have been eliminated in consolidation. FASB Interpretation No. 46R requires that the Company no longer eliminate through consolidation the equity investment in MFC Capital Trust II, which approximated $155,000 at December 31, 2007 and 2006, respectively. The subordinate debt of the trust preferred entities is reflected as a liability of the Company.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Restricted securities, such as Federal Reserve Bank stock and Federal Home Loan Bank stock, are carried at historical cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than 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. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans

The Company's subsidiary bank grants mortgage, commercial and consumer loans to clients. A substantial portion of the loan portfolio is represented by mortgage loans throughout Loudoun County and Fauquier County, Virginia. The ability of the debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination and commitment fees, net of certain direct loan origination costs are deferred and recognized as an adjustment of the loan yield over the life of the related loan.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. Personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

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 loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company's subsidiary bank does not separately identify individual consumer and residential loans for impairment disclosures.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment is computed principally on the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	10-40
Furniture and equipment	3-15

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Other Real Estate

Real estate acquired by foreclosure is carried at the lower of cost or fair market value less an allowance for estimated selling expenses on the future disposition of the property. Revenue and expenses from operations and changes in the valuation are included in the net expenses from other real estate.

Goodwill and Intangible Assets

Goodwill is subject to an annual assessment for impairment by applying a fair value based test. Additionally, acquired intangible assets (such as customer relationships and non-compete agreements) are separately recognized and amortized over their useful life ranging from 7 to 15 years.

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.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained.

The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income.

Trust Company Assets

Securities and other properties held by the Trust Company in a fiduciary or agency capacity are not assets of the Company and are not included in the accompanying consolidated financial statements.

Earnings Per Share

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options, and are determined using the treasury stock method.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, other temporary investments and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, goodwill and intangibles assets.

Advertising Costs

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

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 and pension liability adjustments, 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.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

Derivative Financial Instruments

As part of the Company's asset/liability management, the Company has used interest rate swaps to modify interest rate characteristics of various balance sheet accounts. Derivatives that are used as part of the asset/liability management process are linked to specific assets or liabilities and have high correlation between the contract and the underlying item being hedged, both at inception and throughout the hedge period. Swaps are accounted for on the "accrual" method. Under that method, the interest component associated with the contract is recognized over the life of the contract in net interest income.

Reclassifications

Certain reclassifications have been made to prior period balances to conform to current year provisions.

Stock-Based Employee Compensation Plan

At December 31, 2007, the Company had a stock-based employee compensation plan which is described more fully in Note 8. Effective January 1, 2006, the Company adopted SFAS No. 123R (revised 2004), *Share-Based Payment,* which requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity instruments issued. The Company recognized $57,000 in compensation expense during 2007 as a result of partially vested stock grants. Prior to January 1, 2006, the Company accounted for the plan under the recognition and measurement principles of APB opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost was reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions to stock-based employee compensation for the year ended December 31, 2005.

	Year Ended December 31, 2005
	(In thousands, except per share data)
Net income, as reported	$ 7,174
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(89)
Pro forma net income	$ 7,085
Earnings per share:	
Basic - as reported	$ 1.89
Basic - pro forma	1.86
Diluted - as reported	1.84
Diluted - pro forma	1.81

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157). 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 does not require any new fair value measurements, but rather, provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The FASB has approved a one-year deferral for the implementation of the Statement for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Company does not expect the implementation of SFAS 157 to have a material impact on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS 158). This Statement requires that employers measure plan assets and obligations as of the balance sheet date. This requirement is effective for fiscal years ending after December 15, 2008. The other provisions of SFAS 158 were implemented by the Company as of December 31, 2006. The Company does not expect the implementation of the measurement date provisions of SFAS 158 to have a material impact on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of this Statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument and is irrevocable. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, with early adoption available in certain circumstances. The Company does not expect the implementation of SFAS 159 to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations" (SFAS 141(R)). The Standard will significantly change the financial accounting and reporting of business combination transactions. SFAS 141(R) establishes principles for how an acquirer recognizes and measures the identifiable assets acquired, liabilities assumed, and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for acquisition dates on or after the beginning of an entity's first year that begins after December 15, 2008. The Company does not expect the implementation of SFAS 141(R) to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Non-controlling Interests in Consolidated Financial Statements an Amendment of ARB No. 51" (SFAS 160). The Standard will significantly change the financial accounting and reporting of non-controlling (or minority) interests in consolidated financial statements. SFAS 160 is effective as of the beginning of an entity's first fiscal year that begins after December 15, 2008, with early adoption prohibited. The Company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements.

In September 2006, the Emerging Issues Task Force (EITF) issued EITF 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." This consensus concludes that for a split-dollar life insurance arrangement within the scope of this Issue, an employer should recognize a liability for future benefits in accordance with SFAS 106 (if, in substance, a postretirement benefit plan exists) or APB Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. The consensus is effective for fiscal years beginning after December 15, 2007, with early application permitted. The Company is evaluating the effect that EITF 06-4 will have on its consolidated financial statements when implemented.

In November 2006, the EITF issued "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements" (EITF 06-10). In this Issue, a consensus was reached that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either SFAS 106 or APB Opinion No. 12, as appropriate, if the employer has agreed to maintain a life insurance policy during the employee's retirement or provide the employee with a death benefit based on the substantive agreement with the employee. A consensus also was reached that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The consensuses are effective for fiscal years beginning after December 15, 2007, including interim periods within those fiscal years, with early application permitted. The Company is evaluating the effect that EITF 06-10 will have on its consolidated financial statements when implemented.

In February 2007, the FASB issued FSP No. FAS 158-1, "Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88 and No. 106 and to the Related Staff Implementation Guides." This FSP provides conforming amendments to the illustrations in SFAS 87, 88, and 106 and to related staff implementation guides as a result of the issuance of SFAS 158. The conforming amendments made by this FSP are effective as of the effective dates of SFAS 158. The unaffected guidance that this FSP codifies into SFAS 87, 88, and 106 does not contain new requirements and therefore does not require a separate effective date or transition method. The Company does not expect the implementation of FSP No. FAS 158-1 to have a material impact on its consolidated financial statements.

