HMPR 10-K 12/31/2007

Section 1: 10-K (HAMPTON ROADS BANKSHARES, INC.)

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2007

Commission File Number 001-32968

HAMPTON ROADS BANKSHARES, INC.
(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	**54-2053718** (I.R.S. Employer Identification No.)
999 Waterside Dr., Suite 200 **Norfolk, Virginia** (Address of principal executive offices)	**23510** (Zip Code)

(757) 217-1000
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.625 per share	**The Nasdaq Stock Market**

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐ Non-accelerated filer ☐ Accelerated filer ☒ Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

The aggregate market value of the 8,963,270 voting shares held by non-affiliates based on the last sales price of $14.30 as of June 30, 2007 as recorded by Registrar and Transfer Company was $128,174,762.

The number of shares outstanding of the issuer's common stock as of March 1, 2008 was 10,362,841 shares of Common Stock, par value $0.625 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the year ended December 31, 2007 are incorporated by reference into Part II, which Annual Report is filed herewith as Exhibit 13.1.

Portions of the proxy statement for the annual shareholders' meeting to be held May 22, 2008 are incorporated by reference into Part III.

Hampton Roads, Bankshares, Inc.

Form 10-K Annual Report
For the Year Ended December 31, 2007

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PART 1

ITEM 1 - BUSINESS

Overview

Unless the context otherwise requires, the terms "we," "us" or "our" refer to Hampton Roads Bankshares, Inc. and its consolidated subsidiaries on a combined basis.

Hampton Roads Bankshares, Inc., a Virginia corporation (the "Company"), was incorporated under the laws of the Commonwealth of Virginia on February 28, 2001, primarily to serve as a holding company for the Bank of Hampton Roads (the "Bank"). On July 1, 2001, all Bank of Hampton Roads common stock, par value $0.625 per share, converted into the common stock of Hampton Roads Bankshares, Inc., par value $0.625 per share, on a share for share exchange basis, making the Bank a wholly owned subsidiary of the Company.

Our principal executive office is located at 999 Waterside Drive, Suite 200, Norfolk, VA 23510 and our telephone number is (757) 217-1000. Our common stock trades on the Nasdaq Global Select Market under the symbol "HMPR".

The Bank is a Virginia state-chartered commercial bank with 17 full service offices in the Hampton Roads region of southeastern Virginia, including eight offices in the city of Chesapeake, four offices in each of the cities of Norfolk and Virginia Beach, and one office in the city of Suffolk. The Bank was organized in March 1987 and commenced operations in December 1987.

In January 2004, we formed Hampton Roads Investments, Inc. ("HR Investments"), a wholly owned subsidiary, to provide securities, brokerage, and investment advisory services.

We do not participate in any industry segments outside of the financial services industry.

Recent Developments

On January 8, 2008, the Company entered into an Agreement with Shore Financial Corporation ("SFC"). The Agreement sets forth the terms and conditions of the Company's acquisition of SFC through the merger of SFC with and into the Company (the "Merger").

Under the terms of the Agreement, the Company will issue to the shareholders of SFC, for each share of SFC's stock that they own, 1.8 shares of the Company's common stock or $22.00 in cash, subject to the limitation that no less than 55% and no more than 75% of the total consideration will be in the form of stock. Shareholders of SFC may elect to receive the Company's common stock, cash, or a combination of common stock and cash for their shares of SFC's common stock, subject to pro ration in the event that the aggregate stock elections are less than the 55% minimum or exceed the 75% maximum.

In addition, at the effective time of the Merger, each outstanding option to purchase shares of SFC's common stock under any stock plans shall vest pursuant to its terms and shall be converted into an option to acquire the number of shares of the Company's common stock equal to the number of shares of SFC's common stock underlying the option multiplied by 1.8. The exercise price of each option will be adjusted accordingly.

Consummation of the Merger is subject to a number of customary conditions including the approval of the Merger by the Company's and SFC's shareholders and the receipt of all required regulatory approvals. The Merger is expected to be completed in the second quarter of 2008.

Pursuant to the Merger Agreement, either party may terminate the Merger in the event the Merger is not consummated by September 30, 2008. In addition, SFC may terminate the Merger in the event the average price of Company common stock (as defined in the Merger Agreement) is less than $9.50 per share and the Company may terminate the Merger in the event such average price is greater than $14.94 per share. The termination of the Merger Agreement will, in certain circumstances, obligate SFC to pay the Company a termination fee of $1.0 million to $2.4 million or the Company to pay SFC a termination fee of $1.0 million, depending on the triggering event.

You are urged to read the registration statement on Form S-4 and the joint proxy statement/prospectus included in the registration statement on Form S-4, and any other relevant documents to be filed with the Securities and Exchange Commission (the "SEC") in connection with the proposed transaction, because they will contain important information about the Company, SFC, and the proposed transaction.

Investors and shareholders may obtain free copies of the joint proxy statement/prospectus and other documents related to the merger, once they are filed with the SEC, through the SEC's website at www.sec.gov. Free copies of the joint proxy statement/prospectus and other relevant documents also may be obtained by directing a request by telephone or mail to the following:

Hampton Roads Bankshares, Inc.
999 Waterside Drive, Suite 200
Norfolk, VA 23510
Attention: Jack W. Gibson
Telephone Number: (757) 217-1000

Business

Principal Products or Services

We engage in a general community and commercial banking business, targeting the banking needs of individuals and small to medium sized businesses in our primary service area which includes Chesapeake, Suffolk, Norfolk, and Virginia Beach, Virginia. Our principal business is to attract deposits and to loan or invest those deposits on profitable terms. We offer all traditional loan and deposit banking services, as well as telephone banking, internet banking, and debit cards. We accept both commercial and consumer deposits. These deposits are in varied forms of both demand and time accounts including checking accounts, interest checking, money market accounts, savings accounts, certificates of deposit, and IRA accounts.

We are involved in the construction and real estate lending market and extend both personal and commercial credit. Our loans consist of varying terms and can be secured or unsecured. Loans to individuals are for personal, household, and family purposes. Loans to businesses are for such purposes as working capital, plant expansion, and equipment purchases. Real estate loans are made for both residential and commercial properties. Loan revenues, in the form of interest income including fees, represented 85.50%, 80.27% and 80.45% of our total consolidated operating revenues for the years ended December 31, 2007, 2006 and 2005, respectively.

Lending Activities

General. We offer a full range of commercial, real estate and consumer lending products and services, described in further detail below. Our loan portfolio is broken up into the following categories: commercial, construction, real estate-commercial mortgage, real estate-residential mortgage and installment loans to

individuals. Our primary lending objective is to meet business and consumer needs in our market area while maintaining our standards of profitability and credit quality all while enhancing client relationships. All lending decisions are based upon an evaluation of the financial strength and credit history of the borrower and the quality and value of the collateral securing the loan. With few exceptions, personal guarantees are required on all loans.

Commercial loans. We make commercial loans to qualified businesses in our market area. Commercial loans are loans to businesses which are typically not collateralized by real estate. Generally, the purpose of commercial loans is for the financing of accounts receivable, inventory, or the purchase of equipment and machinery. Commercial loans generally have a higher degree of risk than real estate loans, and therefore have commensurately higher yields. The value of collateral securing real estate loans is more readily ascertainable and generally does not depreciate over time as does the collateral securing commercial loans. Repayment of commercial loans may be more substantially dependent upon the success of the business itself and therefore must be monitored more frequently. In order to reduce our risk, the Bank requires regular updates of the financial condition of the business as well as the guarantors and regularly monitors accounts receivables and payables of such businesses when deemed necessary. Commercial loans accounted for 23.01% of our loan portfolio at December 31, 2007.

Construction loans. We make construction and development loans to individuals and businesses for the purpose of construction of single family residential properties, multi-family properties and commercial projects as well as the development of residential neighborhoods and commercial office parks. The Bank has been, and continues to be, a leader in Hampton Roads in the construction and development market. The Bank's success is partially attributable to the years of experience held by senior management and the construction and development lending team at the Bank. In order to reduce risk on construction and development loans, the Bank funds these loans on an "as-completed" basis with experienced loan officers inspecting the properties before funding the requested amount. Larger, more complicated projects require independent inspections by an architectural or engineering firm approved by the Bank prior to funding. Additionally, risk is reduced in the construction and development portfolio by limiting lending for speculative building of both residential and commercial properties, based upon the borrower's history with the Bank, financial strength, and the loan-to-value ratio of such speculative property. The Bank rarely exceeds 80% loan-to-value on any construction loan with the average project below 75% loan-to-value. An individual who borrows with the purpose of building a personal residence must provide evidence of a permanent mortgage as well as proof of the ability to build a home or a contract with a builder before the closing of the loan. Construction loans accounted for 34.68% of our loan portfolio at December 31, 2007.

Real estate-commercial mortgage. The Bank makes commercial mortgage loans for the purchase and re-financing of owner occupied commercial properties as well as non-owner occupied income producing properties. These loans are secured by various types of commercial real estate including office, retail, warehouse, industrial, storage facilities and other non-residential types of properties. Commercial mortgage loans typically have maturities of one to five years. Underwriting criteria for owner occupied commercial mortgages involves examination of debt service coverage ratios, the borrower's creditworthiness and past credit history, and personal financial condition. Underwriting for non-owner occupied commercial mortgages also involves examination of the current leases and financial strength of the tenants. Real estate-commercial mortgage loans accounted for 31.77% of our loan portfolio at December 31, 2007.

Real estate-residential mortgage. We offer a wide range of residential mortgage loans at both the Bank and our affiliate, Tidewater Home Funding, LLC. The Company owns 19% of THF and accounts for its ownership using the equity method. Our residential mortgage portfolio held by the Bank includes first and second mortgage loans, home equity lines of credit and other term loans secured by first and second mortgages. Residential mortgage loans are generally the lowest risk loans in the Bank's portfolio due to the ease in which

the value of the collateral is ascertained and the marketability of such collateral. First mortgage loans are generally for the purchase of permanent residences, second homes or residential investment property. Second mortgages and home equity loans are generally for personal, family and household purposes such as home improvements, major purchases, education and other personal needs. Mortgages which are secured by a borrower's primary residence are made on the basis of the borrower's ability to repay the loan from his or her salary and other regular income as well as the general creditworthiness of the borrower. Mortgages secured by residential investment property are made based upon the same guidelines as well as the borrower's ability to cover any cash flow shortages during the marketing of such property for rent. We do not engage in sub-prime or alt-A lending and do not hold any loan for sale. Real estate-residential mortgage loans accounted for 8.07% of our loan portfolio at December 31, 2007.

Installment loans to individuals. Installment loans to individuals are made on a regular basis for personal, family, and general household purposes. More specifically, we make automobile loans, home improvement loans, loans for vacations, and debt consolidation loans with the majority of the portfolio made up of automobile loans. Due to low interest rates offered by auto dealership financial programs, this segment of our loan portfolio has decreased in recent years. While automobile financing may entail greater individual risk than real estate financing on a per loan basis, the relatively small principal balances of each loan mitigates the risk associated with this category of the portfolio. Installment loans to individuals accounted for 2.51% of our loan portfolio at December 31, 2007.

Deposits

We offer a broad range of interest-bearing and non-interest-bearing deposit accounts, including commercial and retail checking accounts, money market accounts, individual retirement accounts, regular interest-bearing savings accounts and certificates of deposit with a range of maturity date options. The primary sources of deposits are small and medium-sized businesses and individuals within our target market. Additionally, during 2007, we entered the national certificate of deposit market. All deposits are insured by the FDIC up to the maximum amount permitted by law.

Telephone and Internet Banking

We believe that there is a strong demand within our market for telephone banking and internet banking. These services allow both commercial and retail customers to access detailed account information and execute a wide variety of banking transactions, including balance transfers and bill payment. We believe that these services are particularly attractive to our customers, as it enables them at any time to conduct their banking business and monitor their accounts. Telephone and internet banking assist us in attracting and retaining customers and encourages our existing customers to consider us for all of their banking and financial needs.

Automatic Teller Machines

We have an ATM at each of our branch offices, other than at our temporary Edinburgh branch, and we make other financial institutions' ATMs available to our customers.

Other Products and Services

We offer other banking-related specialized products and services to our customers, such as travelers' checks, coin counters, wire services, and safe deposit box services. We issue letters of credit and standby letters of credit for some of our commercial customers, most of which are related to real estate construction loans. We have not engaged in any securitizations of loans.

We have a wholly owned subsidiary, HR Investments which provides securities, brokerage, and investment advisory services. Although it is a full service investment company capable of handling all aspects of wealth management including stocks, bonds, annuities, mutual funds and financial advice, it has been largely inactive during 2007.

Competition

The financial services industry remains highly competitive and constantly evolving. We experience strong competition in all aspects of our business. In our market area, which includes the cities of Virginia Beach, Norfolk, Chesapeake, Suffolk, and Portsmouth, we compete with large national and regional financial institutions, savings and loans, and other independent community banks, as well as credit unions, consumer finance companies, mortgage companies, loan production offices, and insurance companies. Many of these institutions have substantially greater assets and capital than we do. In many instances, these institutions have greater lending limits than we do. As of December 31, 2007, the Bank's legal lending limit to one borrower was $11.4 million, unless we could sell participations in such a loan to other financial institutions. Competition for deposits and loans is affected by factors such as interest rates offered, the number and location of branches, types of products offered, and reputation of the institution. We believe that our pricing of products has remained competitive, but our historical success is primarily attributable to high quality service and community involvement.

Based upon total deposits at June 30, 2007 (the most recent date for which such data is available) as reported to the FDIC, we held 6.91% of total deposits in Chesapeake, 3.23% of total deposits in Norfolk, 2.37% of total deposits in Suffolk, and 1.68% of total deposits in Virginia Beach. Within our market there are four financial institutions that collectively held 66.31% of total deposits and fifteen others that held the remaining 33.69% of total deposits as reported to the FDIC at June 30, 2007.

Government Supervision and Regulation

General

As a financial holding company, we are subject to regulation under the Bank Holding Company Act of 1956, as amended, and the examination and reporting requirements of the Board of Governors of the Federal Reserve System. Other federal and state laws govern the activities of our bank subsidiary, including the activities in which it may engage, the investments that it makes, the aggregate amount of loans that it may grant to one borrower, and the dividends it may declare and pay to us. Our bank subsidiary is also subject to various consumer and compliance laws. As a state-chartered bank, the Bank is primarily subject to regulation, supervision and examination by the Bureau of Financial Institutions of the Virginia State Corporation Commission. Our bank subsidiary also is subject to regulation, supervision and examination by the Federal Deposit Insurance Corporation.

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

The Bank Holding Company Act

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

- banking, managing or controlling banks;
- furnishing services to or performing services for our subsidiaries; and

- engaging in other activities that the Federal Reserve has determined by regulation or order to be so closely related to banking as to be a proper incident to these activities.

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

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

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

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

In November 1999, Congress enacted the Gramm-Leach-Bliley Act ("GLBA"), which made substantial revisions to the statutory restrictions separating banking activities from other financial activities. Under the GLBA, bank holding companies that are well-capitalized and well-managed and meet other conditions can elect to become "financial holding companies." As financial holding companies, they and their subsidiaries are permitted to acquire or engage in previously impermissible activities, such as insurance underwriting and securities underwriting and distribution. In addition, financial holding companies may also acquire or engage in certain activities in which bank holding companies are not permitted to engage in, such as travel agency activities, insurance agency activities, merchant banking and other activities that the Federal Reserve determines to be financial in nature or complementary to these activities. Financial holding companies continue to be subject to the overall oversight and supervision of the Federal Reserve, but the GLBA applies the concept of functional regulation to the activities conducted by subsidiaries. For example, insurance activities would be subject to supervision and regulation by state insurance authorities. We became a financial holding company in 2001.

Payment of Dividends

We are a legal entity separate and distinct from the Bank and HR Investments. Virtually all of our cash revenues will result from dividends paid to us by our bank subsidiary and interest earned on short term investments. Our bank subsidiary is subject to laws and regulations that limit the amount of dividends that it can pay. Under Virginia law, a bank may not declare a dividend in excess of its accumulated retained earnings. Additionally, our bank subsidiary may not declare a dividend if the total amount of all dividends, including the proposed dividend, declared by the bank in any calendar year exceeds the total of the bank's retained net income of that year to date, combined with its retained net income of the two preceding years, unless the dividend is approved by the Federal Reserve. Our bank subsidiary may not declare or pay any dividend if, after making the dividend, the bank would be "undercapitalized," as defined in the banking regulations.

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

In addition, we are subject to certain regulatory requirements to maintain capital at or above regulatory minimums. These regulatory requirements regarding capital affect our dividend policies. Regulators have indicated that financial holding companies should generally pay dividends only if the organization's net income available to common shareholders over the past year has been sufficient to fully fund the dividends, and the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition.

Insurance of Accounts, Assessments and Regulation by the FDIC

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

The FDIC has implemented a risk-based deposit insurance assessment system under which the assessment rate for an insured institution may vary according to regulatory capital levels of the institution and other factors, including supervisory evaluations. In addition to being influenced by the risk profile of the particular depository institution, FDIC premiums are also influenced by the size of the FDIC insurance fund in relation to total deposits in FDIC insured banks. The FDIC has authority to impose special assessments.

In February 2006, The Federal Deposit Insurance Reform Act of 2005 and The Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (collectively, "The Reform Act") was signed into law. This legislation contained technical and conforming changes to implement deposit insurance reform, as well as a number of study and survey requirements.

The Reform Act provides for the following changes:

- Merging the BIF and the Savings Association Insurance Fund ("SAIF") into a new fund, the Deposit Insurance Fund ("DIF").
- Increasing the coverage limit for retirement accounts to $250,000 and indexing the coverage limit for retirement accounts to inflation as with the general deposit insurance coverage limit.
- Establishing a range of 1.15% to 1.50% within which the FDIC Board of Directors may set the Designated Reserve Ratio ("DRR").
- Allowing the FDIC to manage the pace at which the reserve ratio varies within this range.
    - If the reserve ratio falls below 1.15%—or is expected to within 6 months—the FDIC must adopt a restoration plan that provides that the DIF will return to 1.15% generally within 5 years.
    - If the reserve ratio exceeds 1.35%, the FDIC must generally dividend to DIF members half of the amount above the amount necessary to maintain the DIF at 1.35%, unless the FDIC Board, considering statutory factors, suspends the dividends.
    - If the reserve ratio exceeds 1.5%, the FDIC must generally dividend to DIF members all amounts above the amount necessary to maintain the DIF at 1.5%.

- Eliminating the restrictions on premium rates based on the DRR and granting the FDIC Board the discretion to price deposit insurance according to risk for all insured institutions regardless of the level of the reserve ratio.
- Granting a one-time initial assessment credit (of approximately $4.7 billion) to recognize institutions' past contributions to the fund.
- Requiring the FDIC to conduct studies of three issues: (1) further potential changes to the deposit insurance system, (2) the appropriate deposit base in designating the reserve ratio, and (3) the Corporation's contingent loss reserving methodology and accounting for losses.
- Requiring the Comptroller General to conduct studies of (1) federal bank regulators' administration of the prompt corrective action program and recent changes to the FDIC deposit insurance system, and (2) the organizational structure of the FDIC.

The FDIC is authorized to prohibit any insured institution from engaging in any activity that the FDIC determines by regulation or order to pose a serious threat to the DIF. Also, the FDIC may initiate enforcement actions against banks, after first giving the institution's primary regulatory authority an opportunity to take such action. The FDIC may terminate the deposit insurance of any depository institution if it determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed in writing by the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If deposit insurance is terminated, the deposits at the institution at the time of termination, less subsequent withdrawals, shall continue to be insured for a period from six months to two years, as determined by the FDIC. We are unaware of any existing circumstances that could result in termination of any of our bank subsidiary's deposit insurance.

Capital Requirements

Each of the FDIC and the Federal Reserve Board has issued risk-based and leverage capital guidelines applicable to banking organizations that it supervises. Under the risk-based capital requirements, we and our bank subsidiary are each generally required to maintain a minimum ratio of total capital to risk-weighted assets (including specific off-balance sheet activities, such as standby letters of credit) of 8%. At least half of the total capital must be composed of "Tier 1 Capital," which is defined as common equity, retained earnings, qualifying perpetual preferred stock and minority interests in common equity accounts of consolidated subsidiaries, less certain intangibles. The remainder may consist of "Tier 2 Capital", which is defined as specific subordinated debt, some hybrid capital instruments and other qualifying preferred stock and a limited amount of the loan loss allowance and pretax net unrealized holding gains on certain equity securities. In addition, each of the federal banking regulatory agencies has established minimum leverage capital requirements for banking organizations. Under these requirements, banking organizations must maintain a minimum ratio of Tier 1 capital to adjusted average quarterly assets equal to 3% to 5%, subject to federal bank regulatory evaluation of an organization's overall safety and soundness. In summary, the capital measures used by the federal banking regulators are:

- Total Risk-Based Capital ratio, which is the total of Tier 1 Risk-Based Capital (which includes common shareholders' equity, trust preferred securities, minority interests and qualifying preferred stock, less goodwill and other adjustments) and Tier 2 Capital (which includes preferred stock not qualifying as Tier 1 capital, mandatory convertible debt, limited amounts of subordinated debt, other qualifying term debt and the allowance for loan losses up to 1.25 percent of risk-weighted assets and other adjustments) as a percentage of total risk-weighted assets
- Tier 1 Risk-Based Capital ratio (Tier 1 capital divided by total risk-weighted assets), and
- the Leverage ratio (Tier 1 capital divided by adjusted average total assets)
- Under these regulations, a bank will be:
    - "well capitalized" if it has a Total Risk-Based Capital ratio of 10% or greater, a Tier 1 Risk-Based Capital ratio of 6% or greater, a Leverage ratio of 5% or greater, and is not subject to any written agreement, order, capital directive, or prompt corrective action directive by a federal bank regulatory agency to meet and maintain a specific capital level for any capital measure

- "adequately capitalized" if it has a Total Risk-Based Capital ratio of 8% or greater, a Tier 1 Risk-Based Capital ratio of 4% or greater, and a Leverage ratio of 4% or greater (or 3% in certain circumstances) and is not well capitalized
- "undercapitalized" if it has a Total Risk-Based Capital ratio of less than 8%, a Tier 1 Risk-Based Capital ratio of less than 4% (or 3% in certain circumstances), or a Leverage ratio of less than 4% (or 3% in certain circumstances)
- "significantly undercapitalized" if it has a Total Risk-Based Capital ratio of less than 6%, a Tier 1 Risk-Based Capital ratio of less than 3%, or a Leverage ratio of less than 3%, or
- "critically undercapitalized" if its tangible equity is equal to or less than 2% of tangible assets.

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

The FDIC may take various corrective actions against any undercapitalized bank and any bank that fails to submit an acceptable capital restoration plan or fails to implement a plan acceptable to the FDIC. These powers include, but are not limited to, requiring the institution to be recapitalized, prohibiting asset growth, restricting interest rates paid, requiring prior approval of capital distributions by any financial holding company that controls the institution, requiring divestiture by the institution of its subsidiaries or by the holding company of the institution itself, requiring new election of directors, and requiring the dismissal of directors and officers. We are considered "well-capitalized" at December 31, 2007 and, in addition, our bank subsidiary maintains sufficient capital to remain in compliance with capital requirements and is considered "well-capitalized" at December 31, 2007.

Other Safety and Soundness Regulations

There are significant obligations and restrictions imposed on financial holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance fund in the event that the depository institution is insolvent or is in danger of becoming insolvent. These obligations and restrictions are not for the benefit of investors. Regulators may pursue an administrative action against any financial holding company or bank which violates the law, engages in an unsafe or unsound banking practice, or which is about to engage in an unsafe or unsound banking practice. The administrative action could take the form of a cease and desist proceeding, a removal action against the responsible individuals or, in the case of a violation of law or unsafe and unsound banking practice, a civil monetary penalty action. A cease and desist order, in addition to prohibiting certain action, could also require that certain actions be undertaken. Under the policies of the Federal Reserve Board, we are required to serve as a source of financial strength to our subsidiary depository institution and to commit resources to support the bank in circumstances where we might not do so otherwise.

The Bank Secrecy Act

Under the Bank Secrecy Act ("BSA"), a financial institution is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally

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

Monetary Policy

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

Transactions with Affiliates

Transactions between banks and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any bank or entity that controls, is controlled by or is under common control with such bank. Generally, Sections 23A and 23B (i) limit the extent to which the bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, and maintain an aggregate limit on all such transactions with affiliates to an amount equal to 20% of such capital stock and surplus, and (ii) require that all such transactions be on terms substantially the same as, or at least as favorable to those that, the bank has provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar other types of transactions. Section 23B applies to "covered transactions" as well as sales of assets and payments of money to an affiliate. These transactions must also be conducted on terms substantially the same as, or at least favorable to those that, the bank has provided to non-affiliates.

Loans to Insiders

The Federal Reserve Act and related regulations impose specific restrictions on loans to directors, executive officers and principal shareholders of banks. Under Section 22(h) of the Federal Reserve Act, loans to a director, an executive officer and to a principal shareholder of a bank, and to entities controlled by any of the foregoing, may not exceed, together with all other outstanding loans to such person and entities controlled by such person, the bank's loan-to-one borrower limit. Loans in the aggregate to insiders and their related interests as a class may not exceed two times the bank's unimpaired capital and unimpaired surplus until the bank's total assets equal or exceed $100,000,000, at which time the aggregate is limited to the bank's unimpaired capital and unimpaired surplus. Section 22(h) also prohibits loans above amounts prescribed by the appropriate federal banking agency to directors, executive officers and principal shareholders of a bank or bank holding company, and to entities controlled by such persons, unless such loan is approved in advance by a majority of the board of

directors of the bank with any "interested" director not participating in the voting. The FDIC has prescribed the loan amount, which includes all other outstanding loans to such person, as to which such prior board of director approval is required, as being the greater of $25,000 or 5% of capital and surplus (up to $500,000). Section 22(h) requires that loans to directors, executive officers and principal shareholders be made on terms and underwriting standards substantially the same as offered in comparable transactions to other persons.

Community Reinvestment Act

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

The Gramm-Leach-Bliley Act and federal bank regulators have made various changes to the Community Reinvestment Act. Among other changes, Community Reinvestment Act agreements with private parties must be disclosed and annual reports must be made to a bank's primary federal regulator. A financial holding company or any of its subsidiaries will not be permitted to engage in new activities authorized under the GLBA if any bank subsidiary received less than a "satisfactory" rating in its latest Community Reinvestment Act examination.

Consumer Laws Regarding Fair Lending

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

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

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

Gramm-Leach-Bliley Act of 1999

The Gramm-Leach-Bliley Act of 1999 covers a broad range of issues, including a repeal of most of the restrictions on affiliations among depository institutions, securities firms and insurance companies. The following description summarizes some of its significant provisions.

The GLBA repeals sections 20 and 32 of the Glass-Steagall Act, thus permitting unrestricted affiliations between banks and securities firms. It also permits bank holding companies to elect to become financial holding companies. A financial holding company may engage in or acquire companies that engage in a broad range of financial services, including securities activities such as underwriting, dealing, investment, merchant banking, insurance underwriting, sales and brokerage activities. In order to become a financial holding company, the bank holding company and all of its affiliated depository institutions must be well-capitalized, well-managed and have at least a satisfactory Community Reinvestment Act rating. We became a financial holding company in 2001.

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

The GLBA adopts a system of functional regulation under which the Federal Reserve Board is designated as the umbrella regulator for financial holding companies, but financial holding company affiliates are principally regulated by functional regulators such as the FDIC for bank affiliates, the Securities and Exchange Commission for securities affiliates, and state insurance regulators for insurance affiliates. It repeals the broad exemption of banks from the definitions of "broker" and "dealer" for purposes of the Securities Exchange Act of 1934, as amended. It also identifies a set of specific activities, including traditional bank trust and fiduciary activities, in which a bank may engage without being deemed a "broker," and a set of activities in which a bank may engage without being deemed a "dealer." Additionally, GLBA makes conforming changes in the definitions of "broker" and "dealer" for purposes of the Investment Company Act of 1940, as amended, and the Investment Advisers Act of 1940, as amended.

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

Future Regulatory Uncertainty

Because federal and state regulation of financial institutions changes regularly and is the subject of constant legislative debate, we cannot forecast how federal and state regulation of financial institutions may

change in the future and, as a result, impact our operations. Although Congress and the state legislature in recent years have sought to reduce the regulatory burden on financial institutions with respect to the approval of specific transactions, we fully expect that the financial institution industry will remain heavily regulated in the near future and that additional laws or regulations may be adopted further regulating specific banking practices.

Employees

As of December 31, 2007, we employed 182 people, of whom 162 were full time employees, including the Bank's President and eleven Executive and Senior Vice Presidents.

Available Information

We maintain an internet website at www.bankofhamptonroads.com. This website contains a link to our filings with the SEC on Form 10-K, Form 10-Q, and Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The reports are made available on this website as soon as practicable following the filing of the reports with the SEC. The information is free of charge and may be reviewed, downloaded and printed from the website at any time. You may also read and copy any material we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at (202) 942-8090. Copies of these materials may be obtained at prescribed rates from the SEC at such address. These materials can also be inspected on the SEC's web site at www.sec.gov.

