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

FORM 10-K

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

For the fiscal year ended December 31, 2007.

OR

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

Commission file number 0-25286

CASCADE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Washington	91-1661954
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. Number)
2828 Colby Avenue, Everett, Washington	98201
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(425) 339-5500
Securities registered pursuant to Section 12(b) of the Act:	None
Securities registered pursuant to Section 12(g) of the Act:	Common Stock, par value $0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.
YES ¨ NO þ

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 þ

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 twelve 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 þ 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act. (Check one):

Large Accelerated Filer ¨ Accelerated Filer þ Non-Accelerated Filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ¨ NO þ

The aggregate market value of Common Stock held by non-affiliates of registrant at February 29, 2008 was $152.5 million (based on the last reported sale on such date). The number of shares of registrant's Common Stock outstanding at February 29, 2008, was 12,047,927.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of Annual Report to Stockholders for the year ended December 31, 2007, including the Selected Financial Data and the Management Discussion and Analysis attached as Exhibit 13 (the "Annual Report") (Part I, II & IV).

2. Portions of registrant's Definitive Proxy Statement for the Annual Meeting of Stockholders (the "Proxy Statement") (Part III).

Cascade Financial Corporation
FORM 10-K
December 31, 2007

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FORWARD LOOKING STATEMENTS

In addition to historical information, this Form 10-K contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"). This statement is included for the express purpose of availing Cascade Financial Corporation of the protections of the safe harbor provisions of the PSLRA. The forward-looking statements contained herein are subject to factors, risks and uncertainties that may cause actual results to differ materially from those projected.

The following items are among the factors that could cause actual results to differ materially from the forward-looking statements: higher than expected loan delinquency rates; general economic conditions, including their impact on capital expenditures; business conditions in the banking industry; recent world events and their impact on interest rates, businesses and customers; the regulatory environment; new legislation; vendor quality and efficiency; employee retention factors; rapidly changing technology and evolving banking industry standards; competitive standards; competitive factors, including increased competition with community, regional, and national financial institutions; fluctuating interest rate environments; and similar matters. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only at the date of the statement. The Corporation undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date of this report. Readers should carefully review the risk factors described in this and other documents the Corporation files from time to time with the Securities and Exchange Commission. There can be no assurance that any of the strategies described in this Form 10-K will be implemented, or if implemented, achieve the amounts described or within the time periods currently estimated. Sentences containing words such as "may," "will," "expect," "anticipate," "believe," "estimate," "should," "projected," or similar words may constitute such forward-looking statements.

Item 1. Business

General

Cascade Financial Corporation (the "Corporation") is a bank holding company incorporated in the state of Washington that was formed in 1994. The consolidated entity includes the Corporation and its wholly owned subsidiaries. At December 31, 2007, the Corporation's wholly owned subsidiaries were Cascade Bank ("Cascade" or the "Bank"), Cascade Capital Trust I, II, and III. The executive offices of the Corporation are located at 2828 Colby Avenue, Everett, Washington 98201. The telephone number is (425) 339-5500 and the website is www.cascadebank.com. Information on the website is not part of this Report.

The Bank has been serving the people of Snohomish and King Counties since 1916 when it was organized as a mutual savings and loan association. On September 15, 1992, the Bank completed its conversion from a federal mutual to a federal stock savings bank. In July 2001, the Bank converted from a federal stock savings bank to a Washington state commercial bank.

The Corporation was organized on August 18, 1994, for the purpose of becoming the holding company for Cascade Bank. The reorganization was completed on November 30, 1994, on which date the Bank became the wholly-owned subsidiary of the Corporation, and the stockholders of the Bank became stockholders of the Corporation. Subsequent to the acquisition of Cascade, the primary activity of the Corporation has been holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank.

In July of 2001, the Corporation elected to be treated as a financial holding company under the supervision of the Federal Reserve Board. In May of 2003, the Corporation transferred its state of domicile from Delaware, which it had maintained since its formation as a holding company in 1994, to Washington. Following this conversion, the Corporation changed its fiscal year end from June 30 to December 31 to align its reporting period with those of its commercial bank peers.

In June of 2004, the Corporation completed the acquisition of Issaquah Bancshares ("Issaquah"). Issaquah Bank, the only operating subsidiary of Issaquah, was merged into Cascade Bank.

The Corporation conducts its business from its main office in Everett, Washington, and nineteen other full-service offices in the greater Puget Sound Region. At December 31, 2007, the Corporation had total assets of $1.4 billion, total deposits of $904.9 million and stockholders' equity of $122.1 million.

The Bank, a full-service commercial bank, offers a wide range of products and services. The deposits of the Bank are insured by the Federal Deposit Insurance Corporation (“FDIC”), up to the limits specified by law.

Market Area

Headquartered in Everett, Washington, the Corporation serves its customers from twenty full-service offices, twelve in Snohomish County and eight in King County. In 2007, the Bank opened a loan production office in Burlington, Washington, in Skagit County. The Bank will open a full service branch in Burlington in the second quarter of 2008. Located in the center of the western Washington region, Snohomish and King counties have experienced significant growth in recent years. The rebound in commercial aircraft orders and the success of Boeing’s new 787 has helped fuel an increase in economic activity in Snohomish County.

Our market area in King County includes the growing cities east of Seattle and Lake Washington. This area’s economy has been dominated by Microsoft and the Boeing Company, with other high technology companies also playing an important role. The housing market has been particularly strong due to population growth in the region and the lack of affordable housing within Seattle itself.

Everett is the homeport of the Navy’s carrier battle ship, the USS Abraham Lincoln. The contribution that the Navy makes to the economy is not as dependent on other trends. The economy in the Corporation’s market area has become more dependent upon the health care and biotechnology industries. Snohomish County and Northeast King County are home to numerous biotechnology companies.

As a gateway to Asia, the Bank’s market area has also benefited from the expansion of world trade. Economic weakness in either the United States or Asia could reduce that trade. Such slowdowns in the international flow of goods and services could prove detrimental to the economy of the market area and potentially the quality of our loan portfolios.

Business Strategy

The Corporation’s business plan is to increase the Bank’s emphasis on commercial banking. The Corporation is pursuing the following strategies:

- Increasing the percentage of its assets consisting of business, construction, and commercial real estate loans with higher risk-adjusted returns, shorter maturities and rates more sensitive to interest rate fluctuations;
- Increasing deposits by attracting lower cost transaction accounts (such as checking, savings and money market accounts) through an enhanced branch network, customer service center, online banking and an augmented treasury management program;
- Maintaining cost-effective operations by efficiently offering products and services;
- Maintaining its capital position at or above the “well-capitalized” (as defined for regulatory purposes) level;
- Exploring prudent means to grow the business internally and through acquisitions; and
- Searching for additional sources of fee-based revenue.

The primary objectives of these strategies are to enhance shareholder value measured through increasing returns, and to increase the opportunity for quality earning asset growth, deposit generation, and fee-based income activities. However, the shift in emphasis to commercial banking does inherently contain additional risks (See “LOAN PORTFOLIO” below).

Competition

The Bank competes for both loans and deposits. The Puget Sound metropolitan area has a high density of financial institutions, including major national banks, several local community banks, and credit unions.

The Bank's primary focus for loans is small to medium sized businesses, builders and developers, and real estate investors in the Puget Sound area. The major competitors for the Bank in these loan markets are large commercial and community banks. The large banks often compete on the basis of competitive pricing, while the community banks compete on the basis of local decision making, loan structuring flexibility, and promises of a higher level of service. The general pricing remains very intense as financial institutions scramble to meet their growth goals.

The Bank's competitors for retail loans, which include residential real estate and consumer loans, are numerous, including banks, mortgage bankers, captive finance subsidiaries of automobile companies, etc. Cascade has made a conscious decision to de-emphasize consumer lending in that intense competition has led to very low margins combined with relatively high credit risk.

On the deposit side, geographic location is still the primary factor in choosing a bank for the checking account relationship. As a result, the Bank's competition for checking deposits comes primarily from the large institutions with a broad network of locations. Online Banking continues to be an important convenience service to attract checking customers from larger banks. In addition, Cascade has made an arrangement with US Bank to allow customers to use US Bank ATMs without a surcharge. Community banks, savings institutions, as well as other non-banking financial institutions, provide the greatest competition for the various savings vehicles such as money market deposit accounts and certificates of deposit. Two de novo banks opened in Everett in the past two years, which has added to an already intense level of pricing pressure for deposits.

In addition to competition from other banking institutions, the Bank continues to experience increased competition from non-banking companies such as credit unions, financial services companies and brokerage firms. Many credit unions, including a large one in Cascade's market area, have expanded their eligible membership by amending their charters.

LOAN PORTFOLIO

General. The Bank originates business, real estate and consumer loans. Total loans, which are net of construction loans in process, equaled $1.11 billion at December 31, 2007. Total loans were adjusted by deferred loan fees and the allowance for loan losses for a net loan balance of $1.09 billion. At December 31, 2007, $468.5 million or 42.3% of total loans consisted of business banking loans; $381.8 million or 34.4% were real estate construction loans; $120.4 million or 10.9% of loans consisted of commercial real estate; $27.7 million or 2.5% were consumer loans; $98.4 million or 8.9% of the Bank's loans consisted of loans secured by one-to-four family residential properties; and $11.4 million or 1.0% consisted of multifamily loans. Total loans secured by first liens on residential real estate were $109.8 million or 9.9% of total loans. The Bank sells almost all its 30 year fixed-rate loans and the vast majority of its 15 year fixed-rate loans in the secondary mortgage market. The Bank had non-mandatory forward commitments totaling $0 and $364,000 to sell loans into the secondary market at December 31, 2007, and December 31, 2006, respectively.

Loan Portfolio Analysis. The following table sets forth the Bank's loan portfolio by type of loan and by type of collateral at the dates indicated.

	At December 31,					
	2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Type of Loan						
Real estate mortgage						
Residential (1)	$ 98,384	8.88%	$ 91,256	9.03%	$ 89,422	10.15%
Multifamily	11,397	1.03	34,719	3.44	52,057	5.91
Commercial real estate	120,421	10.87	119,298	11.81	141,109	16.02
Construction (2)	381,810	34.44	295,087	29.20	171,964	19.52
Business banking	468,453	42.28	442,391	43.78	394,034	44.75
Consumer (3)	27,688	2.50	27,686	2.74	32,160	3.65
Total loans	$ 1,108,153	100.00%	$ 1,010,437	100.00%	$ 880,746	100.00%
Less:						
Deferred loan fees, net	3,724		3,434		3,443	
Allowance for loan losses	11,653		10,988		10,254	
Total loans, net	$ 1,092,776		$ 996,015		$ 867,049	
Type of Collateral						
Real estate mortgage						
One-to-four family (4)	$ 501,762	45.28%	$ 402,415	39.83%	$ 279,652	31.76%
Multifamily	11,397	1.03	34,719	3.44	52,057	5.91
Commercial real estate	120,421	10.87	119,298	11.81	141,109	16.02
Land loans	3,984	0.36	5,094	0.50	6,007	0.68
Other	470,589	42.46	448,911	44.42	401,921	45.63
Total loans	$ 1,108,153	100.00%	$ 1,010,437	100.00%	$ 880,746	100.00%
Less:						
Deferred loan fees, net	3,724		3,434		3,443	
Allowance for loan losses	11,653		10,988		10,254	
Total loans, net	$ 1,092,776		$ 996,015		$ 867,049	

	At December 31,			
	2004		2003	
	Amount	Percent	Amount	Percent
Type of Loan	(Dollars in thousands)			
Real estate mortgage				
Residential (1)	$ 102,429	12.70%	$ 103,779	17.99%
Multifamily	92,372	11.45	87,212	15.12
Commercial real estate	178,704	22.15	83,856	14.53
Construction (2)	110,977	13.76	64,528	11.18

Business banking	292,117	36.21	204,446	35.43
Consumer [3]	30,125	3.73	33,163	5.75
Total loans	$ 806,724	100.00%	$ 576,984	100.00%
Less:				
Deferred loan fees, net	2,695		2,179	
Allowance for loan losses	9,563		7,711	
Total loans, net	$ 794,466		$ 567,094	

	At December 31,			
	2004		2003	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Type of Collateral				
Real estate mortgage				
One-to-four family (4)	$ 231,504	28.70%	$ 190,168	32.96%
Multifamily	92,372	11.45	87,212	15.12
Commercial real estate	178,704	22.15	83,856	14.53
Land loans	3,546	0.44	1,786	0.31
Other	300,598	37.26	213,962	37.08
Total loans	$ 806,724	100.00%	$ 576,984	100.00%
Less:				
Deferred loan fees, net	2,695		2,179	
Allowance for loan losses	9,563		7,711	
Total loans, net	$ 794,466		$ 567,094	

(1) Includes construction loans converted to permanent loans
(2) Includes land loans
(3) Includes home equity loans and home equity lines of credit ("HELOC")
(4) Includes residential home equity loans, HELOC's and construction loans

At December 31, 2007, deferred fees were $3.7 million and the allowance for loan losses was $11.7 million.