In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings" (SAB 109). SAB 109 expresses the current view of the staff that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SEC registrants are expected to apply the views in Question 1 of SAB 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Company does not expect the implementation of SAB 109 to have a material impact on its consolidated financial statements.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110, "Use of a Simplified Method in Developing Expected Term of Share Options" (SAB 110). SAB 110 expresses the current view of the staff that it will accept a company's election to use the simplified method discussed in SAB 107 for estimating the expected term of "plain vanilla" share options regardless of whether the company has sufficient information to make more refined estimates. The staff noted that it understands that detailed information about employee exercise patterns may not be widely available by December 31, 2007. Accordingly, the staff will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. The Company does not expect the implementation of SAB 110 to have a material impact on its consolidated financial statements.

Note 2. Securities

Amortized costs and fair values of securities being held to maturity as of December 31, 2007 and 2006 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		2007 (In Thousands)		
Obligations of states and political subdivisions	$ 674	$ 4	$ --	$ 678
Mortgage-backed securities	32	--	--	32
	$ 706	$ 4	$ --	$ 710
		2006 (In Thousands)		
Obligations of states and political subdivisions	$ 1,229	$ 8	$ --	$ 1,237
Mortgage-backed securities	33	--	--	33
	$ 1,262	$ 8	$ --	$ 1,270

The amortized cost and fair value of securities being held to maturity as of December 31, 2007 by contractual maturity are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties. Therefore, these securities are not included in the maturity categories in the following maturity summary.

	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$ 370	$ 372
Due after one year through five years	304	306
Mortgage-backed securities	32	32
	$ 706	$ 710

Amortized costs and fair values of securities available for sale as of December 31, 2007 and 2006, are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	2007 (In Thousands)			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 344	$ 1	$ (2)	$ 343
Obligations of states and political subdivisions	41,769	656	(488)	41,937
Mortgage-backed securities	73,786	297	(1,169)	72,914
Corporate preferred stock	78	- -	(1)	77
Restricted securities	7,460	- -	- -	7,460
Other	5,709	5	(9)	5,705
	$ 129,146	$ 959	$ (1,669)	$ 128,436
	2006 (In Thousands)			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 1,474	$ - -	$ (9)	$ 1,465
Obligations of states and political subdivisions	38,115	823	(111)	38,827
Mortgage-backed securities	75,974	233	(1,864)	74,343
Corporate preferred stock	2,078	12	(2)	2,088
Restricted securities	5,928	- -	- -	5,928
Other	11,286	237	(1)	11,522
	$ 134,855	$ 1,305	$ (1,987)	$ 134,173

The amortized cost and fair value of securities available for sale as of December 31, 2007, by contractual maturity are shown below. Maturities may differ from contractual maturities in corporate and mortgage-backed securities because the securities and mortgages underlying the securities may be called or repaid without any penalties. Therefore, these securities are not included in the maturity categories in the following maturity summary.

	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$ 4,510	$ 4,535
Due after one year through five years	12,702	13,113
Due after five years through 10 years	6,667	6,822
Due after 10 years	18,234	17,810
Mortgage-backed securities	73,786	72,914
Corporate preferred	78	77
Restricted stock	7,460	7,460
Other	5,709	5,705
	$ 129,146	$ 128,436

Proceeds from sales of securities available for sale during 2007, 2006 and 2005 were \$16,865,000, \$25,092,000 and \$32,980,000, respectively. Gross gains of \$0, \$1,000 and \$337,000 and gross losses of \$130,000, \$306,000 and \$261,000 were realized on those sales, respectively. The tax benefit (provision) applicable to these net realized gains and losses amounted to \$44,000, \$104,000 and \$(26,000), respectively.

The carrying value of securities pledged to qualify for fiduciary powers, to secure public monies and for other purposes as required by law amounted to \$113,661,000 and \$101,900,000 at December 31, 2007 and 2006, respectively.

At December 31, 2007 and 2006, investments in an unrealized loss position that are temporarily impaired are as follows:

	Less Than 12 Months		12 Months or More	
2007	**Fair Value**	**Unrealized (Losses)**	**Fair Value**	**Unrealized (Losses)**
	(In thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 125	$ (1)	$ 99	$ (1)
Obligations of states and political subdivisions	15,745	(481)	880	(7)
Mortgage-backed securities	--	--	45,986	(1,169)
Corporate preferred stock	--	--	78	(1)
Other	5,044	(8)	49	(1)
Total temporarily impaired securities	$ 20,914	$ (490)	$ 47,092	$ (1,179)
2006				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 25	$ --	$ 1,440	$ (9)
Obligations of states and political subdivisions	7,898	(86)	1,116	(25)
Mortgage-backed securities	919	(1)	53,592	(1,863)
Corporate preferred stock	--	--	76	(2)
Other	50	--	49	(1)
Total temporarily impaired securities	$ 8,892	$ (87)	$ 56,273	$ (1,900)

The unrealized losses in the portfolio as of December 31, 2007 are considered temporary and are a result of the current interest rate environment and not increased credit risk. Of the temporarily impaired securities, 74 are investment grade and one is non-rated. The federal agency mortgage-backed securities have the largest temporary impairment but are issued by government sponsored enterprises (Federal National Mortgage Association and Federal Home Loan Mortgage Corporation). The non-rated security is a corporate trust preferred security that has a par value at maturity of $78,000. Market prices change daily and are affected by conditions beyond the control of the Company. Although the Company has the ability and intent to hold these securities until the temporary loss is recovered, decisions by management may necessitate the sale before the loss is fully recovered. Investment decisions reflect the strategic asset/liability objectives of the Company. The investment portfolio is analyzed frequently and managed to provide an overall positive impact to the Company's consolidated income statement and balance sheet.