ITEM 1A. – RISK FACTORS

An investment in our common stock involves various risks. You should carefully understand the risks described below before you invest in our common stock. If any of the following risks actually occur, our business, financial condition, and results of operations could suffer, in which case the trading price of our common stock could decline. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties, including those not presently known to us or that we currently considers immaterial, also may impair our business. You should read this section together with the other information presented in this annual report.

We depend on the services of key personnel.

The loss of any of these personnel could disrupt our operations, and our business could suffer. Our success depends substantially on the banking relationships maintained with our customers and the skills and abilities of our executive officers and senior lending officers. We have entered into employment agreements with key personnel including the following executive officers:

Jack W. Gibson	President and Chief Executive Officer
Julie R. Anderson	Executive Vice President and Chief Credit Officer
Douglas J. Glenn	Executive Vice President and General Counsel
Gregory P. Marshall	Executive Vice President and Commercial Loan Officer
Donald W. Fulton, Jr.	Senior Vice President and Chief Financial Officer
Tiffany K. Glenn	Senior Vice President, Marketing Officer and Secretary
Renee' R. McKinney	Senior Vice President and Branch Administrator

The existence of such agreements, however, does not necessarily assure that we will be able to continue to retain their services. They provide valuable services to us and the unexpected loss of one or more of them could have an adverse impact on our business and possibly result in reduced revenues and earnings.

Our business success also is dependent upon our ability to continue to attract, hire, motivate, and retain skilled personnel to develop new customer relationships, as well as new financial products and services. Many experienced banking professionals employed by our competitors are covered by agreements not to compete or solicit their existing customers if they were to leave their current employment. These agreements make the recruitment of these professionals more difficult. The market for these people is competitive, and we cannot assure you that we will be successful in attracting, hiring, motivating, or retaining them.

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

We face vigorous competition from other banks and other financial institutions, including savings and loan associations, finance companies, and credit unions for deposits, loans, and other financial services in our market area. A number of these banks and other financial institutions are significantly larger than we are and have substantially greater access to capital and other resources, as well as larger lending limits and branch networks, and offer a wider array of banking services. In addition, we also compete with other providers of financial services, such as money market mutual funds, consumer finance companies, mortgage companies, insurance companies, and governmental organizations that may offer more favorable financing than we can. Many of our non-bank competitors are not subject to the same extensive regulations that govern us. As a result, these non-bank competitors have advantages over us in providing certain services. The competition may reduce or limit our margins and our market share and may adversely affect our results of operations and financial condition.

Because of our business of lending for construction and land development, a downturn in real estate markets could increase our credit losses and negatively affect our financial results.

Our loan portfolio includes a substantial amount of loans for construction and land development. At December 31, 2007, we had loans of $165.5 million, or 34.68% of total loans, outstanding to finance construction and land development. If the market for new housing should experience a significant slowdown, it could impact the value of loan collateral, the ability of borrowers to meet required principal and/or interest payments, and, potentially, the volume of loan losses. We are subject to the risk of loan defaults and foreclosures as the result of being in the lending business. In spite of our efforts to limit exposure to credit risk, we cannot eliminate it entirely. As a result, loan losses, whether from construction and land development loans or other loans in our portfolio, may occur in the future and could affect operating results adversely.

We serve a limited market area, and an economic downturn in our market area could adversely affect our business.

Our current market area consists primarily of the South Hampton Roads portion of Virginia, which includes the cities of Norfolk, Chesapeake, Virginia Beach, and Suffolk. In the event of an economic downturn in this market, the lack of geographic diversification could adversely affect banking business and, consequently, our results of operations and financial condition. Although the local economy is diverse, the military has a significant presence. In 2005, the federal government considered the possibility of military base closures. Although the government ultimately decided not to close any significant military bases in our market at this time, there is no guarantee that it will not do so in the future. A significant reduction in the military presence in our market, however, whether due to base closures or large troop deployments out of the area, could have a materially adverse impact on the local economy and potentially on our customers and our business.

If our allowance for loan losses becomes inadequate, our results of operations may be adversely affected.

We maintain an allowance for loan losses that we believe is a reasonable estimate of known and inherent losses in our loan portfolio. Through a periodic review and consideration of the loan portfolio, management determines the amount of the allowance for loan losses by considering general market conditions, credit quality of the loan portfolio, the collateral supporting the loans, historical loan loss experience, and both local and national economic conditions and trends. The amount of losses is susceptible to changes in economic, operating, and other conditions, including changes in interest rates, which may be beyond our control, and these losses may exceed our estimates. We cannot predict with certainty the amount of losses that may be sustained or that our allowance for loan losses will be adequate in the future.

Changes in interest rates could negatively impact our results of operations.

Our results of operations depend to a large extent on our net interest income, which is the difference between the interest income received on earning assets, such as loans, investment securities, and short-term investments, and interest expense incurred on deposit accounts and borrowings. The amount of net interest income we earn is influenced by market rates of interest, which in turn are influenced by monetary policy and other external factors, including competition. Net interest income also is influenced by our asset and liability management policies, the volume of our interest bearing assets and liabilities, and changes in the mix of those assets and liabilities, as well as growth in the respective categories. The relationship of interest rate changes to our financial condition and our results of operations is complex, however, as an asset sensitive financial institution, our net interest income is likely to decline in a declining interest rate environment and to increase in an increasing interest rate environment. We use various techniques to analyze the effects of changes in interest rates and utilize various strategies intended to mitigate any adverse effects. Due to the fact that most of our assets and liabilities are interest bearing instruments, our financial condition and results of operations are subject to interest rate risk. Although we attempt to manage interest rate risk, we cannot eliminate it.

Governmental and regulatory changes may adversely affect our cost structure.

We are subject to extensive regulation by state and federal regulatory authorities. In addition, as a public company we are subject to securities laws and standards imposed by the Sarbanes-Oxley Act. Because we are a relatively small company, the costs of compliance are disproportionate compared with much larger organizations. Continued growth of legal and regulatory compliance mandates could adversely affect our expenses and future results of operations. In addition, the government and regulatory authorities have the power to impose rules or other requirements, including requirements that we are unable to anticipate, that could have an adverse impact on our results of operations.

We face a variety of threats from technology based frauds and scams.

Financial institutions are a prime target of criminal activities through various channels of information technology. We attempt to mitigate risk from such activities through policies, procedures, and preventative and detective measures. In addition, we maintain insurance coverage designed to provide a level of financial protection to our business. However, risks posed by business interruption, fraud losses, business recovery expenses, and other potential losses or expenses that may be experienced from a significant event are not readily predictable and, therefore, could have an impact on our results of operations.

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

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

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

We are subject to supervision by several governmental regulatory agencies. These regulations, and the interpretation and application of them by regulators, are beyond our control, may change rapidly and unpredictably and can be expected to influence our earnings and growth. In addition, these regulations may limit our growth and the return to our investors by restricting activities such as the payment of dividends, mergers with, or acquisitions by, other institutions, investments, loans and interest rates, interest rates paid on deposits and the creation of branch offices. Although these regulations impose costs on us, they are intended to protect depositors, and you should not assume that they protect your interests as a shareholder. The regulations to which we are subject may not always be in the best interests of investors.

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

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

Virginia law and the provisions of our articles of incorporation and bylaws could deter or prevent takeover attempts by a potential purchaser of our common stock that would be willing to pay you a premium for your shares of our common stock.

Our articles of incorporation and bylaws contain provisions that may be deemed to have the effect of discouraging or delaying uninvited attempts by third parties to gain control of it. These provisions include the division of our board of directors into classes and the ability of our board to set the price, term and rights of, and to issue, one or more series of our preferred stock. Similarly, the Virginia Stock Corporation Act contains provisions designed to protect Virginia corporations and employees from the adverse effects of hostile corporate takeovers. These provisions reduce the possibility that a third party could effect a change in control without the support of our incumbent directors. These provisions may also strengthen the position of current management by restricting the ability of shareholders to change the composition of the board, to affect its policies generally and to benefit from actions which are opposed by the current board.

Our directors and officers have significant voting power.

As of March 1, 2008, our officers and directors beneficially owned 18.58% of our common stock. By voting against a proposal submitted to shareholders, the directors and officers may be able to make approval more difficult for proposals requiring the vote of shareholders such as mergers, share exchanges, asset sales and amendments to our articles of incorporation.

Risks Related to the Merger

If the Merger is not completed, we will have incurred substantial expenses without realizing the expected benefits.

We have incurred substantial expenses in connection with the Merger. The completion of the Merger depends on the satisfaction of specified conditions and the receipt of regulatory approvals. We cannot guarantee that these conditions will be met. If the Merger is not completed, these expenses could have a material adverse impact on our financial condition because we would not have realized the expected benefits of the Merger.

The Merger may distract our management from its other responsibilities.

The acquisition of SFC could cause our management to focus its time and energies on matters related to the acquisition that otherwise would be directed to our business and operations. Any such distraction on the part of management, if significant, could affect its ability to service existing business and develop new business and adversely effect our business and earnings.

The Merger must be approved by multiple governmental agencies.

Completion of the Merger is conditioned upon the receipt of all governmental authorizations, consents, orders and approvals, including the required approvals from banking regulators. These governmental entities may impose conditions on the completion of the Merger or require changes to the terms of the Merger. Although we do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the Merger or imposing additional costs on or limiting our revenues following the Merger.

We may fail to realize all of the anticipated benefits of the Merger.

The success of the Merger will depend, in part, on our ability to produce the anticipated positive effects on earnings and growth from combining the businesses of the Company and SFC. If we are not able to achieve our objectives during the combination, the anticipated benefits of the Merger may not be realized fully or at all or may take longer to realize than expected.

ITEM 1B. – UNRESOLVED STAFF COMMENTS

There were no unresolved staff comments as of December 31, 2007.

ITEM 2 – PROPERTIES

We lease our executive offices, which are located at 999 Waterside Dr., Suite 200, Norfolk, VA 23510. The initial lease term of eleven years and two months began on June 1, 2005. There is one seven year renewal term. We own ten branch offices as listed below:

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201 Volvo Parkway, Chesapeake, VA 23320
852 N. George Washington Highway, Chesapeake, VA 23323
712 Liberty Street, Chesapeake, VA 23324
5472 Indian River Road, Virginia Beach, VA 23464
1100 Dam Neck Road, Virginia Beach, VA 23454
117 Market Street, Suffolk, VA 23434
4108 Portsmouth Boulevard, Chesapeake, VA 23321
4500 E. Princess Anne Road, Norfolk, VA 23502
4720 Battlefield Boulevard S., Chesapeake, VA 23322
239 Battlefield Boulevard S., Chesapeake, VA 23322

We lease the land and/or building on which our remaining seven branches are located as follows:

1500 Mount Pleasant Road, Chesapeake, VA 23320
500 Plume Street, Norfolk, VA 23510
1400 Kempsville Road, Chesapeake, VA 23320
4037 East Little Creek Road, Norfolk, VA 23518
1316 N. Great Neck Road, Virginia Beach, VA 23454
281 Independence Boulevard, Virginia Beach, VA 23462
999 Waterside Drive, 1st Floor, Norfolk, VA 23510

All of our properties are in good operating condition and are adequate for our present and anticipated future needs.

ITEM 3 - LEGAL PROCEEDINGS

In the ordinary course of our operations, we may become party to legal proceedings. Currently, we are not party to any material legal proceedings.

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

We did not submit any matters to a vote of shareholders during the fourth quarter of 2007.

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Price of Common Stock and Dividends

Our common stock began trading on the Nasdaq Global Select Market under the symbol "HMPR" on September 12, 2007. Prior to listing on the Nasdaq Global Select Market, our common stock traded on the Nasdaq Capital Market starting August 3, 2006 and, before that, on the Over-the-Counter Bulletin Board, a NASDAQ sponsored and operated inter-dealer quotation system for equity securities. The following table sets forth for the periods indicated the high and low prices per share of our common stock as reported on the Nasdaq Global Select Market, the Nasdaq Global Market, and the Over-the-Counter Bulletin Board, as appropriate, along with the quarterly cash dividends per share declared. Per share prices do not include adjustments for markups, markdowns or commissions.

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	Sales Price		Cash Dividend
	High	Low	Declared
2006			
First Quarter	$12.00	$10.50	$ 0.20
Second Quarter	11.75	10.90	—
Third Quarter	13.23	10.32	0.20
Fourth Quarter	12.50	11.35	0.10
2007			
First Quarter	$13.25	$11.55	$ 0.10
Second Quarter	15.25	12.10	0.11
Third Quarter	14.80	11.90	0.11
Fourth Quarter	13.24	11.01	0.11

We have historically paid cash dividends on a semi-annual basis, however, in the forth quarter of 2006, we transitioned to a quarterly dividend schedule and paid a cash dividend in each of the quarters during 2007. Our future dividend policy is subject to the discretion of our board of directors and will depend upon a number of factors, including future consolidated earnings, financial condition, liquidity and capital requirements of both us and Bank of Hampton Roads, applicable governmental regulations and policies, and other factors deemed relevant by our board of directors.

The primary source of funds for dividends paid by us to our shareholders is the dividends received from our subsidiaries. Our bank subsidiary is subject to laws and regulations that limit the amount of dividends that it can pay. Under Virginia law, a bank may not declare a dividend in excess of its undivided profits. In addition, our bank subsidiary may not declare a dividend if the total amount of all dividends, including the proposed dividend, declared by the Bank in any calendar year exceeds the total of the bank’s retained net income of that year to date, combined with its retained net income of the two preceding years, unless the dividend is approved by the Federal Reserve. At December 31, 2007, the amount available for dividends under the above regulations was approximately $7.4 million. Our bank subsidiary may not declare or pay any dividend if, after making the dividend, the bank would be "undercapitalized," as defined in the banking regulations.

Additionally, the Federal Reserve and the state have the general authority to limit the dividends paid by insured banks if the payment is deemed an unsafe and unsound practice. Both the state and the Federal Reserve have indicated that paying dividends that deplete a bank’s capital base to an inadequate level would be an unsound and unsafe banking practice.

We are also subject to certain federal regulatory requirements to maintain capital at or above regulatory minimums. These regulatory requirements regarding capital affect our dividend policies. Banking regulators have indicated that banking organizations should generally pay dividends only if the organization’s net income available to common shareholders over the past year has been sufficient to fully fund the dividends, and the prospective rate of earnings retention appears consistent with the organization’s capital needs, asset quality and overall financial condition.

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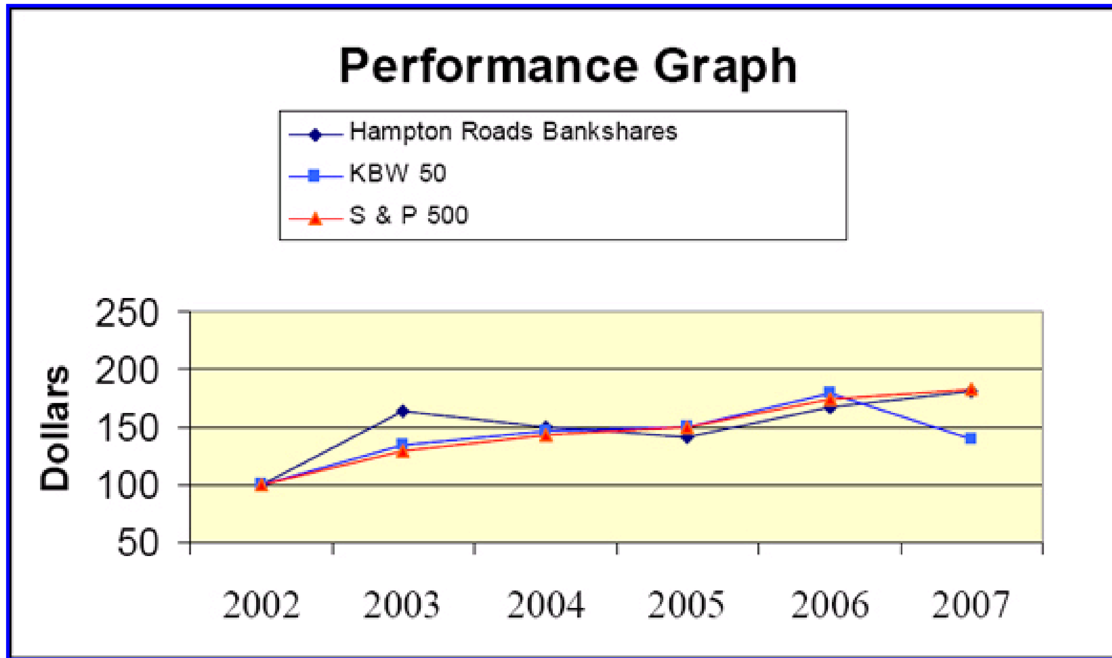
Performance Graph

The graph below presents five-year cumulative total return comparisons through December 31, 2007, in stock price appreciation and dividends for our common stock, the Standard & Poor's 500 Total Return Index ("S & P 500") and the Keefe, Bruyette & Woods 50 Total Return Index ("KBW 50"). Returns assume an initial investment of $100 at the market close on December 31, 2002 and reinvestment of dividends. The KBW 50 is a published industry index providing a market capitalization weighted measure of the total return of 50 money center and major regional U.S. banking companies. Values as of each year-end of the $100 initial investment are shown in the table and graph below.



Index	2002	2003	2004	2005	2006	2007
Hampton Roads Bankshares, Inc.	$100	$163	$150	$142	$168	$181
KBW 50	100	134	147	149	178	140
S&P 500	100	129	143	150	173	183

Number of Shareholders of Record

As of March 1, 2008, we had 10,362,841 shares of common stock outstanding, which were held by 3,831 shareholders of record. In addition, we had approximately 804 beneficial owners who own their shares through brokers.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We announced an open ended program on August 13, 2003 by which we were authorized to repurchase an unlimited number of our own shares of common stock in open market and privately negotiated transactions. During 2007, we repurchased a total of 232,490 shares of our common stock. We did not repurchase any shares of common stock other than through this publicly announced plan. Details for the transactions conducted during the last quarter of 2007 appear below.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2007- October 31, 2007	—	$ —	—	—
November 1, 2007- November 30, 2007	1,931	12.47	1,931	—
December 1, 2006- December 31, 2006	46,591	12.34	46,591	—
Total	48,522	$ 12.34	48,522	—

ITEM 6 - SELECTED FINANCIAL DATA

The Selected Financial Data on page 4 of the Annual Report for the year ended December 31, 2007 is incorporated herein by reference.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 5 through 19 of the Annual Report for the year ended December 31, 2007 is incorporated herein by reference.

ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information on the Quantitative and Qualitative Disclosures About Market Risk included in the Interest Rate Sensitivity section on pages 15 and 16 of the Annual Report for the year ended December 31, 2007 is incorporated herein by reference.

We had no derivative financial instruments, foreign currency exposure, or trading portfolio as of December 31, 2007.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of the Company and the Report of Independent Registered Public Accounting Firm set forth on pages 20 through 43 of the Annual Report for the year ended December 31, 2007 are incorporated herein by reference or as noted and included as part of this Form 10-K:

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	Page in Annual Report
Management's Report on Internal Control Over Financial Reporting	20
Report of Independent Registered Public Accounting Firm	21
Consolidated Balance Sheets - December 31, 2007 and 2006	22
Consolidated Statements of Income - Years Ended December 31, 2007, 2006 and 2005	23
Consolidated Statements of Changes in Shareholders' Equity - Years Ended December 31, 2007, 2006 and 2005	24
Consolidated Statements of Cash Flows - Years Ended December 31, 2007, 2006 and 2005	25
Notes to Consolidated Financial Statements - December 31, 2007, 2006 and 2005	26-43

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

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

As discussed in our current report on Form 8-K filed with the SEC on March 30, 2007, we engaged Yount, Hyde & Barbour, P.C. as our independent auditors for the fiscal year ending December 31, 2007, and chose not to renew the engagement of KPMG LLP ("KPMG"), which served as the Company's independent auditors for the fiscal years ended December 31, 2006 and 2005.

We have agreed to indemnify and hold KPMG harmless against and from any and all legal costs and expenses incurred by KPMG in successful defense of any legal action or proceeding that arises as a result of KPMG's consent to the incorporation by reference of its audit report on our past financial statements incorporated by reference in this Annual Report on Form 10-K.

ITEM 9A – CONTROLS AND PROCEDURES

As of December 31, 2007, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to our Company (including its consolidated subsidiaries) required to be included in our Exchange Act filings pursuant to the Securities Exchange Act of 1934. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the fourth quarter of our fiscal year ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm thereon are set forth on pages 20 and 21, respectively, of the Annual Report for the year ended December 31, 2007 and are incorporated herein by reference.

ITEM 9B – OTHER INFORMATION

None.

PART III

ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information concerning our directors, executive offices and corporate governance in the proxy statement for the annual shareholders meeting to be held May 22, 2008 is incorporated herein by reference.

ITEM 11 - EXECUTIVE COMPENSATION

Information concerning executive compensation in the proxy statement for the annual shareholders meeting to be held May 22, 2008 is incorporated herein by reference.

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

Information concerning security ownership of certain beneficial owners and management and related stockholder matters in the proxy statement for the annual shareholders meeting to be held May 22, 2008 is incorporated herein by reference.

A summary of the information related to our existing equity compensation plans as of December 31, 2007, is given below:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders	858,156	$ 9.48	2,288,741
Equity Compensation Plans not Approved by Security Holders	—	—	—
Total	858,156	$ 9.48	2,288,741

The Compensation Committee of the board of directors adopted the 2006 Stock Incentive Plan on March 14, 2006. This plan was approved by the shareholders on April 25, 2006. The 2006 Stock Incentive Plan superseded a stock incentive plan adopted in 1993, although the 1993 plan remains in effect.

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

Information concerning certain relationships and related transactions, and director independence in the proxy statement for the annual shareholders meeting to be held May 22, 2008 is incorporated herein by reference.

ITEM 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES

Information concerning principal accountant fees and services in the proxy statement for the annual shareholders meeting to be held May 22, 2008 is incorporated herein by reference.

PART IV

ITEM 15 - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) and (2) *Financial Statements and Financial Statement Schedules*. The response to this portion of Item 15 are set forth on pages 20 through 43 of the Annual Report for the year ended December 31, 2007 and are incorporated herein by reference.

(a) (3) *Exhibits.* See Exhibit Index, which is incorporated in this item by reference.

(b) *Exhibits*. See Item 15 (a)(3) above.

(c) *Financial Statement Schedules*. See Item 15 (a)(2) above.

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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.

Hampton Roads Bankshares, Inc.

/s/ Jack W. Gibson
Jack W. Gibson, President &
Chief Executive Officer
(3/11/08)

Pursuant to the requirements 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 date indicated.

/s/ Bobby L. Ralph
Bobby L. Ralph, Director
(3/11/08)

/s/ Herman A. Hall, III
Herman A. Hall, III, Director
(3/11/08)

/s/ Douglas J. Glenn
Douglas J. Glenn, Executive Vice
President and General Counsel, Director
(3/11/08)

/s/ Emil A. Viola
Emil A. Viola, Director and Chairman
(3/11/08)

/s/ Robert R. Kinser
Robert R. Kinser, Director
(3/11/08)

/s/ Roland Carroll Smith, Sr.
Roland Carroll Smith, Sr., Director
(3/11/08)

/s/ W. Lewis Witt
W. Lewis Witt, Director
(3/11/08)

/s/ Patricia M. Windsor
Patricia M. Windsor, Director
(3/11/08)

/s/ Jordan E. Slone
Jordan E. Slone, Director
(3/11/08)

/s/ Jack W. Gibson
Jack W. Gibson, President and
Chief Executive Officer, Director
(3/11/08)

/s/ Lorelle L. Fritsch
Lorelle L. Fritsch, Vice President,
Chief Accounting Officer and Controller
(3/11/08)

/s/ Donald W. Fulton, Jr.
Donald W. Fulton, Jr., Senior Vice
President and Chief Financial Officer
(3/11/08)

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Exhibit Index
Hampton Roads Bankshares, Inc.

2.1	Agreement and Plan of Merger by and between Hampton Roads Bankshares, Inc. and Shore Financial Corporation dated as of January 8, 2008, attached as Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated January 9, 2008, incorporated herein by reference.
3.1	Articles of Incorporation of Hampton Roads Bankshares, Inc., attached as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated July 2, 2001, incorporated herein by reference.
3.2	Bylaws of Hampton Roads Bankshares, Inc., as amended, attached as Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2007, incorporated herein by reference.
4.1	Specimen of Common Stock Certificate, attached as Exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005, incorporated herein by reference.
10.1	Employment Agreement, dated as of March 28, 1988, between the Registrant and Jack Gibson, attached as Exhibit 7 of the Form F-1, incorporated herein by reference.
10.2	Supplemental Retirement Agreement, dated as of March 31, 1994, attached as Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, incorporated herein by reference.
10.3	Non-Qualified Limited Stock Option Plan for Directors and Employees, dated March 31, 1994, attached as Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994, incorporated herein by reference.
10.4	Employment Agreement, dated as of December 18, 1996, between the Registrant and Renee` McKinney, attached as Exhibit 10.10 to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 1996, incorporated herein by reference.
10.5	First Amendment to Employment Agreement, dated as of February 1, 1997, between the Registrant and Jack Gibson, attached as Exhibit 10.11 to the Registrant's Annual Report on Form 10-KSB, incorporated herein by reference.
10.6	First Amendment to Employment Agreement, dated as of February 1, 1997, between the Registrant and Renee McKinney, attached as Exhibit 10.12 to the Registrant's Annual Report on Form 10-KSB, incorporated herein by reference.
10.7	Employment Agreement, First Amendment to Employment Agreement and Second Amendment to Employment Agreement, each dated as of March 9, 1999, between the Registrant and Tiffany Glenn, attached as Exhibit 10.15 to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 1999, incorporated herein by reference.

10.8	Dividend Reinvestment and Stock Purchase Plan, dated as of March 14, 2002, attached as Exhibit 99.1 to the Registrant's Registration Statement on Form S-3 dated March 14, 2002, incorporated herein by reference.
10.9	Employment Agreement, dated as of October 11, 2001, between the Registrant and Gregory Marshall, attached as Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001, incorporated herein by reference.
10.10	Employment Agreement, dated as of December 31, 2002, between the Registrant and Julie Anderson, attached as Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002, incorporated herein by reference.
10.11	First Amendment to Employment Agreement, dated as of December 31, 2002, between the Registrant and Julie Anderson, attached as Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002, incorporated herein by reference.
10.12	Second Amendment to Employment Agreement, dated as of December 31, 2002, between the Registrant and Julie Anderson, attached as Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002, incorporated herein by reference.
10.13	Employment Agreement, dated as of July 16, 2003, between the Registrant and Donald Fulton, Jr., attached as Exhibit 10.26.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, incorporated herein by reference.
10.14	First Amendment to the Employment Agreement, dated as of July 16, 2003, between the Registrant and Donald Fulton, Jr., attached as Exhibit 10.26.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, incorporated herein by reference.
10.15	Second Amendment to the Employment Agreement, dated as of July 16, 2003, between the Registrant and Donald Fulton, Jr., attached as Exhibit 10.26.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, incorporated herein by reference.
10.16	Third Amendment to the Employment Agreement, dated as of July 16, 2003, between the Registrant and Donald Fulton, Jr., attached as Exhibit 10.26.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, incorporated herein by reference.
10.17	Third Amendment to Employment Agreement, dated as of June 24, 2003, between the Registrant and Jack Gibson, attached as Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, incorporated herein by reference.
10.18	Third Amendment to Employment Agreement, dated as of June 24, 2003, between the Registrant and Renee' McKinney, attached as Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, incorporated herein by reference.
10.19	Third Amendment to Employment Agreement, dated as of June 24, 2003, between the Registrant and Tiffany Glenn, attached as Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, incorporated herein by reference.
10.20	Third Amendment to Employment Agreement, dated as of June 24, 2003, between the Registrant and Gregory Marshall, attached as Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, incorporated herein by reference.