Business Banking Loans. Business banking loans increased from $442.4 million at December 31, 2006, to $468.5 million at December 31, 2007. Unsecured business banking loans totaled $25.3 million at December 31, 2007, compared to $22.3 million as of December 31, 2006. The Bank's business banking loan portfolio consists primarily of commercial business loans to small and medium sized businesses operating in Snohomish and King Counties. These loans are generally secured by real estate, receivables, equipment, other assets of the business and personal property, and the personal guarantee of the borrower. These loans typically have variable-rate terms or fixed-rates with maturities of up to five years. The Bank also offers secured and unsecured operating Lines of Credit. Business banking loans are underwritten by the Bank on the basis of the borrower's cash flow, ability to service debt from earnings, and the underlying collateral value. The borrower is generally required to provide the Bank with financial statements, tax returns, current financial information on any and all guarantors, and other reports that show trends in their financial condition; and to update this information annually. Business banking loans also include owner occupied real estate loans with terms comparable to the Bank's commercial real estate loans. In addition, as business banking activity increases, the Bank expects to expand its lower cost deposit franchise through the growth of commercial checking as a source of funding.

Business banking loans are inherently sensitive to conditions in the economy. The collateral securing these loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. In the case of loans secured by accounts receivable, the availability of funds for the repayment of such loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. Accordingly, the repayment of a business loan depends primarily on the successful operation of the borrower's business and creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and potentially insufficient source of repayment.

Construction Loans. The Bank originates construction loans to fund the building of one-to-four family homes either to borrowers as custom construction loans or to builders as speculative construction loans. Construction loans generally have maturities of 12-18 months. The interest rates charged on construction loans are typically indexed to the prime rate and vary depending on the characteristics of the loan, particularly the credit risk inherent in the project and/or the financial strength of the borrower. All construction loans require approval by various levels of Bank personnel, depending on the size of the loan. The Bank has increased its construction loan portfolio because these loans have relatively high margins, floating interest rates and short-term maturities. At December 31, 2007, and December 31, 2006, the Corporation’s construction loans were $381.8 million or 34.4% of the total loan portfolio and $295.1 million or 29.2% of the total loan portfolio, respectively. The construction loans are net of loans in process of $151.4 million at December 31, 2007, and $99.9

million at December 31, 2006. Of the total net construction loans, $367.9 million was to builders and developers, including $129.0 million for land acquisition and development. An additional $9.9 million was to individuals for custom home construction and $4.0 million was for lot purchases. The Bank's maximum outstanding commitment to one builder at December 31, 2007, totaled $20.4 million involving one construction project, which is performing in accordance with the loan terms.

Construction loans may involve higher credit risks because loan funds are advanced upon the security of the project under construction that is of uncertain value before completion. The Bank's risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development and the estimated cost (including interest) of the construction. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance additional funds to complete the development. If upon completion of the project, the estimate of the marketability of the property is inaccurate, the borrower may be unable to sell the completed project in a timely manner or obtain adequate proceeds to repay the loan. Delays may arise from labor problems, material shortages and other unpredictable contingencies in completing the project. Furthermore, if the estimate of value of a completed project is inaccurate, the Bank may be confronted with a project with a value that is insufficient to assure full repayment. As a result, these loans may involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of the borrower or guarantor to repay principal and interest.

Commercial Real Estate Loans. Commercial real estate loans totaled $120.4 million or 10.9% of the Bank's total loans at December 31, 2007, compared to $119.3 million or 11.8% of the portfolio at December 31, 2006. All commercial real estate loans are secured by properties in western Washington, mainly in the Puget Sound Region. Improved property including office buildings and small commercial business properties, such as strip shopping centers, secure the Bank's commercial real estate loans. These loans are primarily adjustable-rate with a maximum term until reset on the interest rate of five years. At December 31, 2007, the largest commercial real estate loan in the Bank's portfolio was $6.9 million, which is performing according to its terms.

Commercial real estate loans are also sensitive to local economic conditions. An economic slowdown can lead to increased vacancies that would lower the borrower's ability to service the debt. Commercial real estate loans also have a degree of interest rate risk in that if rates fall, borrowers may refinance, and if rates rise, the Bank could experience a squeeze on net interest margin if the Bank does not properly fund these loans, which often have a fixed-rate for the initial five years of the loan.

Multifamily Loans. Multifamily loans totaled $11.4 million or 1.0% of the total loan portfolio at December 31, 2007. The multifamily portfolio is principally comprised of small to medium-size apartment projects with loan-to-value ratios usually up to 75%. All new loan originations are in the Puget Sound Region and have adjustable interest rates.

Multifamily residential and commercial real estate lending affords the Bank an opportunity to receive interest at rates higher than those generally available from one-to-four family mortgage loans. However, loans secured by such properties usually are greater in amount and may involve a greater degree of risk than individual one-to-four family residential mortgage loans. Because payments on loans secured by multifamily residential and commercial properties are often dependent on the successful operation and management of the properties, repayment of such loans may be affected by adverse conditions in the real estate market or the economy.

One-to-Four Family Residential Loans. At December 31, 2007, residential loans totaled $98.4 million or 8.9% of the total loan portfolio. Residential lending consists primarily of first mortgage loans secured by single-family residential properties located principally in Snohomish and King Counties. The Bank originates both fixed-rate and adjustable-rate mortgages ("ARMs") with maturities up to 30 years. ARM loans are generally held in the Bank's portfolio. Newly originated ARMs have interest rates that adjust based on the One Year Constant Maturity Treasury Index after an initial fixed-rate period. Borrower demand for ARMs versus fixed-rate mortgage loans is a function of the level of interest rates, the shape of the yield curve, and the differences between the interest rates and loan fees offered for fixed-rate mortgage loans and the rates and loan fees for ARMs.

Fixed-rate residential loans are generally sold and the servicing released to one of the Bank's correspondents. The loans are sold on a "best efforts" basis. The Bank no longer packages its loans to sell as mortgage-backed securities. The Bank had $129,000 in loans held for sale at December 31, 2007, and $311,000 in loans held for sale at December 31, 2006. Loans held for sale are not material and therefore the Bank does not include them as a separate line item on the balance sheet. The Bank has greatly reduced its emphasis on mortgage banking and mortgage lending in the past five years.

The Bank's conforming residential loans meet the Federal Home Loan Mortgage Corporation's underwriting standards with respect to credit, borrower debt ratios and documentation. The Bank's nonconforming residential loans are those that do not conform to agency underwriting guidelines, due to the size of the loan, as a result of credit histories, debt-to-income ratios, reliance on the borrower's stated income, non-owner occupied property, rural property, or other exceptions from agency guidelines. The Bank does not offer subprime loans.

Consumer Loans. The Bank's consumer loan activities take three forms: home equity loans or Lines of Credit, installment loans, and Visa card loans. Home equity loans are secured by a junior lien in priority on the borrower's home. Such loans may have a combined loan-to-value ratio of up to 90% of the value of the home securing the loan. Home equity loans are fixed amount loans, which may have fixed or floating interest rates. Home equity Lines of Credit can be drawn upon at any time by the customer up to a specific amount. These loans are at a floating-rate with a floor on that rate. The balance outstanding for both types of home equity loans increased to $21.6 million at December 31, 2007, as compared to $21.2 million at December 31, 2006. At December 31, 2007 and December 31, 2006, the total amount of unused Lines of Credit were $20.4 million and $24.0 million, respectively. The second category of consumer loans are installment loans in which boats, automobiles, and recreational vehicles serve as collateral. This portfolio was $6.1 million at December 31, 2007, as compared to $6.5 million outstanding at December 31, 2006. Since installment loans are secured by depreciating assets, any repossessed collateral for a defaulted loan is unlikely to provide an adequate source of repayment of the outstanding loan balance. The remaining deficiency often does not warrant further substantial collection efforts against the borrower. Consumer loan collections are dependent on the borrower's continuing financial ability, and are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

The Loan Maturity Table

The following table sets forth information at December 31, 2007 regarding the dollar amount of loans maturing in the Bank's portfolio based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments. Loan balances do not include deferred loan fees. Construction loans are net of loans in process.

	Due in one year or less	Due in one to five years	Due after five years	Total	With variable or adjustable rate (for maturities of more than one year)	With fixed rate (for maturities of more than one year)
			(Dollars in thousands)			
Business banking	$ 103,051	$ 123,797	$ 241,605	$ 468,453	$ 155,994	$ 209,408
Construction	232,777	104,527	44,506	381,810	141,575	7,458
Commercial real estate	3,310	23,102	94,009	120,421	110,783	6,328
Multifamily	—	3,931	7,466	11,397	7,787	3,610
Consumer	1,577	4,288	21,823	27,688	17,908	8,203
Residential	10,951	951	86,482	98,384	81,279	6,154

Asset Quality

Banking regulations require that each insured institution review and classify its assets regularly. In addition, bank examiners have the authority to identify problem assets and, if appropriate, require them to be adversely classified. There are three classifications for problem assets: substandard, doubtful and loss. Substandard assets must have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have sufficient weaknesses that make collection or payment in full, based on currently existing facts, conditions and values, questionable. An asset classified loss is considered uncollectible and of such little value that its continuance as an asset of the institution is not warranted. Assets classified as substandard or doubtful require the institution to establish allowances for loan losses. If an asset, or portion thereof, is classified loss, the insured institution must either establish specific allowances for loan losses in the amount of 100% of the portion of the asset classified loss or charge-off such amounts. The Bank uses two other asset classification categories for potential problem loans. They are watch and special mention. Borrowers with declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average risk are classified as watch. Loans on special mention represent borrowers who exhibit potential credit weaknesses or trends deserving Bank management's close attention.

At December 31, 2007, the Bank had three land acquisition loans to a single borrower that were more than 90 days past due and classified substandard, although the Bank is continuing to accrue interest on these loans because it expects to eventually collect all principal and interest due. These loans, which total $11.6 million, are secured by deeds of trust on tracts of land intended to be used for single family residential developments in Snohomish County, Washington. The Bank recently had the properties reappraised and based on such appraisals, believes the loans are fully collateralized. The Bank is working with the borrower to collect these loans, and the borrower has agreed to sell the properties to third parties; however, there can be no assurance the sales will close. The Bank's management will continue to carefully monitor these loans.

Cascade established the Credit Administration Division in 2001 to help assure that the Bank maintains the quality of its loan portfolio. Management has comprehensive monthly and annual review procedures for identifying and classifying assets for weaknesses. Reserves are maintained for assets classified as substandard or doubtful. The objective of these review procedures is to identify any trends and determine the levels of loss exposure to evaluate the need for an adjustment to the reserve accounts.