Note 3. Loans, Net

	December 31, 2007	December 31, 2006
	(In Thousands)	
Mortgage loans on real estate:		
Construction	$ 96,542	$ 69,034
Secured by farmland	2,477	2,473
Secured by 1-4 family residential	251,827	229,784
Other real estate loans	228,218	216,232
Loans to farmers (except secured by real estate)	- -	1
Commercial loans	46,481	37,547
Consumer loans	19,586	14,938
All other loans	654	323
Total loans	$ 645,785	$ 570,332
Less: Allowance for loan losses	7,093	5,582
Net loans	$ 638,692	$ 564,750

Note 4. Allowance for Loan Losses

	2007	2006	2005
		(In Thousands)	
Balance, beginning	$ 5,582	$ 5,143	$ 3,418
Provision charged to operating expense	1,786	499	1,744
Recoveries	64	52	60
Loan losses charged to the allowance	(339)	(112)	(79)
	$ 7,093	$ 5,582	$ 5,143

At December 31, 2007, 2006 and 2005, loans that are impaired are as follows:

	2007	2006	2005
		(In Thousands)	
Impaired loans for which,			
an allowance has been provided	$ 5,127	$ 80	$ -
no allowance has been provided	2,812	-	87
Total impaired loans	$ 7,939	$ 80	$ 87
Allowance provided for impaired loans,			
included in the allowance for loan losses	$ 459	$ 20	$ -
Average balance of impaired loans	$ 7,419	$ 80	$ 88
Interest income recognized	$ 482	$ 5	$ 8

The Company had $2.0 million, $0 and $1,000 in non-accrual loans excluded from the impaired loan disclosure under SFAS No. 114 at December 31, 2007, 2006 and 2005, respectively. If interest on these loans had been accrued, such income would have approximated $77,000, $0 and $1,000, as of December 31, 2007, 2006 and 2005, respectively. There were $30,000, $19,000 and $31,000 in loans 90 days past due and still accruing interest on December 31, 2007, 2006 and 2005, respectively.

Note 5. Premises and Equipment, Net

Premises and equipment consists of the following:

	2007	2006
	(In Thousands)	
Land	$ 2,379	$ 2,379
Banking facilities	13,608	12,457
Furniture, fixtures and equipment	8,527	7,922
Construction in progress and deposits on equipment	5,341	3,768
	$ 29,855	$ 26,526
Less accumulated depreciation	9,216	8,097
	$ 20,639	$ 18,429

Depreciation expense was $1,215,000, $1,138,000 and $1,174,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

Pursuant to the terms of non-cancelable lease agreements in effect at December 31, 2007, pertaining to banking premises and equipment, future minimum rent commitments (in thousands) under various operating leases are as follows:

2008	$	1,049
2009		1,021
2010		1,019
2011		1,023
2012		980
Thereafter		12,734
	$	17,826

Note 6. Deposits

The Company has developed an interest bearing product that integrates the use of the cash within client accounts at Middleburg Trust Company for overnight funding at the Bank. The overall balance of this product was $41.9 million and $30.4 million at December 31, 2007 and 2006, respectively, and is partially reflected in the interest-bearing demand deposits and partially reflected in securities sold under agreements to repurchase amounts on the balance sheet.

The aggregate amount of jumbo time deposits, each with a minimum denomination of $100,000, was approximately $134,927,000 and $129,230,000 at December 31, 2007 and 2006, respectively.

At December 31, 2007, the scheduled maturities of time deposits (in thousands) are as follows:

2008	$	176,669
2009		32,562
2010		15,320
2011		3,787
2012		1,883
	$	230,221

At December 31, 2007 and 2006, overdraft demand deposits reclassified to loans totaled $654,000 and $323,000, respectively.

Note 7. Borrowings

The Company has a $249,890,000 line of credit with the Federal Home Loan Bank of Atlanta available for short and long-term borrowings. Advances on the line are secured by all of the Company's first lien residential real estate loans on one-to-four unit single-family dwellings and by eligible commercial real estate loans. As of December 31, 2007, the book value of these loans totaled approximately $343,074,000. The amount of the available credit is limited to seventy five percent of qualifying collateral for the first lien residential real estate loans and fifty percent of the eligible commercial real estate loans. Any borrowings in excess of the qualifying collateral requires pledging of additional assets.

At December 31, 2007, the Company had short-term advances outstanding from the Federal Home Loan Bank of $22,000,000. The weighted average interest rate on short-term advances at December 31, 2007 was 4.69%. At December 31, 2006, the Company had short-term advances outstanding from the Federal Home Loan Bank of $34,000,000. The weighted average interest rate on short-term advances at December 31, 2006 was 5.42%.

The Company's long-term debt with the Federal Home Loan Bank of $88,000,000 at December 31, 2007 matures through 2010. During 2007, the interest rate ranged from 2.41% to 4.93% and the weighted average rate was 4.59%. The Company's long-term debt with the Federal Home Loan Bank was $40,000,000 at December 31, 2006. The weighted average interest rate on long-term debt at December 31, 2006 was 4.42%.

The contractual maturities of the Company's long-term debt are as follows:

	2007
	(In Thousands)
Due in 2008	20,000
Due in 2009	33,000
Due in 2010	35,000
	$ 88,000

The Company has an additional $8,000,000 in lines of credit available from other institutions at December 31, 2007.

Note 8. Stock-Based Compensation Plan

The Company sponsored one stock-based compensation plan (the 2006 Equity Compensation Plan), which provides for the granting of stock options, stock appreciation rights, stock awards, performance share awards, incentive awards and stock units. The 2006 Equity Compensation Plan was approved by the Company's shareholders at the Annual Meeting held on April 26, 2006 and has succeeded the Company's 1997 Stock Incentive Plan. Under the plan, the Company may grant stock-based compensation to its directors, officers, employees and other persons the Company determines have contributed to the profits or growth of the Company. The Company may grant awards with respect to up to 255,000 shares of common stock under the 2006 Equity Compensation Plan.

The Company granted 7,948 restricted stock awards (non-vested shares) in March 2007. The shares are split equally between service condition awards and performance condition awards. The requisite service period for the awards is three years. For the year ended December 31, 2007, the Company recorded $57,000 in compensation expense related to these grants.

The following table summarizes restricted stock awarded under the 2006 Equity Compensation Plan at December 31, 2007.

	Shares	**Weighted Average Grant-Date Fair Value**	**Aggregate Intrinsic Value**
Outstanding at beginning of year	--	$ --	
Granted	7,948	32.30	
Vested	--	--	
Forfeited	(932)	32.30	
Non-vested at end of period	7,016	$ 32.30	$ 149,581

The weighted average remaining contractual term for non-vested grants at December 31, 2007 was 2.3 years. The weighted average grant-date fair value of restricted stock awarded during the year ended December 31, 2007 was $32.30. As of December 31, 2007, there was $170,000 of total unrecognized compensation expense related to the non-vested awards under the 2006 Equity Compensation Plan.