10.21	Third Amendment to Employment Agreement, dated as of June 24, 2003, between the Registrant and Julie Anderson, attached as Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, incorporated herein by reference.
10.22	Hampton Roads Bankshares, Inc. 2006 Stock Incentive Plan, dated as of March 14, 2006, attached as Exhibit 10.1 to the Registrant's Registration Statement on Form S-8 dated May 31, 2006, incorporated herein by reference.
10.23	First Amendment to the Employment Agreement between the Registrant and Gregory Marshall, dated October 11,2001, attached as Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated June 27, 2006, incorporated herein by reference.
10.24	Second Amendment to the Employment Agreement between the Registrant and Gregory Marshall, dated October 11, 2001, attached as Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated June 27, 2006, incorporated herein by reference.
10.25	Hampton Roads Bankshares and Bank of Hampton Roads Executive Savings Plan, dated as of December 1, 2003, attached as Exhibit 99.3 to the Registrant's Current Report on Form 8-K dated June 27, 2006, incorporated herein by reference.
10.26	Amendment No. One to the Supplemental Retirement Agreement, dated as of December 9, 2003, between the Registrant and Jack Gibson, attached as Exhibit 99.4 to the Registrant's Current Report on Form 8-K dated June 27, 2006, incorporated herein by reference.
10.27	Bank of Hampton Roads Supplemental Executive Retirement Plan, dated as of January 1, 2005, attached as Exhibit 99.5 to the Registrant's Current Report on Form 8-K dated June 27, 2006, incorporated herein by reference.
10.28	Director Retirement Plan, dated as of November 28, 2006 is filed herewith.
10.29	Employment Agreement, dated as of November 1, 2007, between the Registrant and Douglas J. Glenn is filed herewith.
13.1	The Annual Report for the year ended December 31, 2007, except to the extent incorporated by reference, is being furnished for informational purposes only and is not deemed to be filed as part of the Report on Form 10-K.
14.1	The Company has a Code of Ethics for its senior financial officers and the Chief Executive Officer. Any waivers of, or amendments to, the Code of Ethics will be disclosed through the timely filing of a Form 8-K with the Securities and Exchange Commission. A copy of the Company's Code of Ethics can be obtained through written communications addressed to Donald W. Fulton, Jr., Chief Financial Officer, Bank of Hampton Roads, 999 Waterside Dr., Suite 200, Norfolk, VA 23510.
21.1	A list of the subsidiaries of Hampton Roads Bankshares, Inc. is filed herewith.
23.1	Consent of Yount, Hyde & Barbour, P.C. is filed herewith.
23.2	Consent of KPMG LLP is filed herewith.

31.1	Rule 13a-14(a) Certification of Chief Executive Officer is filed herewith.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer is filed herewith.
32.1	Statement of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, is filed herewith.
99.1	Report of KPMG LLP is filed herewith.

Section 2: EX-10.28 (DIRECTOR RETIREMENT PLAN)

Exhibit 10.28

BANK OF HAMPTON ROADS

DIRECTORS RETIREMENT PLAN AGREEMENT

This **Directors Retirement Plan Agreement** (the "Agreement") is entered into as of the _____ day of _____, 200_____, by and between **The Bank of Hampton Roads**, a Virginia banking corporation, ("BHR" or the "Bank"), with a principal address of 999 Waterside Drive, Suite 200, Norfolk, Virginia (23510), and _____ (*Print Name*) ("Participant"), with an address of___________ in the City/County of _________, Virginia (_________) (*Zip Code*).

R E C I T A L S

Whereas, BHR's Board of Directors (the "Board") did unanimously approve at its meeting on March 31, 2001, a certain "Directors Retirement Plan" (the "Plan") as formulated and recommended by the Executive Committee of the Board providing for retirement compensation to a retiring Director based upon a Director's term of service to the Bank;

Whereas, the Plan was adopted in recognition of the fact that Board Members who become eligible for benefits under the Plan have served on the Board for a significant period of time and will have developed a keen understanding of the Bank, its business, the competitive environment in which the Bank operates and the elements of effective corporate governance;

Whereas, for those retiring Directors who want to leave the Board but remain associated with the Bank, the Plan allows former Board Members who have distinguished themselves in service to the Bank to continue to make meaningful contributions to the Board and the Bank;

Whereas, the Plan requires that Board Members have a significant investment in the Bank, maintain enthusiasm about the Bank and its services, and be active in the business community;

Whereas, the Plan as adopted affects BHR Directors who have served on the Board for six (6) or more years and provides certain benefits in consideration of certain continued services to the Bank, the terms and conditions of which are more fully described in this Agreement; and

Whereas, the Participant and the Bank believe it prudent to memorialize the various obligations of the Participant and the Bank to each other and the Participant's compensation and rights under the Plan.

IN CONSIDERATION of the premises and covenants set forth herein and other good consideration, the receipt and sufficiency of which is herby acknowledged, the parties hereto agree as follows:

1. Term. If the Participant is eligible to receive compensation and benefits under the Plan as provided in ¶2 herein, the term (the "Term") of this Agreement shall commence from the first (1st) day of the month following the conclusion of the Participant's service on the Board and continue for the earlier to occur of (a) the Retirement Payment Period (as defined below) or (b) the termination of the Agreement pursuant to ¶9. For purposes of this Agreement, the "Retirement Payment Period" shall be calculated based on the Participant's term of service on the Board as follows: thirty-six (36) months plus one (1) month for each additional two (2) month period of service by the Participant on the Board beyond six (6) years. For example, if a Participant serves on the Board for nine (9) years, the term of the Plan would be fifty-four (54) months (the initial 6 years of service = 36 months; the 3 additional years of service = 18 months).

2. Eligibility. A Participant shall be eligible for compensation and benefits under the Plan upon the sixth (6th) anniversary of the Participant's first (1st) Board meeting as a Director of the Bank. The minutes of the Board as prepared by the Bank's Secretary and subsequently ratified by the Board shall be dispositive of the Participant's first (1st) attended Board meeting.

3. Duties. During the Term, Participant shall:

a. Upon reasonable request, consult with the Bank's Chairman and/or Chief Executive Officer as needed on matters of importance to the Bank;

b. Direct or manage special projects or participant in special or ad-hoc committees of the Board deemed appropriate by the Bank's Chairman and/or Chief Executive Officer;

c. Upon reasonable request of the Bank's Chairman or Chief Executive Officer, attend the meetings of the Board;

d. Attend the Bank's annual strategic planning meeting and annual shareholder's meeting;

e. Attend a reasonable number of the Bank's Advisory Board meetings for a designated City or area, attend a reasonable number of the Bank's social functions and such other events of importance to the Bank; and

f. Serve as an ambassador for the Bank to the general public.

4. Compensation. For the services provided by Participant under this Agreement, the Participant shall be entitled during the Term to a monthly cash payment, payable on the 1st day of each month during the Term, equal to fifty percent (50%) of the monthly fee(s) paid to Directors of the Bank for attendance at all monthly meetings of the Board as established by the Participant's last Board meeting before retirement from the Board. For example, if the monthly fee as described by the as of the Participant's last Board meeting is $1,100.00 for attendance at two (2) monthly meetings of the Board, the Participant shall received a monthly cash payment of $550.00

5. Change in Control. If there is a "Change in Control Event" and the Plan is terminated or discontinued, the Participant shall be entitled to a lump-sum payment equal to the net present value of the fees which the Participant would receive pursuant to ¶4 for the remainder of the Term. For purposes hereof, a change in the (i) ownership of the Bank, (ii) effective control of the Bank or (iii) substantial ownership of the assets of the Bank that qualifies as a "Change in Control Event" for purposes of Code Section 409 A pursuant to regulations and guidance issued by the Internal Revenue Service shall be a "Change of Control Event" for this Agreement.

6. Confidential Information. Participant shall adhere to all policies, guidelines, ethical standards, and applicable laws and regulations regarding confidential information of the Bank as if Participant were a member of the Board.

7. Protection of the Bank. Participant shall not during the Term (i) participate in the ownership, management or control of, or be connected as an officer, employee, director, advisory board member or public spokesman for any entity or business which competes with the Bank, or (ii) seek to persuade any employee of the Bank to discontinue his or her status or employment therewith or to become employed in a business or activities competitive with the Bank. Notwithstanding the foregoing, the Participant's ownership of securities of a company engaged in competition with the Bank not in excess of five percent (5%) of any class of such securities shall not be considered a breach of this paragraph.

8. Non-Disparagement. Participant shall not during the Term, directly or indirectly, through words or actions, disparage or otherwise comment negatively on the Bank, its operations, owners, employees, products, services or name.

9. Termination. The Agreement shall terminate at the end of the Term or on such earlier date as is set forth below:

a. The death of Participant;

b. In the event of Participant's total and permanent disability (defined as any physical, mental or emotional illness or disorder which may be expected to result in death or be of indefinite duration and by reason of which Participant is unable to perform with the requisite skill the material acts substantially necessary to the performance of the contemplated services under this Agreement), then, ninety (90) days following the occurrence of such disability, this Agreement shall terminate. If there is any dispute as to Participant's permanent disability, the decision shall be determined by the agreement of two (2) licensed physicians, one of whom is selected by BHR and the other by the Participant (or if those two (2) physician cannot agree, by a licensed physician selected by such two (2) physicians);

c. By the mutual consent of the parties, provided, however, that in the event that this Agreement is terminated at the request of Participant before the expiration of the Term, the provisions of ¶7 and ¶8 of this Agreement shall survive such termination for one (1) year and the provisions of ¶6 of this Agreement shall survive such termination for the remaining Term.

d. By the Participant's breach of any of the terms and conditions hereof. In the event that the Agreement is terminated as a result of Participant's breach, then, in addition to any and all remedies that the Bank may have, Participant shall repay to the Bank upon demand all fees received hereunder and, further, waives all rights and benefits provided by this Agreement. Other than for Participant's breach of the provisions of ¶9© which survive termination, the termination of this Agreement by mutual consent of the parties at the request of the Participant shall not be considered a "breach" for purposes of this subsection ¶9(d).

10. Miscellaneous.

10.1 *Waiver of Breach.* The waiver by either party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by either party.

10.2 *Notices.* Any notice required or permitted to be given under this Agreement shall be sufficient if in writing, sent by certified mail or overnight courier to the receiving party at the address above or to such other address as each party may hereafter specify in writing to the other.

10.3 *Binding Effect*. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, legatees, personal representatives and other legal representatives, successors and assigns.

10.4 *Assignment*. This Agreement shall not be assignable by Participant.

10.5 *Entire Agreement*. This Agreement constitutes the entire agreement between the parties and there are no representations, warranties, covenants or obligations except as set forth herein.

10.6 *Amendments*. This Agreement may be amended only in writing executed by the parties hereto affected by such amendments.

10.7 *Background, Enumerations and Headings*. The Background, enumerations and headings contained in this Agreement are for convenience of reference only and are not intended to have any substantive significance in interpreting this Agreement.

10.8 *Gender and Number*. Unless the context otherwise requires, whenever used in this Agreement the singular shall include the plural, the plural shall include the singular, and the masculine gender shall include neuter or feminine gender and vice versa.

10.9 *Governing Law*. This Agreement shall be governed by and construed and enforced in accordance with the laws of the Commonwealth of Virginia.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed under seal the day and year first written above.

The Bank of Hampton Roads,
a Virginia banking corporation

By ______________________________ (SEAL)
Print Name:______________________________
Title: ______________________________
Date: ______________________________

Participant:

____________________________________ (SEAL)
Print Name:______________________________
Date: ______________________________

This agreement has been entered into with Herman A. Hall, III, W. Lewis Witt, Robert R. Kinser, Jordan E. Slone, Jack W. Gibson, Douglas J. Glenn, Patricia M. Windsor, Roland Carroll Smith, Sr., Bobby L. Ralph, and Emil A. Viola.

Section 3: EX-10.29 (EMPLOYMENT AGREEMENT-GLENN)

Exhibit 10.29

EMPLOYMENT AGREEMENT

THIS **EMPLOYMENT AGREEMENT** ("Agreement") made effective this 1st day of November, 2007, by and between **THE BANK OF HAMPTON ROADS, INC.** ("BHR"), a banking association organized under the laws of the Commonwealth of Virginia, its successors and assigns, with a principal address of 999 Waterside Drive, Suite 200, Norfolk, Virginia (23510); **HAMPTON ROADS BANKSHARES, INC.** ("HRB"), a Virginia corporation, its successors and assigns, with a principal address of 999 Waterside Drive, Suite 200, Norfolk, Virginia (23510) (collectively, BHR and HRB shall be the "Bank" or "Employer" and otherwise deemed synonymous as the context may require); and **DOUGLAS J. GLENN** (the "Executive");

WITNESSETH:

WHEREAS, the Executive desires to render valuable services to the Employer and it is the desire of the Employer to have the benefit of the Executive's loyalty, service and counsel; and

WHEREAS, the Executive wishes to become in the employ of the Employer;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein set forth, the parties covenant and agree as follows:

1. EMPLOYMENT. The Employer agrees to employ the Executive to perform services for the Employer and the Executive agrees to serve the Employer upon the terms and conditions herein provided. The Executive shall be an executive officer of both BHR and HRB and agrees to serve as the Executive Vice-President of HRB and the Executive Vice President and General Counsel of BHR. The Executive shall perform such managerial duties and responsibilities as shall be assigned to him by the Chief Executive Officer of the Bank or the Board of Directors of the Bank, consistent with his positions and titles. The Executive shall devote his time and attention on a full-time basis to the discharge of the duties undertaken by him hereunder.

2. TERMS AND COMPENSATION:

(a) Term of Agreement. The term (the "Term") of this Agreement shall commence on November 1, 2007 (the "Commencement Date") no matter when fully executed. Thereafter, the Agreement shall continue until the first to occur of (i) except as otherwise provided in Section 3 hereof, December 31, 2013, (ii) the Executive's death, or (iii) except as provided in Paragraph (d) of this Section 2, the Executive's disability. Notwithstanding the foregoing, however, in the event the Executive is not informed by the Bank, in writing, prior to December 31,2012, or three hundred sixty (360) days prior to the expiration of any subsequent renewal term, that this Agreement will not be renewed, this Agreement will automatically renew itself for additional periods of sixty (60) months (each such period being a "Renewal Term"). For purposes of this Agreement, the "Term" shall include and refer to, as appropriate by the context, any Renewal Term.

(b) Compensation. During the term of employment hereunder, the Executive shall receive for his services a base salary and incentive or bonus compensation in amounts determined by the (i) Bank's Board of Directors, (ii) an appropriate committee of the Board of Directors or (iii) the Bank's Chief Executive Officer, in accordance with the salary administration program of the Employer as the same may from time to time be in effect, but in no event shall the Executive's base salary be less than $300,000 annually. From the Commencement Date through December 31, 2007, the Executive shall be eligible to participate in any bonus plan in place for executive officers of the Bank on a pro-rated basis or receive bonus compensation in the discretion of the Bank's Board of Directors.

(c) Benefits. The Executive shall be eligible for participation in any additional plans, programs or forms of compensation or benefits that the Employer's Board of Directors might hereinafter provide to the class of employees that includes the Executive, including, but not limited to, participation in the following benefit plans: (i) a 401K Retirement Program subject to normal Internal Revenue Service guidelines with respect to the maximum amount of participation; (ii) a non contributory profit sharing plan where a discretionary contribution made by the Bank on behalf of its personnel is allocated based upon IRS allocations for profit sharing plans necessary to insure that it remains a qualified retirement account in accordance with ERISA guidelines; (iii) an Executive Savings Plan for executives at Executive's level (this plan requires the employee to make an initial contribution of 10% of their salary, in Executive's case, $30,000, which is matched each year of employment for as long as Executive remains an employee of the Bank, is administered in accordance with the Executive Savings Plan policy of the Bank and is designed as an incentive for continued employment); and (iv) a Deferred Compensation Plan that will begin to vest on a pro rata basis after five years of service on a ratable scale up to 20 years of service with the Bank and which would provide an annuity equal to not less than 50% of the average of Executive's last 3 years' salary prior to Executive's normal retirement date for a period of 15 years, but in no event less than $150,000 annually for such period (50% of initial base salary), subject to the limitations in the plan documents, including limitations resulting from "a change of control" event, as such term is hereafter defined. The benefits and rights of Executive under the various plans set out above shall be exclusively governed by the respective plan documents to the extent they may conflict with this Agreement.

(d) Disability. In the event of the physical or mental disability of the Executive by reason of which the Executive is unable to perform the duties of his employment hereunder, the Employer shall continue to pay or provide to the Executive the compensation and benefits provided under Paragraphs (b) and (c) of this Section 2 for the first six (6) months of such disability. If, however, the disability continues beyond such six (6) month period, the Employer may, at its election, terminate the Executive's employment under this Agreement, in which case the Executive shall receive any disability benefits payable under the Employer's plans in effect at that time and no further compensation or benefit will be paid under this Agreement.

(e) Death. In the event that the Executive's death should occur during the Term of this Agreement, this Agreement shall terminate and the Executive or his estate or beneficiaries, as the case may be, shall be entitled only to income earned but not yet paid as of the date of death and any and all retirement or death benefits payable under the Employer's plans in effect at that time and no further compensation or benefit will be paid under this Agreement.

(f) Automobile. During the Term, the Bank will provide Executive with the use of a vehicle which Executive may choose and select within a reasonable budget. All fuel, insurance and maintenance shall be paid for by the Bank pursuant to the Bank's Automobile Policy. During any period where Executive does not choose to use a vehicle provided by the Bank, the fuel that Executive uses in Executive's personal vehicle will be paid for by the Bank pursuant to the aforementioned Automobile Policy. The Bank will also reimburse Executive, as possible, for insurance and maintenance on Executive's personal vehicle prior to being provided with a Bank vehicle as Executive utilizes same for Bank business.

(g) Vacation. Executive will be entitled to vacation days in 2007 pro-rated by his date of employment and thereafter in accordance with the Bank's vacation policy for senior executive officers.

(h) Professional Dues and Insurance. The Bank will pay all professional dues and fees required to maintain Executive's license to practice law, including dues to the Virginia State Bar and the costs of mandatory Continuing Legal Education and will acquire and pay for all necessary legal malpractice coverage necessary for Executive's work as the Bank's general counsel

(i) Insurance and other Expenses. The Bank will provide Executive with health insurance, dental insurance and life insurance coverage as are provided to the class of employees that includes the Executive, as well as the necessary tools to perform Executive's duties as an executive officer of the Bank and general counsel, including, but not limited to, reimbursement (aa) for Executive's current cellular phone plan or participation in the Bank's cell phone plan, (bb) professional organizational dues, (cc) current dues and related expenses at Cavalier Golf & Yacht Club, (dd) and dues for necessary civic organizations which Executive may join and are used or designed to further enhance Executive's opportunity to conduct the business of the Bank.

(j) Options. Executive shall participate in the Bank's current stock option program and any future stock option program as may be adopted from time to time. In addition to stock options that will arise or as are granted during Executive's employment period, on the Commencement Date, the Bank will issue incentive stock options for 20,000 shares of HRB common stock to Executive.

(k) Termination of compensation and benefits. The foregoing compensation and benefits shall cease when Executive is no longer employed by Employer or upon termination of this Agreement.

3. TERMINATION:

(a) Termination by the Employer. Executive’s employment with Employer may be terminated by Employer in accordance with the following provisions:

(i) Employer may, at any time, terminate Executive’s employment for "good cause" (as defined below). If such termination is for "good cause", then the Executive shall be entitled only to receive his base salary in respect of services performed through the Date of Termination and the compensation and benefits of the Executive will cease as of the Date of Termination as defined in Paragraph 3(d). For purposes of this Agreement, "good cause" means a dismissal of the Executive by Employer because of (i) the Executive’s gross or willful neglect of duly, neglect or refusal to perform all duties assigned to him or her, in good faith, under this Agreement or by Employer; (ii) imprudent financial management of Employer by the Executive which causes Employer an extraordinary or material loss not otherwise authorized; (iii) conviction of or guilty plea to a felony or a crime involving moral turpitude; (iv) habitual use of drugs or alcohol; (v) the material breach of this Agreement; (vi) material waste or misuse of assets of Employer; (vii) embezzlement, dishonesty, fraud or other similar acts reflecting adversely upon Executive’s honesty and integrity; or (ix) illegal or intentional acts by the Executive demonstrating bad faith toward the Employer, including, but not limited to, any conduct by Executive so as to permit, condone or acquiesce in any act or conduct of other persons, which could cause Employer, its parent or any of its subsidiaries, to be in material violation of any law, statute or regulation.

(ii) Employer may, at any time, terminate Executive’s employment without "good cause" (as defined above). If such termination is without "good cause", then Employer shall pay the Executive a termination allowance in not more than twelve (12) equal monthly payments commencing on the last day of the month in which the date of actual termination occurs, the total amount of which will equal the base salary plus director’s fees, if any, but not including any bonuses, paid to the Executive by Employer in the twelve (12) months preceding the Notice of Termination. Except as provided in this Agreement, upon the tennination herein described, the compensation and benefits of the Executive will cease as of the Date of Termination as defined in Paragraph 3(d).

(iii) If Executive’s employment is terminated by Employer without "good cause" and such termination occurs after Employer enters into negotiations which result in a "Change of Control" (as such term is defined below) of Employer or within one (1) year after a "Change of Control" of Employer, then the provisions of Paragraph 4 shall govern the compensation owed to Executive upon Executive’s termination.

(b) Termination by the Executive.

(i) The Executive shall be entitled to terminate his employment pursuant to this Agreement voluntarily at any time, provided, however, that in the event the Executive terminates his employment pursuant to this Agreement for any reason other than a "Change of Control" as described below, then the Executive shall be entitled to no termination allowance and/or no severance allowance and no further compensation after the "Date of Termination" as defined in part (d) of this Paragraph 3.

(ii) The Executive shall be entitled at any time to terminate his employment pursuant to this Agreement if a "Change of Control" occurs with respect to HRB or BHR (other than in the event of a merger or consolidation of BHR with HRB), in which event the Employer shall be obligated to pay the Executive and furnish him or her the benefits provided in Section 4 hereof. For purposes of this Agreement, the term a "Change of Control" shall be defined as (a) the date that any one person, or more than one person, acting as a group, acquires ownership of stock of the Bank that, together with stock held by such person or group constitutes more than 50% of the total fair market value or total voting power of the stock of the Bank, or (b)(i) the date any one person, or more than one person, acting as a group, acquires ownership of stock of the Bank possessing 30% or more of the total voting power of the stock, or (ii) the date a majority of the members of the Bank's Board of Directors is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Bank's Board of Directors before the date of the appointment or election. For purposes of this section, the term "Bank" may mean HRB or BHR as the context so requires for this section to be effective.

(c) Notice of Termination. Any termination of the Executive's employment by the Employer or by the Executive shall be communicated by a written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a written notice which shall indicate the specific termination provision(s) in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances providing the basis for termination.

(d) Date of Termination. The "Date of Termination" shall mean (i) if the Agreement is terminated by the Executive, the date on which the Notice of Termination is delivered to Employer, (ii) if the Agreement is terminated by the Employer because of the Executive's disability, thirty (30) days after the Notice of Termination is given, or (iii) if the Executive's employment is terminated by the Employer for any other reason, the date on which a Notice of Termination is given.

4. COMPENSATION UPON TERMINATION FOR A "CHANGE OF CONTROL" EVENT. If the Executive's employment is terminated by Employer pursuant to Section 3(a)(iii) or if the Executive terminates his employment pursuant to Section 3(b)(ii) hereof, then:

(a) Accrued But Unpaid Compensation. The Employer shall pay the Executive's full base salary through the Date of Termination at the rate then in effect and the amount, if any, of awards theretofore made which have not yet been paid.

(b) Severance Allowance. The Employer shall pay the Executive a severance allowance (the "Severance Allowance") on the Date of Termination, the total amount of which will equal and will not exceed the present value of three times (3x) the Base Amount, minus $1.00, plus the present value of any other payments in the nature of compensation within the meaning of Section 280G(b)(2)(A)(ii) of the Internal Revenue Code of 1986, as amended (the "Code"), provided, however, that the Severance Alloawnce shall never be less than Five Hundred Thousand and 00/100 Dollars ($500,000).

For purposes of this Paragraph 4(b), the following definitions shall apply:

(i) Base Amount - The term "Base Amount" means the Executive's average annualized includible compensation for the base period.

(ii) Annualized Includible Compensation for the Base Period - The term "annualized includible compensation for the base period" means the average annual compensation paid by the Bank, which was includible in the gross income of the Executive for federal income tax purposes, for taxable years in the base period

(iii) Base Period - The term "base period" means the period consisting of the most recent three (3) taxable years ending before the date on which termination occurs, except for termination as a result of the operation of Paragraph 3(b) above in which case the date of termination shall be deemed to be the date a "Change of Control" occurs with respect to the Bank.

(iv) Present Value - Present value shall be determined in accordance with Section 1274(b)(2) of the Code.

(c) Incentive Plans. Employer shall pay such other amounts to which Executive is entitled according to the terms of the incentive plans, equity plans, supplemental retirement plans, etc., in which Executive participates.

If Executive is employed by Employer for less than three (3) taxable years as of the Date of Termination, then the Severance Allowance shall be paid in lump sum within thirty (30) days of the Date of Termination. If Executive is employed by Employer for more than three (3) years as of the Date of Termination, then the Severance Allowance shall be paid in not more than sixty (60) equal monthly payments commencing on the last day of the month in which the Date of Termination occurs.

(d) Employee Benefits. The Employer shall maintain in full force and effect, for the Executive's continued benefit until the earlier of the third (3rd) anniversary of the Date of Termination or the date the Executive becomes a participant in similar plans, programs or arrangements provided by a subsequent employer, including, but not limited to, Executive's use of an automobile, and all life, accident, medical and dental insurance benefit plans and programs or arrangements in which the Executive was entitled to participate immediately prior to the Date of Termination, provided that the Executive's continued participation is possible under the general terms and provisions of such plans and programs. In the event that the Executive's participation in any such plan or program is barred, the Employer shall arrange to provide the Executive with benefits substantially similar to those which the Executive is entitled to receive under such plans and programs.

(d) No Duty to Mitigate. The Executive shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment provided for in this Section 4 be reduced by any compensation earned by the Executive as the result of employment by another employer after the Date of Termination, or otherwise.

5. RETURN OF EMPLOYER'S PROPERTY. When the Executive's employment with Employer ends, the Executive agrees to immediately deliver to Employer (i) all documents, including, but not limited to, address and telephone records of customers, listings of customer names and/or account numbers, and any telephone records of customers, listings of customer names and/or account numbers, and any other items or records in the Executive's possession, or subsequently coming into the Executive's possession pertaining to the Employer's business, including without limitation, confidential and proprietary information which the Executive would not possess but for his employment relationship with Employer and (ii) any tangible personal property of Employer or provided by Employer to Executive, including, but not limited to, computer(s) and related peripherals, laptops, automobiles as provided for herein, cellular telephones, access cards and credit cards.

6. SECTION 4999 GROSS-UP PAYMENT. In the event it shall be determined that any payments and benefits called for under the Agreement and any Amendments thereto, together with any other payments and benefits (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Agreement (a "Payment") would be subject to the excise tax imposed under Section 4999 of the Code, or any successor statute, or any interest or penalties are incurred by Executive with respect to such excise tax (collectively, the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the payments.

(a) *Gross-Up Determination.* Subject to the provision of Subsection (b) herein, all determinations required to be made under this Agreement, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Employer's external accounting firm or such other independent certified accounting firm (the "Accounting Firm") selected by mutual consent of Employer and Executive, which shall provide detailed supporting calculations both to Employer and Executive within fifteen (15) business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by Employer. The calculations under this

Agreement will be made in a manner consistent with the requirements of Code Sections 280G and 4999 and any applicable related regulations and any related Internal Revenue Service rulings. All fees and expenses of the Accounting Firm for such determination shall be borne solely by Employer. Any determination by the Accounting Firm shall be binding upon Employer and Executive. Any Gross-Up Payment, as determined pursuant to this Agreement shall be paid by Employer to Executive within five (5) days of the receipt of determination by the Accounting Firm that such payment is due; provided, however, that all gross-up payments must be paid no later than the end of the calendar year in which Executive remits the related taxes. If it is determined that no Excise Tax is payable to Executive, it shall so indicate to Executive in writing.

(b) *Notification to Employer.* Executive shall notify Employer in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by Employer of the Gross-Up Payment. Such notice shall be given as soon as practicable but no later than ten (10) business days after Executive is informed in writing of such claim and said notice shall advise Employer of the nature of such claim and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to Employer (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If Employer notifies Employer in writing prior to the expiration of such period that it desires to contest such claim, Employer shall:

(i) give Employer any information reasonably requested relating to such claim,

(ii) take such action in connection with contesting such claim as Employer shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonable selected by Employer,

(iii) cooperate with Employer in good faith in order to effectively contest such claim; and

(iv) permit Employer to participate in any proceedings relating to such claim;

provided, however, that Employer shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with any contest of a claim for payment of the Excise Taxes and Employer shall indemnify and hold Executive harmless, on an after tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses.

Without limitation on the foregoing provisions of this Agreement, Employer shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction

and in one or more appellate courts, as Employer shall determine; provided, however, that if Employer directs Executive to pay such claim and sue for a refund, Employer shall advance the amount of such payment to Employer, on an interest-free basis and shall indemnify and hold the Officer harmless, on an after-tax-basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, Employer's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(c) *Underpayment of Gross-Up Payment*. In the event there is an underpayment of the Gross-Up Payment due to the uncertainty in the application of Section 4999 of the Code at the time of the initial determination the Accounting Firm, and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm will determine the amount of any such underpayment that has occurred and such amount will be promptly paid by Employment to or for the benefit of Executive.