Delinquencies. A report containing delinquencies of all loans is reviewed monthly by the Asset Review Committee and periodically by the Board of Directors. Procedures taken with respect to delinquent loans differ depending on the particular circumstances of each loan. The Bank’s general procedures provide that when a loan becomes delinquent, the borrower is contacted, usually by phone, within 30 days. When the loan is over 30 days delinquent, the borrower is usually contacted in writing. Typically, the Bank will initiate foreclosure or other corrective action against the borrower when principal and interest become 90 days or more delinquent. In most cases, interest income is reduced by the full amount of accrued and uncollected interest on loans once they become 90 days delinquent, go into foreclosure or are otherwise determined to be uncollectible. Once interest has been paid to date or management considers the loan fully collectable, it is returned to accrual status. An allowance for loss is established when, in the opinion of management, the fair value less sales costs of the property collateralizing the loan is less than the outstanding principal and the collectability of the loan’s principal becomes uncertain. It is intended that the Bank’s allowance for loan losses be adequate to cover known potential and reasonably estimated unknown losses. At December 31, 2007, and December 31, 2006, the Bank had $1.5 million and $851,000, respectively, of loans held on a non-accrual basis.

Allowance for Loan Losses/Nonperforming Loans

Management provides for possible loan losses by maintaining an allowance. The level of the allowance is determined based upon judgments regarding the size and nature of the loan portfolio, including concentrations of collateral type, historical loss experience, the financial condition of borrowers, the level of nonperforming loans, trends in asset classification and anticipated general economic conditions. Additions to the allowance are charged to expense. Loans are charged against the allowance when management believes the collection of principal is unlikely. Increases in the allowance for loan losses made through provisions were primarily a result of loan growth, awareness of the greater risk inherent in business lending and the impact of the economic climate on the loan portfolio.

Management measures the reasonableness of the allowance for loan losses by utilizing a loan grading system to determine risk in the loan portfolio and by considering the results of credit reviews. The loan portfolio is separated by quality and then by loan type. Loans of acceptable quality are evaluated as a group, by loan type, with a loss rate assigned to the total loans in each type, but unallocated to any individual loan. Adversely classified loans in excess of $1.0 million are individually analyzed to determine an estimated loss amount. A loss rate is also assigned to these adversely classified loans, but at a higher rate due to the greater risk of loss. Past due and impaired loans are actively managed to minimize the potential loss. Although management has allocated a portion of the allowance to the loan categories using the method described above, the adequacy of the allowance must be considered as a whole. Loan concentrations, quality, terms, and basic underlying assumptions remain substantially unchanged except that the Bank projects a slow down in the economy and the pace of financial activity.

The following table presents information with respect to the Bank's nonperforming assets and restructured loans at the dates indicated.

	December 31, 2007	December 31, 2006	December 31, 2005
	(Dollars in thousands)		
Nonperforming loans:			
Commercial loans			
Business banking	$ 1,522	$ 731	$ 958
Commercial real estate	—	—	842
	1,522	731	1,800
Residential	—	—	187
Consumer loans	1	120	—
Total nonperforming loans	1,523	851	1,987
Other real estate and repossessed assets	—	—	101
Total nonperforming assets	$ 1,523	$ 851	$ 2,088
Restructured loans	$ 334	$ 115	$ 1,467
Total nonperforming loans to net loans	0.14 %	0.08 %	0.23%
Total nonperforming loans to total assets	0.11	0.06	0.16
Total nonperforming assets to total assets	0.11	0.06	0.17

The Bank's nonperforming assets at December 31, 2007, consisting of nonperforming loans and other real estate owned, totaled $1.5 million or 0.11% of total assets. This is an increase from $851,000 or 0.06% of total assets at December 31, 2006, and a decrease from $2.1 million or 0.17% of total assets at December 31, 2005.

Loans are generally placed on non-accrual when they become past due over 90 days or when the collection of interest or principal is considered unlikely. Loans past due over 90 or 120 days, that are not on non-accrual status, must be well secured by tangible collateral and in the process of collection. The Bank does not return a loan to accrual status until it is brought current with respect to both principal and interest and future principal and interest payments are no longer in doubt.

Nonperforming loans increased to $1.5 million at December 31, 2007, compared to $851,000 at December 31, 2006, and $2.0 million at December 31, 2005. The increase in nonperforming loans from December 31, 2006 to December 31, 2007, is due to increases in nonperforming commercial loans. Management believes that the allowance for losses on loans is adequate to provide for losses that may be incurred on nonperforming loans.

Other real estate owned includes property acquired by the Bank through foreclosure. Other real estate is carried at the lower of the estimated fair value or the principal balance of the foreclosed loans. Nonperforming other real estate and repossessed assets was $0 at December 31, 2007, $0 at December 31, 2006, and $101,000 at December 31, 2005.

Interest income that would have been recognized for the years ended December 31, 2007, December 31, 2006, and December 31, 2005, had non-accrual loans been current in accordance with their contractual terms, amounted to $111,249, $27,175, and $81,500, respectively.

The following tables set forth information regarding changes in the Bank's allowance for loan losses for the most recent five years.

(Dollars in thousands)	Years Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Balance at beginning of period	$ 10,988	$ 10,254	$ 9,563	$ 7,711	$ 6,872
Issaquah Bank balance at June 2004	—	—	—	1,395	—
Charge-Offs					
Business banking	288	47	1	310	295
Commercial real estate	—	—	—	—	95
Residential	—	—	116	34	59
Consumer and other	390	367	403	97	302
Recoveries:	(135)	(148)	(266)	(223)	(315)
Net charge-offs (recoveries):	543	266	254	218	436
Provision for loan losses	1,350	1,000	945	675	1,275
Less off-balance sheet commitments	142	—	—	—	—
Balance at end of period	11,653	10,988	10,254	9,563	7,711
Average total loans outstanding	$ 1,046,093	$ 955,692	$ 854,684	$ 691,372	$ 565,453
Ratio of net charge-offs during the period to average loans outstanding	0.05%	0.03%	0.03%	0.03%	0.08%
Ratio of allowance for loan losses to average loans outstanding	1.11	1.15	1.20	1.38	1.36
Ratio of allowance for loan losses to total loans outstanding	1.05	1.09	1.16	1.19	1.34

A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the estimated losses on loans and foreclosed assets held for sale, management obtains independent appraisals for significant properties.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgment about information available to them at the time of their examination.

Certain loans may meet the criteria of troubled debt restructuring as defined in Statement of Financial Accounting Standards ("SFAS") No. 114 and No. 118, *Accounting by Creditors for Impairment of a Loan*, and *Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures*, respectively.

The following tables set forth information concerning the Bank's allocation of the allowance for loan losses and the percentage of loans in each category to total loans at the dates indicated.

	December 31,					
(Dollars in thousands)	**2007**		**2006**		**2005**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Business banking	$ 3,824	42.28%	$ 7,221	43.78%	$ 5,773	44.75%

Commercial real estate	605	10.87	2,159	11.81	3,020	16.02
Residential	205	8.88	255	9.03	337	10.15
Multifamily	16	1.03	271	3.44	275	5.91
Real estate construction	2,050	34.44	194	29.20	543	19.52
Consumer and other	326	2.50	605	2.74	306	3.65
Unallocated	4,627	—	283	—	—	—
Total allowance for loan losses	$ 11,653	100.00%	$ 10,988	100.00%	$ 10,254	100.00%

The provision for loan losses for the year ended December 31, 2007, totaled $1.4 million compared to $1.0 million for the year ended December 31, 2006, and $945,000 for the year ended December 31, 2005. The increase in the provision for loan losses for the twelve-month period ended December 31, 2007, was due to the increase in total loans and net charge-offs. Adversely classified loans increased to $29.1 million at December 31, 2007, from $9.4 million at December 31, 2006.

ASSET AND LIABILITY MANAGEMENT ACTIVITIES

The Bank’s Asset/Liability Management Committee (“ALCO”) has the responsibility to measure and monitor interest rate risk, the liquidity position, and capital adequacy. The Bank uses a variety of tools to measure, monitor, and manage interest rate risk. The Audit and Finance Committee of the Board of Directors reviews the interest rate risk management activities of the Bank on a regular basis and has established policies and guidelines on the amount of risk deemed acceptable. The impact on the Bank’s net interest income and the fair value of its capital are modeled under different interest rate scenarios. The Board, through the Asset/Liability Management Policy, has established guidelines for the maximum negative impact that changes in interest rates have on the Bank’s net interest income, the fair value of equity and adjusted capital/asset ratios under certain interest rate shock scenarios. Cascade uses a simulation model to measure rate risk and the impact on net interest income, the fair value of equity, and the fair value capital/asset ratio. In general, the Bank seeks to manage its rate risk through its balance sheet. The Bank focuses on originating more interest rate sensitive assets, such as variable-rate loans, while reducing its long-term, fixed-rate assets through the sale of long-term residential mortgages in the secondary market. The vast majority of the loans that the Bank keeps in its portfolio have rate repricing periods of five years or less. The Bank often uses FHLB advances to fund its intermediate term assets. Cascade also uses repurchase agreements to provide inexpensive funding.

Using standard interest rate shock methodology (an instantaneous uniform change in interest rates at all maturities), the Bank is well within the guidelines established by the Board of Directors for the changes in fair value of equity and the adjusted capital/asset ratios. The Bank’s fair value of equity decreases 21.3% in a down 200 bp shock scenario and 1.2% in an up 200 bp shock, within the established guideline of a maximum 30% decline. The adjusted capital/asset ratio is 11.5% in the up 200 bp scenario and 11.9% in the down 200 bp scenario, both above the 5% minimum established guideline. The net interest income increases 1.8% in the up 200 bp scenario and decreases 5.6% in the down 200 bp shock scenario well within the guideline of a 10% decline.

To manage the rate risk in the investment portfolio, limits have been established on the final maturity of securities and limits have been initiated on the price volatility of mortgage-backed securities (“MBS”) (including collateralized mortgage obligations (“CMO”)). Additionally, the Bank extends the maturities of its liabilities by offering long-term deposit products to customers, and obtaining longer term FHLB advances. As of December 31, 2007, all of the $231.0 million in advances had original maturities greater than one year and $229.0 million have remaining maturities greater than one year.

The Bank has used interest rate swaps to control the amount of its interest rate risk. In March 2007, the Bank terminated its $10.0 million in notional principal swaps used to hedge certificates of deposit. In December 2006, the Bank terminated its $10.0 million swap used to hedge its initial issuance of Trust Preferred Securities when it became likely that the changes in the fair value of the swap would need to be marked to market through the income statement due to a change in the accounting interpretation.

Another major component of asset/liability management is liquidity management. The Board of Directors has also established liquidity parameters that seek to assure the Bank will have sufficient liquidity to meet all its customer needs for funding and/or deposit withdrawals. Liquidity levels are monitored by the ALCO with liquidity analysis reports presented to the Board on a regular basis. The ALCO also monitors and reports to the Board on the capital position of the Bank and the Corporation. Both seek to remain “well-capitalized” under FDIC and Federal Reserve guidelines.

The balance sheets and the section of Management’s Discussion and Analysis titled “Average Balances and an Analysis of Average Rates Earned and Paid” contained in the Annual Report are incorporated herein by reference.

Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on net interest income of the Corporation. Information is provided with respect to (i) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate); (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) changes in rate/volume mix (change in rate multiplied by change in volume).