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123R, *Share-Based Payment.* SFAS No. 123R requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, such as stock options, based on the fair value of those awards at the date of the grant and eliminates the choice to account for stock options under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees.* The Company adopted SFAS No. 123R effective January 1, 2006 using the modified prospective method and, as such, results for prior periods have not been restated.

The following table summarizes options outstanding under the 1997 Stock Incentive Plan at the end of the reportable periods. The weighted average remaining contractual term for options outstanding and exercisable at December 31, 2007 was 3.7 years

Options outstanding at December 31, 2007, 2006 and 2005 are summarized as follows:

	2007			2006		2005	
	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	186,880	$ 18.52		211,105	$ 17.74	220,605	$ 17.65
Granted	--	--		--	--	--	--
Exercised	(20,000)	10.63		(23,000)	11.75	(8,000)	11.37
Forfeited	(500)	37.00		(1,225)	12.38	(1,500)	37.80
Outstanding at end of year	166,380	$ 19.41	$ 318,000	186,880	$ 18.52	211,105	$ 17.74
Options exercisable at year end	166,380	$ 19.41	$ 318,000	186,880	$ 18.52	208,425	$ 17.47
Weighted average fair value of options granted during the year		$ --			$ --		$ --

The total intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005 was $216,000, $469,000 and $176,000, respectively. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. The Company recognized a tax benefit of $72,000, $22,000 and $55,000 due to the exercise of stock options in 2007, 2006 and 2005, respectively.

As of December 31, 2007, options outstanding and exercisable are summarized as follows:

Range of Exercise Prices	Options Outstanding and Exercisable	Remaining Contractual Life
$10.63	13,950	2.9
11.75	8,000	0.9
12.38	3,930	1.8
12.38	40,000	1.9
22.00	34,000	5.3
22.75	55,000	4.3
37.00	3,500	5.7
39.40	8,000	6.0
$10.63 - $39.40	166,380	3.7

Note 9. Employee Benefit Plans

The Company has a noncontributory, defined benefit pension plan covering substantially all full-time employees. The Company funds pension costs in accordance with the funding provisions of the Employee Retirement Income Security Act. Information about the plan (valued at September 30 of each year) follows:

	2007	2006	2005
		(In Thousands)	
Change in Benefit Obligation			
Benefit obligation, beginning of year	$ 5,052	$ 4,014	$ 3,456
Service cost	742	675	593
Interest cost	302	241	216
Actuarial loss (gain)	143	133	(16)
Benefits paid	(274)	(11)	(235)
Benefit obligation, end of year	$ 5,965	$ 5,052	$ 4,014
Change in Plan Assets			
Fair value of plan assets, beginning of year	$ 4,683	$ 4,343	$ 4,093
Actual return on plan assets	552	351	485
Employer contributions	- -	- -	- -
Benefits paid	(274)	(11)	(235)
Fair value of plan assets, ending	$ 4,961	$ 4,683	$ 4,343
Funded Status	$ (1,004)	$ (369)	$ 330
Unrecognized net actuarial loss	- -	- -	922
Unrecognized net obligation at transition	- -	- -	(12)
Unrecognized prior service cost	- -	- -	(196)
(Accrued) prepaid benefit cost included in other (liabilities) assets	$ (1,004)	$ (369)	$ 1,044
Amounts Recognized in the Balance Sheet			
Other assets	$ - -	$ - -	$ 1,044
Other liabilities	(1,004)	(369)	- -
Deferred income tax benefit	275	288	- -
Amounts Recognized in Accumulated Other Comprehensive Loss, Net of Tax			
Net loss	$ 1,008	$ 1,049	$ - -
Prior service costs	(195)	(195)	- -
Net obligation at transition	(4)	(8)	- -
Deferred income tax benefit	(275)	(288)	- -
Total amount recognized	$ 534	$ 558	$ - -

The accumulated benefit obligation for the defined benefit pension plan was $4,115,000, $3,673,000 and $3,137,000 at December 31, 2007, 2006 and 2005, respectively.

	2007	2006	2005
		(In Thousands)	
Components of Net Periodic Benefit Cost			
Service cost	$ 742	$ 675	$ 592
Interest cost	302	241	216
Expected return on plan assets	(396)	(369)	(309)
Amortization of prior service cost	(1)	(1)	(1)
Amortization of net obligation at transition	(4)	(4)	(4)
Recognized net actuarial loss	29	26	42
Net periodic benefit cost	$ 672	$ 568	$ 536
Other Change in Plan Assets an Benefit Obligations Recognized in Accumulated Other Comprehensive (Income) Loss			
Net (gain) loss	$ (42)	$ 1,049	$ --
Prior service costs	--	(195)	--
Amortization of prior service cost	1	--	--
Net obligation at transition	--	(8)	--
Amortization of net obligation at transition	4	--	--
Deferred income tax expense (benefit)	13	(288)	--
Total recognized in other comprehensive (income) loss	$ (24)	$ 558	$ --
Total recognized in net periodic benefit costs and other comprehensive loss	$ 648	$ 1,126	$ 536

Weighted-Average Assumptions for Benefit Obligations as of September 30	2007	2006	2005
Discount rate	6.00%	6.00%	6.00%
Expected return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	4.00%	4.00%	4.00%

Weighted-Average Assumptions for Net Periodic Benefit Costs as of September 30	2007	2006	2005
Discount rate	6.00%	6.00%	6.25%
Expected return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	4.00%	4.00%	4.00%

Long-Term Rate of Return

The plan sponsor selects the expected long-term rate of return on assets assumption in consultation with their investment advisors and actuary. This rate is intended to reflect the average rate of earnings expected to be earned on the funds invested to provide plan benefits. Historical performance is reviewed with respect to real rates of return (net of inflation) for the major asset classes held or anticipated to be held by the trust, and for the trust itself. Undue weight is not given to recent experience that may not continue over the measurement period, with higher significance placed on current forecasts of future long-term economic conditions.