(d) *Refund of Gross- Up Payment*. If, after the receipt by Executive of an amount advanced by Employer pursuant to this Agreement, Executive becomes entitled to receive any refund with respect to such claim, Executive shall [subject to Employer's complying with the requirements of Subsection (b) above], promptly pay to Employer the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by Employer pursuant to Subsection (b) above, a determination is made that Executive shall not be entitled to any refund with respect to such claim and Employer does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

7. LITIGATION EXPENSES. Employer agrees to pay promptly as incurred, to the full extent permitted by law, all the legal fees and expenses which Executive may reasonably incur as a result of any contest (regardless of the outcome thereof unless a court of competent jurisdiction determines that the Officer acted in bad faith in initiating the contest) brought by Employer, Executive or others concerning the validity or enforceability of, or liability under, the Change of Control (as defined above) provision of this Agreement or amendments thereto, or any guarantee of performance thereof (including as a result of any contest by Executive about the amount of any payment pursuant to the Change of Control provision or its Amendments), plus in each case interest on any delayed payment at the applicable Federal rate provided for in Code Section 7872(f)(2)(A); provided however, that the reasonableness of the fees and expenses must be determined by a court of competent jurisdiction.

8. MISCELLANEOUS:

(a) Waiver. A waiver by any party of any of the terms and conditions of this Agreement in any instance shall not be deemed or construed to be a waiver of such terms and conditions for the future, or of any subsequent breach thereof.

(b) Severability. If any provision of this Agreement, as applied to any circumstances, shall be adjudged by a court to be void and unenforceable, the same shall in no way affect any other provision of this Agreement or the applicability of such provision to any other circumstances.

(c) Amendment. This Agreement may not be varied, altered, modified, changed, or in any way amended except by an instrument in writing, executed by the parties hereto or their legal representatives.

(d) Nonassignabilitv of Payments. Neither Executive nor his estate shall have any right to commute, sell, assign, transfer or otherwise convey the right to receive any payments hereunder, which payments and the right thereto are expressly declared to be nonassignable and nontransferable.

(e) Binding Effect. This Agreement shall be binding upon and inure to the benefit of Executive (and his personal representative), the Bank and any successor organization or organizations which shall succeed to substantially all of the business and property of the Bank, whether by means of merger, consolidation, acquisition of all or substantially all of the assets of the Bank or otherwise, including by operation of law.

(f) Governing Law. This Agreement shall be governed by and construed in accordance with the Laws of the Commonwealth of Virginia, whether statutory or decisional, applicable to agreements made and entirely to be performed within such state and such provisions of federal law as may be applicable. Venue for any dispute arising hereunder shall lie exclusively in the state or federal courts located in or having jurisdiction over the City of Norfolk, Virginia.

(g) Assignment. Executive shall not have the right to transfer or assign any or all of his rights or interest hereunder. Pursuant to the provisions of Section 3(b) hereof, Executive agrees that should Employer convey all or substantially all of Employer's assets to a third-party, which assets include this Agreement, that Employer may assign this Agreement to such third-party without the prior consent of Executive, and, further, that such assignment shall be deemed to be undertaken with Executive's consent with regard to the third-party, provided, however, that such assignment by Employer shall not constitute the waiver of any right by Executive or obligation of Employer under this Agreement.

(h) Background, Enumerations and Headings. The Background, enumerations and headings contained in this Agreement are for convenience of reference only and are not intended to have any substantive significance in interpreting this Agreement.

(i) Gender and Number. Unless the context otherwise requires, whenever used in this Agreement the singular shall include the plural, the plural shall include the singular and the masculine gender shall include neuter or feminine gender and vice versa.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

THE BANK OF HAMPTON ROADS, INC.,
a banking corporation organized under the laws of
the Commonwealth of Virginia

By: /s/ Jack W. Gibson
Jack W. Gibson,
Chief Executive Officer

HAMPTON ROADS BANKSHARES, INC.,
a Virginia corporation

By: /s/ Jack W. Gibson
Jack W. Gibson,
Chief Executive Officer

/s/ Douglas J. Glenn
DOUGLAS J. GLENN, Executive

Section 4: EX-13.1 (ANNUAL REPORT)

Exhibit 13.1

HAMPTON ROADS BANKSHARES

2007 ANNUAL REPORT

HAMPTON ROADS BANKSHARES

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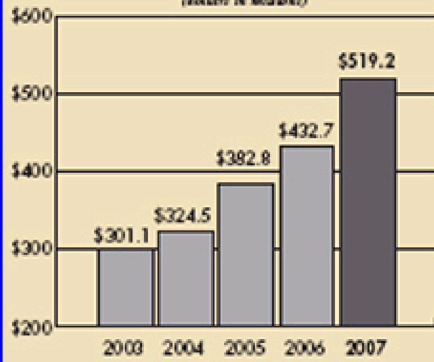
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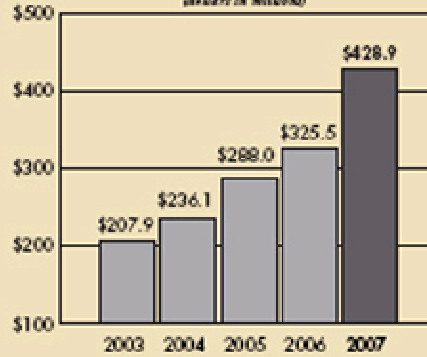
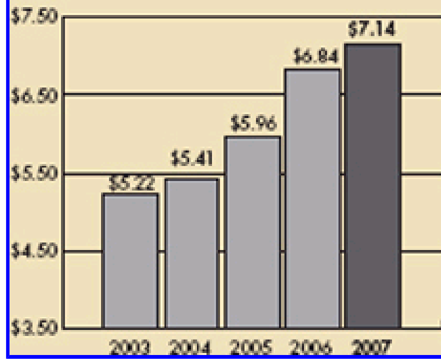
(dollars in millions)
$600
$500
$400
$300
$200
$519.2
$432.7
$382.8
$324.5
$301.1
2003
2004
2005
2006
2007

NET INCOME
(dollars in thousands)
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$6,811
$6,036
$5,507
$4,134
$4,023
2003
2004
2005
2006
2007

AVERAGE DEPOSITS
(dollars in millions)
$500
$400
$300
$200
$100
$389.1
$333.2
$302.2
$260.1
$243.2
2003
2004
2005
2006
2007


AVERAGE LOANS
(dollars in millions)
$500
$400
$300
$200
$100
$428.9
$325.5
$288.0
$236.1
$207.9
2003
2004
2005
2006
2007


BOOK VALUE PER SHARE
$7.50
$6.50
$5.50
$4.50
$3.50
$7.14
$6.84
$5.96
$5.41
$5.22
2003
2004
2005
2006
2007

DEAR SHAREHOLDER

It's hard to believe that twenty years have passed since we first opened our doors and embarked on this journey together. From the beginning, we resolved to operate by a simple philosophy: "Treat others like you want to be treated yourself." I realize that this philosophy may sound a bit trite in the growing complexity of the financial services industry and I know some are tired of hearing me repeat the phrase. However, I have always been a proponent of and continue to believe strongly that community banking is a good and important business. By adhering to our operating philosophy and consistently delivering outstanding customer service, Bank of Hampton Roads has succeeded over the past twenty years in becoming one of the most successful and well-respected banks in the Commonwealth of Virginia. We have done so while returning a great percentage of our earnings and otherwise delivering enhanced value to our shareholders, perhaps our most important measure of success. The growth of our business and strong financial performance in 2007 suggests that our business philosophy is working well. We are determined to continue to build on this foundation.

Last year at this time, I advised that I was looking forward to a banner year in keeping with our twenty year milestone. I am pleased to say that we achieved and realized the expected success. For the twentieth consecutive year, I have the distinct pleasure of reporting record earnings on behalf of our Company. Net income for 2007 was $6,810,613, an increase of 13% or $775,074 over 2006. The fact that we were able to achieve this despite the changing market conditions in the financial services industry that began in earnest during the fourth quarter of the year is a testament to our credit quality and focus on customer-oriented relationship banking.

This customer service-oriented approach to banking as well as our increased legal lending limit which resulted from our growth in 2007 and our 2006 stock offering helped to produce over $102 million in net new loans in 2007. Total loans outstanding at year-end were $477,149,232 compared to $375,044,161 a year ago. As a result of this strong loan growth, total assets ended 2007 at a record high of $563,828,128. Competition is especially acute in our market but we enjoy strong loyalty and commitment from our customers.

Our return on average assets ended the year very strong at 1.31%. This was the fifteenth year in a row that this ratio exceeded 1.20%. For 2007, the return on average assets for our Federal Financial Institutions Examination Council ("FFIEC") peer group was 1.11% so we remain a leader by this measure.

Loan demand throughout 2007 was consistently high and peaked in the last four months of the year when the Federal Reserve initiated four interest rate cuts totaling 150 basis points. Since year-end, interest rates have decreased another 125 basis points and at the time of this letter, at least one more rate cut is predicted to help bolster the economy. While these actions are designed to benefit consumers and the macro economy, they pose a specific challenge for our industry. Because of these rate cuts and the increased cost of funding loans, net interest margins are facing pressure throughout the industry. At December 31, 2007, our net interest margin was 4.95%, down 25 basis points from year-end 2006. Managing this ratio will be among our greatest priorities in 2008.

Despite the slowing national economy, many commentators report that the Hampton Roads economy is fundamentally stable and projected to hold its own or perhaps even outperform the national economy this year. According to a recently released economic development study, the local port now contributes $12.3 billion to Hampton Roads' economy and employs directly or indirectly 100,000 people with a $4.1 billion payroll. With the strong presence of the U.S. Navy and other branches of the armed forces, military spending makes up more than 25% of our region's economy. Consequently, we believe that port activity and local defense spending will help to moderate and stabilize economic conditions in Hampton Roads.

As many of you know, Bank of Hampton Roads enjoys a long established reputation as Hampton Roads' premier construction lender. Because of our history in this regard, you may be concerned about how the challenging housing market of late has affected this segment of our business, namely construction loans. I am proud to say that we provide construction financing to some of the best and most experienced custom home builders in our market. Many of these builders had the foresight to reduce their inventories of speculative homes and have started fewer contract homes over the last year. As a result, our construction loans as a percent of our total loans outstanding actually decreased from 2006 to 2007.

Demonstrating that Bank of Hampton Roads is the top choice for construction financing by our area's top builders was the presence of our "Financing By" signs at Tidewater Builders Association's 2007 Homearama. Bank of Hampton Roads financed seven of the seventeen castle-themed homes on display in Chesapeake's prestigious Edinburgh neighborhood. Because of the beauty and overall appeal of the Edinburgh development, six of the seven homes we financed were already pre-sold or under contract prior to the event.

As visitors entered the site of this year's Homearama, they all passed by the site of Bank of Hampton Roads' new Edinburgh Office. It is located in the Edinburgh Commons North Shopping Center, which is anchored by Target and fronts the highly traveled Chesapeake Expressway. Our friendly staff is currently serving customers out of a temporary facility located on our property there while the office is under construction. We are very optimistic about the potential of this office with Edinburgh being the largest retail center between the Greenbrier area of Chesapeake and the Outer Banks of North Carolina. Edinburgh features a variety of national and specialty retailers, restaurants and services as well as a beautiful planned community.

With the addition of the Edinburgh location, Bank of Hampton Roads now has eighteen convenient branch offices, including nine in Chesapeake, four in Virginia Beach, four in Norfolk and one Suffolk. The Bank also has ATMs located in two of Norfolk's most prominent entertainment venues: Scope and Chrysler Hall. Thanks to the efforts of all of our employees, but most especially those in our branches, our deposits increased 19% in 2007 to end the year at a record $431 million. We remain diligent in exploring opportunities for additional branches throughout Hampton Roads and, as we have evidenced historically, we will do that which is necessary to provide convenient personal service to our customers.

The safety and soundness of our Bank is something we pay attention to every day but the issue always draws more scrutiny in challenging times. Giving our depositors even more peace of mind beyond FDIC insurance are the numerous acknowledgements Bank of Hampton Roads has received throughout the years for its commitment to safety and soundness. The Bank has been awarded a 5-Star rating by BauerFinancial for fifty-three consecutive quarters, or just over thirteen years. In addition, the Bank was recently awarded a financial safety rating of "A" by TheStreet.com Ratings. Both ratings signify excellent financial stability for our customers, vendors and employees.

Hampton Roads Bankshares also received its own share of accolades in 2007. In September, we were notified by NASDAQ that our shares qualified for listing on the elite NASDAQ Global Select Market. Only about 1,200 companies are listed on the Global Select Market, having met NASDAQ's most stringent financial, liquidity and corporate governance requirements. In 2007, our stock was also selected by the Russell Investment Group for inclusion in their Microcap Index. Our affiliation with NASDAQ has resulted in many new ways for us to introduce Hampton Roads Bankshares and our achievements to new investors.

Our Company has enjoyed much prosperity during its two decades of operations and it has a rich history of sharing its success with its shareholders and the community in general.

In consideration of our strong financial performance in 2007 and the tax-advantaged status of dividend payments, our Board of Directors increased the cash dividend 10% to an annualized rate of $0.44 per share. Since 1992, our Company has paid dividends to shareholders totaling $26,912,035 or 53% of our total net income for that period.

In 2007, our 11th Annual Charitable Golf Classic raised a record-breaking $170,000 for local charities, non-profit organizations and worthwhile causes. Since the tournament's inception, the Bank has raised nearly $900,000 for the community. Every year, we match the proceeds from the golf tournament dollar for dollar and use that money to help as many different charities as we can. Recipients include local colleges and universities, CHKD, St. Jude Children's Research Hospital, CHIP of Virginia, Cerebral Palsy of Virginia, Norfolk Botanical Garden and the Virginia Aquarium.

Bank of Hampton Roads also developed a very special partnership with the Foodbank of Southeastern Virginia in 2007. If you've visited our Deep Creek, Great Bridge or Great Neck Offices lately, you may have noticed some rather unusual looking employees – Cash Cows that stand about six feet tall. Our Cash Cows are coin counters similar to the machines you see in grocery stores where you can take in your loose coins, dump them in, and get bills in exchange for your coin. Our Cash Cows charge $0.05 for every $1.00 of change they count. All of the proceeds from the machines are donated to the Foodbank's Kids Café, which can feed four children with every $1.00 that we contribute.

We were so humbled and proud of all that the Foodbank does for our community that we couldn't help but want to do more for the organization. We recently started selling special edition Bank of Hampton Roads piggy banks to benefit the Foodbank's Kids Café and couldn't be more pleased with the results of this fundraiser. In less than a month, our kind-hearted customers purchased nearly $3,000 worth of the piggy banks at a cost of just $5.00 each. Local television station WTKR gave the Bank airtime during a recent evening newscast to present the first of what we hope is many more donations. Our donation of $3,000 enabled the Foodbank to provide 12,000 meals for people in our area who may have otherwise gone hungry.

2008 is likely going to be one of the busiest, most challenging and, by far, one of the most exciting years in the history of our company. Pending shareholder and regulatory approval, Shore Financial Corporation, the parent company of Shore Bank, will merge into Hampton Roads Bankshares. Shore Bank has an excellent reputation, a similar performance-driven culture, and operating strengths that are highly complimentary to ours. Shore Bank serves the Eastern Shore of Maryland and Virginia through eight full-service banking facilities and twenty-two ATMs. Through its affiliates, Shore also offers title insurance and investment products. As of December 31, 2007, Shore Financial Corporation had total assets of $267 million, total deposits of $197 million, total loans of $222 million, and total stockholders' equity of $28 million. We believe that both of our organizations share a vision to grow and be the market leader without compromising profitability. By joining together, our two banks can execute a strategy through the Delmarva Peninsula which will result in a vibrant and visible bank franchise that serves both the divergent needs of our customers and provides rewarding opportunities for our employees. Most importantly and what always motivates our decision making, we believe that you, our shareholders, will enjoy the enhanced value and related benefits of our mutual vision.

I would be remiss if I did not take a moment to thank our people for all of the hard work and effort they put forth to ensure that our twentieth anniversary year was our best yet. Our staff is professional, knowledgeable and friendly and I could not ask for a better group of people working on behalf of our organization. As a testament to how we value our people, of the original ten Bank employees, myself included, four remain with the Bank and three have retired from the Bank. I would be surprised if such loyalty is not unique in community banking today. The Bank also enjoys the benefit of stable and talented executive management and I would expect that Shore Bank's senior management will do nothing less than add depth and perspective to our Company as a whole. I feel the same way about our Board and thank them for their leadership and their confidence in our future potential. Again, Shore Bank's Board members will only add to the value of our Company and I look forward to working with them in the future.

I will go on record stating that 2008 will be one of the most challenging years that we have ever faced. The 75 basis point cut in the federal funds rate on January 22, 2008 was the most the Federal Reserve had cut rates in a single action since 1991. Eight days later, the rate dropped another 50 basis points and is predicted to continue to decline, at least for the short-term. These actions have already affected our margins and further rate cuts will only add to our challenges in 2008. Rest assured that our management team will work diligently to protect our earnings.

One of the best measures of our ability to perform under any economic circumstances is to look at a chronicle of our past year-end net interest margins. For the last ten years, our net interest margin has consistently been at least 50 basis points higher than that reported by our FFIEC peer group.

NET INTEREST MARGIN

	Hampton Roads Bankshares	FFIEC Peer Group Average
1998	5.75%	4.46%
1999	5.49%	4.48%
2000	5.75%	4.53%
2001	5.24%	4.29%
2002	4.83%	4.31%
2003	4.65%	4.12%
2004	4.71%	4.11%
2005	5.26%	4.19%
2006	5.20%	4.21%
2007	4.95%	4.02%

You can help us overcome the challenges we will face this year by always giving us the opportunity to meet your banking needs as well as referring your friends and business associates to us. The prime rate is at its lowest level in two years making it an attractive time to borrow. Bank of Hampton Roads is also implementing remote deposit capture, a new state-of-the-art product designed for commercial customers who would like to virtually eliminate their trips to the bank. Remote deposit capture uses a desktop scanner that connects to your PC and the Internet. With it, businesses can scan their customers' checks and transmit their deposits electronically to us, anytime day or night.

Again, I express my thanks to our Board of Directors, Regional Board Members, employees, shareholders and customers for the contributions each of you has made to our extraordinary success over the last twenty years. We look forward to serving you with innovative products, delivered with exceptional service for many more years to come.

Very truly yours,

Jack W. Gibson

Jack W. Gibson

President & Chief Executive Officer

SELECTED FINANCIAL DATA

Years Ended December 31,

The financial information presented below for the years ended December 31, 2003, 2004, 2005, 2006 and 2007 has been derived from our audited consolidated financial statements. Our consolidated financial statements as of and for the years ended December 31, 2003, 2004, 2005 and 2006 have been audited by KPMG LLP, our former independent auditors. Our consolidated financial statements as of and for the year ended December 31, 2007 have been audited by Yount, Hyde & Barbour, P.C., our current independent auditors. This information is only a summary and should be read together with our consolidated historical financial statements and management's discussion and analysis appearing elsewhere in this annual report.

(Dollars in thousands except per share data)	2007	2006	2005	2004	2003
Operating Results:					
Interest income	**$ 38,203**	$ 30,021	$ 24,558	$ 18,068	$ 17,469
Interest expense	**14,016**	9,123	5,869	3,911	4,417
Net interest income	**24,187**	20,898	18,689	14,157	13,052
Provision for loan losses	**1,232**	180	486	926	370
Noninterest income	**3,440**	3,398	3,214	3,791	3,410
Noninterest expense	**15,994**	14,946	13,040	10,794	9,983
Income taxes	**3,590**	3,134	2,870	2,140	2,086
Income before cumulative effect of change in accounting principle	**6,811**	6,036	5,507	4,088	4,023
Cumulative effect of change in accounting principle, net	**—**	—	—	46	—
Net income	**$ 6,811**	$ 6,036	$ 5,507	$ 4,134	$ 4,023
Per Share Data:					
Basic earnings after change in accounting principle	**$ 0.67**	$ 0.66	$ 0.68	$ 0.52	$ 0.52
Diluted earnings after change in accounting principle	**0.65**	0.65	0.66	0.50	0.50
Book value	**7.14**	6.84	5.96	5.41	5.22
Basic weighted average shares outstanding	**10,228,638**	9,092,980	8,137,244	7,973,844	7,805,231
Diluted weighted average shares outstanding	**10,431,554**	9,275,788	8,407,821	8,236,169	7,994,251
Shares outstanding at year-end	**10,314,899**	10,251,336	8,242,822	8,059,528	7,908,708
Year-End Balances:					
Assets	**$ 563,828**	$ 476,299	$ 409,517	$ 344,969	$ 316,473
Overnight funds sold	**183**	9,524	18,294	7,294	10,038
Loans	**477,149**	375,044	285,330	275,190	210,775
Investment securities	**47,081**	59,545	73,826	38,995	72,046
Deposits	**431,457**	363,261	327,447	275,115	257,433
Shareholders' equity	**73,660**	70,163	49,131	43,626	41,314
Average Balances:					
Assets	**$ 519,175**	$ 432,716	$ 382,821	$ 324,485	$ 301,073
Overnight funds sold	**691**	4,558	7,132	6,509	10,179
Loans	**428,874**	325,506	287,979	236,082	207,853
Investment securities	**53,946**	67,130	52,706	57,455	61,705
Deposits	**389,055**	333,242	302,167	260,110	243,177
Shareholders' equity	**71,545**	57,640	44,855	41,960	39,311
Ratios:					
Return on average assets	**1.31%**	1.39%	1.44%	1.27%	1.34%
Return on average equity	**9.52**	10.47	12.28	9.85	10.23
Average equity to average assets	**13.78**	13.32	11.72	12.93	13.06
Allowance for loan losses to year-end loans	**1.06**	1.04	1.26	1.12	1.40
Net interest margin	**4.95**	5.20	5.26	4.71	4.65
Dividend payout ratio	**64.18**	75.76	52.94	63.46	80.77
Efficiency ratio	**57.89**	61.52	59.54	60.14	60.64

Introduction

Hampton Roads Bankshares, Inc. (the "Company") is headquartered in Norfolk, Virginia and conducts its primary operations through its wholly owned subsidiary, Bank of Hampton Roads (the "Bank"). Unless the context otherwise requires, the term the "Company" is also used to refer to Hampton Roads Bankshares, Inc. and its consolidated subsidiaries on a combined basis. The Company is a financial services holding company with $564 million in total assets providing a variety of community banking and investment services in the Southeastern portion of Virginia known as South Hampton Roads. In addition to the Bank, the Company owns Hampton Roads Investments, Inc. ("HRI"). This non-bank subsidiary provides clients with a variety of securities and insurance products.

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

Financial Overview

The Company’s primary source of revenue is net interest income earned by the Bank. Net interest income represents interest and fees earned from lending and investment activities less the interest paid to fund these activities. In addition to net interest income, noninterest income is another important source of revenue for the Company. Noninterest income is derived primarily from service charges on deposits and fees earned from bank services. Other factors that impact net income are the provision for loan losses and noninterest expense.

Net income for 2007 increased 12.84% to $6.81 million from $6.04 million for 2006. Diluted earnings per share remained constant at $0.65 for both 2007 and 2006 due to an increased average number of shares outstanding during 2007. In the third quarter of 2006, the Company raised approximately $19 million in capital through a rights offering to existing shareholders and a public offering, resulting in the issuance of 1,849,200 new shares of common stock. Book value per share increased to $7.14 for 2007 compared to $6.84 for 2006. Net income for 2005 was $5.51 million with diluted earnings per share of $0.66 and book value per share of $5.96.

The increase in equity from the stock offerings also explains the decrease in return on average equity experienced during 2007 to 9.52% from 10.47% in 2006 and 12.28% in 2005. Return on average assets was 1.31% for 2007, 1.39% for 2006, and 1.44% for 2005. This profitability indicator was influenced by a decreasing net interest margin.

During 2007, the Company’s net interest margin declined to 4.95% from 5.20% in 2006 and 5.26% in 2005. The Federal Reserve Bank kept short term interest rates steady during the first eight months of 2007, but then began to decrease the targeted federal funds rate, first by 50 basis points in September 2007 and again by 25 basis points in each of October and December of 2007. Due to the asset sensitive nature of the Bank’s balance sheet, with assets such as variable rate loans repricing more quickly than liabilities such as certificates of deposit, a decreasing interest rate environment tends to cause a decline in net interest margin. The Company manages interest rate risk associated with assets and liabilities repricing on different bases in several ways including using floors and caps on variable interest rate loans and keeping the terms on both assets and liabilities short with most maturing or repricing within five years.

Despite the declining net interest margin, net interest income rose during 2007 to $24.19 million, a 15.74% increase over 2006. This increase in net interest income was the primary factor involved in the increase in net income for 2007 and resulted from the strong growth in loans experienced during the year.

In 2007, the Company continued to benefit from high growth rates in assets, loans, and deposits. Total assets increased to $563.83 million at year-end 2007, up 18.38% from $476.30 million at year-end 2006. The majority of this growth occurred in the loan portfolio with total loans increasing to $477.15 million at year-end 2007, up 27.22% from $375.04 million at year-end 2006. The funding for this loan growth came in the form of increased borrowings from the Federal Home Loan Bank, increased deposits, and proceeds from investment maturities. Deposits accounted for the largest portion of the funding with total deposits rising to $431.46 million at year-end 2007, up 18.77% from $363.26 million at year-end 2006.

In order to maintain its liquidity position during 2007, the Company expanded its sources of funding to include brokered and national market certificates of deposit. Competition for local market deposits has caused the pricing for local deposits to rise making brokered and national market certificates of deposit a cost efficient source of funds. The Company monitors its portfolio of brokered and national market certificates closely and has set limits on the types and amounts of funding that will be obtained in this manner.

The higher net interest income was offset partially by an increase in the provision for loan losses. The provision increased to $1.23 million in 2007 compared to $180 thousand in 2006 and $486 thousand in 2005. The increase in the loan loss provision

reflected the growth in the loan portfolio during 2007 as well as the nature of the economic environment. As seen by the Company's asset quality ratios, the loan portfolio quality remains high. Nonperforming assets to total assets were 0.47% at year-end 2007 compared to 0.34% at year-end 2006. Allowance for loan losses to nonperforming assets was 190.67% at year-end 2007 compared to 239.94% at year-end 2006.

Results of Operations

Net Interest Income

Net interest income is the difference between interest income and interest expense and represents the gross profit margin. The following influences may significantly impact net interest income and net interest margin:

- Variations in the volume and mix of interest earning assets and interest bearing liabilities;
- Changes in the yields earned and rates paid; and
- The level of noninterest bearing liabilities available to support earning assets.

Table 1 presents the average interest earning assets and average interest bearing liabilities, the average yields earned on such assets and rates paid on such liabilities, and the net interest margin for the indicated periods. The variance in interest income and expense caused by differences in average balances and rates is shown in **Table 2**.

2007 Compared to 2006

Net interest income increased 15.74% in 2007 to $24.19 million, or $3.29 million over the 2006 total. The increase in net interest income during 2007 was attained by strong increases in the average balance of interest earning assets, most notably in average loans. Interest rates also were a factor in net interest income and the net interest margin in 2007. The average yield on interest earning assets increased from 7.47% in 2006 to 7.82% in 2007 and the average rate paid on interest bearing liabilities increased from 3.37% in 2006 to 4.11% in 2007. These changes in average yield and rate produced a net interest spread which compressed from 4.10% in 2006 to 3.71% in 2007.

Net interest margin, which is calculated by expressing net interest income as a percentage of average interest earning assets, is an indicator of effectiveness in generating income from earning assets. The Company's net interest margin was 4.95% in 2007, as compared to 5.20% in 2006 and 5.26% in 2005. The net interest margin decreased in 2007 as a result of a declining rate environment. Based on economic forecasts and initial interest rate movements in 2008, the declining trend in interest rates is likely to continue, in which case further compression of the net interest margin can be expected.

Interest income from loans, including loan fees, rose to $35.60 million for the year 2007, an increase of $8.78 million over 2006. During 2007, average loans increased $103.37 million, or 31.76%, while the average interest yield increased 6 basis points. New loan production was strong throughout 2007. At December 31, 2007, approximately 54.43% of the loan portfolio consisted of variable rate loans, compared with 49.73% and 49.88% at December 31, 2006 and 2005, respectively.

Interest income from investment securities decreased $405 thousand from 2006 to 2007. This decrease is related to a decrease in average investment securities of $13.18 million partially offset by an increase in the average interest yield of 24 basis points. As investments matured during 2007, the proceeds were used to fund loan growth.

A shift in the mix of funding sources was a factor in the Company's net interest margin in 2007. Average noninterest bearing demand deposits made up only 25.53% of the average deposit portfolio in 2007 compared to 29.97% in 2006 and 32.98% in 2005. Time deposits, a higher cost funding source, made up 43.41% of the average deposit portfolio in 2007 compared to 35.09% in 2006 and 32.37% in 2005. Savings deposits, including the premium savings account product, made up 20.56% of the average deposit portfolio in 2007 compared to 21.10% in 2006 and 17.35% in 2005. The Company also increased rates on deposit accounts in order to attract deposits to fund loan growth. Interest expense on deposits increased $4.03 million from 2006 to 2007 as average interest bearing deposits increased $56.38 million or 24.06% and the average rate paid on interest bearing deposits increased 75 basis points. Interest on other borrowings increased $865 thousand from 2006 to 2007 resulting from an increase in average other borrowings of $14.37 million and a 56 basis point increase in the average rate paid on other borrowings.