(Dollars in thousands)	Year Ended December 31, 2007 Compared to Year Ended December 31, 2006 Increase (Decrease) Due to				Year Ended December 31, 2006 Compared to Year Ended December 31, 2005 Increase (Decrease) Due to			
	Rate	Volume	Mix	Net	Rate	Volume	Mix	Net
Interest-earning assets								
Residential loans	$ 406	$ (219)	$ (16)	$ 171	$ 58	$ (354)	$ (4)	$ (300)
Multifamily loans	401	(1,621)	(227)	(1,447)	111	(2,110)	(47)	(2,046)
Commercial real estate loan	268	(1,781)	(49)	(1,562)	407	(1,488)	(55)	(1,136)
Construction loans	21	10,685	12	10,718	1,915	6,114	1,148	9,177
Consumer loans	16	(191)	(1)	(176)	192	(91)	(7)	94
Business banking loans	602	2,107	41	2,750	1,648	5,670	399	7,717
Total loans	1,714	8,980	(240)	10,454	4,331	7,741	1,434	13,506
Securities held-for-trading	—	1,884	—	1,884				
Securities available-for-sale	272	(2,094)	(85)	(1,907)	486	614	53	1,153
Securities held-to-maturity	380	(384)	(32)	(36)	87	167	2	256
Daily interest-earning deposits	26	777	79	882	15	(71)	(3)	(59)
Total net change in income on interest-earning assets	$ 2,392	$ 9,163	$ (278)	$ 11,277	$ 4,919	$ 8,451	$ 1,486	$ 14,856
Interest-bearing liabilities								
Interest-bearing deposits	$ 4,269	$ 2,043	$ 332	$ 6,644	$ 8,905	$ 497	$ 860	$ 10,262
FHLB advances	(420)	(554)	21	(953)	257	(92)	(3)	162
Other borrowings	435	1,019	127	1,581	(603)	3,158	(987)	1,568
Total net change in expenses on interest-bearing liabilities	$ 4,284	$ 2,508	$ 480	$ 7,272	$ 8,559	$ 3,563	$ (130)	$ 11,992
Net increase in net interest income				$ 4,005				$ 2,864

(Dollars in thousands)	Year Ended December 31, 2005 Compared to Year Ended December 31, 2004 Increase (Decrease) Due to			
	Rate	Volume	Mix	Net
Interest-earning assets				
Residential loans	$ (258)	$ (82)	$ 3	$ (337)
Multifamily loans	172	(1,071)	(31)	(930)
Commercial real estate loans	193	2,808	69	3,070
Construction loans	1,168	2,854	598	4,620
Consumer loans	4	(47)	—	(43)
Business banking loans	641	6,115	238	6,994

Total loans	1,920	10,577	877	13,374
Securities available-for-sale	(219)	(921)	30	(1,110)
Securities held-to-maturity	(81)	62	(1)	(20)
Daily interest-earning deposits	117	48	79	244
Total net change in income on interest-earning assets	$ 1,737	$ 9,766	$ 985	$ 12,488
Interest-bearing liabilities				
Interest-bearing deposits	$ 4,538	$ 1,853	$ 764	$ 7,155
FHLB advances	(944)	1,508	(134)	430
Other borrowings	871	(56)	(43)	772
Total net change in expenses on interest-bearing liabilities	$ 4,465	$ 3,305	$ 587	$ 8,357
Net increase in net interest income				$ 4,131

There was approximately $420,000 in interest on loans that were 90 days or more past due and still accruing as of December 31, 2007. There was no interest on loans 90 days or more past due as of December 31, 2006 or 2005.

INVESTMENT PORTFOLIO

The Board of Directors, through the Asset/Liability Management Policy, sets the investment policy of the Bank. This policy mandates that investments will be made based on the safety of the principal amount, interest rate risk, liquidity requirements of the Bank, and the return on the investment. The Bank's policy does not permit the purchase of non-investment grade bonds. The policy permits the investment in various types of assets permissible under FDIC regulation including: United States Treasury obligations, securities of government sponsored enterprises, mortgage-backed securities ("MBS") including collateralized mortgage obligations ("CMOs"), state and municipal government bonds, deposits at the FHLB-Seattle, certificates of deposit of federally insured institutions, investment grade corporate bonds, certain bankers' acceptances and federal funds. Subject to various restrictions, the Bank may also invest part of its assets in commercial paper and mutual funds, if those assets conform to FDIC regulations.

Investment securities decreased 3.1% to $232.0 million at December 31, 2007, from $239.4 million at December 31, 2006. The proceeds from the repayment of securities were used to fund loan growth. MBS (including CMOs) available-for-sale decreased from $38.0 million to $25.4 million as of December 31, 2007. Agency notes available-for-sale also decreased from $93.0 million to $57.4 million. MBS (including CMOs) held-to-maturity decreased from $25.2 million to $22.5 million as of December 31, 2007. Agency notes held-to-maturity increased from $70.9 million to $114.0 million for the year ended December 31, 2007.

The following tables set forth the Bank's securities available-for-sale at the dates indicated.

	December 31, 2007		December 31, 2006		December 31, 2005	
(Dollars in thousands)	Estimated Fair Value	Percent of Portfolio	Estimated Fair Value	Percent of Portfolio	Estimated Fair Value	Percent of Portfolio
MBS	$ 25,427	26.83%	$ 37,747	26.48%	$ 47,423	31.09%
Agency notes	57,433	60.60	92,909	65.16	93,173	61.09
FHLB stock	11,920	12.57	11,920	8.36	11,920	7.82
Corporate/other	—	—	—	—	—	—
Total	$ 94,780	100.00%	$ 142,576	100.00%	$ 152,516	100.00%

The following table sets forth the contractual or expected maturities and weighted average yields of the Bank's securities available-for-sale at December 31, 2007.

	Less Than One Year		One to Five Years		Five to Ten Years		Over Ten Years	
(Dollars in thousands)	Estimated Fair Value	Yield	Estimated Fair Value	Yield	Estimated Fair Value	Yield	Estimated Fair Value	Yield
MBS	$ —	—%	$ 10,891	5.02%	$ 12,746	5.73%	$ 1,790	5.48%
Agency notes	5,006	5.24	21,012	5.03	31,360	5.42	55	—
FHLB stock	—	—	—	—	—	—	11,920	—
Corporate/other	—	—	—	—	—	—	—	—
Total	$ 5,006		$ 31,903		$ 44,106		$ 13,765	

The following table sets forth amortized cost and estimated fair values for the Bank's securities held-to-maturity at the dates indicated.

	December 31, 2007			December 31, 2006			December 31, 2005		
(Dollars in thousands)	Amortized Cost	Fair Value	% of Portfolio	Amortized Cost	Fair Value	% of Portfolio	Amortized Cost	Fair Value	% of Portfolio
MBS	$ 22,556	$ 21,941	16.44%	$ 25,218	$ 24,338	26.04%	$ 23,830	$ 23,049	25.05%
Agency notes	113,907	113,579	83.00	70,853	68,423	73.16	70,827	68,606	74.46

Corporate/other	775	775	00.56	775	775	00.80	465	465	00.49
Total	$ 137,238	$ 136,295	100.00%	$ 96,846	$ 93,536	100.00%	$ 95,122	$ 92,120	100.00%

The following table sets forth the contractual or expected maturities and weighted average yields of the Bank's securities held-to-maturity at December 31, 2007.

	Less Than One Year		One to Five Years		Five to Ten Years		Over Ten Years	
(Dollars in thousands)	Estimated Fair Value	Yield	Estimated Fair Value	Yield	Estimated Fair Value	Yield	Estimated Fair Value	Yield
MBS	$ —	—%	$ —	—%	$ —	—%	$ 21,941	4.91%
Agency notes	—	—	12,905	4.35	32,904	5.99	67,770	6.13
Corporate/other	—	—	—	—	—	—	775	—
Total	$ —		$ 12,905		$ 32,904		$ 90,486	

For further information concerning the Bank's securities portfolio, see Note 3 of the Notes to the Consolidated Financial Statements contained in the Annual Report listed in Item 15.

DEPOSITS

The Bank's primary source of funds is customer deposits. In addition to checking accounts, the Bank offers a variety of interest-bearing accounts designed to attract both short-term and longer-term deposits from customers. Interest-bearing accounts earn interest at rates established by Bank management based on competitive market factors and the Bank's need for funds.

Deposits increased to $904.9 million at December 31, 2007, from $855.4 million at December 31, 2006, an increase of 5.8% during this period. Deposits at December 31, 2005, were $795.8 million. The market for retail deposits remains fiercely competitive. Previously, the Bank paid rates at the higher end of the competitive range of financial institutions in its market area. In an attempt to lower the absolute and relative cost of funds, the Bank modified its deposit pricing strategy by pricing its deposits in the middle of that range.

The following table sets forth the average balances for each major category of deposits and the weighted average interest rate paid for deposits during the years ended December 31, 2006, 2005, and 2004.

	Average Deposits by Type					
	December 31, 2007		December 31, 2006		December 31, 2005	
(Dollars in thousands)	Amount	Rate	Amount	Rate	Amount	Rate
Noninterest-bearing demand deposits	$ 87,284	—%	$ 80,457	—%	$ 77,226	—%
Interest-bearing demand deposits	51,021	1.46	45,039	1.46	39,618	0.62
Money market deposit	284,843	4.32	229,788	3.70	170,641	1.91
Savings	13,261	0.50	14,748	0.51	15,465	0.44
Time certificates	444,726	4.97	446,437	4.33	467,388	3.16
	$ 881,135		$ 816,469		$ 770,338	

The following table indicates the amount of the Bank's jumbo certificates of deposit by time remaining until maturity at December 31, 2007. Jumbo certificates of deposit require minimum deposits of $100,000 and rates paid on such accounts are negotiable.

Maturity Period	Jumbo Certificates of Deposit
	(Dollars in thousands)
Three months or less	$ 148,270
Over three through six months	46,605
Over six through twelve months	55,135

Over twelve months		21,469
Total	$	271,479

The flow of deposits is influenced significantly by general economic conditions, changes in the money market and prevailing interest rates. In addition, there is strong competition for customer dollars from other financial institutions, mutual funds and non-bank corporations, such as securities brokerage companies and other diversified companies. The Bank's deposits are obtained primarily from the areas in which its branches are located. The Bank relies primarily on customer service and longstanding relationships with customers to attract and retain these deposits. In the coming year, the Bank will focus on its deposit gathering activities, especially the growth in demand deposits through its High Performance Checking program. In January 2007 the Bank launched its Business High Performance Checking Program to accelerate deposit growth. In the event the Bank were liquidated, certain depositors would be entitled to full payment of their deposit accounts prior to any payment being made to the shareholders.

BORROWINGS

The Bank relies on advances from the Federal Home Loan Bank of Seattle (FHLB-Seattle) to supplement its supply of funds and to meet deposit withdrawal requirements. Advances from the FHLB-Seattle are typically secured by the Bank’s first mortgage residential loans, investment securities and other eligible mortgages secured by real estate. FHLB advances were $231.0 million at December 31, 2007, compared to $243.0 million at December 31, 2006, a 4.9% decrease. FHLB advances were $236.0 million at December 31, 2005.

The Bank enters into repurchase agreements with its authorized dealers. Repurchase agreements are accounted for as borrowings by the Bank and are secured by designated investments, primarily the notes of federal agencies and mortgage-backed securities guaranteed by those agencies. The proceeds of these transactions are used to meet the cash flow and interest rate risk management needs of the Bank. Repurchase agreements increased to $120.6 million at December 31, 2007, from $95.7 million at December 31, 2006.

Cascade Bank has established Fed funds borrowing lines with three of its correspondent banks. Cascade used each of these lines during the year. The Bank also opened a line of credit with the Federal Reserve Bank of San Francisco. As of December 31, 2007, there were no outstanding balances in any of these lines.

The following table sets forth certain information regarding borrowings by the Bank at the end of, and during, the periods indicated.