Because assets are held in a qualified trust, anticipated returns are not reduced for taxes. Further, solely for this purpose, the plan is assumed to continue in force and not terminate during the period which assets are invested. However, consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses (both investment and non-investment) typically paid from plan assets to the extent such expenses are not explicitly estimated within periodic cost.

Asset Allocation

The pension plan's weighted-average asset allocations at September 30, 2007 and 2006, by asset category are as follows:

	September 30,	
	2007	2006
Mutual funds - fixed income	35%	30%
Mutual funds - equity	60%	56%
Cash and equivalents	5%	14%
Total	100%	100%

The trust fund is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 40% fixed income and 60% equities. The investment manager selects investment fund managers with demonstrated experience and expertise and funds with demonstrated historical performance for the implementation of the plan's investment strategy. The investment manager will consider both actively and passively managed investment strategies and will allocate funds across the classes to develop an efficient investment structure.

It is the responsibility of the trustee to administer the investments of the trust within reasonable costs, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the trust.

The Company contributed $331,000 to its pension plan in February 2008. The Company does not expect to contribute additional funds to its pension plan in 2008.

Estimated future benefit payments (in thousands), which reflect expected future service, as appropriate, are as follows:

2008	$ 62
2009	108
2010	183
2011	186
2012	238
2013-2017	1,484

401(k) Plan

The Company has a 401(k) plan whereby a majority of employees participate in the plan.

Employees may contribute up to 100 percent of their compensation subject to certain limits based on federal tax laws. The Company makes matching contributions equal to 50 percent of the first 6 percent of an employee's compensation contributed to the plan. Matching contributions vest to the employee equally over a five-year period. For the years ended December 31, 2007, 2006 and 2005, expense attributable to the plan amounted to $210,000, $202,000 and $146,000, respectively.

Deferred Compensation Plans

Two deferred compensation plans were adopted for the President and two Executive Officers of the Company. Benefits are to be paid in monthly installments commencing at retirement and ending upon the death of the officer. The agreement provides that if employment is terminated for reasons other than death or disability prior to age 65, the amount of benefits would be reduced. The deferred compensation expense for 2007, 2006 and 2005, based on the present value of the retirement benefits, was $382,000, $303,000 and $354,000, respectively. The plans are unfunded; however, life insurance has been acquired on the life of the employees in amounts sufficient to help meet the costs of the obligations.

Note 10. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction and the state of Virginia. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years prior to 2004.

The Company adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007 with no impact on financial statements.

Net deferred tax assets consist of the following components as of December 31, 2007 and 2006:

	2007	2006
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 2,412	$ 1,852
Deferred compensation	472	369
Investment in affiliate	1,190	- -
Accrued pension costs	229	125
Securities available for sale	241	232
Other	274	181
	$ 4,818	$ 2,759
Deferred tax liabilities:		
Deferred loan fees, net	$ 318	$ 282
Property and equipment	351	369
Investment in affiliate	- -	275
	$ 669	$ 926
Net deferred tax assets	$ 4,149	$ 1,833

The provision for income taxes charged to operations for the years ended December 31, 2007, 2006 and 2005 consists of the following:

	2007	2006	2005
		(In Thousands)	
Current tax expense	$ 2,904	$ 3,783	$ 3,517
Deferred tax benefit	(2,320)	(484)	(718)
	$ 584	$ 3,299	$ 2,799

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the years ended December 31, 2007, 2006 and 2005, due to the following:

	2007	2006	2005
		(In Thousands)	
Computed "expected" tax expense	$ 1,240	$ 3,848	$ 3,391
(Decrease) in income taxes resulting from:			
Tax-exempt interest income	(589)	(498)	(506)
Other, net	(67)	(51)	(86)
	$ 584	$ 3,299	$ 2,799

Note 11. Related Party Transactions

The Company's subsidiary bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. These persons and firms were indebted to the subsidiary bank for loans totaling $4,199,000 and $1,524,000 at December 31, 2007 and 2006, respectively. During 2007, total principal additions were $9,963,000 and total principal payments were $7,288,000. These same persons and firms had accounts with the subsidiary bank for deposits totaling $8,844,000 and $6,293,000 at December 31, 2007 and 2006, respectively.

Note 12. Contingent Liabilities and Commitments

In the normal course of business, there are outstanding various commitments and contingent liabilities, which are not reflected in the accompanying financial statements. The Company does not anticipate any material loss as a result of these transactions.

See Note 15 with respect to financial instruments with off-balance-sheet risk.

The Company must maintain a reserve against its deposits in accordance with Regulation D of the Federal Reserve Act. For the final weekly reporting period in the years ended December 31, 2007 and 2006, the aggregate amount of daily average required reserves was approximately $175,000 and $631,000, respectively.

Note 13. Earnings Per Share

The following shows the weighted average number of shares used in computing earnings per share and the effect on weighted average number of shares of diluted potential common stock. Potential dilutive common stock had no effect on income available to common stockholders.

	2007		2006		2005	
	Shares	Per Share Amount	Shares	Per Share Amount	Shares	Per Share Amount
Earnings per share, basic	4,506,251	$ 0.68	4,131,931	$ 1.94	3,803,000	$ 1.89
Effect of dilutive securities:						
Stock options	71,943		91,513		103,000	
Earnings per share, diluted	4,578,194	$ 0.67	4,223,444	$ 1.90	3,906,000	$ 1.84

In 2007, 2006 and 2005, stock options representing 11,500 shares, 12,000 shares and 13,125 shares, respectively, were not included in the calculation of earnings per share because they would have been antidilutive.

Note 14. Retained Earnings

Transfers of funds from the banking subsidiary to the Parent Company in the form of loans, advances and cash dividends are restricted by federal and state regulatory authorities. As of December 31, 2007, the aggregate amount of unrestricted funds which could be transferred from the Company's subsidiaries to the Parent Company, without prior regulatory approval, totaled $2,012,000 or 2.6% of the total consolidated net assets.

Note 15. Financial Instruments With Off-Balance-Sheet Risk and Credit Risk

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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit and interest rate swaps. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial 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 contract amount of the Company's exposure to off-balance-sheet risk as of December 31, 2007 and 2006 is as follows:

	2007	2006
	(In Thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 97,390	$ 103,314
Standby letters of credit	3,266	4,143

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 Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. Those lines of credit may not be drawn upon to the total extent to which the Company is committed.