2006 Compared to 2005

Net interest income in 2006 increased $2.21 million, or 11.82%, over the 2005 amount. The increase in net interest income during 2006 was attributable to growth in average interest earning assets and higher rates on those assets netted against higher rates paid on interest bearing liabilities. The average yield on interest earning assets increased from 6.92% in 2005 to 7.47% in 2006 and the average rate paid on interest bearing liabilities increased from 2.51% in 2005 to 3.37% in 2006. These changes in average yield and rate produced a net interest spread which compressed from 4.41% in 2005 to 4.10% in 2006.

Interest income from loans, including loan fees, increased $4.49 million to $26.83 million in 2006 over the 2005 amount due to an increase of 48 basis points in the average interest yield and an increase of $37.53 million in the average loan balance. Interest income on investment securities increased $1.00 million from 2005 to 2006. This increase was caused by an increase in the average yield on investment securities of 79 basis points, along with an increase in average investment securities of $14.42 million. Interest expense increased $3.25 million from 2005 to 2006 due to a $36.88 million increase in average interest bearing liabilities and an 86 basis point increase in the average rate paid on interest bearing liabilities.

Table 1: Average Balance Sheet and Net Interest Margin Analysis

(In thousands)	2007 Average Balance	2007 Interest Income/ Expense	2007 Average Yield/ Rate	2006 Average Balance	2006 Interest Income/ Expense	2006 Average Yield/ Rate	2005 Average Balance	2005 Interest Income/ Expense	2005 Average Yield/ Rate
Assets:									
Interest earning assets									
Loans	**$428,874**	**$35,604**	**8.30%**	$325,506	$26,827	8.24%	$287,979	$22,342	7.76%
Investment securities	**53,946**	**2,316**	**4.29**	67,130	2,721	4.05	52,706	1,720	3.26
Interest-bearing deposits in other banks	**4,870**	**248**	**5.09**	4,761	244	5.12	7,184	246	3.42
Overnight funds sold	**691**	**35**	**5.07**	4,558	229	5.02	7,132	250	3.51
Total interest earning assets	**488,381**	**38,203**	**7.82**	401,955	30,021	7.47	355,001	24,558	6.92
Noninterest earning assets									
Cash and due from banks	**15,907**			16,194			15,801		
Premises and equipment	**11,961**			11,808			10,432		
Other assets	**7,354**			6,527			4,986		
Less: Allowance for loan losses	**(4,428)**			(3,768)			(3,399)		
Total assets	**$519,175**			$432,716			$382,821		
Liabilities and Shareholders' Equity:									
Interest bearing liabilities									
Interest bearing demand	**$ 40,863**	**$ 678**	**1.66%**	$ 46,132	$ 522	1.13%	$ 52,268	$ 319	0.61%
Savings deposits	**79,994**	**2,866**	**3.58**	70,315	2,180	3.10	52,415	1,156	2.21
Time deposits	**168,886**	**8,113**	**4.80**	116,918	4,927	4.21	97,823	3,391	3.47
Other borrowings	**51,336**	**2,359**	**4.60**	36,968	1,494	4.04	30,944	1,003	3.24
Total interest bearing liabilities	**341,079**	**14,016**	**4.11**	270,333	9,123	3.37	233,450	5,869	2.51
Noninterest bearing liabilities									
Demand deposits	**99,312**			99,877			99,661		
Other liabilities	**7,239**			4,866			4,855		
Shareholders' equity	**71,545**			57,640			44,855		
Total liabilities and shareholders' equity	**$519,175**			$432,716			$382,821		
Net interest income		**$24,187**			$20,898			$18,689	
Net interest spread			**3.71%**			4.10%			4.41%
Net interest margin			**4.95%**			5.20%			5.26%

Note: Interest income from loans included fees of $1,414,086 in 2007, $1,359,262 in 2006, and $2,408,180 in 2005. Nonaccrual loans are not material and are included in loans above.

Table 2: Effect of Changes in Rate and Volume on Net Interest Income

	2007 Compared to 2006			2006 Compared to 2005			2005 Compared to 2004		
	Interest Income/ Expense	Variance Attributable to		Interest Income/ Expense	Variance Attributable to		Interest Income/ Expense	Variance Attributable to	
(In thousands)	Variance	Rate	Volume	Variance	Rate	Volume	Variance	Rate	Volume
Interest Earning Assets:									
Loans	**$8,777**	**$ 197**	**$8,580**	$ 4,485	$1,451	$3,034	$ 5,967	$2,090	$3,877
Investment securities	**(405)**	**175**	**(580)**	1,001	470	531	104	215	(111)
Interest-bearing deposits in other banks	**4**	**(2)**	**6**	(2)	4	(6)	241	36	205
Overnight funds sold	**(194)**	**4**	**(198)**	(21)	102	(123)	178	171	7
Total interest earning assets	**$8,182**	**$ 374**	**$7,808**	$ 5,463	$2,027	$3,436	$ 6,490	$2,512	$3,978
Interest Bearing Liabilities:									
Deposits	**$4,028**	**$ 1,967**	**$2,061**	$ 2,763	$1,708	$1,055	$ 1,516	$ 957	$ 559
Other borrowings	**865**	**226**	**639**	491	275	216	441	49	392
Total interest bearing liabilities	**4,893**	**2,193**	**2,700**	3,254	1,983	1,271	1,957	1,006	951
Net interest income	**$3,289**	**$(1,819)**	**$5,108**	$ 2,209	$ 44	$2,165	$ 4,533	$1,506	$3,027

Note: The change in interest due to both rate and volume has been allocated to variance attributable to rate and variance attributable to volume in proportion to the relationship for the absolute amounts of the change in each.

Noninterest Income

2007 Compared to 2006

As shown in **Table 3**, the Company reported an increase in total noninterest income of $42 thousand, or 1.24%, in 2007 over 2006. Noninterest income comprised 8.26% of total revenue in 2007, 10.17% in 2006 and 11.57% in 2005.

Service charges on deposit accounts, the Company's primary source of noninterest income, increased 6.51% from 2006 to 2007. This increase was due to an increase in non sufficient funds ("NSF") fees and service charges on commercial checking accounts.

Other service charges and fees decreased $80 thousand or 5.25% from 2006 to 2007 due primarily to equity method losses on the Company's investment in a financial services equity fund and decreases in the commission income earned by the Company's investment services subsidiary, HRI.

2006 Compared to 2005

Noninterest income increased $184 thousand or 5.72% from 2005 to 2006. From 2005 to 2006, service charges on deposit accounts decreased 3.65% due to a decline in NSF fees and stop payment fees. Other bank service charges and fees increased $255 thousand, or 20.09%, from 2005 to 2006 due primarily to an increase in commission income earned by the Company's investment services subsidiary, HRI.

Table 3: Noninterest Income

December 31,				2007 Compared to 2006		2006 Compared to 2005	
(In thousands)	2007	2006	2005	Amount	%	Amount	%
Service charges on deposit accounts	**$1,996**	$1,874	$1,945	**$ 122**	**6.51%**	$ (71)	(3.65)%
Other service charges and fees	**1,444**	1,524	1,269	**(80)**	**(5.25)**	255	20.09
Total noninterest income	**$3,440**	$3,398	$3,214	**$ 42**	**1.24%**	$ 184	5.72%

Noninterest Expense

2007 Compared to 2006

Noninterest expense represents the overhead expenses of the Company. One of the core operating principles of management continues to be the careful monitoring and control of these expenses. The efficiency ratio, calculated by dividing noninterest expense by the sum of net interest income and noninterest income, improved to 57.89% in 2007 compared to 61.52% in 2006 and 59.54% in 2005. As shown in **Table 4**, total noninterest expense increased $1.05 million, or 7.01%, for the year ended December 31, 2007 to $15.99 million, compared to $14.95 million in 2006.

Table 4: Noninterest Expense

December 31,				2007 Compared to 2006		2006 Compared to 2005	
(In thousands)	2007	2006	2005	Amount	%	Amount	%
Salaries and employee benefits	**$ 9,954**	$ 9,106	$ 7,962	**$ 848**	**9.31%**	$ 1,144	14.37%
Occupancy	**1,668**	1,677	1,109	**(9)**	**(0.54)**	568	51.22
Data processing	**612**	598	560	**14**	**2.34**	38	6.79
Directors' and regional board fees	**307**	284	313	**23**	**8.10**	(29)	(9.27)
Bank franchise tax	**464**	280	251	**184**	**65.71**	29	11.55
Equipment	**343**	304	205	**39**	**12.83**	99	48.29
Professional fees	**279**	367	380	**(88)**	**(23.98)**	(13)	(3.42)
Telephone and postage	**305**	294	282	**11**	**3.74**	12	4.26
ATM and VISA Check Card expense	**500**	423	467	**77**	**18.20**	(44)	(9.42)
Advertising and marketing	**326**	481	304	**(155)**	**(32.22)**	177	58.22
Other	**1,236**	1,132	1,207	**104**	**9.19**	(75)	(6.21)
Total noninterest expense	**$15,994**	$14,946	$13,040	**$1,048**	**7.01%**	$ 1,906	14.62%

Salaries and employee benefits accounted for the largest portion of noninterest expense during each of the years in the three-year period ended December 31, 2007. During 2007, salaries and benefits were $9.95 million, an increase of $848 thousand over 2006. This increase was driven by annual incentive increases and an increase in the number of full-time equivalent employees, including one executive officer.

Occupancy expense decreased $9 thousand for the year ended December 31, 2007 to $1.67 million. This decrease was primarily due to a decrease in building maintenance expense netted against an increase in rent expense.

Data processing expense increased $14 thousand, or 2.34%, to $612 thousand from 2006 to 2007. This increase is due to costs associated with improvements made to the online banking product and implementation of deposit capture in the branches.

All other expenses combined to cause an increase of $195 thousand from 2006 to 2007. The largest change occurred in the bank franchise tax category which increased $184 thousand from 2006 to 2007 as a result of higher Bank equity after the rights and public offerings in 2006.

2006 Compared to 2005

From 2005 to 2006, the increase in noninterest expense was $1.91 million, or 14.62%. Salaries and employee benefits accounted for $1.14 million of that increase due to annual incentive increases, an increase in the number of full time equivalent employees, and increases in certain employee benefit costs designed to reward employees for generating new business. From 2005 to 2006, occupancy expense increased $568 thousand due to the addition of the Great Bridge branch on January 31, 2005 and the Dominion Tower branch on August 16, 2005 as well as moving the Company's headquarters to downtown Norfolk in November 2005. From 2005 to 2006, data processing expense increased $38 thousand related to the cost of upgrading branch networking equipment including the purchase of new network servers and computer equipment. In 2006, other expenses combined to cause an increase of $155 thousand over the amount recorded in 2005. The largest of these increases occurred in the advertising and marketing category which was $177 thousand higher in 2006 over 2005 due to a television campaign running from December 2005 through May 2006.

Provision for Income Taxes

Income tax expense for 2007, 2006, and 2005 was $3.59 million, $3.13 million, and $2.87 million, respectively. The Company's effective tax rate for the years ended December 31, 2007, 2006, and 2005 was 34.52%, 34.18%, and 34.26%, respectively, and differed from the statutory rate of 34.18% on 2007 and 34.00% in 2006 and 2005 due primarily to nondeductible expenses.

Financial Condition

Loans

As a community bank, the Company has a primary objective of meeting the business and consumer credit needs within its market where standards of profitability, client relationships and credit quality can be met. As shown in **Table 5**, the overall loan portfolio grew $102.11 million, or 27.22%, from year-end 2006 to year-end 2007.

Table 5: Loans by Classification

December 31,	**2007**		**2006**		**2005**		**2004**		**2003**	
(In thousands)	**Balance**	**%**	**Balance**	**%**	**Balance**	**%**	**Balance**	**%**	**Balance**	**%**
Loan Classification:										
Commercial	**$109,783**	**23.01%**	$ 72,133	19.23%	$ 60,972	21.37%	$ 58,501	21.26%	$ 59,334	28.15%
Construction	**165,469**	**34.68**	116,812	31.15	85,205	29.86	73,508	26.71	44,465	21.10
Real estate -commercial mortgage	**151,601**	**31.77**	140,260	37.40	104,313	36.56	108,314	39.36	74,865	35.52
Real estate -residential mortgage	**38,523**	**8.07**	25,523	6.81	20,011	7.01	17,900	6.50	15,595	7.40
Installment loans to individuals	**11,976**	**2.51**	20,599	5.49	15,107	5.30	17,251	6.27	16,493	7.82
Deferred loan fees and related costs	**(203)**	**(0.04)**	(283)	(0.08)	(278)	(0.10)	(284)	(0.10)	23	0.01
Total loans	**$477,149**	**100.00%**	$375,044	100.00%	$285,330	100.00%	$275,190	100.00%	$210,775	100.00%

Commercial loans are loans to businesses which typically are not collateralized by real estate. Generally the purpose of commercial loans is for the financing of accounts receivable, inventory, or the purchase of equipment and machinery. The commercial loan portfolio increased $37.65 million from the 2006 year-end balance of $72.13 million to the 2007 year-end balance of $109.78 million. The commercial loan category grew 18.31% from year-end 2005 to year-end 2006.

Construction loans increased $48.66 million from the year-end 2006 balance of $116.81 million to the year-end 2007 balance of $165.47 million. Construction and development loans are made to individuals and businesses for the purpose of construction of single family residential properties, multi-family properties and commercial projects, as well as the development of residential neighborhoods and commercial office parks. The Company has been, and continues to be, a leader in Hampton Roads in the construction and development market. The Company's success is partially attributable to the years of experience held by senior management and the construction and development lending team at the Company. The construction loan category grew 37.10% from year-end 2005 to year-end 2006.

The Company makes real estate-commercial mortgage loans for the purchase and re-financing of owner occupied commercial properties as well as non-owner occupied income producing properties. These loans are secured by various types of commercial real estate including office, retail, warehouse, industrial, storage facilities and other non-residential types of properties. The real estate-commercial mortgage loan portfolio increased $11.34 million from the 2006 year-end balance of $140.26 million to the 2007 year-end balance of $151.60 million. The real estate-commercial mortgage loan category increased 34.46% from year-end 2005 to year-end 2006.

The real estate-residential mortgage portfolio includes first and second mortgage loans, home equity lines of credit and other term loans secured by first and second mortgages. First mortgage loans are generally for the purchase of permanent residences, second homes or residential investment property. Second mortgages and home equity loans are generally for personal, family and household purposes such as home improvements, major purchases, education and other personal needs. The Company refers a substantial portion of its residential real estate business to its affiliate, THF. The Company owns 19% of THF and accounts for its ownership using the equity method. Through its affiliation with THF, the Company is able to provide its customers with enhanced mortgage products. The real estate-residential mortgage loan portfolio increased $13.00 million from the 2006 year-end balance of $25.52 million to the 2007 year-end balance of $38.52 million. The real estate-residential mortgage loan category increased 27.54% from year-end 2005 to year-end 2006.

Installment loans to individuals are made on a regular basis for personal, family, and general household purposes. More specifically, the Company makes automobile loans, home improvement loans, loans for vacations, and debt consolidation loans with the majority of the portfolio made up of automobile loans. Due to low interest rates offered by auto dealership financial programs, this segment of our loan portfolio has remained a small portion of the overall loan portfolio. The installment loan portfolio decreased $8.62 million from the 2006 year-end balance of $20.60 million to the 2007 year-end balance of $11.98 million. The installment loan category increased 36.35% from year-end 2005 to year-end 2006.

The Company's specialization in construction and development lending has resulted in a loan concentration, defined as 10.00% of the total loan portfolio, in loans to real estate developers. As of year-end 2007, the Company had $165.47 million, or 34.68% of total loans, in loans outstanding to finance construction and development. These loans are collateralized by the underlying real estate. No other loan concentrations existed as of December 31, 2007.

Loan growth will continue to be one of the Company's primary goals for 2008 and beyond. The long-range objective for growth in the loan portfolio will be achieved through continued community involvement, relationships with existing customers, enhancement of the Company's image as a community asset, and management's strengthened efforts to offer competitively-priced products, while offering high quality, personalized service. Furthermore, to balance the emphasis on loan growth, prudent business practices and internal guidelines and underwriting standards will continue to be followed in making lending decisions in order to manage exposure to loan losses.

Table 6 sets forth the maturity periods of the Company's loan portfolio as of December 31, 2007. Demand loans are reported as due within one year. Loans are included in the period in which they contractually mature. Since the majority of the Company's loan portfolio is short-term, and 54.43% of the loan portfolio as of December 31, 2007 had adjustable or floating rates, the Company can re-price its portfolio frequently to adjust the portfolio to current market rates.

Table 6: Loan Maturities Schedule

December 31, 2007 *(In thousands)*	Commercial	Construction	R/E Commercial	R/E Residential	Installment	Total
Variable Rate:						
Within 1 year	$ 34,531	$ 149,660	$ 42,679	$ 14,244	$ 2,758	$243,872
1 to 5 years	3,284	1,128	—	10,689	746	15,847
After 5 years	—	—	—	—	126	126
Total variable rate	$ 37,815	$ 150,788	$ 42,679	$ 24,933	$ 3,630	$259,845
Fixed Rate:						
Within 1 year	$ 9,232	$ 11,704	$ 20,927	$ 2,138	$ 3,731	$ 47,732
1 to 5 years	61,019	2,977	87,977	11,435	4,577	167,985
After 5 years	1,717	—	18	17	38	1,790
Total fixed rate	$ 71,968	$ 14,681	$ 108,922	$ 13,590	$ 8,346	$217,507
Total maturities	$ 109,783	$ 165,469	$ 151,601	$ 38,523	$ 11,976	$477,352

Non-Performing Assets

Total non-performing assets were $2.64 million, or 0.47% of total assets at year-end 2007, as compared to $1.63 million, or 0.34% of total assets at year-end 2006 and $1.82 million, or 0.44% of total assets at year-end 2005. Management classifies non-performing assets as those loans in nonaccrual status, those loans on which payment has been delinquent 90 days or more, but are still accruing interest, and real estate acquired in settlement of loans. Management closely reviews the composition of non-performing assets and related collateral values.

Loans categorized as 90 days or more past due were $852 thousand at December 31, 2007. The Company did not have any loans categorized as 90 days or more past due at December 31, 2006, but did have $30 thousand at December 31, 2005.

Nonaccrual loans were $1.79 million at December 31, 2007 compared to $1.63 million and $1.79 million at December 31, 2006 and 2005, respectively. Nonaccrual loans at year-end 2007 consisted of one commercial loan and one construction loan. The commercial loan is being treated as an impaired loan and, accordingly, the balance has been written down to the present value of expected future payments. As a general rule, loans are placed in nonaccrual status when principal or interest is 90 days or more past due, or when management deems collection of all principal and interest doubtful. Had income on nonaccrual loans been recorded under original terms, $164,006, $153,128, and $136,878 of additional interest income would have been recorded in 2007, 2006 and 2005, respectively. There were no interest payments recorded in 2007 as interest income for nonaccrual loans.

The Company did not have any real estate acquired in settlement of loans at December 31, 2007, 2006 or 2005.

Allowance for Loan Losses and Provision for Loan Losses

The Company continuously reviews its loan portfolio and maintains an allowance for loan losses sufficient to absorb incurred losses inherent in the portfolio. In addition to the review of credit quality through ongoing credit review processes, the Company constructs a comprehensive allowance analysis for its loan portfolio at least quarterly. This analysis includes two basic elements: specific allowances for individual loans, and general allowances for loan pools which factor in historical loan loss experience for the Company, loan portfolio growth and trends, and economic conditions.

As part of the loan loss reserve methodology, loans are categorized into one of six pools: commercial, construction, commercial real estate, residential real estate, consumer installment, and credit cards. These categories are further subdivided by assigned asset quality. Loss factors are calculated using the above mentioned qualitative data and then are applied to each of the loan pools to determine a reserve level for each of the six pools of loans. In addition, special allocations may be assigned to nonaccrual or other problem credits.

After considering these factors, the allowance for loan losses was $5.04 million, or 1.06% of outstanding loans at year-end 2007. This compares to an allowance of $3.91 million, or 1.04% of total loans and $3.60 million, or 1.26% of total loans at year-end 2006 and 2005, respectively, as seen in **Table 7**. At present, management believes that the allowance for loan losses is adequate. However, the allowance is subject to regulatory examinations and determination as to adequacy, which may take into account such factors as the methodology used to calculate the allowance and the size of the allowance in comparison to peer banks identified by regulatory agencies. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available at the time of their examinations.

The Company's provision for loan losses in 2007 was $1.23 million compared to $180 thousand in 2006 and $486 thousand in 2005. The increased provision for loan losses during 2007 was attributable to the growth in the loan portfolio and the current economic environment. Additionally, during 2006, recoveries on loans exceeded charge-offs, which resulted in a lower provision for loan losses that year.

Table 7: Allowance for Loan Losses Analysis

December 31, *(In thousands)*	2007	2006	2005	2004	2003
Allowance for Loan Losses:					
Balance at beginning of year	**$3,911**	$3,597	$3,071	$2,948	$2,843
Charge-offs:					
Commercial	**—**	—	(24)	(845)	(142)
Construction	**(91)**	—	—	—	—
Real estate - commercial mortgage	**—**	—	—	—	—
Real estate - residential mortgage	**—**	—	—	—	—
Installment loans to individuals	**(18)**	(59)	(75)	(95)	(157)
Total charge-offs	**(109)**	(59)	(99)	(940)	(299)
Recoveries:					
Commercial	**—**	166	119	110	16
Construction	**—**	—	—	—	—
Real estate - commercial mortgage	**—**	—	—	—	—
Real estate - residential mortgage	**—**	—	—	—	—
Installment loans to individuals	**9**	27	20	27	18
Total recoveries	**9**	193	139	137	34
Net (charge-offs) recoveries	**(100)**	134	40	(803)	(265)
Provision for loan losses	**1,232**	180	486	926	370
Balance at end of year	**$5,043**	$3,911	$3,597	$3,071	$2,948
Allowance for loan losses to year-end loans	**1.06%**	1.04%	1.26%	1.12%	1.40%
Ratio of net (charge-offs) recoveries to average loans	**(0.02)%**	0.04%	0.01%	(0.34)%	(0.13)%

The Company has allocated the allowance for loan losses to the categories as shown in **Table 8**. Notwithstanding these allocations, the entire allowance for loan losses is available to absorb charge-offs in any category of loan.

Table 8: Allocation of Allowance for Loan Losses

December 31, *(In thousands)*	2007	2006	2005	2004	2003
Commercial	**$1,447**	$1,058	$1,068	$1,040	$1,003
Construction	**1,522**	993	767	588	358
Real estate - commercial mortgage	**1,395**	1,192	978	961	734
Real estate - residential mortgage	**264**	160	130	118	174
Installment loans to individuals	**166**	290	307	310	364
Unallocated	**249**	218	347	54	315
Total allowance for loan losses	**$5,043**	$3,911	$3,597	$3,071	$2,948

Investment Securities and Overnight Funds Sold

The Company's investment portfolio primarily consists of available-for-sale U.S. Agency securities. At year-end 2007, the estimated market value of available-for-sale investment securities held by the Company was $42.38 million, down 23.74% from $55.57 million at year-end 2006. This decrease was the result of the maturity of investment securities with proceeds of $15.17 million, netted against the purchase of investment securities with a cost of $1.24 million, the change in unrealized gains and losses, and unamortized premiums/unaccreted discounts on the remaining securities. As securities matured during 2007, the proceeds were used to fund loan growth to the extent that they were not replaced to fulfill pledging requirements. At year-end 2006, investment securities available-for-sale decreased 21.86% to $55.57 million from $71.11 million at year-end 2005. This decrease was the result of the maturity of investment securities with proceeds of $18.13 million, netted against the purchase of investment securities with a cost of $2.31 million, the change in unrealized gains and losses, and unamortized premiums/unaccreted discounts on the remaining securities.

Table 9 displays the contractual maturities and weighted average yields from investment securities at year-end 2007. Actual maturities may differ from contractual maturities because certain issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Table 9: Investment Maturities and Yields

December 31, 2007 *(In thousands)*	**Amortized Cost**	**Market Value**	**Average Yield**
Maturities:			
U.S. Agency securities:			
Within 1 year	$ 15,013	$14,994	3.92%
After 1 year, but within 5 years	25,931	26,279	4.41
Total U.S. Agency securities	40,944	41,273	4.23
State and Municipal securities			
After 5 years, but within 10 years	244	250	5.34
Mortgage-backed securities	642	641	4.74
Equity securities	472	213	—
Total investment securities available-for-sale	$ 42,302	$42,377	4.25%

The Company's investment portfolio serves as a source of liquidity to fund future loan growth and to meet the necessary collateral requirements of the State Treasury Department, Federal Reserve Bank ("FRB") and Federal Home Loan Bank ("FHLB"). As part of the Company's asset/liability management policy, management has invested in high quality securities with varying maturity dates which provides for a natural hedge against changes in interest rates.

The Company does not use derivatives or other off-balance sheet transactions, such as futures contracts, forward obligations, interest rate swaps, or options.

Overnight funds sold are temporary investments used for daily cash management purposes, as well as management of short-term interest rate opportunities and interest rate risk, and as a result, daily balances vary. As of year-end 2007, overnight funds sold were $183 thousand compared to $9.52 million as of year-end 2006. This decrease was caused by the loan growth experienced during 2007. Overnight funds are comprised of federal funds sold and high quality money market instruments consisting of short-term debt securities that are U.S. Government issued or guaranteed.

Deposits

Deposits are the most significant source of the Company's funds for use in lending and general business purposes. The Company's balance sheet growth is largely determined by the availability of deposits in its markets, the cost of attracting the deposits, and the prospects of profitably utilizing the available deposits by increasing the loan or investment portfolios. In 2007, average deposits increased $55.81 million, or 16.75%, to a new high of $389.06 million. This increase was a continuation of the growth experienced in 2006 of $31.08 million, or 10.28%, to $333.24 million.

See **Table 10** for a comparison of year-end deposits by classification for the previous three years. Total deposits at December 31, 2007 increased $68.20 million, or 18.77%, to $431.46 million as compared to year-end 2006 total deposits of $363.26 million. Year-end 2006 total deposits grew $35.81 million from the year-end 2005 total deposits of $327.45 million, an increase of 10.94%.

In 2007 the Company experienced a shift in the classification of deposits resulting from the strong competition for deposit accounts within the local market. Noninterest bearing demand deposits increased $2.99 million to $100.55 million while interest bearing demand deposits decreased $2.19 million to $40.30 million. Savings accounts increased $8.26 million to $82.09 million with a large portion of the increase coming from the premium savings accounts, a high interest rate bearing savings account with some characteristics of a money market account. The increase in total deposits was heavily concentrated in rate sensitive certificates of deposits. Time deposits with balances less than $100,000 increased $38.08 million, or 49.61%, during 2007 over the 2006 balance of $76.76 million. Time deposits with balances of $100,000 or more increased $21.05 million, or 28.98%, during 2007 over the 2006 balance of $72.63 million. The increase in total time deposits was the result of efforts by the Company to remain competitive by increasing rates offered on time deposits within its local market. During 2007, the Company also tapped into the national certificate of deposit market by posting certificate of deposit rates on a rate board viewed on-line by registered depositors nation-wide. The Company can control the type and amount of deposits generated in this manner as well as the rates posted. Due to strong local competition for deposits, the deposits generated via the national rate board are frequently obtained at lower interest rates than local deposits of similar terms. The national rate board certificates of deposit are not brokered funds as the Company communicates directly with the depositors and does not pay a fee to a broker to obtain these funds, however, the Company does have $5 million in brokered funds as of December 31, 2007.

Table 10: Deposits by Classification

December 31, (In thousands)	2007 Balance	2007 %	2006 Balance	2006 %	2005 Balance	2005 %
Deposit Classifications:						
Noninterest bearing demand	**$100,553**	**23.30%**	$ 97,559	26.86%	$104,930	32.05%
Interest bearing demand	**40,299**	**9.34**	42,486	11.70	47,492	14.50
Savings	**82,093**	**19.03**	73,831	20.32	79,514	24.28
Time deposits less than $ 100,000	**114,833**	**26.62**	76,757	21.13	61,117	18.67
Time deposits $ 100,000 or more	**93,679**	**21.71**	72,628	19.99	34,394	10.50
Total deposits	**$431,457**	**100.00%**	$363,261	100.00%	$327,447	100.00%

The Company will continue funding assets with deposit liability accounts and focus on core deposit growth as its primary source of liquidity and stability. Core deposits consist of noninterest bearing demand accounts, interest checking accounts, money market accounts, savings accounts and time deposits of less than $100,000. Core deposits totaled $337.78 million, or 78.29% of total deposits at year-end 2007 compared to $290.63 million, or 80.01% of total deposits at year-end 2006, and $293.05 million, or 89.50% of total deposits at year-end 2005.

Capital

Total shareholders' equity increased $3.50 million, or 4.98%, to $73.66 million at December 31, 2007. This increase was due to current year net income, stock option exercises, dividends reinvested, change in unrealized gains and losses on securities available-for-sale and stock issued as a part of the employee benefit plans, net of dividends paid and common stock repurchased.