	December 31,		
	2007	**2006**	**2005**
		(Dollars in thousands)	
Weighted average rate on:			
Securities sold under agreements to repurchase	3.36%	1.49%	2.35%
FHLB advances	4.27	4.76	4.42
	Year ended December 31,		
	2007	**2006**	**2005**
Maximum amount of borrowings outstanding at any month end:			
Securities sold under agreements to repurchase	$ 120,625	$ 96,007	$ 51,058
FHLB advances	264,790	256,000	251,000
Approximate average borrowings outstanding with respect to:			
Securities sold under agreements to repurchase	$ 107,516	$ 81,284	$ 24,051
FHLB advances	226,124	237,888	239,896
Approximate weighted average rate paid on:			
Other interest-bearing liabilities*	3.77%	3.36%	4.89%
FHLB advances	4.53	4.71	4.60

* Including Trust Preferred Securities.

Junior Subordinated Debentures Payable (Trust Preferred Securities). On March 1, 2000, $10.3 million of 11% Capital Securities due March 1, 2030, were issued by a wholly owned business Trust whose common equity is 100% owned by Cascade Financial Corporation. The Trust exists for the exclusive purposes of issuing and selling the capital securities, using the proceeds from the sale of the capital securities to acquire junior subordinated debentures issued by Cascade Financial Corporation, and engaging in only those other activities necessary, advisable, or incidental to the above. The Corporation used the proceeds for general corporate purposes including stock repurchases and investment in its subsidiary bank. At December 31, 2003, as a result of the adoption of FIN 46R, the Trust was deconsolidated and all periods in the consolidated financial statements have been restated to reflect this change. The $10.3 million of junior subordinated debentures issued by the Corporation to the Trust were reflected as junior subordinated debentures payable in the consolidated balance sheet at December 31, 2004. The Trust will redeem the trust preferred securities when the junior subordinated debentures are paid at maturity or upon any earlier redemption of the junior subordinated debentures.

Prior to December 31, 2003, the Trust was consolidated and was included in liabilities in the consolidated balance sheet, as "Trust Preferred Securities." The common securities and debentures, along with the related income effects, were eliminated in the consolidated financial statements.

On December 15, 2004, Cascade Financial Corporation issued $5.2 million of 5.82% Capital Securities due January 7, 2035. The proceeds from the issuance were invested in Cascade Bank, which used the increased capital for general corporate purposes.

On March 30, 2006, Cascade Financial Corporation issued $10.3 million of 6.50% Capital Securities due June 15, 2036. The proceeds from the issuance were invested in Cascade Bank, which used the increased capital for general corporate purposes.

Subsidiary Activity

The Corporation has four subsidiaries: Cascade Bank, Cascade Capital Trust I, II, and III. The activities of the Corporation are primarily conducted through the Bank. Accordingly, this Form 10-K principally discusses the Bank's operations.

Cascade Capital Trust I was formed for the exclusive purpose of issuing Trust Preferred Securities and common securities and using the proceeds to acquire junior subordinated debentures issued by the Corporation. The junior subordinated debentures total $10.2 million, have an interest rate of 11.00%, mature on March 1, 2030, and are the sole assets of Cascade Capital Trust I. The junior subordinated debentures are pre-payable, in whole or in part, at the Corporation's option on or after March 1, 2010, at declining premiums to maturity. Proceeds totaling approximately $9.2 million from the issuance of the junior subordinated debentures were used to increase the capital level of the Bank.

Cascade Capital Trust II incorporates the same structure for the same purposes as Cascade Capital Trust I. The junior subordinated debentures issued under Cascade Capital Trust II equal $5.2 million and have a rate of 5.82% for the first 5 years of the security, and floats at the three-month LIBOR plus 190 bp thereafter. The securities are callable at par on a quarterly basis beginning January 7, 2010.

Cascade Capital Trust III incorporates the same structure for the same purposes as Cascade Capital Trust I and II. The junior subordinated debentures issued under Cascade Capital Trust III equal $10.3 million and have a rate of 6.50% for the first 5 years of the security, and floats at the three-month LIBOR plus 140 bp thereafter. The securities are callable at par on a quarterly basis beginning June 15, 2011.

Personnel

At December 31, 2007, the Corporation had 211 full-time equivalent employees. The Corporation believes that employees play a vital role in the success of a service company and that the Corporation's relationship with its employees is good. The employees are not represented by a collective bargaining unit.

REGULATION

Introduction/General

The following generally refers to certain statutes and regulations affecting the Corporation and the Bank. This provides only a brief summary of the regulations impacting the Corporation and is not complete. This discussion is qualified in its entirety by the statutes and regulations. In addition, some statutes and regulations exist which impact the Corporation but are not referenced below.

The Corporation is subject to extensive regulation, supervision and examination. Such regulation and supervision govern the activities in which the institution can engage and are intended primarily for the protection of the insurance fund and depositors. Regulatory authorities have been granted extensive discretion in connection with their supervisory and enforcement activities, which are intended to strengthen the financial condition of the banking industry, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Any change in such regulation and oversight could have an adverse material impact on the Corporation, Cascade and their respective operations.

The Corporation

The Corporation is a bank holding company that has elected to be treated as a financial holding company with the Board of Governors of the Federal Reserve Board (the "FRB"). The Bank Holding Company Act of 1956 ("BHCA"), as amended, subjects the Corporation and its subsidiaries to supervision and examination by the FRB. The Corporation files quarterly and annual reports of operations with the FRB.

Bank Holding Company Regulation. In general, the BHCA limits bank holding company business to owning or controlling banks and engaging in other banking-related activities. Bank holding companies must obtain the FRB's approval before they: (1) acquire direct or indirect ownership or control of any voting shares of any bank that results in total ownership or control, directly or indirectly, of more than 5 percent of the voting shares of such bank; (2) merge or consolidate with another bank holding company; or (3) acquire substantially all of the assets of any additional banks. Subject to certain state laws, such as age and contingency restrictions, a bank holding company that is adequately capitalized and adequately managed may acquire the assets of both in-state and out-of-state banks. With certain exceptions, the BHCA prohibits bank holding companies from acquiring direct or indirect ownership or control of voting shares in any company that is not a bank or a bank holding company unless the FRB determines that the activities of such company are incidental or closely related to the business of banking. If a bank holding company is well-capitalized and meets certain criteria specified by the FRB, it may engage de novo in certain permissible non-banking activities without prior FRB approval.

The Change in Bank Control Act of 1978, as amended, requires a person (or group of persons acting in concert) acquiring "control" of a bank holding company to provide the FRB with 60 days prior written notice of the proposed acquisition. Following receipt of this notice, the FRB has 60 days within which to issue a notice disapproving the proposed acquisition, but the FRB may extend this time period for up to another 30 days. An acquisition may be completed before expiration of the disapproval period if the FRB issues written notice of its intent not to disapprove the transaction. In addition, any "company" must obtain the FRB's approval before acquiring 25% (5% if the "company" is a bank holding company) or more of the outstanding shares or otherwise obtaining control over the Corporation.

Financial Holding Company Election/Affiliations. In 2001, the Corporation elected to be treated as a financial holding company with the FRB, as permitted under the Gramm-Leach-Bliley Financial Services Modernization Act (the "GLB"). This election allows the Corporation to conduct activities that previously were unavailable to bank holding companies, provided that notice requirements are generally required before engaging in any such activities.

In a change from previous law, bank holding companies are in a position to be owned, controlled or acquired by any company engaged in financially related activities, so long as such company meets certain regulatory requirements. To the extent the legislation permits banks, securities firms and insurance companies to affiliate, the financial services industry may experience further consolidation. This consolidation could result in a growing number of larger financial institutions that offer a wider variety of financial services than the Corporation currently offers and that can aggressively compete in the markets currently served by the Corporation.

Transactions with Affiliates. The Corporation and its subsidiaries are deemed affiliates within the meaning of the Federal Reserve Act, and transactions between affiliates are subject to certain restrictions. Accordingly, the Corporation and its subsidiaries must comply with Sections 23A and 23B of the Federal Reserve Act (Reg W). Generally, Sections 23A and 23B (1) limit the extent to which a financial institution or its subsidiaries may engage in "covered transactions" with an affiliate, as defined, to an amount equal to 10% of such institution's capital and surplus and an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital and surplus, and (2) require all transactions with an affiliate, whether or not "covered transactions," to be on terms substantially the same, or at least as favorable to the institution 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 other similar types of transactions.

Tying Arrangements. The Corporation and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. For example, with certain exceptions, neither the Corporation nor its subsidiaries may condition an extension of credit on either a requirement that the customer obtain additional services provided by it or an agreement by the customer to refrain from obtaining other services from a competitor.

State Law Restrictions. As a Washington corporation, the Corporation is subject to certain limitations and restrictions as provided under applicable Washington corporate laws.

Securities Registration and Reporting. The Corporation's common stock is registered as a class with the SEC under the Securities Exchange Act of 1934 and thus the Corporation is subject to the periodic reporting and proxy solicitation requirements and the insider-trading restrictions of that Act. The periodic reports, proxy statement, and other information filed by the Corporation under that Act, can be inspected and copied at, or obtained from, the Washington, D.C. office of the SEC. In addition, the securities issued by the Corporation are subject to the registration requirements of the Securities Act of 1933 and applicable state securities laws unless exemptions are available.

The Corporation is listed on the NASDAQ/Global Select Market. As such, it is subject to the listing and reporting requirements of NASDAQ. Failure to meet these requirements could lead to a delisting of the Corporation's stock.

Disclosure Controls and Procedures. The Sarbanes-Oxley Act of 2002 and related rulemaking by the SEC, which affect corporate disclosure and financial reporting reform, generally require public companies to focus on their disclosure controls and procedures. As a result, public companies such as the Corporation now must have disclosure controls and procedures in place and make certain disclosures about them in their periodic SEC reports (*i.e.*, Forms 10-K and 10-Q) and their chief executive and chief financial officers must certify in these filings that they are responsible for developing and evaluating disclosure controls and procedures and disclose the results of an evaluation conducted by them within the 90-day period preceding the filing of the relevant report, among other things.

Dividends. The FRB has issued a policy statement on the payment of cash dividends by bank holding companies which expresses the FRB's view that a bank holding company should pay cash dividends only to the extent that the Corporation's net income for the past year is sufficient to cover both the cash dividend and a rate of retention consistent with the Corporation's capital needs. The FRB also indicated that it would be inappropriate for a company experiencing serious financial problems to borrow to pay dividends.

Capital Requirements. The FRB has established capital adequacy guidelines for bank holding companies that generally parallel the capital requirements the FDIC has for the Bank. The FRB regulations provided that capital standards will be applied on a consolidated basis in the case of a bank holding company with more than $150 million in total consolidated assets. The Corporation's total risk-based capital must equal 8% of risk-weighted assets and 4% must consist of Tier 1 capital.

Stock Repurchases. Bank holding companies, except for certain "well-capitalized" and highly rated companies, are required to give the FRB prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption is equal to or greater than 10% of consolidated net worth during the preceding twelve months. The FRB may disapprove any such purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice.

Cascade Bank

General. Applicable federal and state statutes and regulations governing a bank's operations relate, among other matters, to capital requirements, investments, loans, legal lending limits, mergers and consolidations, borrowings, issuance of securities, payment of dividends, establishment of branches, and dealings with affiliated persons. The Federal Deposit Insurance Corporation ("FDIC") has authority to prohibit banks under its supervision from engaging in what it considers to be unsafe or unsound practices in conducting their business. Cascade Bank is a state-charted commercial bank subject to extensive regulation and supervision by both the Washington Department of Financial Institutions ("DFI") and the FDIC. The federal laws that apply to Cascade Bank regulate, among other things, the scope of its business, its investments, the timing of the availability of deposited funds and the nature and amount of collateral for loans. The laws and regulations governing Cascade Bank generally have been promulgated to protect depositors and not to protect shareholders of such institutions or their holding companies.