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, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds certificates of deposit, deposit accounts, and real estate as collateral supporting those commitments for which collateral is deemed necessary.

The Company maintains an interest rate risk management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility. The Company's specific goal is to lower (where possible) the cost of its borrowed funds.

The Company enters into interest rate swaps to lock in the interest cash outflows on its floating-rate debt. On December 8, 2004, the Company borrowed a $15,000,000 variable rate advance from FHLB. On that same date, the Company entered into an interest rate swap with SunTrust Bank. The total notional amount of the swap was $15,000,000. This cash flow hedge effectively changed the variable-rate interest on the FHLB advance to a fixed-rate of interest. Under the terms of the swap, which expired December 8, 2006, the Company paid SunTrust Bank a fixed interest rate of 3.35%. SunTrust Bank paid the Company a variable rate of interest indexed to the three-month LIBOR, plus 0.02%. The interest receivable from SunTrust repriced quarterly.

Changes in the fair value of the interest rate swap designated as a hedging instrument of the variability of cash flows associated with the long-term debt are reported in other comprehensive income. This amount is subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on floating-rate debt obligation affected earnings. Because there are no differences between the critical terms of the interest rate swap and the hedged debt obligation, the Company assumes no ineffectiveness in the hedging relationship. At December 31, 2007 the Company was not engaged in an interest rate swap.

The Company has approximately $12,945,000 in deposits in financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) at December 31, 2007.

Note 16. Fair Value of Financial Instruments and Interest Rate Risk

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 values are based on estimates using present value or other valuation techniques. Those 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 excludes certain financial instruments and all non-financial 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 to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Short-Term Investments

For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities

For securities held for investment purposes, fair values are based on quoted market prices or dealer quotes. The carrying value of restricted stock approximates fair value based on the redemption provisions of the applicable entities.

Loans

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans were estimated using discounted cash flow analyses, using interest rates currently being offered.

Accrued Interest

The carrying amounts of accrued interest approximate fair values.

Deposits and Borrowings

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. For all other deposits and borrowings, the fair value is determined using the discounted cash flow method. The discount rate was equal to the rate currently offered on similar products.

Off-Balance-Sheet Financial Instruments

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of standby letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At December 31, 2007 and 2006, the fair values of loan commitments and standby letters of credit were deemed immaterial, therefore they have not been included in the table below.

The estimated fair values, and related carrying amounts, of the Company's financial instruments are as follows:

	2007 Carrying Amount	2007 Fair Value	2006 Carrying Amount	2006 Fair Value
	(In Thousands)			
Financial assets:				
Cash and short-term investments	$ 20,216	$ 20,216	$ 18,556	$ 18,556
Securities	129,142	129,146	135,435	135,443
Loans	638,692	664,097	564,750	558,364
Accrued interest receivable	3,396	3,396	3,343	3,343
Financial liabilities:				
Deposits	$ 588,769	$ 575,089	$ 570,599	$ 569,358
Federal funds purchased	500	500	- -	- -
Securities sold under agreements to repurchase	51,781	51,840	38,474	38,380
Federal Home Loan Bank advances	22,000	22,000	34,000	34,000
Long-term debt	88,000	90,757	40,000	39,679
Trust preferred capital notes	5,155	5,159	5,155	5,170
Accrued interest payable	2,728	2,728	1,757	1,757

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

Note 17. Capital Requirements

The Company on a consolidated basis, and the 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 the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2007 and 2006, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2007, the most recent notification from the Federal Reserve Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company's and the Bank's actual capital amounts and ratios are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amount in Thousands)			
As of December 31, 2007:						
Total Capital (to Risk Weighted Assets):						
Consolidated	$ 85,784	12.6%	$ 54,514	8.0%	N/A	N/A
Middleburg Bank	$ 83,350	12.3%	$ 54,402	8.0%	$ 68,002	10.0%
Tier 1 Capital (to Risk Weighted Assets):						
Consolidated	$ 78,691	11.6%	$ 27,257	4.0%	N/A	N/A
Middleburg Bank	$ 76,257	11.2%	$ 27,201	4.0%	$ 40,801	6.0%
Tier 1 Capital (to Average Assets):						
Consolidated	$ 78,691	9.4%	$ 33,359	4.0%	N/A	N/A
Middleburg Bank	$ 76,257	9.2%	$ 33,291	4.0%	$ 41,614	5.0%
As of December 31, 2006:						
Total Capital (to Risk Weighted Assets):						
Consolidated	$ 83,936	13.7%	$ 49,025	8.0%	N/A	N/A
Middleburg Bank	$ 81,653	13.4%	$ 48,920	8.0%	$ 61,151	10.0%
Tier 1 Capital (to Risk Weighted Assets):						
Consolidated	$ 78,354	12.8%	$ 24,512	4.0%	N/A	N/A
Middleburg Bank	$ 76,071	12.4%	$ 24,460	4.0%	$ 36,690	6.0%
Tier 1 Capital (to Average Assets):						
Consolidated	$ 78,354	10.3%	$ 30,536	4.0%	N/A	N/A
Middleburg Bank	$ 76,071	10.0%	$ 30,459	4.0%	$ 38,074	5.0%

Note 18. Goodwill and Intangible Assets

The Company has adopted SFAS No. 142, *Goodwill and Other Intangible Assets,* which prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of SFAS No. 142 discontinue the amortization of goodwill and intangible assets with indefinite lives but require at least an annual impairment review, and more frequently if certain impairment indicators are in evidence. Based on the testing for impairment of goodwill and intangible assets, there were no impairment charges for 2007, 2006 or 2005. Identifiable intangible assets are being amortized over the period of expected benefit, which ranges from 7 to 15 years. Goodwill and intangible assets relate to the Company's acquisition of Middleburg Trust Company and Middleburg Investment Advisors. Information concerning goodwill and intangible assets is presented in the following table:

	December 31, 2007		December 31, 2006	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Identifiable intangibles	$ 3,734,000	$ 1,941,309	$ 3,734,000	$ 1,603,690
Unamortizable goodwill	3,421,868	--	3,421,868	--

Amortization expense of intangible assets for each of the three years ended December 31, 2007 totaled $337,619. Estimated amortization expense of identifiable intangibles for the years ended December 31 follows:

2008	$ 337,619
2009	212,905
2010	171,333
2011	171,333
2012	171,333
Thereafter	728,168
	$ 1,792,691

Note 19. Trust Preferred Capital Notes

On November 14, 2001, ICBI Capital Trust I, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable Capital Securities. On November 28, 2001, $10 million of trust preferred securities were issued through a pooled underwriting totaling approximately $750 million. The securities had a LIBOR-indexed floating rate of interest. During 2006, the interest rates ranged from 8.42% to 9.17%. For the year ended December 31, 2006, the weighted-average interest rate was 8.82%. On December 8, 2006, the Company exercised the call provision and redeemed the entire issuance.