The Company and the Bank are subject to regulatory risk-based capital guidelines that measure capital relative to risk-weighted assets and off-balance sheet financial instruments. Tier I capital is comprised of shareholders' equity, net of unrealized gains or losses on available-for-sale securities, less intangible assets, while total risk-based capital adds certain debt instruments and qualifying allowances for loan losses.

Under FRB rules, the Company and the Bank were considered "well-capitalized," the highest category of capitalization defined by the regulators, as of December 31, 2007. For more information on the Company's regulatory capital requirements, see Note No. 16 in the accompanying Notes to Consolidated Financial Statements. The Company continually monitors current and projected capital adequacy positions of both the Company and the Bank. Maintaining adequate capital levels is integral to providing stability to the Company, resources to achieve the Company's growth objectives, and returns to the shareholders in the form of dividends.

During 2007, the Company repurchased 232,490 shares of its common stock in open market and privately negotiated transactions at prices ranging from $12.14 to $14.62. During 2006, the Company repurchased 380,613 shares of its common stock in open market and privately negotiated transactions at prices ranging from $10.50 to $12.18. During 2005, the Company repurchased 104,649 shares of its common stock in open market and privately negotiated transactions at prices ranging from $10.00 to $11.75.

Liquidity

Liquidity represents an institution's ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. At December 31, 2007, cash and due from banks, overnight funds sold, interest-bearing deposits in other banks, and investment securities and loans maturing within one year were $332.18 million, or 58.92% of total assets. As a result of the Company's management of liquid assets and the ability to generate liquidity through liability funding, management believes the Company maintains overall liquidity sufficient to satisfy its depositors' requirements and meet its customers' credit needs.

The Company also maintains additional sources of liquidity through a variety of borrowing arrangements. The Bank maintains federal funds lines with large regional and national banking institutions. These available lines total approximately $13 million, none of which were outstanding at December 31, 2007. Federal funds purchased during 2007 averaged $609 thousand compared to an average of $119 thousand during 2006.

The Bank has a credit line in the amount of $156.1 million at the FHLB. This line may be utilized for short and/or long term borrowing. The Bank has utilized the credit line for overnight funding throughout 2007 and 2006 with average balances of $1.06 million and $2.12 million, respectively, with none outstanding at year-end 2007 or 2006. Long-term FHLB borrowings were $53.00 million at year-end 2007 and $38.00 million at year-end 2006.

Off-Balance Sheet Arrangements

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. For more information on the Company's off-balance sheet arrangements, see Note No. 8 in the accompanying Notes to Consolidated Financial Statements.

Interest Rate Sensitivity

The Company's primary market risk is exposure to interest rate volatility. Fluctuations in interest rates will impact both the level of interest income and interest expense and the market value of the Company's interest earning assets and interest bearing liabilities.

The primary goal of the Company's asset/liability management strategy is to optimize net interest income while limiting exposure to fluctuations caused by changes in the interest rate environment. The Company's ability to manage its interest rate risk depends generally on the Company's ability to match the maturities and re-pricing characteristics of its assets and liabilities while taking into account the separate goals of maintaining asset quality and liquidity and achieving the desired level of net interest income.

The Company's management, guided by the Asset/Liability Committee ("ALCO"), determines the overall magnitude of interest sensitivity risk and then formulates policies governing asset generation and pricing, funding sources and pricing, and off-balance sheet commitments. These decisions are based on management's expectations regarding future interest rate movements, the state of the national and regional economy, and other financial and business risk factors.

The primary method that the Company uses to quantify and manage interest rate risk is simulation analysis, which is used to model net interest income from assets and liabilities over a specified time period under various interest rate scenarios and balance sheet structures. This analysis measures the sensitivity of net interest income over a relatively short time horizon. Key assumptions in the simulation analysis relate to the behavior of interest rates and spreads, the changes in product balances and the behavior of loan and deposit customers in different rate environments.

Table 11 illustrates the expected effect on net interest income for the twelve months following each of the two year-ends 2007 and 2006 due to a shock in interest rates. Estimated changes set forth below are dependent on material assumptions, such as those previously discussed.

Table 11: Effect on Net Interest Income

December 31, *(in thousands)*	2007 Change in Net Interest Income Amount	2007 Change in Net Interest Income %	2006 Change in Net Interest Income Amount	2006 Change in Net Interest Income %
Change in Interest Rates:				
+200 basis points	**$ 4,494**	**19.39%**	$ 3,130	14.12%
+ 100 basis points	**2,249**	**9.70**	1,561	7.04
- 100 basis points	**(2,230)**	**(9.62)**	(1,567)	(7.06)
- 200 basis points	**(4,333)**	**(18.69)**	(3,141)	(14.17)

As indicated in **Table 11**, a decrease in interest rates would tend to reduce net interest income, while an increase would tend to enhance net interest income. Thus, the Company's interest rate sensitivity position is asset-sensitive. In the current declining interest rate environment and absent any mitigating factors, the Company could experience a substantial reduction in net interest income. It should be noted, however, that the simulation analysis is based upon equivalent changes in interest rates for all categories of assets and liabilities. In normal operating conditions, interest rate changes rarely occur in such a uniform manner. Many factors affect the timing and magnitude of interest rate changes on financial instruments. In addition, management may deploy strategies that offset some of the impact of changes in interest rates. Consequently, variations should be expected from the projections resulting from the controlled conditions of the simulation analysis.

The interest sensitivity gap is defined as the difference between the amount of interest earning assets anticipated, based upon certain assumptions, to mature or re-price within a specific time period and the amount of interest bearing liabilities anticipated, based upon certain assumptions, to mature or re-price within that time period. At December 31, 2007, the Company's one year "positive gap" (interest earning assets maturing or re-pricing within a defined period exceed interest bearing liabilities maturing or re-pricing within the same period) was approximately $67.77 million, or 12.02% of total assets. Thus, during periods of rising interest rates, this implies that the Company's net interest income would be positively affected because the yield of the Company's interest earning assets is likely to rise more quickly than the cost of its interest bearing liabilities. In periods of falling interest rates, the opposite effect on net interest income is likely to occur. At December 31, 2006, the Company's one year "positive gap" was $30.85 million, or 6.48% of total assets.

Table 12 sets forth the amounts of interest earning assets and interest bearing liabilities outstanding at December 31, 2007 that are subject to re-pricing or that mature in each of the future time periods shown. Loans and securities with call or balloon provisions are included in the period in which they balloon or may first be called. Except as stated above, the amount of assets and liabilities shown that re-price or mature during a particular period were determined in accordance with the contractual terms of the asset or liability.

Table 12: Interest Rate Sensitivity

December 31, 2007 *(In thousands)*	1 - 90 Days	91 Days - 1 Year	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
Interest Earning Assets:						
Loans	$ 274,741	$ 34,110	$ 81,339	$ 86,646	$ 313	$477,149
Investments	3,996	10,998	25,876	1,037	5,174	47,081
Interest-bearing deposits in other banks	5,623	—	—	—	—	5,623
Overnight funds sold	183	—	—	—	—	183
Total	$ 284,543	$ 45,108	$107,215	$ 87,683	$ 5,487	$530,036
Cumulative total	$ 284,543	$329,651	$436,866	$524,549	$530,036	
Interest Bearing Liabilities:						
Interest checking	$ 17,930	$ —	$ —	$ —	$ —	$ 17,930
Money market	22,368	—	—	—	—	22,368
Savings	82,093	—	—	—	—	82,093
Time deposits	34,447	95,039	58,554	20,472	—	208,512
FHLB borrowings	5,000	5,000	15,000	28,000	—	53,000
Total	$ 161,838	$100,039	$ 73,554	$ 48,472	$ —	$383,903
Cumulative total	$ 161,838	$261,877	$335,431	$383,903	$383,903	
Interest sensitivity gap	$ 122,705	$ (54,931)	$ 33,661	$ 39,211	$ 5,487	$146,133
Cumulative interest sensitivity gap	$ 122,705	$ 67,774	$101,435	$140,646	$146,133	
Cumulative interest sensitivity gap as a percentage of total assets	21.76%	12.02%	17.99%	24.94%	25.92%	

Contractual Obligations

The Company's contractual obligations consist of time deposits, borrowings from the FHLB, and operating lease obligations. **Table 13** shows payment detail for these contractual obligations as of December 31, 2007.

Table 13: Contractual Obligations

December 31, 2007 *(In thousands)*	Less than 1 Year	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
Time deposits	$129,486	$ 58,554	$ 20,472	$ —	$208,512
Long-term debt obligations	10,000	15,000	28,000	—	53,000
Operating lease obligations	867	1,655	1,565	2,509	6,596
Total contractual obligations	$140,342	$ 75,220	$ 50,037	$2,509	$268,108

Critical Accounting Policies

U.S. generally accepted accounting principles are complex and require management to apply significant judgment to various accounting, reporting, and disclosure matters. Management must use assumptions, judgments, and estimates when applying these principles where precise measurements are not possible or practical. These policies are critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such judgments, assumptions and estimates may have a significant impact on the consolidated financial statements. Actual results, in fact, could differ from those estimates.

Our only critical accounting policy relates to our allowance for loan losses, which reflects the estimated losses resulting from the inability of our borrowers to make required loan payments. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that collectibility of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectibility of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, credit concentrations, trends in historical loss experience, review of specific problem loans, and current economic conditions.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired, doubtful, substandard or special mention. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is impaired when it is probable the creditor will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired loans are measured based on the present value of payments expected to be received, using the historical effective loan rate as the discount rate. Alternatively, measurement also may be based on observable market prices or, for loans that are solely dependent on the collateral for repayment, measurement may be based on the fair value of the collateral. The Company does not aggregate loans for risk classification. Loans that are to be foreclosed are measured based on the fair value of the collateral. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. Changes in the allowance for loan losses relating to impaired loans are charged or credited to the provision for loan losses.

Future Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require new fair value measurements, but rather, provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The Company does not expect the implementation of SFAS 157 to have a material impact on its consolidated financial statements.

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

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

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

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

In September 2006, the Emerging Issues Task Force ("EITF") issued EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* ("EITF 06-4"). This consensus concludes that for a split-dollar life insurance arrangement within the scope of this Issue, an employer should recognize a liability for future benefits in accordance with SFAS 106 (if, in substance, a postretirement benefit plan exists) or APB Opinion No. 12 (if the arrangement is,

in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. The consensus is effective for fiscal years beginning after December 15, 2007, with early application permitted. The Company does not expect the implementation of EITF 06-4 to have a material impact on its consolidated financial statements.

In November 2006, the EITF issued *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements* ("EITF 06-10"). In this Issue, a consensus was reached that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either SFAS 106 or APB Opinion No. 12, as appropriate, if the employer has agreed to maintain a life insurance policy during the employee's retirement or provide the employee with a death benefit based on the substantive agreement with the employee. A consensus also was reached that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The consensuses are effective for fiscal years beginning after December 15, 2007, including interim periods within those fiscal years, with early application permitted. The Company does not expect the implementation of EITF 06-10 to have a material impact on its consolidated financial statements.

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

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

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

Other Accounting Matters

In the fourth quarter of 2005, management in consultation with its external auditors, KPMG LLP ("KPMG") determined that the Company had misapplied Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"). The Company determined that Consolidated Financial Statements for the years 2003 and 2004 were impacted. The analysis concluded that the amount of the differences was not material to the Consolidated Financial Statements in either year, nor was it material on a cumulative basis in 2005. As a result, the Company in further consultation with KPMG, made adjustments to its Consolidated Financial Statements in the year ended December 31, 2005 to correct the previous misapplication. The adjustment related to 2003 and 2004 Consolidated Financial Statements had the effect of increasing stock-based compensation expense $318 thousand and, thus, decreasing net income $210 thousand after the related tax effect.

In addition to the above matter, management in consultation with KPMG determined that the Company misclassified the accrued compensation expense for unexercised stock options as a liability rather than as a component of shareholders' equity in prior audited Consolidated Financial Statements. The misclassification, which was not material to the Company's Consolidated Financial Statements, does not affect the reporting of total assets or the Company's earnings in any period. An adjustment was made in the Company's 2005 Consolidated Financial Statements in the amount of $1.20 million, which had the effect of reducing liabilities and increasing shareholders' equity by that amount. The net effect of the reclassification adjustment and the change in methodology for measuring compensation expense for stock options was an increase in shareholders' equity of $1.52 million, or $0.18 in book value per share.

Caution About Forward-Looking Statements

Where appropriate, statements in this report may contain the insights of management into known events and trends that have or may be expected to have a material effect on our operations and financial condition. The information presented may also contain certain forward-looking statements regarding future financial performance, which are not historical facts and which involve various risks and uncertainties.

When or if used in any Securities and Exchange Commission filings, or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases: "anticipate", "would be", "will allow", "intends to", "will likely result", "are expected to", "will continue", "is anticipated", "is estimated", "is projected", or similar expressions are intended to identify "forward-looking statements."

For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the risk factors summarized below and the more detailed discussions in the "Risk Factors" and "Business" sections in the 2007 Form 10-K. Our risks include, without limitation, the following:

- Our dependence on key personnel;
- The high level of competition within the banking industry;
- Our dependence on construction and land development loans that could be negatively affected by a downturn in the real estate market;
- We serve a limited market area, and an economic downturn in our market area could adversely affect our business;
- The adequacy of our estimate for known and inherent losses in our loan portfolio;
- Changes in interest rate;
- Our ability to manage our growth;
- Governmental and regulatory changes that may adversely affect our expenses and cost structure;
- The threat from technology based frauds and scams;
- If we need capital in the future to continue our growth, we may not be able to obtain it on terms that are favorable and capital transactions may be dilutive to existing shareholders;
- Banking regulators have broad enforcement power, but regulations are meant to protect depositors, and not investors;
- Trading in our common stock has been sporadic and volume has been light so shareholders may not be able to quickly and easily sell their common stock;
- Virginia law and the provisions of our articles of incorporation and bylaws could deter or prevent takeover attempts by a potential purchaser of our common stock that would be willing to pay you a premium for your shares of our common stock;
- Our directors and officers have significant voting power;
- Merger expenses have been incurred even if the Merger is not completed;
- The Merger may distract our management from its other responsibilities;
- The Merger might be delayed or changed by regulatory agencies; and
- We may not be able to realize all of the anticipated benefits of the Merger.

Our forward-looking statements could be wrong in light of these and other risks, uncertainties and assumptions. The future events, developments or results described in this report could turn out to be materially different. We have no obligation to publicly update or revise our forward-looking statements after the date of this report and you should not expect us to do so.

On Internal Control Over Financial Reporting

Management of Hampton Roads Bankshares, Inc. and its subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. As of the end of the Company's 2007 fiscal year, management, including the chief executive and chief financial officers, conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2007 is effective.

Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the firm's assets that could have a material effect on the Company's financial statements.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2007 has been audited by Yount, Hyde & Barbour, P.C., the independent registered public accounting firm who also audited the Company's consolidated financial statements included in this Annual Report on Form 10-K. Yount, Hyde & Barbour, P.C.'s attestation report on the Company's internal control over financial reporting appears herein.

REPORT OF INDEPENDENT
Registered Public Accounting Firm

Certified Public Accountants
and Consultants

To the Board of Directors and Shareholders
Hampton Roads Bankshares, Inc.

We have audited the accompanying consolidated balance sheet of Hampton Roads Bankshares, Inc. and subsidiaries (the Company) as of December 31, 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year ended December 31, 2007. We also have audited the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audit. The financial statements of the Company for the years ended December 31, 2006 and 2005 were audited by other auditors whose report, dated March 1, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

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

Winchester, Virginia

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 5, 2008

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

	2007	2006
Assets:		
Cash and due from banks	**$ 19,757,428**	$ 17,112,616
Overnight funds sold	**182,906**	9,524,445
Interest-bearing deposits in other banks	**5,623,271**	161,490
Investment securities available-for-sale, at fair value	**42,377,325**	55,569,440
Federal Home Loan Bank stock	**3,330,000**	2,597,900
Federal Reserve Bank stock	**1,374,000**	1,377,350
Loans	**477,149,232**	375,044,161
Allowance for loan losses	**(5,042,583)**	(3,910,943)
Net loans	**472,106,649**	371,133,218
Premises and equipment, net	**11,967,151**	12,183,884
Interest receivable	**2,431,347**	2,281,945
Deferred tax asset, net	**2,658,404**	2,209,117
Other assets	**2,019,647**	2,148,063
Total assets	**$563,828,128**	$476,299,468
Liabilities and Shareholders' Equity:		
Deposits:		
Noninterest bearing demand	**$100,553,404**	$ 97,559,421
Interest bearing:		
Demand	**40,298,614**	42,486,451
Savings	**82,092,848**	73,830,518
Time deposits:		
Less than $ 100,000	**114,832,724**	76,756,540
$100,000 or more	**93,679,157**	72,628,399
Total deposits	**431,456,747**	363,261,329
Federal Home Loan Bank borrowings	**53,000,000**	38,000,000
Interest payable	**1,636,231**	1,472,889
Other liabilities	**4,075,136**	3,402,707
Total liabilities	**490,168,114**	406,136,925
Shareholders' equity:		
Preferred stock, no par value. Authorized 1,000,000 shares: none issued and outstanding	—	—
Common stock, $0.625 par value. Authorized 40,000,000 shares; issued and outstanding 10,314,899 shares in 2007 and 10,251,336 shares in 2006	**6,446,812**	6,407,085
Capital surplus	**42,677,083**	42,105,666
Retained earnings	**24,486,335**	22,091,191
Accumulated other comprehensive income (loss), net of tax	**49,784**	(441,399)
Total shareholders' equity	**73,660,014**	70,162,543
Total liabilities and shareholders' equity	**$563,828,128**	$476,299,468

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Interest Income:			
Loans, including fees	**$35,603,701**	$26,827,215	$22,342,047
Investment securities	**2,315,951**	2,721,046	1,720,177
Overnight funds sold	**35,312**	228,712	249,507
Interest-bearing deposits in other banks	**248,131**	244,298	246,380
Total interest income	**38,203,095**	30,021,271	24,558,111
Interest Expense:			
Deposits:			
Demand	**677,660**	522,235	319,376
Savings	**2,865,842**	2,180,372	1,155,739
Time deposits:			
Less than $ 100,000	**4,061,089**	2,618,461	2,169,358
$100,000 or more	**4,052,193**	2,308,374	1,221,610
Interest on deposits	**11,656,784**	7,629,442	4,866,083
Federal Home Loan Bank borrowings	**2,273,736**	1,377,241	992,569
Overnight funds purchased	**85,173**	116,602	10,235
Total interest expense	**14,015,693**	9,123,285	5,868,887
Net interest income	**24,187,402**	20,897,986	18,689,224
Provision for loan losses	**1,232,000**	180,000	486,000
Net interest income after provision for loan losses	**22,955,402**	20,717,986	18,203,224
Noninterest Income:			
Service charges on deposit accounts	**1,995,842**	1,873,525	1,945,319
Other service charges and fees	**1,444,379**	1,524,354	1,269,148
Total noninterest income	**3,440,221**	3,397,879	3,214,467
Noninterest Expense:			
Salaries and employee benefits	**9,954,349**	9,105,901	7,962,216
Occupancy	**1,668,477**	1,677,308	1,108,712
Data processing	**611,523**	598,276	560,298
Other	**3,760,094**	3,564,256	3,409,145
Total noninterest expense	**15,994,443**	14,945,741	13,040,371
Income before provision for income taxes	**10,401,180**	9,170,124	8,377,320
Provision for income taxes	**3,590,567**	3,134,585	2,869,991
Net Income	**$ 6,810,613**	$ 6,035,539	$ 5,507,329
Basic earnings per share	**$ 0.67**	$ 0.66	$ 0.68
Diluted earnings per share	**$ 0.65**	$ 0.65	$ 0.66
Basic weighted average shares outstanding	**10,228,638**	9,092,980	8,137,244
Effect of dilutive stock options and non-vested stock	**202,916**	182,808	270,577
Diluted weighted average shares outstanding	**10,431,554**	9,275,788	8,407,821

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2007, 2006 and 2005

	Common Stock		Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance at December 31, 2004	8,059,528	$ 5,037,205	$ 20,626,500	$ 18,170,928	$ (209,073)	$ 43,625,560
Comprehensive income:						
Net income	—	—	—	5,507,329	—	5,507,329
Change in unrealized gain (loss) on securities available-for-sale, net of taxes of $ 223,911	—	—	—	—	(434,650)	(434,650)
Total comprehensive income						5,072,679
Shares issued related to:						
401(k) plan	8,952	5,595	81,689	—	—	87,284
Exercise of stock options	85,421	53,388	510,480	—	—	563,868
Dividend reinvestment	160,628	100,392	1,699,139	—	—	1,799,531
Non-vested stock	33,045	20,653	333,098	—	—	353,751
Payout of fractional shares	(103)	(64)	(1,075)	—	—	(1,139)
Common stock repurchased	(104,649)	(65,405)	(1,026,750)	(223)	—	(1,092,378)
Change in stock-based compensation, net	—	—	1,507,638	—	—	1,507,638
Tax benefit of stock option exercises	—	—	121,321	—	—	121,321
Cash dividends ($0.36 per share)	—	—	—	(2,907,586)	—	(2,907,586)
Balance at December 31, 2005	8,242,822	5,151,764	23,852,040	20,770,448	(643,723)	49,130,529
Comprehensive income:						
Net income	—	—	—	6,035,539	—	6,035,539
Change in unrealized gain (loss) on securities available- for-sale, net of taxes of $ 104,228	—	—	—	—	202,324	202,324
Total comprehensive income						6,237,863
Shares issued related to:						
401(k) plan	11,333	7,083	115,312	—	—	122,395
Regional board fees	2,332	1,457	23,843	—	—	25,300
Exercise of stock options	277,041	173,151	1,432,735	—	—	1,605,886
Dividend reinvestment	229,090	143,181	2,512,766	—	—	2,655,947
Stock-based compensation expense	20,131	12,582	167,229	—	—	179,811
Stock offering, net of issuance costs of $1,109,824	1,849,200	1,155,750	17,890,706	—	—	19,046,456
Common stock repurchased	(380,613)	(237,883)	(4,035,983)	—	—	(4,273,866)
Tax benefit of stock option exercises	—	—	147,018	—	—	147,018
Cash dividends ($0.50 per share)	—	—	—	(4,714,796)	—	(4,714,796)
Balance at December 31, 2006	10,251,336	6,407,085	42,105,666	22,091,191	(441,399)	70,162,543
Comprehensive income:						
Net income	—	—	—	**6,810,613**	—	**6,810,613**
Change in unrealized gain (loss) on securities available- for-sale, net of taxes of $ 253,033	—	—	—	—	**491,183**	**491,183**
Total comprehensive income						**7,301,796**
Shares issued related to:						
401(k) plan	**11,020**	**6,888**	**130,311**	—	—	**137,199**
Executive savings plan	**11,686**	**7,304**	**138,187**	—	—	**145,491**
Regional board fees	**1,893**	**1,183**	**22,807**	—	—	**23,990**
Exercise of stock options	**93,599**	**58,499**	**648,108**	—	—	**706,607**
Dividend reinvestment	**165,991**	**103,744**	**2,145,935**	—	—	**2,249,679**
Stock-based compensation expense	**11,864**	**7,415**	**329,835**	—	—	**337,250**
Common stock repurchased	**(232,490)**	**(145,306)**	**(2,961,937)**	—	—	**(3,107,243)**
Tax benefit of stock option exercises	—	—	**118,171**	—	—	**118,171**
Cash dividends ($0.43 per share)	—	—	—	**(4,415,469)**	—	**(4,415,469)**
Balance at December 31, 2007	**10,314,899**	**$6,446,812**	**$42,677,083**	**$24,486,335**	**$ 49,784**	**$73,660,014**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Operating Activities:			
Net income	**$ 6,810,613**	$ 6,035,539	$ 5,507,329
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**885,616**	876,625	637,576
Provision for loan losses	**1,232,000**	180,000	486,000
Regional board fees	**23,990**	25,300	—
Stock-based compensation expense	**337,250**	179,811	704,300
Net amortization of premiums and accretion of discounts on investment securities	**7,087**	31,853	477,583
(Gain) loss on sale of premises and equipment	**(11,025)**	—	129,839
Deferred income tax benefit	**(702,320)**	(362,302)	(432,982)
Changes in:			
Interest receivable	**(149,402)**	(520,375)	(507,896)
Other assets	**128,416**	(98,646)	(309,358)
Interest payable	**163,342**	982,707	80,283
Other liabilities	**672,429**	1,452,652	564,629
Net cash provided by operating activities	**9,397,996**	8,783,164	7,337,303
Investing Activities:			
Proceeds from maturities and calls of debt securities available-for-sale	**15,171,352**	18,130,775	11,428,732
Purchase of debt securities available-for-sale	**(1,242,108)**	(1,839,057)	(47,000,000)
Purchase of equity securities available-for-sale	—	(472,500)	—
Proceeds from sales of Federal Home Loan Bank stock	**1,035,000**	2,227,500	112,500
Purchase of Federal Home Loan Bank stock	**(1,767,100)**	(2,768,300)	(502,200)
Proceeds from sales of Federal Reserve Bank stock	**5,150**	—	—
Purchase of Federal Reserve Bank stock	**(1,800)**	(722,750)	(6,250)
Net increase in total loans	**(102,195,431)**	(90,316,530)	(10,098,844)
Purchase of premises and equipment	**(719,573)**	(868,258)	(2,430,533)
Proceeds from the sale of other real estate owned	**15,000**	—	—
Proceeds from sales of premises and equipment	**36,715**	—	—
Net cash used in investing activities	**(89,662,795)**	(76,629,120)	(48,496,595)
Financing Activities:			
Net increase in deposits	**68,195,418**	35,814,812	52,331,159
Proceeds from Federal Home Loan Bank borrowings	**23,000,000**	10,000,000	10,000,000
Repayments of Federal Home Loan Bank borrowings	**(8,000,000)**	(2,500,000)	(2,500,000)
Stock issuance costs	—	(1,109,824)	—
Common stock repurchased	**(2,876,702)**	(3,424,628)	(1,092,378)
Issuance of shares to 401(k) plan	**137,199**	122,395	87,284
Issuance of shares to executive savings plan	**145,491**	—	—
Issuance of shares in rights and public offerings	—	20,156,280	—
Proceeds from exercise of stock options	**476,066**	756,648	408,452
Excess tax benefit realized from stock options exercised	**118,171**	147,018	—
Dividends paid, net	**(2,165,790)**	(2,058,849)	(1,108,055)
Net cash provided by financing activities	**79,029,853**	57,903,852	58,126,462
Increase (decrease) in cash and cash equivalents	**(1,234,946)**	(9,942,104)	16,967,170
Cash and cash equivalents at beginning of year	**26,798,551**	36,740,655	19,773,485
Cash and cash equivalents at end of year	**$ 25,563,605**	$ 26,798,551	$ 36,740,655
Supplemental cash flow information:			
Cash paid during the year for interest	**$ 13,852,351**	$ 8,140,578	$ 5,788,604
Cash paid during the year for income taxes	**4,085,000**	3,370,000	2,862,000
Supplemental non-cash information:			
Dividends reinvested	**$ 2,249,679**	$ 2,655,947	$ 1,799,531
Value of shares exchanged in exercise of stock options	**230,541**	849,238	132,886
Receipt of land in payment of loan	—	735,750	—
Transfer between loans and other real estate owned	**50,000**	—	—
Transfer between premises and equipment and loans	**25,000**	—	—
Unrealized gain (loss) on securities	**744,216**	306,552	(658,561)

See accompanying notes to consolidated financial statements.

December 31, 2007, 2006 and 2005

(1) Summary of Significant Accounting Policies

Hampton Roads Bankshares, Inc., a Virginia Corporation (the "Company"), is a financial holding company that was formed in February 2001 and is headquartered in Norfolk, Virginia. The Company's primary subsidiary is Bank of Hampton Roads (the "Bank"), which opened for business in December 1987. Currently, the Bank operates 17 banking offices in the Hampton Roads region of southeastern Virginia, including eight offices in the city of Chesapeake, four offices each in the cities of Norfolk and Virginia Beach, and one office in the city of Suffolk.

In January 2004, the Company formed Hampton Roads Investments, Inc., a wholly owned subsidiary, to provide securities, brokerage, and investment advisory services.

The consolidated financial statements of the Company are prepared in conformity with U.S. generally accepted accounting principles and prevailing practices of the banking industry. The following is a summary of the significant accounting and reporting policies used in preparing the consolidated financial statements.

(a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Bank of Hampton Roads and Hampton Roads Investments, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Restrictions on Cash and Due from Bank Accounts

The Company is required to maintain average reserve balances in cash with the Federal Reserve Bank ("FRB"). The amounts of daily average required reserves for the final weekly reporting period were $3,067,000 and $2,126,000 at December 31, 2007 and 2006, respectively.

(c) Investment Securities

Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. The Company has no securities in this category.

Securities classified as available-for-sale are those debt and equity securities that management intends to hold for an indefinite period of time, including securities used as part of the Company's asset/liability strategy, and that may be sold in response to changes in interest rates, liquidity needs, or other similar factors. Securities in this classification are reported at fair value, with unrealized gains and losses excluded from earnings and reported as other comprehensive income, a separate component of shareholders' equity.