CRA. The Community Reinvestment Act requires that, in connection with examinations of financial institutions within their jurisdiction, the FRB or the FDIC evaluates the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those banks. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. The four possible ratings of meeting community credit needs are outstanding, satisfactory, needs to improve and substantial noncompliance. Cascade Bank received a "satisfactory" CRA rating at the last examination.

Standards for Safety and Soundness. The federal banking regulatory agencies have prescribed, by regulation, standards for all insured depository institutions and depository institution holding companies relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; (vi) asset quality; (vii) earnings; and (viii) compensation, fees and benefits ("Guidelines"). The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If a federal banking agency determines that a financial institution fails to meet any standard prescribed by the Guidelines, the agency may require the bank to submit to the agency an acceptable plan to achieve compliance with the standard. Management is not aware of any conditions relating to these safety and soundness standards which would require the submission of a plan of compliance.

Insider Credit Transactions. Cascade Bank is also subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to executive officers, directors, principal shareholders, or any related interests of such persons. Extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, and follow credit underwriting procedures that are not less stringent than those prevailing at the time for comparable transactions with persons not covered above and who are not employees; and (ii) must not involve more than the normal risk of repayment or present other unfavorable features. Cascade Bank is also subject to certain lending limits and restrictions on overdrafts to such persons. A violation of these restrictions may result in the assessment of substantial civil monetary penalties on the affected bank or any officer, director, employee, agent, or other person participating in the conduct of the affairs of Cascade Bank, the imposition of a cease and desist order, and other regulatory sanctions.

FDICIA. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (the "FDICIA"), each federal banking agency has prescribed, by regulation, non-capital safety and soundness standards for institutions under its authority. These standards cover internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, such other operational and managerial standards as the agency determines to be appropriate, and standards for asset quality, earnings and stock valuation. An institution that fails to meet these standards must develop a plan acceptable to the agency, specifying the steps that the institution will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions. Management of the Corporation believes that Cascade Bank meets all such standards, and therefore, does not believe that these regulatory standards materially affect the Corporation's business operations currently.

Loans to One Borrower. Cascade Bank is subject to limitations on the aggregate amount of loans that it can make to any one borrower, including related entities. Applicable regulations generally limit loans to one borrower to 20% of unimpaired capital and surplus. At December 31, 2007, the Bank had no borrowers with balances in excess of the loans-to-one-borrower limit.

Interstate Banking and Branching. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Act") permits nationwide interstate banking and branching under certain circumstances. This legislation generally authorizes interstate branching and relaxes federal law restrictions on interstate banking. Currently, bank holding companies may purchase banks in any state, and states may not prohibit such purchases. Additionally, banks are permitted to merge with banks in other states as long as the home state of neither merging bank has "opted out." The Interstate Act requires regulators to consult with community organizations before permitting an interstate institution to close a branch in a low-income area. With regard to interstate bank mergers, Washington has "opted in" to the Interstate Act and allows in-state banks to merge with out-of-state banks subject to certain aging requirements. Washington law generally authorizes the acquisition of an in-state bank by an out-of-state bank or bank holding company through the acquisition of or a merger with a financial institution that has been in existence for at least 5 years prior to the acquisition.

Deposit Insurance. The deposits of Cascade Bank are currently insured to a maximum of $100,000 per depositor and $250,000 for Individual Retirement Accounts through the Savings Association Insurance Fund (the "SAIF") administered by the FDIC. All insured banks are required to pay semi-annual deposit insurance premium assessments to the FDIC. The FDICIA included provisions to reform the Federal Deposit Insurance System, including the implementation of risk-based deposit insurance premiums. The FDICIA also permits the FDIC to make special assessments on insured depository institutions in amounts determined by the FDIC to be necessary to give it adequate assessment income to repay amounts borrowed from the U.S. Treasury and other sources, or for any other purpose the FDIC deems necessary. The FDIC has implemented a risk-based insurance premium system under which banks are assessed insurance premiums based on how much risk they present to the SAIF. Banks with higher levels of capital and a low degree of supervisory concern are assessed lower premiums than banks with lower levels of capital or a higher degree of supervisory concern.

Dividends. The principal source of the Corporation's revenue is dividends received from Cascade Bank. The payment of dividends is subject to government regulation, in that regulatory authorities may prohibit banks and bank holding companies from paying dividends that would constitute an unsafe or unsound banking practice. In addition, a bank may not pay cash dividends if that payment could reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. Other than the laws and regulations noted above, which apply to all banks and bank holding companies, neither the Corporation nor Cascade Bank is currently subject to any regulatory restrictions on its dividends.

Capital Adequacy. Federal bank regulatory agencies use capital adequacy guidelines in the examination and regulation of bank holding companies and banks. If capital falls below minimum guideline levels, the holding company or bank may be denied approval to acquire or establish additional banks or non-bank businesses or to open new facilities. The FDIC and FRB use risk-based capital guidelines for banks and bank holding companies. These are designed to make such capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. The guidelines are minimums, and the FRB has noted that bank holding companies contemplating significant expansion programs should not allow expansion to diminish their capital ratios and should maintain ratios well in excess of the minimum. The current guidelines require all bank holding companies and federally-regulated banks to maintain a minimum risk-based total capital ratio equal to 8%, of which at least 4% must be Tier I capital. Tier I capital for bank holding companies includes common shareholders' equity, certain qualifying perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries, less intangibles. At December 31, 2007, the Corporation had Tier 1 capital equal to $122.4 million or 8.90% of average total assets, which is $67.3 million above the minimum leverage requirement of 4% as in effect on that date.

The FDIC also employs a leverage ratio, which is Tier I capital as a percentage of total assets less intangibles, to be used as a supplement to risk-based guidelines. The principal objective of the leverage ratio is to constrain the maximum degree to which a bank holding company may leverage its equity capital base. The FDIC requires a minimum leverage ratio of 3%. However, for all but the most highly rated bank holding companies and for bank holding companies seeking to expand, the FDIC expects an additional cushion of at least 1% to 2%.

FDICIA created a statutory framework of supervisory actions indexed to the capital level of the individual institution. Under regulations adopted by the FDIC, an institution is assigned to one of five capital categories depending on its total risk-based capital ratio, Tier I risk-based capital ratio, and leverage ratio, together with certain subjective factors. Institutions which are deemed to be "undercapitalized" depending on the category to which they are assigned are subject to certain mandatory supervisory corrective actions. The Corporation does not believe that these regulations have any material effect on its operations currently.

Reference is made to Note 12 of the Notes to the Consolidated Financial Statements in the Annual Report, which is listed as an exhibit under Item 15, for additional information concerning regulatory capital.

The FDIC risk-based requirement requires financial institutions to have total capital of at least 8% of risk-weighted assets. Total capital consists of Tier I capital and supplementary capital. Supplementary capital consists of certain permanent and maturing capital instruments that do not qualify as Tier I capital and general valuation loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. Supplementary capital may be used to satisfy the risk-based requirement only to the extent of Tier I capital.

In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet items, are multiplied by a risk weight, ranging from 0% to 100%, based on the risk inherent in the type of asset. For example, prudently underwritten permanent one-to-four family first lien mortgage loans not more than 90 days delinquent and having a loan-to-value ratio of not more than 80% at origination, unless insured to such ratio by an insurer approved by FNMA or FHLMC, have been assigned a risk weight of 50%.

On December 31, 2007, the Bank had total risk-based capital of approximately $135.3 million, including $123.5 million in Tier I capital and $11.8 million in qualifying supplementary capital (the allowance for loan losses), and risk-weighted assets of $1.24 billion, or total capital of 10.91% of risk-weighted assets. This amount was $36.1 million above the 8% requirement in effect on that date.

FDIC capital requirements are designated as the minimum acceptable standards for banks whose overall financial condition is fundamentally sound. The FDIC regulations state that if the FDIC determines that conditions so warrant, it may impose a greater capital standard on a particular institution.

Management believes that the Bank will continue to meet its minimum capital requirements in the foreseeable future. However, if circumstances were to materially and adversely impact the future earnings of the Bank, the ability of the Bank to meet its capital requirements could be impaired.

Prompt Corrective Action. Federal statutes establish a supervisory framework based on five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. An institution's category depends upon where its capital levels are in relation to relevant capital measures. In order to be adequately capitalized, an institution must have a total risk-based capital ratio of not less than 8%, a Tier 1 risk-based capital of not less than 4%, and a leverage ratio of not less than 4%. Any institution which fails to meet these levels will be considered undercapitalized.

Undercapitalized institutions are subject to certain prompt corrective action requirements, regulatory controls and restrictions, which become more extensive as an institution becomes more severely undercapitalized. Failure by an institution to comply with applicable capital requirements will result in restrictions on their activities and lead to enforcement actions, including the issuance of a capital directive to ensure the maintenance of adequate capital levels. Banking regulators will take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements.

At December 31, 2007, Cascade was a "well-capitalized" institution under the prompt corrective action regulations of the FDIC and the Federal Reserve Board.

TAXATION

Federal Taxation

The Corporation reports its income on a fiscal year basis using the accrual method of accounting and is subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly Cascade's reserve for bad debts as discussed below. In 2001, the Corporation's fiscal year was changed to the calendar year. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Bank or the Corporation.

Tax Bad Debt Reserves

The reserve method of accounting for bad debt reserves was repealed for tax years beginning after December 31, 1995. As a result, the Bank is no longer able to calculate its deduction for bad debts using the percentage-of-taxable-income method. Instead, Cascade is required to compute its deduction based on specific charge-offs during the taxable year.

Distributions

To the extent that the Bank makes "non-dividend distributions" to the Corporation that are considered as made (i) from the reserve for losses as of June 30, 1988, or (ii) from the supplemental reserve for losses on loans ("Excess Distributions"), then an amount based on the amount distributed will be included in Cascade's taxable income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of stock, and distributions in partial or complete liquidation. However, dividends paid out of Cascade's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not be considered to result in a distribution from the Bank's bad debt reserve. Thus, any dividends to the Corporation that would reduce amounts appropriated to the Bank's bad debt reserve and deducted for federal income tax purposes would create a tax liability for Cascade. The amount of additional taxable income attributable to an Excess Distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if Cascade makes a "non-dividend distribution," then approximately one and one-half times the amount so used would be included in gross income for federal income tax purposes.

Dividends-Received Deduction and Other Matters

The Corporation may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations. The corporate dividends-received deduction is generally 70% in the case of dividends received from unaffiliated corporations with which the Corporation and the Bank will not file a consolidated tax return, except that if the Corporation or the Bank owns more than 20% of the stock of a corporation distributing a dividend, then 80% of any dividends received may be deducted.

Washington Tax

The Bank is subject to a business and occupation tax which is imposed under Washington law at the rate of 1.5% of gross receipts; however, interest received on loans secured by mortgages or deeds of trust on residential properties and interest on obligations issued or guaranteed by the United States are not presently subject to the tax. On August 15, 1994, the Department of Revenue of the State of Washington began an audit of the Corporation's records for compliance regarding the business and occupation tax. The Department of Revenue issued a tax billing for approximately $148,000 of which the Corporation had accrued $104,000 and paid $16,000. In December 2006, the Corporation settled with the State in the amount of $95,000.

Availability of Filings

You may access, free of charge, copies of the following reports of the Corporation on the SEC's website at www.sec.gov, or the Bank's website at www.cascadebank.com:

1) Annual Reports on Form 10-K; and
2) Quarterly Reports on Form 10-Q; and
3) Current Reports on Form 8-K.

These documents are generally posted within 24 hours after the Corporation files these documents electronically with the Securities and Exchange Commission. The Corporation is also willing to provide electronic or paper copies of its filings upon reasonable request.