On December 12, 2003, MFC Capital Trust II, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable Capital Securities. On December 19, 2003, $5 million of trust preferred securities were issued through a pooled underwriting totaling approximately $344 million. The securities have a LIBOR-indexed floating rate of interest.

During 2007, the interest rates ranged from 7.83% to 8.23%. For the year ended December 31, 2007, the weighted-average interest rate was 8.14%. The securities have a mandatory redemption date of January 23, 2034, and are subject to varying call provisions beginning January 23, 2009. The principal asset of the Trust is $5.2 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the Capital Securities.

The Trust Preferred Securities may be included in Tier 1 capital for regulatory capital adequacy determination purposes up to 25% of Tier 1 capital after its inclusion. The portion of the Trust Preferred not considered as Tier 1 capital may be included in Tier 2 capital. On December 31, 2007, all of the Company's Trust Preferred Securities are included in Tier I capital.

The obligations of the Company with respect to the issuance of the Capital Securities constitute a full and unconditional guarantee by the Company of the Trusts' obligations with respect to the Capital Securities.

Subject to certain exceptions and limitations, the Company may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related Capital Securities.

Note 20. Mortgage Company Interest

Middleburg Bank, a wholly owned subsidiary of the Company, owns 41.8% of the issued and outstanding membership interest units of Southern Trust Mortgage, LLC. The Bank acquired the membership interest units in equal proportion from the seven members of Southern Trust, all of who own, in the aggregate, the remaining issued and outstanding units of Southern Trust. Southern Trust is a regional mortgage lender headquartered in Norfolk, Virginia and has offices in Virginia, Maryland, North Carolina, South Carolina and Georgia. The purchase price that the Company and the Bank paid in connection with the Acquisition consisted of approximately $6.0 million in cash and 44,359 shares of common stock.

The Company is accounting for its investment in Southern Trust by the equity method of accounting under which the Company's share of the net income of the affiliate is recognized as income in the Company's income statement and added to the investment account, and dividends received from the affiliate are treated as a reduction of the investment account. The investment in affiliate totaling $3.9 million at December 31, 2007 is included in other assets on the consolidated balance sheet.

As previously disclosed, the Company engaged an independent firm to assist with valuing Middleburg Bank's investment in Southern Trust Mortgage, LCC in order to determine whether or not its investment in the affiliate had been impaired. Based upon the Company's impairment testing and the independent valuation of the investment in Southern Trust Mortgage, the Company's Board of Directors concluded on December 19, 2007 that an impairment charge with respect to the carrying value was required under generally accepted accounting principles. Accordingly, during the fourth quarter of 2007, the Company recorded a non-cash impairment charge of $5.0 million related to its investment in Southern Trust Mortgage.

In February 2008, the Company opened a $5.0 million line of credit to Southern Trust Mortgage. The line of credit is secured by residential construction loans.

Note 21. Condensed Financial Information – Parent Corporation Only

MIDDLEBURG FINANCIAL CORPORATION
(Parent Corporation Only)

Balance Sheets
December 31, 2007 and 2006

	2007	2006
	(In Thousands)	
Assets		
Cash on deposit with subsidiary bank	$ 1,521	$ 1,268
Money market fund	4	3
Securities available for sale	77	76
Investment in subsidiaries	77,399	77,290
Goodwill	3,422	3,422
Intangible assets, net	1,793	2,130
Other assets	663	662
Total assets	$ 84,879	$ 84,851
Liabilities		
Trust preferred capital notes	$ 5,155	$ 5,155
Other liabilities	1,820	1,798
Total liabilities	$ 6,975	$ 6,953
Shareholders' Equity		
Common stock	$ 11,316	$ 11,264
Capital surplus	23,817	23,503
Retained earnings	43,773	44,139
Accumulated other comprehensive loss, net	(1,002)	(1,008)
Total shareholders' equity	$ 77,904	$ 77,898
Total liabilities and shareholders' equity	$ 84,879	$ 84,851

MIDDLEBURG FINANCIAL CORPORATION
(Parent Corporation Only)

Statements of Income
Years Ended December 31, 2007, 2006 and 2005

	2007	2006	2005
		(In Thousands)	
Income			
Dividends from subsidiaries	$ 4,138	$ 14,280	$ 2,097
Interest and dividends from investments	7	8	56
Interest on money market fund	- -	2	12
Management fees from subsidiaries	40	40	40
Other income	(71)	30	- -
Gains on securities available for sale, net	- -	1	149
Total income	$ 4,114	$ 14,361	$ 2,354
Expenses			
Salaries and employee benefits	$ 238	$ 157	$ 151
Amortization	358	413	418
Legal and professional fees	120	99	27
Printing and supplies	1	3	4
Directors fees	58	58	73
Interest expense	425	1,280	1,028
Other	602	467	421
Total expenses	$ 1,802	$ 2,477	$ 2,122
Income before allocated tax benefits and undistributed (distributions in excess of) income of subsidiaries	$ 2,312	$ 11,884	$ 232
Income tax (benefit)	(624)	(686)	(506)
Income before equity in undistributed income of subsidiaries	$ 2,936	$ 12,570	$ 738
Equity in undistributed (distributions in excess of) income of subsidiaries	128	(4,552)	6,436
Net income	$ 3,064	$ 8,018	$ 7,174

MIDDLEBURG FINANCIAL CORPORATION
(Parent Corporation Only)