Securities classified as held for trading are those debt and equity securities that are bought and held principally for the purpose of selling them in the near term and reported at fair value, with unrealized gains and losses included in earnings. The Company has no securities in this category.

Gains and losses on sales of securities are computed based on specific identification of the adjusted cost of each security and included in noninterest income. Amortization of premiums and accretion of discounts are computed by the effective yield method and included in interest income. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects for the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

(d) Federal Reserve Bank Stock and Federal Home Loan Bank Stock

The Company, as a member of the Federal Home Loan Bank ("FHLB") of Atlanta, is required to hold shares of capital stock in the FHLB in an amount equal to 0.20% of total assets plus 4.50% of borrowings from the FHLB.

As a member of the FRB, the Company is required to hold shares of FRB capital stock, $100 par value, in an amount equal to 6% of the Bank's total common stock and capital surplus.

FRB stock and FHLB stock are carried at cost.

(e) *Loans*

Loans are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred over the life of the loan and recognized as an adjustment of the related loan yield using the interest method. Net fees related to standby letters of credit are recognized over the commitment period. In those instances when a loan prepays, the remaining deferred fee is recognized in the income statement. As a general rule, loans are placed in nonaccrual status when principal or interest is 90 days or more past due, or when management deems collection of all principal and interest doubtful after an evaluation of the collateral pledged and the financial strength of the borrower. The delinquency status of the loan is determined by the contractual terms of the loan.

All interest accrued but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income. Cash payments received on loans in nonaccrual status are generally applied to reduce the outstanding principal balance. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is deemed impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured at the present value of their expected future cash flows by discounting those cash flows at the loan's effective interest rate, or at the loan's observable market price or the fair value of collateral if the loan is collateral dependent. The difference between this discounted amount and the loan balance is recorded as an allowance for loan losses. Impairment is measured on a loan by loan basis. Interest on impaired loans is accrued and recorded as income based upon the principal amount outstanding, except for nonaccrual loans, for which interest is not accrued.

(f) *Allowance for Loan Losses*

The allowance for loan losses is a valuation allowance consisting of the cumulative effect of the provision for loan losses, minus loans charged off, plus any amounts recovered on loans previously charged off. The provision for loan losses is the amount necessary in management's judgment to maintain the allowance for loan losses at a level it believes sufficient to cover incurred losses in the collection of the Company's loans. Loans are charged against the allowance when, in management's opinion, they are deemed uncollectible, although the Company continues to aggressively pursue collection.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical loss experience, risk characteristics of the various categories of loans, adverse situations affecting individual credits, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired, doubtful, substandard, or special mention. The general component covers all other loans and is based on historical loss experience adjusted for qualitative factors such as current economic conditions. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

(g) *Premises and Equipment*

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation of buildings and improvements and equipment, furniture and fixtures is computed by the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is computed using the straight-line method over the estimated useful lives of the improvements or the lease term, whichever is shorter. Useful lives range from 9 to 15 years for leasehold improvements, from 10 to 50 years for buildings and improvements, and from 3 to 15 years for substantially all equipment, furniture and fixtures.

(h) *Long-Lived Assets*

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During 2007, Bankers Investment Group, LLP ("BI") agreed to be sold to Infinex Investments, Inc. ("Infinex"). The Company has a 4% ownership in BI which it accounts for as a cost method investment. The sale transaction is expected to be completed in 2008 and result in a reduction in the value of the asset held by the Company. Therefore, the investment in BI was written down $103,774 during 2007 to the estimated value after the sale. The loss was included as part of other noninterest expense. No long-lived assets were deemed to be impaired during 2006. During 2005, the Company exchanged certain ATM's and data processing equipment with

carrying amounts greater than their fair value, as determined by prices for similar assets. In addition, the Company identified a building and a trailer whose carrying amounts were not expected to be recoverable. These assets were written down as a result of this determination during 2005. Losses on the exchanges and impairments amounted to $129,839 and were recognized as part of other noninterest income.

(i) Other Real Estate Owned

Real estate acquired in settlement of loans is stated at the lower of the recorded loan balance or fair market value less estimated disposal costs. At foreclosure any excess of the loan balance over the fair value of the property is charged to the allowance for loan losses. Such carrying value is periodically reevaluated and written down if there is an indicated decline in fair value. Costs to bring a property to salable condition are capitalized up to the fair value of the property while costs to maintain a property in salable condition are expensed as incurred. The Company did not have any other real estate owned as of December 31, 2007 or 2006.

(j) Income Taxes

The Company files a consolidated tax return. The provision for income taxes reflects tax expense incurred as a consolidated group. The expense is allocated among the members of the consolidated group in accordance with an intercompany agreement for tax expense.

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

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

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

(k) Per Share Data

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the dilutive effect of stock options and non-vested stock using the treasury stock method.

(l) Advertising Costs

Advertising costs are expensed as incurred.

(m) Stock-Based Compensation

The Company adopted SFAS No. 123R, Share-Based Payment, on January 1, 2006, using the modified prospective method which applies SFAS No. 123R to new awards and to the portion of existing awards that have not completely vested as of January 1, 2006. The Company had no existing stock options that remained unvested as of January 1, 2006; therefore, no additional stock-based compensation expense for existing awards of stock options was recognized after adopting SFAS No. 123R. Previously, the Company had followed Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and had accounted for employee share options at intrinsic value. During 2006 and 2007, the Company used the fair-value method to account for stock-based compensation and the fair value of stock options was estimated at the date of grant using a lattice option pricing model. Stock options granted with pro rata vesting schedules are expensed over the vesting period on a straight line basis.

Stock-based compensation expense recognized in the consolidated statements of income for the years ended December 31, 2007, 2006 and 2005 was $337,250, $179,811, and $704,300, respectively, with a related tax benefit of $115,276, $61,136, and $239,462, respectively. During 2007, 2006 and 2005, stock-based compensation expense was comprised of $160,229, $13,372, and $554,100, respectively, related to stock options which vested during the period. During 2007, 2006 and 2005, the remaining stock-based compensation expense of $177,021, $166,439 and $150,200, respectively, related to share awards.

Reported and pro forma results and a summary of the assumptions used to value stock options granted during 2007, 2006 and 2005 were as follows:

Years Ended December 31,	2007	2006	2005
Reported net income	**$ 6,810,613**	$6,035,539	$5,507,329
Stock option expense (net of tax):			
As reported	**105,461**	8,826	365,706
Pro forma	**(105,461)**	(8,826)	(378,359)
Pro forma net income	**$ 6,810,613**	$6,035,539	$5,494,676
Net income per share:			
Basic-as reported	**$ 0.67**	$ 0.66	$ 0.68
Basic-pro forma	**0.67**	0.66	0.68
Diluted-as reported	**0.65**	0.65	0.66
Diluted-pro forma	**0.65**	0.65	0.65
Assumptions:			
Risk-free interest rate	**4.36% - 4.68%**	4.68%	4.32%
Volatility	**18.40% - 27.27%**	18.40%	10.08%
Dividend yield	**3.33% - 3.43%**	3.33%	3.38%
Weighted average expected term (in years)	**1.90 - 9.50**	8.72	8.60

The table above excludes stock-based compensation related to share awards and includes the effect of a 2005 fourth quarter adjustment to stock-based compensation expense. For more information on this adjustment, please see Note No. 21 contained in this annual report. The information in the table above for 2007 and 2006 reflects the adoption of SFAS No. 123R as of January 1, 2006; therefore, there is no difference between the stock option expense (net of tax) amounts as reported and the pro forma amounts.

Option valuation models require the input of highly subjective assumptions. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a representative single measure of the fair value at which transactions may occur. Expected volatility is based on historical volatility of the Company's traded shares. The expected term is calculated by the lattice option pricing model using assumptions regarding the contractual term of the stock options, vesting periods, the exercise price to market stock price multiple experienced by the Company, and the historical employee exit rate.

(n) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from those estimates. Material estimates that are particularly susceptible to changes in the near term are the allowance for loan losses, the valuation of deferred tax assets, the fair value of stock options, and the estimated fair value of financial instruments.

(o) Cash and Cash Equivalents

For the purpose of presentation in the consolidated statements of cash flows, the Company considers cash and due from banks, overnight funds sold, and interest-bearing deposits in other banks as cash and cash equivalents. Generally, overnight funds sold include federal funds sold and high quality money market instruments, which hold short-term debt securities that are U.S. Government issued or guaranteed.

(p) Comprehensive Income (Loss)

Comprehensive income (loss) represents all changes in equity that result from recognized transactions and other economic events of the period. Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under U.S. generally accepted accounting principles are included in comprehensive income but excluded from net income, such as unrealized gains and losses on investment securities available-for-sale.

(q) Concentrations of Credit Risk

Construction and mortgage loans represented $355.6 million and $282.6 million of the total loan portfolio at December 31, 2007 and 2006, respectively. Substantially all such loans are collateralized by real property or other assets. Loans in these categories and their collateral values are continuously monitored by management.

At times the Company may have cash and cash equivalents at a financial institution in excess of insured limits. The Company places its cash and cash equivalents with high credit quality financial institutions whose credit rating is monitored by management to minimize credit risk.

(r) Reclassification

Certain 2006 and 2005 amounts have been reclassified to conform to the 2007 presentation.

(2) Investment Securities

The amortized cost and estimated fair values of investment securities available-for-sale at December 31, 2007 and 2006 were as follows:

	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment Securities Available-for-Sale:				
State and municipal securities	**$ 244,001**	**$ 5,994**	**$ —**	**$ 249,995**
U.S. Agency securities	**40,943,608**	**355,747**	**26,699**	**41,272,656**
Mortgage backed securities	**641,785**	**9**	**620**	**641,174**
Equity securities	**472,500**	**—**	**259,000**	**213,500**
Total investment securities available-for-sale	**$42,301,894**	**$361,750**	**$286,319**	**$42,377,325**

	2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment Securities Available-for-Sale:				
U.S. Treasury securities	$ 100,000	$ —	$ 1,461	$ 98,539
U.S. Agency securities	54,954,164	20,404	665,349	54,309,219
Mortgage backed securities	711,561	—	4,879	706,682
Equity securities	472,500	—	17,500	455,000
Total investment securities available-for-sale	$56,238,225	$ 20,404	$689,189	$55,569,440

Information pertaining to securities with gross unrealized losses at December 31, 2007 and 2006, aggregated by investment category and length of time that the individual securities have been in a continuous loss position is as follows:

	2007					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
U.S. Agency securities	**$ —**	**$ —**	**$13,460,781**	**$ 26,699**	**$13,460,781**	**$ 26,699**
Mortgage backed securities	**—**	**—**	**634,574**	**620**	**634,574**	**620**
Equity securities	**—**	**—**	**213,500**	**259,000**	**213,500**	**259,000**
	$ —	**$ —**	**$14,308,855**	**$286,319**	**$14,308,855**	**$286,319**

	2006					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
U.S. Treasury securities	$ —	$ —	$ 98,539	$ 1,461	$ 98,539	$ 1,461
U.S. Agency securities	6,995,625	53,564	45,311,406	611,785	52,307,031	665,349
Mortgage backed securities	706,682	4,879	—	—	706,682	4,879
Equity securities	455,000	17,500	—	—	455,000	17,500
	$8,157,307	$ 75,943	$45,409,945	$613,246	$53,567,252	$689,189

The unrealized loss positions on debt securities at December 31, 2007 were directly related to interest rate movements as there is minimal credit risk exposure in these investments. Investment securities with unrealized losses have interest rates that are less than the current interest rate environment and not a result of credit impairment. All debt securities are AAA rated investments. Bonds with unrealized loss positions at 2007 year-end included, 1 mortgage backed security and 9 U.S. Agency securities. The unrealized loss on equity securities at December 31, 2007 is considered by management to be temporary given the duration of the unrealized loss and the thinly traded nature of the stock.

There were no sales of securities in 2007, 2006 or 2005.

The amortized cost and estimated fair value of investment securities available-for-sale at December 31, 2007 by contractual maturity were as follows:

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 15,013,223	$ 14,993,750
Due after one year through five years	26,565,579	26,913,481
Due after five years through ten years	250,591	256,594
Equity securities	472,500	213,500
	$ 42,301,893	$ 42,377,325

Investment securities that were pledged to secure deposits, outstanding borrowings, or available to secure future borrowings at December 31, 2007 and 2006 were as follows:

	2007	2006
Public deposits	**$12,156,866**	$11,873,879
Treasury, tax and loan deposits	**1,489,219**	1,453,125
FHLB borrowings	**21,577,500**	26,170,469
FRB borrowings	**2,019,063**	2,969,063
Debtor in possession deposit	**—**	98,539
	$37,242,648	$42,565,075

(3) Loans and Allowance for Loan Losses

The Company grants commercial, construction, real estate, and consumer loans to customers throughout its lending area. A substantial portion of debtors' abilities to honor their contracts is dependent upon the real estate and general economic environment of the lending area.

Major classifications of loans at December 31, 2007 and 2006 were as follows:

	2007	2006
Commercial	**$109,782,739**	$ 72,132,578
Construction	**165,468,776**	116,812,110
Real estate—commercial mortgage	**151,600,649**	140,259,912
Real estate—residential mortgage	**38,523,593**	25,522,729
Installment loans to individuals	**11,976,075**	20,599,390
Deferred loan fees and related costs	**(202,600)**	(282,558)
	$477,149,232	$375,044,161

Non-performing assets at December 31, 2007 and 2006 were as follows:

	2007	2006
Loans 90 days past due and still accruing interest	**$ 851,846**	$ —
Nonaccrual loans, including nonaccrual impaired loans	**1,792,758**	1,629,990
Real estate acquired in settlement of loans	**—**	—
	$2,644,604	$1,629,990

If interest on nonaccrual loans had been accrued, such income would have amounted to $164,006, $153,128 and $136,878 in 2007, 2006 and 2005, respectively, none of which was recognized in income.

Information on impaired loans at December 31, 2007, 2006 and 2005 was:

	2007	2006	2005
Impaired loans for which an allowance has been provided	**$1,697,758**	$1,854,990	$1,770,656
Impaired loans for which no allowance has been provided	**—**	—	—
Total impaired loans	**$1,697,758**	$1,854,990	$1,770,656
Allowance provided for impaired loans, included in the allowance for loan losses	**$ 405,552**	$ 438,998	$ 354,131
Average balance in impaired loans	**$1,782,143**	$1,936,082	$1,777,615
Interest income recognized from impaired loans	**$ 19,952**	$ 1,026	$ —

Transactions affecting the allowance for loan losses for the years ended December 31, 2007, 2006 and 2005 were as follows:

	2007	2006	2005
Balance at beginning of year	**$3,910,943**	$3,597,497	$3,070,600
Provision for loan losses	**1,232,000**	180,000	486,000
Loans charged off	**(109,748)**	(59,118)	(98,737)
Recoveries	**9,388**	192,564	139,634
Balance at end of year	**$5,042,583**	$3,910,943	$3,597,497

(4) Premises, Equipment and Leases

Premises and equipment at December 31, 2007 and 2006 are summarized as follows:

	2007	2006
Land	**$ 4,321,467**	$ 4,321,467
Buildings and improvements	**6,145,170**	6,008,298
Leasehold improvements	**847,453**	820,694
Equipment, furniture and fixtures	**5,619,191**	5,178,374
	16,933,281	16,328,833
Less accumulated depreciation and amortization	**(4,966,130)**	(4,144,949)
	$11,967,151	$12,183,884

The Company leases the land upon which one of its branch offices is located. In addition, the Company also leases the buildings in which six branch offices are located. The lease terms range from one to eleven years and most include renewal options.

Total rent expense was $906,944 in 2007, $845,744 in 2006 and $428,500 in 2005. On May 26, 2005, the Company entered into a lease agreement for a portion of the first floor and the entire second floor of the Dominion Tower building located in downtown Norfolk, Virginia. The Company opened a branch office in the leased space on the first floor and relocated the executive offices to the second floor during the fourth quarter of 2005. Rent payments began during the fourth quarter of 2006.

Future minimum lease payments, by year and in the aggregate, under noncancelable operating leases with initial or remaining terms of one year or more at December 31, 2007 were as follows:

2008	$ 867,383
2009	839,830
2010	814,579
2011	813,770
2012	751,138
2013 - 2016	2,509,493
	$6,596,193

The Company has entered into a contract as lessor for excess office space. Future minimum lease payments receivable under noncancelable leasing arrangements at December 31, 2007 were as follows:

2008	$ 84,443
2009	28,148
	$112,591

(5) Deposits

The maturities of time deposits at December 31, 2007 and 2006 were as follows:

	2007		2006	
	Time Deposits Less than $ 100,000	**Time Deposits $100,000 or More**	**Time Deposits Less than $ 100,000**	**Time Deposits $100,000 or More**
Maturity of:				
3 months or less	**$ 18,240,001**	**$ 16,207,497**	$ 11,506,473	$ 20,801,560
Over 3 months—6 months	**18,808,784**	**29,460,296**	15,831,990	24,426,473
Over 6 months—12 months	**29,353,343**	**17,405,373**	15,969,016	9,074,891
1 year—2 years	**12,539,501**	**6,777,291**	11,290,285	6,300,140
2 years—3 years	**24,358,559**	**14,889,483**	7,491,413	3,594,608
3 years—4 years	**9,892,866**	**7,070,159**	10,270,500	4,899,477
4 years—5 years	**1,639,670**	**1,869,058**	4,396,863	3,531,250
	$ 114,832,724	**$ 93,679,157**	$ 76,756,540	$ 72,628,399

Brokered deposits totaled $5,000,000 at December 31, 2007. There were no brokered deposits at December 31, 2006.

(6) Federal Home Loan Bank Borrowings

At December 31, 2007 and 2006, the Company had borrowings from the FHLB system totaling $53,000,000 and $38,000,000, respectively. Interest only is payable on a monthly basis until maturity. Maturities of FHLB borrowings at December 31, 2007 were as follows:

	Type	Interest Rate	Balance
Maturity Date:			
January 2008	Fixed	3.92%	$ 5,000,000
May 2008	Fixed	2.83	5,000,000
January 2009	Fixed	4.18	5,000,000
May 2009	Fixed	5.53	5,000,000
June 2009	Fixed	5.68	5,000,000
April 2011	Fixed	5.46	5,000,000
May 2011	Fixed	5.00	5,000,000
March 2012	Fixed	4.95	12,500,000
September 2012	Convertible	4.29	5,500,000
			$53,000,000

The convertible advance is at a fixed interest rate until September 11, 2010 at which time the FHLB has the option to convert to the variable interest rate and spread being offered at that time. The borrowings were collateralized by a blanket lien on the Company's 1-4 family residential real estate loans, with carrying values of $24,880,576 and $20,299,138 as of December 31, 2007 and 2006, respectively, commercial real estate loans with carrying values of $49,983,230 and $10,202,536 as of December 31, 2007 and 2006, respectively, and investment securities with carrying values of $21,577,500 and $26,170,469 as of December 31, 2007 and 2006, respectively.

(7) Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction and the state of Virginia. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2004. The Company adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007 with no impact on the financial statements.

The current and deferred components of income tax expense for the years ended December 31, 2007, 2006 and 2005 were as follows:

	2007	2006	2005
Current	**$4,158,769**	$3,496,887	$3,302,973
Deferred	**(568,202)**	(362,302)	(432,982)
Provision for income taxes	**$3,590,567**	$3,134,585	$2,869,991

The provisions for income taxes for the years ended December 31, 2007, 2006 and 2005 differ from the amount computed by applying the statutory federal income tax rate to income before taxes due to the following:

	2007	2006	2005
Income taxes at statutory rates	**$3,555,248**	$3,117,842	$2,848,289
Increase (decrease) resulting from:			
Nondeductible expenses	**40,910**	17,268	20,382
Other	**(5,591)**	(525)	1,320
Provision for income taxes	**$3,590,567**	$3,134,585	$2,869,991

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2007 and 2006 were as follows:

	2007	2006
Deferred tax assets:		
Allowance for loan losses	**$1,437,909**	$1,089,508
Unrealized loss on securities available-for-sale	**108,472**	227,387
Nonaccrual loan interest	**153,826**	122,533
Rent payable	**185,674**	179,408
Deferred directors' fees	**161,260**	107,834
Nonqualified deferred compensation	**1,439,681**	1,248,619
Total deferred tax assets	**3,486,822**	2,975,289
Defered tax liabilities:		
Depreciation	**766,321**	679,898
Affiliate income	**62,097**	86,274
Total deferred tax liabilities	**828,418**	766,172
Net deferred tax asset	**$2,658,404**	$2,209,117

(8) Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk which have not been recognized in the consolidated balance sheets. The contract amount of these instruments reflects the extent of the Company's involvement or "credit risk."

The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Contractual amounts at December 31, 2007 and 2006 were:

	2007	2006
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	**$115,473,393**	$ 90,598,124
Standby letters of credit	**17,424,530**	10,039,282
	$132,897,923	$100,637,406

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, income-producing commercial properties, and real estate.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of the contractual obligation by a customer to a third party. The majority of these guarantees extend until satisfactory completion of the customer's contractual obligation. Management does not anticipate any material losses will arise from additional funding of the aforementioned commitments or letters of credit.

(9) Profit Sharing Plan

The Company has a defined contribution 401(k) plan. All employees who are 21 years of age and have completed one year of service are eligible to participate. Under the plan, participants may contribute up to 20% of their compensation, subject to statutory limitations. The Company matches 100% of the employees' contributions up to 4% of salary. The Company may also make an additional discretionary contribution. Participants are fully vested in their contributions and the Company's match immediately and become fully vested in the Company's discretionary contributions after 3 years of service. The Company made discretionary contributions of $119,000, $119,000 and $196,000 for the years ended December 31, 2007, 2006 and 2005, respectively. The Company also made matching contributions of $202,307, $185,031 and $53,430 for the years ended December 31, 2007, 2006 and 2005, respectively. The Company offers its stock as an investment option under the 401(k) plan. The plan purchased 11,020, 11,333, and 8,952 shares at average prices of $12.45, $10.80, and $9.75 per share in 2007, 2006 and 2005, respectively.

(10) Supplemental Retirement Agreements and Executive Savings Plan

The Company has entered into supplemental retirement agreements with several key officers. Under these agreements, all but one of the officers are each eligible to receive an annual benefit payable in fifteen installments each equal to $50,000 following the attainment of their Plan Retirement Date. The other officer is eligible to receive an annual benefit payable in fifteen installments each equal to 50% of his Benefit Computation Base following the attainment of his Plan Retirement Date. The Benefit Computation Base is calculated as the average compensation including bonuses from the Company over the three consecutive completed calendar years just prior to the year of retirement or termination. In connection with these agreements, the Company has purchased life insurance policies which name the Company as beneficiary. The total cash surrender value for these life insurance policies at December 31, 2007 and 2006 was $773,082 and $661,640, respectively, which is included in other assets. The Company recognizes expense each year related to these agreements based on the present value of the benefits expected to be provided to the employees and any beneficiaries. The change in benefit obligation and funded status for the years ended December 31, 2007, 2006 and 2005 was as follows:

	2007	2006	2005
Benefit obligation at beginning of year	**$ 1,650,317**	$ 1,124,635	$ 857,867
Service cost	**387,239**	423,065	224,495
Interest cost	**115,023**	102,617	42,273
Benefit obligation at end of year	**2,152,579**	1,650,317	1,124,635
Fair value of plan assets	**—**	—	—
Funded status	**$(2,152,579)**	$(1,650,317)	$(1,124,635)

The amounts recognized in the consolidated balance sheets as of December 31, 2007 and 2006 consisted of:

	2007	2006
Accrued benefit cost included in other liabilities	**$(2,152,579)**	$(1,650,317)

The components of net periodic benefit cost for the years ended December 31, 2007, 2006 and 2005 consisted of:

	2007	2006	2005
Service cost	**$387,239**	$423,065	$224,495
Interest cost	**115,023**	102,617	42,273
Net periodic benefit cost	**$502,262**	$525,682	$266,768

The weighted-average assumptions used to determine benefit obligations at December 31, 2007, 2006 and 2005, and to determine net periodic benefit cost for the years ended December 31, 2007, 2006 and 2005 were as follows:

	2007	2006	2005
Discount rate	**7.00%**	7.00%	7.00%
Rate of compensation increase	**3.00%**	3.00%	3.00%

The rate of compensation increase only applies to the one officer agreement with a Benefit Computation Base.

The Company does not expect to make contributions to fund the supplemental retirement agreements in 2008. As of December 31, 2007, the following benefit payments are expected to be paid over the next ten years:

2008	$ —
2009	—
2010	330,569
2011	330,569
2012	330,569
2013 - 2017	1,652,845
	$2,644,552

In November 2006, the Company entered into retirement agreements with the Board of Directors. Directors are eligible for compensation under the plan upon the sixth anniversary of the participant's first board meeting. Benefits are to be paid in monthly installments commencing at retirement and ending upon the death, disability, or upon mutual consent of both parties to the agreement. Under the plan, the participant's continue to serve the Company after retirement by performing certain duties as outlined in the plan document. During 2007, the Company expensed $63,228 related to this plan.

The Company has implemented an Executive Savings Plan with certain officers whereby an initial contribution made by the officers will be matched each year by the Company as long as the officers' employment continues. During 2006, participants were offered the election to use funds in the plan to purchase employer stock and become 100% vested in the plan. The employer stock purchased by the plan is held in a Rabbi Trust for the benefit of each individual participant. Contributions into the plan subsequent to this election may be used to purchase employer stock or may be placed in savings accounts for the benefit of each individual participant and earn interest at the highest rate currently being paid on a Company certificate of deposit. Company contributions to the Executive Savings Plan during 2007, 2006 and 2005 were $268,300, $217,000, and $123,771, respectively.

(11) Dividend Reinvestment and Optional Cash Purchase Plan

The Company has a Dividend Reinvestment and Optional Cash Purchase Plan. The plan enables shareholders to receive cash payment or reinvest their dividends. The stock purchased through the plan directly from the Company, is valued at the weighted average sales price of the Company's common stock in transactions occurring during the 60 calendar days immediately prior to the purchase date. The purchase price of shares purchased on the open market is the actual current market price of the shares purchased on the applicable purchase dates.

(12) Director and Employee Stock Compensation Plans

During 2007, 2006 and 2005 the Company authorized the grant of options to employees and directors for 34,968, 210,131 and 135,096 shares, respectively, of the Company's common stock under stock compensation plans that have been approved by the Company's shareholders. All outstanding options granted previous to December 31, 2006 have 10-year terms and are fully vested and exercisable at the date of grant. The options granted on December 31, 2006 have 10-year terms and vest ratably over periods that range from 1 year to 5 years. Of the stock options granted during 2007, 14,968 have terms that range from 1 to 8 years and are fully vested and exercisable at the date of grant and 20,000 have 10-year terms and vest after 6 to 10 years of service. A summary of the Company's stock option activity and related information is as follows:

	Options Outstanding	Weighted Average Exercise Price
Balance at December 31, 2004	994,786	$ 7.15
Granted	135,096	10.47
Exercised	(97,828)	5.63
Expired	(7,495)	11.23
Balance at December 31, 2005	1,024,559	7.70
Granted	210,131	11.93
Exercised	(277,041)	5.80
Expired	(27,679)	8.94
Balance at December 31, 2006	929,970	9.19
Granted	**34,968**	**12.91**
Exercised	**(93,599)**	**7.55**
Forfeited	**(10,992)**	**12.00**
Expired	**(2,191)**	**10.85**
Balance at December 31, 2007	**858,156**	**$ 9.48**

In 2007 and 2006, 93,599 and 277,041 options were exercised, respectively; however, only 76,700 and 198,158 new shares, respectively, were issued since 16,899 and 78,883 shares, respectively, of previously acquired stock were used to exercise some of the options.

Information pertaining to fully vested options outstanding and exercisable as of December 31, 2007 was as follows:

Range of Exercise Prices	Aggregate Intrinsic Value	Number of Options	Remaining Contractual Life (in years)	Weighted Average Exercise Price
$ 3.750 - $ 4.000	$ 398,877	46,516	3.81	$ 3.98
4.375 - 5.900	302,117	40,221	2.88	5.05
6.530 - 8.770	1,273,646	273,600	4.23	7.90
9.750 - 11.800	575,451	276,851	5.95	10.48
12.000 - 14.030	13,095	71,318	8.16	12.38
$ 3.750 - $11.800	$ 2,563,186	708,506	5.19	$ 8.94

The weighted-average grant-date fair value of stock options granted during 2007, 2006 and 2005 was $2.34, $1.96, and $1.41, respectively. The total intrinsic value at grant date of stock options exercised during 2007, 2006 and 2005 was $141,284, $506,699, and $155,416, respectively. The Company has 2,288,741 shares available under shareholder approved stock incentive plans. As of December 31, 2007, there was $329,401 of unrecognized compensation cost related to non-vested stock options. That cost is expected to be recognized over a weighted average period of 4.06 years.