Item 1A. Risk Factors

The Bank, like all financial institutions, is subject to a number of risks as it conducts its business. The Management Committee, consisting of the Bank's senior officers, serves as the integrated body that oversees the management enterprise risk bank wide. Within each division, processes are in place to ensure risk is measured, monitored and managed within the parameters established by the relevant Bank policies and consistent with stated goals and strategies.

Credit Risk

Credit risk, the possibility that our borrowers will be unwilling or unable to repay their obligations when due, is the most important risk in that credit losses will most likely have the most profound impact on the bank's earnings and financial health. The ability of our customers to repay their obligations will be impacted by the general economic conditions impacting our market area and factors specific to the borrowers' businesses, as well as the underlying financial strength of the borrower and any other guarantors.

While the Bank has successfully lent on commercial real estate in the Puget Sound Area of Washington state for a number of years, it is exposed to credit losses if that market experiences a significant and prolonged downturn.

Interest Rate Risk

The Bank is subject to fluctuations in interest rates in that its interest-bearing liabilities reprice on different terms than its interest-earning assets. Such asymmetrical changes can have a major impact on the Bank's net interest income, which is its primary source of earnings.

The Bank measures, monitors, and manages interest rates through a variety of tools including simulation modeling. There is a risk that the Bank's efforts will not effectively capture the asset/liability relationships and thereby not effectively mitigate changes in interest rates on the Bank's income.

Further, the Bank has used derivatives, including interest rate swaps, in the management of interest rate risk. However, given the complicated nature of the accounting for derivatives, such instruments may lead to volatility in GAAP earnings even when successfully hedging the Bank's balance sheet from changes in rates.

Liquidity Risk

As a financial intermediary, the Bank must have adequate liquidity (cash and/or borrowing capacity) to meet its customers' needs for loans and conversely, have adequate funds to meet any demands for their deposits. Inadequate liquidity could lead to a loss of business and revenue if the Bank were precluded from pursuing potential borrowers due to a lack of lendable funds.
The Bank establishes guidelines as to various measures of liquidity, including the sources and uses of funds, eligible collateral for pledging for secured borrowings, and the ability to borrow against its FHLB Line of Credit. However, the inability to tap these sources of funds, for whatever reason, would have a profoundly negative effect on the Bank's ability to meet its customer's needs.

Transaction Risk

The Bank is in the business of processing financial transactions for its customers. In the course of that business, it may be subject to fraud, embezzlement, or even honest mistakes in processing transactions. Such incidents expose the Bank to financial loss. In addition, improper processing of transactions could lead to regulatory sanctions and have a negative impact on Cascade's reputation and relationships with its customers.

Compliance/Regulatory Risk

As a commercial bank, Cascade is subject to extensive examination and regulation at both the bank and holding company level. Failure to comply with any of the relevant statutes and regulations could lead to severe restrictions on our ability to conduct business and/or lead to material fines and penalties. The level of regulation has increased dramatically in recent years due to the Bank Secrecy Act and the privacy requirements of Gramm-Leach-Bliley Act. Assuring that the Bank has adequate resources to meet its new regulatory requirements could increase the Bank's operating expenses.

Strategic Risk

Financial services, in general, and banking, in particular, are mature, highly competitive businesses. There is fierce competition for both loans and deposits from a wide array of providers. Many providers are seeking to penetrate the Bank's existing market. The result has been margin compression as the relative price of lending has been pushed down and the relative price of deposits has been bid up.

Reputation Risk

As a provider of services to the public, the reputation of the Bank for competence, honesty, and integrity is of great importance. The loss of that reputation through poor customer service, misfeasance or malfeasance on the part of the Bank's staff could have a profoundly negative impact on Cascade's ability to successfully implement its business plan.

Business Continuity Risk

Like all businesses, Cascade is exposed to earthquakes, floods, and other natural or man-made disasters that can cause an interruption in its operations. The Bank has established a Business Continuity Plan to guide the restoration of business process departments in similar disruptions and tests the Plan on an annual basis. However, a major event could have a material impact on the Bank's business and its earnings.

The Bank also runs the risk that it is not adequately insured against such events. Again, a lack of insurance or being under-insured would have an impact on the Bank's profitability.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The Corporation owns eight full service branch locations and leases twelve full service locations. Owned offices range in size from 3,500 to 52,000 square feet and have a total net book value at December 31, 2007, including leasehold improvements, furniture and fixtures, of $14.2 million. The Corporation leases approximately 5% of its main office, approximately 25% of its Marysville office, and 50% of its Issaquah West office to non-affiliated parties. See Note 5 of the Notes to the Consolidated Financial Statements contained in the Annual Report which is listed in Item 15.

Item 3. Legal Proceedings

The Corporation is not engaged in any legal proceedings of a material nature at the present time. Periodically, there have been various claims and lawsuits involving the Corporation and the Bank, principally as a defendant, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Corporation's business. In the opinion of management and the Corporation's legal counsel, no significant loss is expected from any of such pending claims or lawsuits.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Cascade Financial Corporation's common stock is traded on the NASDAQ/Global Select Market under the symbol CASB. The table below indicates the high/low trading range of Cascade stock over the last eight quarters:

Quarter Ended	High	Low
March 31, 2006	$ 15.38	$ 14.00
June 30, 2006	16.20	14.56
September 30, 2006	16.55	15.00
December 31, 2006	17.85	16.00
March 31, 2007	$ 18.25	$ 16.61
June 30, 2007	17.54	15.65
September 30, 2007	16.75	14.33
December 31, 2007	16.32	12.80

(b) Cascade Financial Corporation has only one class of stock outstanding, which is common stock. At December 31, 2007, there were 12,023,685 shares outstanding which were held of record by approximately 2,400 shareholders.

(c) The Table below indicates the cash dividends paid on each share of its common stock for the past two years:

Quarter Ended	Dividend Declared	Record Date	Payment Date
September 2007	$ 0.090	10/10/07	10/24/07
June 2007	0.080	7/11/07	7/25/07
March 2007	0.080	4/11/07	4/25/07
December 2006	0.080	1/11/07	1/25/07
September 2006	$ 0.080	10/11/06	10/25/06
June 2006	0.075	07/12/06	07/26/06
March 2006	0.072	04/12/06	04/26/06
December 2005	0.072	01/12/06	01/26/06

Issuer Purchases of Equity Securities

Period	2007 PLAN Total Number	2007 PLAN Average Price	Total Number of Shares Purchased as Part of Publicly	Maximum Number of Shares that may Yet be Purchased

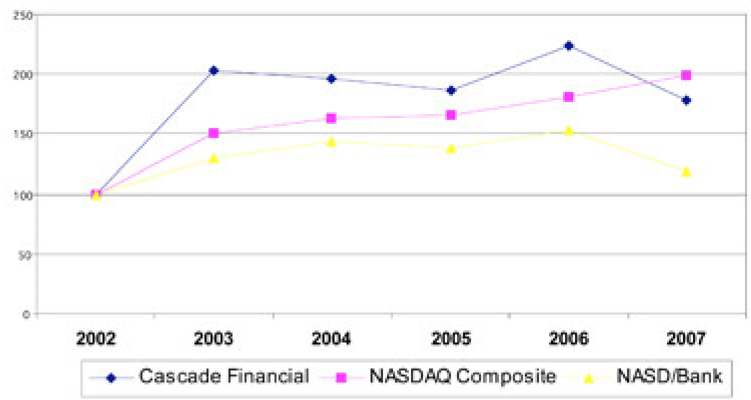
Beginning	Ending	of Shares Purchased	Paid per Share	Announced Plan	Under the Plan (2)
June 1, 2007	June 30, 2007	24,918	$ 16.00	24,918	350,082
July 1, 2007	July 31, 2007	21,375	15.98	21,375	328,707
August 1, 2007	August 31, 2007	6,000	15.08	6,000	322,707
September 1, 2007	September 30, 2007	4,880(1)	16.14	—	322,707
October 1, 2007	October 31, 2007	—	—	—	322,707
November 1, 2007	November 30, 2007	—	—	—	322,707
December 1, 2007	December 31, 2007	—	—	—	322,707
Total		57,173	$ 15.80	52,293	322,707

1) During the period presented there were 4,880 shares purchased, which were acquired at current market values as consideration for the exercise of fully vested options.
2) In May 2007, the Corporation announced a new stock repurchase plan to purchase up to 375,000 shares of the Corporation's stock. The Plan will expire on May 31, 2008.

Shareholder Return Performance Graph

The following graph compares the Company's cumulative shareholder return on its common stock with the return on the NASDAQ Composite Index and a peer group of the NASDAQ's OTC Bank Index. Total return assumes (i) the reinvestment of all dividends and (ii) the value of the investment in the Company's common stock and each index was $100 at the close of trading on December 31, 2002.

Five Year Performance Comparisons*



	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Cascade Financial Corporation	100.00	202.89	196.82	185.82	223.38	177.97
NASDAQ Composite Index	100.00	149.95	162.80	165.07	180.79	198.52
NASDAQ Bank Index	100.00	129.54	143.78	137.55	153.31	118.99

*Assumes that the value of the investment in the Company’s common stock and each index was $100 on December 31, 2002.

Item 6. Selected Financial Data

The information contained in the section entitled “Selected Financial Data” of the Annual Report listed in Item 15 is incorporated herein by reference.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The information contained in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of the Annual Report listed in Item 15 is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information contained under the section captioned “Market Risk” in the Management’s Discussion and Analysis section of the Annual Report listed in Item 15 is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data in the Annual Report listed in Item 15 is incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures: An evaluation of the Corporation's disclosure controls and procedures (as defined in section 13(a) - 14(c) of the Securities Exchange Act of 1934 (the "Act")) was carried out under the supervision and with the participation of the Corporation's Chief Executive Officer, Chief Financial Officer and several other members of the Corporation's senior management effective December 31, 2007. The Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures as currently in effect are effective in ensuring that the information required to be disclosed by the Corporation in the reports it files or submits under the Act is (i) accumulated and communicated to the Corporation's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the Security and Exchange Commission's ("the SEC's") rules and forms.

(b) Changes in Internal Controls: In the year ended December 31, 2007, the Corporation did not make any significant changes in, nor take any corrective actions regarding, its internal controls or other factors that could significantly affect these controls.

Disclosure Controls and Internal Controls. Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in the Corporation's reports filed under the Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, as appropriate to allow timely decisions regarding required disclosure. Internal Controls are procedures which are designed with the objective of providing reasonable assurance that (1) transactions are properly authorized; (2) assets are safeguarded against unauthorized or improper use; and (3) transactions are properly recorded and reported, all to permit the preparation of financial statements in conformity with generally accepted accounting principles.

Limitations on the Effectiveness of Controls. The Corporation's management does not expect that our disclosure controls or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of the control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls 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; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Management's Report on Internal Control over Financial Reporting. Management of Cascade Financial Corporation is responsible for preparing the Corporation's annual financial statements. Management is also responsible for establishing and maintaining effective internal control over financial reporting presented in conformity with both accounting principles generally accepted in the United States of America and regulatory reporting in conformity with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions). The Corporation's internal controls contain monitoring mechanisms, and actions are taken to correct deficiencies identified.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

It is also management's responsibility to ensure satisfactory compliance with all designated laws and regulations, and in particular, those laws and regulations concerning loans to insiders and dividend restrictions.

Management assessed the Corporation's internal control over financial reporting presented in conformity with both U.S. generally accepted accounting principles and call report instructions as of December 31, 2007. This assessment was based on criteria for effective internal control over financial reporting described in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2007, the Corporation maintained effective internal control over financial reporting presented in conformity with both accounting principles generally accepted in the United States of America and call report instructions. Management also believes that there was satisfactory compliance during 2007 with the designated laws and regulations.