Statements of Cash Flows
Years Ended December 31, 2007, 2006 and 2005

	2007	2006	2005
		(In Thousands)	
Cash Flows from Operating Activities			
Net income	$ 3,064	$ 8,018	$ 7,174
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	358	413	418
Equity in (undistributed) distributions in excess of earnings of subsidiaries	(128)	4,552	(6,436)
Gain on sale of securities available for sale	- -	(1)	(149)
Share-based compensation	57	- -	- -
(Increase) decrease in other assets	(48)	(54)	159
Increase (decrease) in other liabilities	66	(22)	(245)
Net cash provided by operating activities	$ 3,369	$ 12,906	$ 921
Cash Flows from Investing Activities			
Proceeds from sale of securities available for sale	$ - -	$ 13	$ 1,742
Investment in subsidiary bank	- -	(19,000)	- -
Net cash provided by (used in) investing activities	$ - -	$ (18,987)	$ 1,742
Cash Flows from Financing Activities			
Payments on trust preferred capital notes	$ - -	$ (10,000)	$ - -
Payments for the repurchase of common stock	- -	- -	(408)
Net proceeds from issuance of common stock	309	19,821	147
Cash dividends paid	(3,424)	(3,027)	(2,890)
Net cash provided by (used in) financing activities	$ (3,115)	$ 6,794	$ (3,151)
Increase (decrease) in cash and cash equivalents	$ 254	$ 713	$ (488)
Cash and Cash Equivalents			
Beginning	1,271	558	1,046
Ending	$ 1,525	$ 1,271	$ 558

Note 22. Segment Reporting

The Company has two reportable segments, (1)banking and (2)trust and investment advisory services. Revenue from banking activity consists primarily of interest earned on loans and investment securities, service charges on deposit accounts, and income recognized from the Bank's investment in Southern Trust Mortgage.

Revenues from trust and investment advisory services are comprised of fees based upon the market value of assets under administration. The trust and investment advisory services are conducted by two subsidiaries of the Company; Middleburg Trust Company and Middleburg Investment Advisors.

Information about reportable segments and reconciliation to the consolidated financial statements follows:

	For the Year Ended December 31, 2007			
	Banking	Trust and Investment Advisory	Intersegment Eliminations	Consolidated
	(In Thousands)			
Revenues:				
Interest income	$ 49,599	$ 58	$ (29)	$ 49,628
Trust and investment advisory fee income	- -	4,444	(89)	4,355
Other income	3,388	- -	(41)	3,347
Total operating income	$ 52,987	$ 4,502	$ (159)	$ 57,330
Expenses:				
Interest expense	$ 22,470	$ - -	$ (29)	$ 22,441
Salaries and employee benefits	11,289	2,268	- -	13,557
Provision for loan losses	1,786	- -	- -	1,786
Other	14,557	1,471	(130)	15,898
Total operating expenses	$ 50,102	$ 3,739	$ (159)	$ 53,682
Income before income taxes	$ 2,885	$ 763	$ - -	$ 3,648
Provision for income taxes	251	333	- -	584
Net income	$ 2,634	$ 430	$ - -	$ 3,064
Total assets	$ 836,899	$ 6,900	$ (2,399)	$ 841,400
Capital expenditures	$ 3,734	$ 35	$ - -	$ 3,769

	For the Year Ended December 31, 2006			
	Banking	Trust and Investment Advisory	Intersegment Eliminations	Consolidated
	(In Thousands)			
Revenues:				
Interest income	$ 45,368	$ 62	$ (32)	$ 45,398
Trust and investment advisory fee income	- -	4,209	(95)	4,114
Other income	4,041	1	(41)	4,001
Total operating income	$ 49,409	$ 4,272	$ (168)	$ 53,513
Expenses:				
Interest expense	$ 18,519	$ - -	$ (32)	$ 18,487
Salaries and employee benefits	11,407	2,283	- -	13,690
Provision for loan losses	499	- -	- -	499
Other	8,202	1,454	(136)	9,520
Total operating expenses	$ 38,627	$ 3,737	$ (168)	$ 42,196
Income before income taxes	$ 10,782	$ 535	$ - -	$ 11,317
Provision for income taxes	3,045	254	- -	3,299
Net income	$ 7,737	$ 281	$ - -	$ 8,018
Total assets	$ 767,185	$ 7,147	$ (2,027)	$ 772,305
Capital expenditures	$ 909	$ 49	$ - -	$ 958

	For the Year Ended December 31, 2005			
	Banking	Trust and Investment Advisory	Intersegment Eliminations	Consolidated
	(In Thousands)			
Revenues:				
Interest income	$ 36,193	$ 47	$ (28)	$ 36,212
Trust and investment advisory fee income	- -	4,045	(105)	3,940
Other income	5,127	(5)	(41)	5,081
Total operating income	$ 41,320	$ 4,087	$ (174)	$ 45,233
Expenses:				
Interest expense	$ 11,624	$ - -	$ (28)	$ 11,596
Salaries and employee benefits	11,199	2,041	- -	13,240
Provision for loan losses	1,744	- -	- -	1,744
Other	7,564	1,262	(146)	8,680
Total operating expenses	$ 32,131	$ 3,303	$ (174)	$ 35,260
Income before income taxes	$ 9,189	$ 784	$ - -	$ 9,973
Provision for income taxes	2,458	341	- -	2,799
Net income	$ 6,731	$ 443	$ - -	$ 7,174
Total assets	$ 733,734	$ 7,557	$ (1,380)	$ 739,911
Capital expenditures	$ 3,682	$ 3	$ - -	$ 3,685

Note 23. Stock Offering

In July 2006, the Company issued 676,552 shares of its common stock in an underwritten public offering. The public price of $31.00 per share, less the underwriters' commissions and expenses of the offering, resulted in net proceeds of $19.5 million to the Company. The Company used the proceeds to provide additional equity capital to the Bank to support the growth of operations.

Middleburg
Financial Corporation

Stock Listing
Current market quotations for the common stock of Middleburg Financial Corporation are available on the Nasdaq Capital Market under the symbol MBRG.

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Investor Relations, Financial Statements & Code Of Ethical Conduct
During the year, we distribute an annual report to shareholders. Additionally, we file an annual report to the Securities and Exchange Commission on Form 10-K and quarterly reports on Form 10-Q. A copy of the reports or our Code of Ethical Conduct may be obtained without charge by visiting our website www.middleburgbank.com or upon written request to:

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