The Company's registered public accounting firm has audited the Company's consolidated financial statements as of and for the year ended December 31, 2007 that are included in this annual report and issued their Report of Independent Registered Public Accounting Firm, listed in Item 15, which includes an attestation report on the Company's internal control over financial reporting. The attestation report expresses an unqualified opinion on the effectiveness of the Company's internal controls over financial reporting as of December 31, 2007.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the section captioned "Proposal I--Election of Directors" contained in the Corporation's Definitive Proxy Statement for the Corporation's Annual Meeting of Stockholders (the "Proxy Statement"), is incorporated herein by reference. Reference is made to the cover page of this report for information regarding compliance with Section 16(a) of the Exchange Act, and to the section therein captioned "COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT".

The following table sets forth information with respect to the executive officers of the Corporation and the Bank.

Name	Age [(a)]	Position
Carol K. Nelson [(b)]	51	President, Chief Executive Officer and Director of Cascade Bank and Cascade Financial Corporation
Robert G. Disotell	53	Executive Vice President, Chief Credit Officer
Steven R. Erickson[(b)]	52	Executive Vice President, Real Estate Lending
Lars H. Johnson[(b)]	54	Executive Vice President, Chief Financial Officer
LeAnne M. Harrington	38	Executive Vice President, Chief Administrative Officer
Robert F. Wojcik	58	Executive Vice President, Business Banking
Debbie E. McLeod	42	Executive Vice President, Retail Banking

(a) At December 31, 2007.

(b) Officer of the Corporation and Bank.

The principal occupation of each executive officer of the Corporation and the Bank is set forth in the Proxy Statement or below. There are no family relationships among or between the executive officers listed above.

CAROL K. NELSON was appointed Chief Executive Officer of the Company commencing May 1, 2002. She has served as President of the Company and President and Chief Executive Officer of the Bank since February 2001. She was previously Senior Vice President and Northern Region Executive of Bank of America from 1996 to 2001. Ms. Nelson holds a Bachelor's degree in Business Finance and a Master's degree in Business Administration from Seattle University. Ms. Nelson serves on the Board of Directors of the Seattle Branch of the Federal Reserve Bank of San Francisco, the Washington Roundtable, the Washington State Major League Baseball Stadium Public Facilities District, Premera Blue Cross and the Washington Bankers Association were she recently concluded a successful year as 2007 chair. She also serves as a Trustee for Seattle University. In 2007, Ms. Nelson was appointed to chair the Governor's Task Force on Homeowner Security. Ms. Nelson serves as Vice Chair of the Company's Executive Committee and as a member of the Bank's Loan Committee. She is a resident of Edmonds, Washington.

ROBERT G. DISOTELL has been employed by Cascade Bank since 1977 and has served as Executive Vice President and Chief Credit Officer since February 2001. He is responsible for managing Loan Servicing and Credit Operations including overseeing the credit quality of the Bank's loan portfolios. Mr. Disotell has managed a variety of business groups in his tenure at Cascade, including Mortgage Banking, Secondary Marketing, Retail Banking, and Community Reinvestment Act (CRA) activities. Mr. Disotell is a resident of

Arlington, Washington.

STEVEN R. ERICKSON is the Executive Vice President of Real Estate Lending for the Bank, a position held since November 1992. He is responsible for managing commercial and income property lending and serves as the Assistant Secretary for the Corporation. Mr. Erickson joined Cascade in 1978. He is a member of the Board for Big Brothers and Big Sisters of Snohomish County, Advisory Board Member for Snohomish County's Pre-Diversion Program, and Trustee of the Boys and Girls Club of Snohomish County. He is a resident of Marysville, Washington.

LARS H. JOHNSON is the Executive Vice President, Chief Financial Officer of the Bank and Corporation and also serves as the corporate secretary. Mr. Johnson joined Cascade in April 2000. Mr. Johnson has 32 years of financial management experience, including 16 years with the Federal Home Loan Bank of Seattle. He serves as Treasurer of the Downtown Everett Association. Mr. Johnson is a resident of Edmonds, Washington.

LEANNE M. HARRINGTON is the Executive Vice President and Chief Administrative Officer for the Bank. She has 21 years of consumer banking experience starting with Rainier Bank and Bank of America, where she served as Vice President and Region Service Manager. Ms. Harrington joined Cascade in February 2001. She is a 2006 graduate of Pacific Coast Banking School and a member of the Board for the Snohomish County Red Cross. Ms. Harrington is a resident of Everett, Washington.

ROBERT F. WOJCIK is the Executive Vice President of Business Banking for the Bank, responsible for managing business relationships consisting of business loans, business deposits, Lines of Credit, owner occupied commercial real estate and other business services. Mr. Wojcik joined Cascade Bank in August 2004. He has 28 years of commercial banking experience, recently retiring from Bank of America after 25 years in commercial banking. Mr. Wojcik is a member of the Board for the Snohomish County Junior Achievement and a Trustee for the Snohomish County YMCA. He has been involved in numerous other community organizations as a board member, coach and volunteer. Mr. Wojcik resides in Lake Stevens, Washington.

DEBBIE E. McLEOD is Executive Vice President of Retail Banking for the Bank. Ms. McLeod joined Cascade Bank in February 2001. She has over 20 years of commercial banking experience and was previously Vice President and Northern Region Sales Manager for Bank of America. Ms. McLeod is a past Board Chair for United Way of Skagit County and is a Vice Chair of United Way of Snohomish County. Ms. McLeod resides in Burlington, Washington.

Item 11. Executive Compensation

The information contained under the section captioned "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

(a) Security Ownership of Certain Beneficial Owners

Information required by this Item is incorporated herein by reference to the section captioned "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

(b) Security Ownership of Management

The information required by this Item is incorporated herein by reference to the section captioned "Security Ownership of Certain Beneficial Owners and Management" of the Proxy Statement.

(c) Changes in Control

The Corporation is not aware of any arrangements, including any pledge by any person of securities of the Corporation, the operation of which may at a subsequent date result in a change in control of the Corporation.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to the section captioned "Transactions with Management and Others" of the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated herein by reference to the section captioned "INDEPENDENT AUDITORS" of the Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) (1)(2) Reports of Independent Registered Public Accounting Firm
Consolidated Financial Statements
- (a) Consolidated Balance Sheets at December 31, 2007, and December 31, 2006.
- (b) Consolidated Statements of Income for the years ended December 31, 2007, 2006 and 2005.
- (c) Consolidated Statements of Stockholders' Equity and Comprehensive Income for the years ended December 31, 2007, 2006 and 2005.
- (d) Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005.
- (e) Notes to Consolidated Financial Statements.

All schedules have been omitted, as the required information is either inapplicable or contained in the Consolidated Financial Statements or related Notes contained in the Annual Report.

(3) Exhibits
- 3.1 (i) Certificate of Incorporation of Cascade Financial Corporation (Incorporated by reference to the Corporation's Proxy statement on Form S-4 (File No. 33-83200)).
- 3.2 (ii) Bylaws of Cascade Financial Corporation (Incorporated by reference to the Corporation's Registration Statement on Form S-4 (File No. 33-83200)).
- 3.3 (ii) Amendment to the Bylaws of Cascade Financial Corporation (Incorporated by reference to the Corporation's Form 8-K filed September 27, 2005 (File No. 0-25286)).
- 10.1 Cascade Financial Corporation 1994 Employee Stock Purchase Plan (Incorporated by reference to the Corporation's Registration Statement on Form S-4 (File No. 33-83200)).
- 10.2 Cascade Financial Corporation 1992 Stock Option and Incentive Plan (Incorporated by reference to the Corporation's Form 10-KSB for the period ending June 30, 1995).
- 10.3 Cascade Financial Corporation Employee Stock Ownership Plan (Incorporated by reference to the Corporation's Annual Report on Form 10-KSB for the period ending June 30, 1995).
- 10.4 Cascade Financial Corporation 1997 Stock Option Plan (Incorporated by reference to Appendix E to the Prospectus included in the Corporation's Registration Statement on Form S-4 (File No. 333-24203)).
- 10.5 Cascade Financial Corporation 1997 Elective Equity Plan. (Incorporated by reference to Exhibit 10.7 of the Corporation's Form 10-K for the period ending December 31, 2001).
- 10.6 Employment Agreement with Carol K. Nelson dated November 27, 2007. (Incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed November 30, 2007 (File No. 000-25286)).
- 10.7 Form of Change of Control Agreement with other Executive Officers (Incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed November 30, 2007 (File No. 000-25286)).
- 10.8 Cascade Bank Non-Qualified Deferred Compensation Plan dated February 1, 2008 (Incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed January 16, 2008 (File No. 000-25286)).
- 10.9 Amended and Restated Change of Control/Severance Agreement with Robert G. Disotell.
- 10.10 Amended and Restated Change of Control/Severance Agreement with Steven R. Erickson.
- 10.11 Amended and Restated Change of Control/Severance Agreement with Lars H. Johnson.
- 10.12 Amended and Restated Change of Control/Severance Agreement with LeAnne M. Harrington.
- 10.13 Amended and Restated Change of Control/Severance Agreement with Robert F. Wojcik.
- 10.14 Amended and Restated Change of Control/Severance Agreement with Debbie E. McLeod.
- 13 Cascade Financial Corporation December 31, 2007 Annual Report to Stockholders, including the Selected Financial Data and Management Discussion and Analysis.
- 21 Subsidiaries.
- 23 Consent of Independent Registered Public Accounting Firm – Moss Adams LLP.

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

On October 24, 2007, the Corporation filed a Form 8-K reporting an attached press release announcing earnings information for the third quarter ended December 31, 2007, under Items 2.02 and 9.01 of Form 8-K.

(b) Reports on Form 8-K (continued)

On November 27, 2007, the Corporation filed a Form 8-K amending the employment agreement between Cascade Financial Corporation and Carol K. Nelson, the President and Chief Executive Officer, and the change in control agreements with Cascade's six other executive officers, under Items 1.01 and 9.01 of Form 8-K.

On January 16, 2008, the Corporation filed a Form 8-K adopting Cascade Bank's Non-Qualified Deferred Compensation Plan, under Items 1.01 and 1.02 of Form 8-K.

On January 22, 2008, the Corporation filed a Form 8-K reporting an attached press release announcing earnings information for the fourth quarter ended December 31, 2007, under Items 2.02 and 9.01 of Form 8-K.

SIGNATURES

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

CASCADE FINANCIAL CORPORATION

Date: March 13, 2008

By: /s/ Carol K Nelson
Carol K. Nelson
President and Chief Executive Officer

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:	/s/ Lars H. Johnson Lars H. Johnson Executive Vice President (Chief Financial Officer)	By:	/s/ D. R. Murphy D. R. Murphy Director
Date:	March 13, 2008	Date:	March 13, 2008
By:	/s/ David W. Duce David W. Duce Chairman	By:	/s/ Ronald E Thompson Ronald E. Thompson Director
Date:	March 13, 2008	Date:	March 13, 2008
By:	/s/ Janice Halladay Janice Halladay Director	By:	/s/ G. Brandt Westover G. Brandt Westover Director
Date:	March 13, 2008	Date:	March 13, 2008
By:	/s/ Craig Skotdal Craig Skotdal Director	By:	/s/ Dwayne Lane Dwayne Lane Director
Date:	March 13, 2008	Date:	March 13, 2008
By:	/s/ David O'Connor David O'Connor Director	By:	/s/ Richard Anderson Richard Anderson Director
Date:	March 13, 2008	Date:	March 13, 2008
By:	/s/ Katherine M. Lombardo Katherine M. Lombardo Director	By:	/s/ Jim Gaffney Jim Gaffney Director
Date:	March 13, 2008	Date:	March 13, 2008