As of December 31, 2007, the Company had granted non-vested shares to certain directors and employees as part of incentive programs and to those directors who elected to use deferred directors' fees to purchase non-vested shares. Non-vested shares awarded to employees and directors as part of incentive programs have vesting schedules that range from four to nine years and are expensed over the same schedules. Non-vested shares issued to directors as a method of deferring their directors' fees are expensed at the time the fees are earned by the director. A summary of the Company's non-vested share activity and related information is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2004	—	$ —
Granted	33,045	10.71
Vested	3,000	10.65
Balance at December 31, 2005	30,045	10.71
Granted	20,131	10.81
Vested	3,000	10.65
Balance at December 31, 2006	47,176	10.76
Granted	**20,364**	**12.12**
Vested	**4,500**	**10.76**
Forfeited	**8,500**	**10.98**
Balance at December 31, 2007	**54,540**	**$ 11.23**

As of December 31, 2007, there was $231,330 of total unrecognized compensation cost related to non-vested share awards. That cost is expected to be recognized over a weighted average period of 4.51 years. The total fair value of shares vested during the years ended December 31, 2007, 2006 and 2005 was $57,045, $36,000 and $31,950, respectively.

(13) Employment Agreements

The Company has employment agreements with eleven officers. Two of the agreements expire in 2008, one expires in 2009, five expire in 2011, two expire in 2012, and one expires in 2013. The agreements will automatically renew at the end of their terms unless the officer is notified in writing. Among other things, the agreements provide for severance benefits payable to the officers upon termination of employment following a change of control in the Company.

(14) Other Expenses

A summary of other expenses for the years ended December 31, 2007, 2006 and 2005 is as follows:

	2007	2006	2005
Advertising and marketing	**$ 325,792**	$ 481,398	$ 304,089
Telephone and postage	**305,022**	294,407	281,548
Professional	**278,717**	366,683	379,853
Bank franchise tax	**463,900**	279,754	251,332
Equipment	**343,010**	304,140	205,437
ATM and VISA Check Card expense	**500,218**	422,840	466,605
Director and regional board fees	**306,850**	284,450	313,299
Other	**1,236,585**	1,130,584	1,206,982
	$3,760,094	$3,564,256	$3,409,145

(15) Restrictions on Loans and Dividends from Subsidiaries

Regulatory agencies place certain restrictions on dividends paid and loans or advances made by the Bank to the Company. The amount of dividends the Bank may pay to the Company, without prior approval, is limited to current year earnings plus retained net profits for the two preceding years. At December 31, 2007, the amount available was approximately $7.4 million. Loans and advances are limited to 10% of the Bank's common stock and capital surplus. As of December 31, 2007, funds available for loans or advances by the Bank to the Company were approximately $7.1 million.

(16) Regulatory Capital Requirements

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as

calculated under regulatory accounting practices. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. The Company's and the Bank's capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies. Management believes that, as of December 31, 2007, the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2007, the most recent notification from the FRB categorized the Company and the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, minimum amounts and ratios, as set forth in the table that follows, must be maintained. There are no conditions or events since that notification that management believes have changed the Company's or Bank's category.

A summary of the Company's and the Bank's required and actual capital components follows:

(in thousands)	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007						
Tier 1 Capital:						
Consolidated Company	**$73,610**	**14.58%**	**$ 20,195**	**4.00%**	**N/A**	**N/A**
Bank	**71,349**	**14.17**	**20,147**	**4.00**	**$ 30,220**	**6.00%**
Total Risk-Based Capital:						
Consolidated Company	**78,653**	**15.58**	**40,389**	**8.00**	**N/A**	**N/A**
Bank	**76,392**	**15.17**	**40,293**	**8.00**	**50,367**	**10.00**
Leverage Ratio:						
Consolidated Company	**73,610**	**13.44**	**21,908**	**4.00**	**N/A**	**N/A**
Bank	**71,349**	**13.05**	**21,863**	**4.00**	**27,329**	**5.00**
As of December 31, 2006						
Tier 1 Capital:						
Consolidated Company	$ 70,604	17.47%	$ 16,166	4.00%	N/A	N/A
Bank	68,639	17.04	16,114	4.00	$ 24,171	6.00%
Total Risk-Based Capital:						
Consolidated Company	74,515	18.44	32,332	8.00	N/A	N/A
Bank	72,550	18.01	32,228	8.00	40,285	10.00
Leverage Ratio:						
Consolidated Company	70,604	15.11	18,693	4.00	N/A	N/A
Bank	68,639	14.69	18,693	4.00	23,366	5.00

(17) Disclosures About Fair Value of Financial Instruments

SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practical to estimate that value. Fair value is best determined based upon quoted market prices, however, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying fair value of the Company.

The following methods and assumptions were used by the Company in estimating fair value for its financial instruments, as defined by SFAS No. 107:

(a) Cash and Cash Equivalents

The carrying amount approximates fair value.

(b) ***Investment Securities Available-for-Sale***

Fair values are based on published market prices or dealer quotes. Investment securities available-for-sale are carried at their aggregate fair value.

(c) ***Federal Home Loan Bank Stock and Federal Reserve Bank Stock***

The carrying amount approximates fair value.

(d) ***Loans***

For credit card and other loan receivables with short-term and/or variable characteristics, the carrying value approximates fair value. The fair value of other loans is estimated by discounting the future cash flows using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

(e) ***Interest Receivable and Interest Payable***

The carrying amount approximates fair value.

(f) ***Deposits***

The fair value of noninterest bearing deposits and deposits with no defined maturity, by SFAS No. 107 definition, is the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting the future cash flows using the current rates at which similar deposits would be made.

(g) ***FHLB Borrowings***

The fair value of FHLB borrowings is estimated using discounted cash flow analysis based on the rates currently offered for borrowings of similar remaining maturities.

(h) ***Commitments to Extend Credit and Standby Letters of Credit***

The only amounts recorded for commitments to extend credit and standby letters of credit are the deferred fees arising from these unrecognized financial instruments. These deferred fees are not deemed significant at December 31, 2007 and 2006, and as such, the related fair values have not been estimated.

The estimated fair value of the Company's financial instruments required to be disclosed under SFAS No. 107 at December 31, 2007 and 2006 were:

	2007		2006	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Cash and due from banks	**$ 19,757,428**	**$ 19,757,428**	$ 17,112,616	$ 17,112,616
Overnight funds sold	**182,906**	**182,906**	9,524,445	9,524,445
Interest-bearing deposits in other banks	**5,623,271**	**5,623,271**	161,490	161,490
Federal Home Loan Bank stock	**3,330,000**	**3,330,000**	2,597,900	2,597,900
Federal Reserve Bank stock	**1,374,000**	**1,374,000**	1,377,350	1,377,350
Investment securities available-for-sale	**42,377,325**	**42,377,325**	55,569,440	55,569,440
Loans	**477,149,232**	**474,507,569**	375,044,161	370,790,572
Interest receivable	**2,431,347**	**2,431,347**	2,281,945	2,281,945
Liabilities:				
Deposits	**431,456,747**	**431,326,893**	363,261,329	365,171,331
Interest payable	**1,636,231**	**1,636,231**	1,472,889	1,472,889
FHLB borrowings	**53,000,000**	**53,974,529**	38,000,000	37,679,316

(18) Subsequent Events

On January 22, 2008, the Company declared a cash dividend of $0.11 per share payable March 15, 2008, to shareholders of record on February 15, 2008.

On January 8, 2008, the Company entered into an Agreement with Shore Financial Corporation ("SFC"). The Agreement sets forth the terms and conditions of the Company's acquisition of SFC through the merger of SFC with and into the Company (the "Merger").

Under the terms of the Agreement, the Company will issue to the shareholders of SFC, for each share of SFC's stock that they own, 1.8 shares of the Company's common stock or $22.00 in cash, subject to the limitation that no less than 55% and no more than 75% of the total consideration will be in the form of stock. Shareholders of SFC may elect to receive the Company's common stock, cash, or a combination of common stock and cash for their shares of SFC's common stock, subject to pro ration in the event that the aggregate stock elections are less than the 55% minimum or exceed the 75% maximum.

In addition, at the effective time of the Merger, each outstanding option to purchase shares of SFC's common stock under any stock plans shall vest pursuant to its terms and shall be converted into an option to acquire the number of shares of the Company's common stock equal to the number of shares of SFC's common stock underlying the option multiplied by 1.8. The exercise price of each option will be adjusted accordingly.

Consummation of the Merger is subject to a number of customary conditions including the approval of the Merger by the Company's and SFC's shareholders and the receipt of all required regulatory approvals. The Merger is expected to be completed in the second quarter of 2008.

Pursuant to the Merger Agreement, either party may terminate the Merger in the event the Merger is not consummated by September 30, 2008. In addition, SFC may terminate the Merger in the event the average price of Company common stock (as defined in the Merger Agreement) is less than $9.50 per share and the Company may terminate the Merger in the event such average price is greater than $14.94 per share. The termination of the Merger Agreement will, in certain circumstances, obligate SFC to pay the Company a termination fee of $1.0 million to $2.4 million or the Company to pay SFC a termination fee of $1.0 million, depending on the triggering event.

(19) Condensed Parent Company Only Financial Statements

The condensed financial position as of December 31, 2007 and 2006 and the condensed results of operations and cash flows for each of the years in the three-year period ended December 31, 2007, of Hampton Roads Bankshares, Inc., parent company only, are presented below.

Condensed Balance Sheets

December 31,	2007	2006
Assets:		
Cash on deposit with Bank	**$ 1,048,155**	$ 548,133
Equity securities available-for-sale	**213,500**	455,000
Investment in subsidiaries	**71,675,823**	68,312,951
Investment in affiliates	**636,875**	846,608
Other assets	**90,977**	5,950
Total assets	**$73,665,330**	$70,168,642
Liabilities and Shareholders' Equity:		
Other liabilities	**$ 5,316**	$ 6,099
Shareholders' equity	**73,660,014**	70,162,543
Total liabilities and shareholders' equity	**$73,665,330**	$70,168,642

Condensed Statements of Income

Years Ended December 31,	2007	2006	2005
Income:			
Dividends from Bank	**$4,420,287**	$3,564,334	$2,907,586
Income from affiliates	**(8,630)**	141,723	77,906
Interest income	**—**	16,849	241,457
Total income	**4,411,657**	3,722,906	3,226,949
Expenses:			
Interest expense	**—**	—	139,325
Other expense	**271,458**	86,132	40,890
Total expense	**271,458**	86,132	180,215
Income before income taxes and equity in undistributed earnings of subsidiaries	**4,140,199**	3,636,774	3,046,734
Provision for income tax benefit (expense)	**95,230**	(24,105)	(49,312)
Equity in undistributed earnings of subsidiaries	**2,575,184**	2,422,870	2,509,907
Net income	**$6,810,613**	$6,035,539	$5,507,329

Condensed Statements of Cash Flows

Years Ended December 31,	2007	2006	2005
Operating Activities:			
Net income	**$ 6,810,613**	$ 6,035,539	$ 5,507,329
Adjustments:			
Equity in undistributed earnings of subsidiaries	**(2,575,184)**	(2,422,870)	(2,509,907)
Stock-based compensation expense	**337,250**	179,811	704,300
Regional board fees	**23,990**	25,300	—
Change in other assets	**647,656**	216,581	(514,943)
Change in other liabilities	**(783)**	(11,575)	95,595
Net cash provided by operating activities	**5,243,542**	4,022,786	3,282,374
Investing Activities:			
Purchase of equity securities available-for-sale	**—**	(472,500)	—
Net (increase) decrease in loans	**—**	800,000	4,999,375
Investment in subsidiaries	**(787,688)**	(22,365,797)	—
Investment in affiliates	**209,733**	(63,860)	(96,059)
Net cash provided by (used in) investing activities	**(577,955)**	(22,102,157)	4,903,316
Financing Activities:			
Net increase (decrease) in borrowings	**—**	—	(3,800,000)
Issuance of shares in rights and public offering	**—**	20,156,280	—
Stock issuance costs	**—**	(1,109,824)	—
Common stock repurchased	**(2,876,702)**	(3,424,628)	(1,092,378)
Dividends paid, net	**(2,165,790)**	(2,058,849)	(1,108,055)
Excess tax benefit realized from stock options exercised	**118,171**	147,018	—
Proceeds from exercise of stock options	**476,066**	756,648	408,452
Issuance of shares to 401(k) plan	**137,199**	122,395	87,284
Issuance of shares to executive savings plan	**145,491**	—	—
Net cash provided by (used in) financing activities	**(4,165,565)**	14,589,040	(5,504,697)
Increase (decrease) in cash and cash equivalents	**500,022**	(3,490,331)	2,680,993
Cash and cash equivalents at beginning of year	**548,133**	4,038,464	1,357,471
Cash and cash equivalents at end of year	**$ 1,048,155**	$ 548,133	$ 4,038,464

(20) Related Party Transactions

The Company has a 19% interest in Tidewater Home Funding, LLC ("THF"). The Company accounts for this investment under the equity method. The Bank has established a warehouse credit facility for THF for up to $10,000,000. As of December 31, 2007 and 2006, THF had drawn $1,338,165 and $2,347,249 on this warehouse line of credit, at a variable rate of 7.25% and 8.25%, respectively.

The Company has an 11% ownership in Davenport Financial Fund, LLC. This investment is accounted for under the equity method.

The Company has a 4% ownership in BI in order to facilitate the sale of securities-related products and services to its customers and the general public. The Company accounts for this investment under the cost method. During 2007, BI agreed to be sold to Infinex. The sale transaction is expected to be completed in 2008.

Loans are made to the Company's executive officers and directors and their associates during the ordinary course of business. In management's opinion, these loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with other persons and do not involve more than normal risk of collectibility or present other unfavorable features. At December 31, 2007 and 2006, loans to executive officers, directors and their associates amounted to $26,671,391 and $22,547,499, respectively. During 2007, additional loans and repayments of loans by executive officers, directors and their associates were $13,121,763 and $8,997,872, respectively.

Deposits are taken from the Company's executive officers and directors and their associates during the ordinary course of business. In management's opinion, these deposits are taken on substantially the same terms, including interest rates, as those prevailing at the time for comparable deposits from other persons. At December 31, 2007, deposits from executive officers, directors and their associates amounted to $6,298,583.

(21) Significant 2005 Adjustments

In the fourth quarter of 2005, management in consultation with its external auditors, KPMG LLP ("KPMG") determined that the Company had misapplied Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"). The Company determined that Consolidated Financial Statements for the years 2003 and 2004 were impacted. The analysis concluded that the amount of the differences was not material to the Consolidated Financial Statements in either year, nor was it material on a cumulative basis in 2005. As a result, the Company in further consultation with KPMG, made adjustments to its Consolidated Financial Statements in the year ended December 31, 2005 to correct the previous misapplication. The adjustment related to 2003 and 2004 Consolidated Financial Statements had the effect of increasing stock-based compensation expense $318 thousand and, thus, decreasing net income $210 thousand after the related tax effect.

In addition to the above matter, management in consultation with KPMG determined that the Company misclassified the accrued compensation expense for unexercised stock options as a liability rather than as a component of shareholders' equity in prior audited Consolidated Financial Statements. The misclassification, which was not material to the Company's Consolidated Financial Statements, does not affect the reporting of total assets or the Company's earnings in any period. An adjustment was made in the Company's 2005 Consolidated Financial Statements in the amount of $1.20 million, which had the effect of reducing liabilities and increasing shareholders' equity by that amount. The net effect of the reclassification adjustment and the change in methodology for measuring compensation expense for stock options was an increase in shareholders' equity of $1.52 million, or $0.18 in book value per share.

(22) Quarterly Financial Data (Unaudited)

Summarized unaudited quarterly financial data for the years ended December 31, 2007 and 2006 is as follows:

	2007			
	Fourth	**Third**	**Second**	**First**
Interest income	**$9,999,398**	**$9,941,054**	**$9,519,092**	**$8,743,551**
Interest expense	**3,891,284**	**3,635,371**	**3,399,088**	**3,089,950**
Net interest income	**6,108,114**	**6,305,683**	**6,120,004**	**5,653,601**
Provision for loan losses	**494,000**	**270,000**	**246,000**	**222,000**
Noninterest income	**862,584**	**824,045**	**829,616**	**923,976**
Noninterest expense	**3,824,553**	**4,053,021**	**4,082,991**	**4,033,878**
Income before provision for income taxes	**2,652,145**	**2,806,707**	**2,620,629**	**2,321,699**
Provision for income taxes	**939,038**	**970,214**	**891,938**	**789,377**
Net income	**$1,713,107**	**$1,836,493**	**$1,728,691**	**$1,532,322**
Basic earnings per share	**$ 0.17**	**$ 0.18**	**$ 0.17**	**$ 0.15**
Diluted earnings per share	**$ 0.16**	**$ 0.17**	**$ 0.17**	**$ 0.15**

	2006			
	Fourth	Third	Second	First
Interest income	$8,448,531	$7,906,899	$7,149,441	$6,516,400
Interest expense	2,896,191	2,560,813	1,951,543	1,714,738
Net interest income	5,552,340	5,346,086	5,197,898	4,801,662
Provision for loan losses	90,000	90,000	—	—
Noninterest income	830,016	853,808	799,597	914,458
Noninterest expense	3,830,364	3,800,453	3,604,487	3,710,437
Income before provision for income taxes	2,461,992	2,309,441	2,393,008	2,005,683
Provision for income taxes	840,019	789,886	818,898	685,782
Net income	$1,621,973	$1,519,555	$1,574,110	$1,319,901
Basic earnings per share	$ 0.16	$ 0.16	$ 0.18	$ 0.16
Diluted earnings per share	$ 0.16	$ 0.16	$ 0.17	$ 0.16

Chesapeake/Suffolk

Robert G. Bagley
Retired, Bank of Hampton Roads
Joseph P. Barreca, MD
Retired Vascular Surgeon
Phil L. Black
Century 21 First Colony Realty
The Honorable Harry B. Blevins
State Senator
James S. Creekmore
Creekmore Hardware
William B. Cross
Ashdon Builders, Inc.
Durwood S. Curling
Retired Executive Director Southeastern Public Service Authority
Christopher H. Falk
Attorney at Law
Rodney L. Foster
Rodney Foster Construction
Jack W. Gibson
Hampton Roads Bankshares, Inc.
Erik P. Gordon
Attorney at Law
Charles G. Hackworth Sr.
Hackworth Reprographics, Inc.
Martin W. Holton
Forrest Septic Tank Contractors, Inc.
H. Lynn Keffer
Crossroads Fuel, Inc.
Robert R. Kinser
Basnight, Kinser, Telfeyan, Leftwich & Nuckolls, P.C.
Garnett W. Lane
Cutting Edge Watersports, Inc.
Patricia S. Lawrence
Lawrence Pharmacy, Inc.
Robert G. MacDonald
MacDonald, Plumlee & Overton
Richard H. Matthews
Pender & Coward, P.C.
Thomas F. May
Vexon Chemicals, Inc.
Rev. James W. McNeil
McNeil Bus Service
Davis R. Mellott
Southeastern Equipment Corporation
Philip V. Miller
Virginia Door, Inc.
Herbert Mitchell Jr.
Mitchell's Complete Upholstery, Inc.
JoAnn H. Nesson
John C. Holland Enterprises
John R. Newhart
Sheriff, City of Chesapeake
Hugo A. Owens Jr.
The Nia Corp.
Roderick L. Pierce
Retired, Bank of Hampton Roads
Jeffrey P. Powell MD, DDS
Chesapeake Ear, Nose & Throat Associates, P.C.
Richard G. Pretlow
Pretlow & Sons Funeral Home
Bobby L. Ralph
Former Director of Social Services, City of Suffolk
Robert C. Rhoads
Hoffman Industries, Inc.
Adrian T. Robertson
Allied Concrete Products, LLC
Clay Robertson
Robertson Insurance Agency / WBR Insurance Agency
Willard F. Robins III
Willard F. Robins, III, CPA, PC
Judson H. Rodman
Rodman's Bar-B-Que
James R. Rountree
Rountree Construction Co., Inc.
James F. Russell Sr.
Supreme Petroleum, Inc./ Holiday Foods/Holiday Ice, Inc.
R. Curtis Saunders Jr.
Vico Construction Corporation
David L. Schloff
Great Bridge Servicenter, LLC
J. Wayne Scott
Frank E. Sheffer & Co.
Clifton D. Sipe
Atlantic Coastal Clearing & Grading, Inc.
Roland Carroll Smith Sr.
Hearndon Construction Corp.
Robert B. Speight
Greenway Farms, Ltd.
Elizabeth F. St. John
First District Court Service Unit, City of Chesapeake
Gayle F. Upchurch
Civic Leader
Jeffrey A. Valentine
Valentine & Bruns, Inc.
Emil A. Viola
Vico Construction Corporation
Pat E. Viola
Vico Construction Corporation
Patricia C. Whitehurst
Civic Leader
Gilbert J. Wirth Jr.
Prentis, LLC
Constantine L. Zinovis
Restauranteur

Virginia Beach

Eric C. Anderson
Lakeside Construction Corporation
E. Lee Boyce III
Boyce-Widener, Ltd.
B. G. Campbell
Community Group, Inc.
William N. Dozier
Dozier Tire and Auto Center
Jack W. Gibson
Hampton Roads Bankshares, Inc.
Izaak D. Glasser
Glasser & Macon, P.C.
Douglas J. Glenn
Hampton Roads Bankshares, Inc.
Stephen M. Gunther
Attorney & Counselor at Law
Herman A. Hall III
Hallmark Development, LLC
John Katsias
Katsias Company
David E. Kellam
Kellam & Eaton, Inc.
Pete O. Kotarides
The Kotarides Companies
James W. Lam
Attorney & Counselor at Law
Michael A. Leanzo
Mid-Atlantic Coatings, Inc.
James D. Marx
Broadbay Cotton
Gary L. Minson
1-800 SKILLED.COM
Townsend Oast
Retired Past President of Virginia Bankers Association
Robert L. Samuel Jr.
Williams Mullen
Norris W. Shirley
Retired Farmer
Kenneth R. Sims
Custom Stone Company, Inc.
Kevin R. Sims
Custom Stone Company, Inc.
Cynthia W. Snyman
Slip-Free Systems of Virginia
Leo Thomas
Ron Zoby Tours
Jeffrey M. Tourault
Atlantic Foundations, Inc.
Robert A. Widener
Ainslie-Widener, Inc.
Benjamin J. Willis III
Willis Furniture Company, Inc.
Patricia M. Windsor
Retired, Lakeside Construction Corporation

Norfolk

Warren L. Aleck
Retired President, Great Bridge Foods, Inc. t/a Earle's Markets
G. Ray Bunch Jr.
Budget Rent A Car
Stuart H. Buxbaum
S&E Builders
Elaine Czohara
Adams Outdoor Advertising
Edward A. Fiorella
Norfolk Sheriff's Office
Leigh Anne Folkes
Hassell & Folkes, P.C.
Jack W. Gibson
Hampton Roads Bankshares, Inc.
Robert A. Goldwasser
Sysco Foods of Hampton Roads
L. Steve Gossett
Virginia Auto Rental, Inc.
Donald M. Koble
Virginia Auto Rental, Inc.
Robert J. McCabe
Sheriff, City of Norfolk
Yale Nesson
AARD Screenprinters & Embroidery
Robert H. Powell III
Kaufman & Canoles, P.C.
Robert F. Sharak
Hampton Roads Partnership
Jordan E. Slone
Harbor Group International
Donald Stakes
Discount Plumbing, Inc.
George Stenke
Investor
Jonathon L. Thornton
Pierce & Thornton, PLC
Neal S. Windley
Habitat for Humanity
W. Lewis Witt
Inner-View, Ltd.
W. Randy Wright
Randy Wright's Printing
Robert L. Young
Ryan Enterprises, Inc.
Michael P. Zarpas
Global Real Estate Investment

Board of Directors

Emil A. Viola

Chairman of the Board
Treasurer, Vico Construction Corporation

Jack W. Gibson

President and Chief Executive Officer, Hampton Roads Bankshares, Inc.

Douglas J. Glenn

Executive Vice President and General Counsel, Hampton Roads Bankshares, Inc.

Herman A. Hall, III

Managing Member,
Hallmark Development, LLC

Robert R. Kinser

Attorney at Law,
Basnight, Kinser, Telfeyan, Leftwich & Nuckolls, P.C.

Bobby L. Ralph

Former Director of Social Services,
City of Suffolk

Jordan E. Slone

Chairman and Chief Executive Officer,
Harbor Group International

Roland Carroll Smith, Sr.

President and Chief Executive Officer,
Hearndon Construction Corporation

Patricia M. Windsor

Retired, Secretary-Treasurer,
Lakeside Construction Corporation

W. Lewis Witt

Owner,
Inner-View, Ltd.

Executive Officers

Jack W. Gibson

President and
Chief Executive Officer

Julie R. Anderson

Executive Vice President and
Chief Credit Officer

Donald W. Fulton, Jr.

Senior Vice President and
Chief Financial Officer

Douglas J. Glenn

Executive Vice President and
General Counsel

Tiffany K. Glenn

Senior Vice President,
Marketing Officer and
Corporate Secretary

Gregory P. Marshall

Executive Vice President and
Commercial Loan Officer

Reneé R. McKinney

Senior Vice President and
Branch Administrator

FINANCIAL INFORMATION

Shareholders, analysts and investors seeking financial information about the Company, including copies of Form 10-K filed with the Securities and Exchange Commission, may contact:

Donald W. Fulton, Jr.

Senior Vice President and Chief Financial Officer
Hampton Roads Bankshares, Inc.
999 Waterside Drive, Suite 200
Norfolk, VA 23510
(757) 217-1000

STOCK INFORMATION

The Company's common stock trades under the symbol "HMPR" on the NASDAQ Global Select Market. Stock inquiries should be directed to:

Transfer Agent

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016
1-800-368-5948

MARKET MAKERS

Archipelago Stock Exchange
Automated Trading Desk Financial Services, LLC
Carr Securities Corp.
Citadel Derivatives Group LLC Citigroup
Global Markets Inc.
Domestic Securities, Inc.
E* Trade Capital Markets LLC
Ferris, Baker Watts Inc.
Fig Partners, LLC
Hudson Securities, Inc.
Keefe, Bruyette & Woods, Inc.
Knight Equity Markets, L.P.
McAdams Wright Ragen Inc.
McKinnon & Company, Inc.
Monroe Securities Inc.
Morgan, Keegan & Company, Inc.
Nasdaq Execution Services
National Stock Exchange
Scott & Stringfellow, Inc.
Seaboard Securities, Inc.
Stifel, Nicolaus & Company, Inc.
UBS Securities LLC
Wedbush Morgan Securities Inc.

WEB SITE ADDRESS
www.bankofhamptonroads.com

WEB SITE ADDRESS www.bankofhamptonroads.com

999 Waterside Drive, Suite 200 • Norfolk, Virginia 23510 • 757.217.1000
www.bankofhamptonroads.com

Section 5: EX-21.1 (SUBSIDIARIES)

Exhibit 21.1

Subsidiaries of the Registrant

Bank of Hampton Roads, a Virginia corporation, is a wholly owned subsidiary of Hampton Roads Bankshares, Inc.
(1) Bank of Hampton Roads Service Corporation, a Virginia corporation, is a wholly owned subsidiary of Bank of Hampton Roads.

Hampton Roads Investments, Inc., a Virginia corporation, is a wholly owned subsidiary of Hampton Roads Bankshares, Inc.

Hampton Roads Bankshares, Inc. owns a 19% interest in Tidewater Home Funding, LLC which was organized in Virginia.

Hampton Roads Bankshares, Inc. owns an 11% interest in Davenport Financial Fund, LLC which was organized in Virginia.

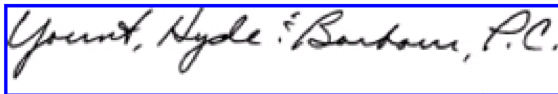
Hampton Roads Bankshares, Inc. owns a 4% interest in Bankers Investment Group, LLC which was organized in Virginia.

Section 6: EX-23.1 (CONSENT OF YOUNT HYDE & BARBOUR)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (No. 333-84304) on Form S-3 and (No. 333-64346, No. 333-134583, and No. 333-139968) on Form S-8 of Hampton Roads Bankshares, Inc. and subsidiaries of our report dated March 5, 2008, relating to our audit of the consolidated financial statements and internal control over financial reporting, which appears in the Annual Report to shareholders, which is incorporated in this Annual Report on Form 10-K of Hampton Roads Bankshares Inc. for the year ended December 31, 2007.



Winchester, Virginia
March 10, 2008

Section 7: EX-23.2 (CONSENT OF KPMG)

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Hampton Roads Bankshares, Inc.

We consent to the incorporation by reference in the Registration Statements (No. 333-84304) on Form S-3 and (No. 333-64346, No. 333-134583, and No. 333-139968) on Form S-8 of Hampton Roads Bankshares, Inc. of our report dated March 1, 2007, with respect to the consolidated balance sheet of Hampton Roads Bankshares, Inc. and subsidiaries as of December 31, 2006, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2006, which report appears in the December 31, 2007 annual report on Form 10-K of Hampton Roads Bankshares, Inc. Our report refers to the Company's adoption of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, on January 1, 2006.

/s/ KPMG LLP

Norfolk, Virginia
March 11, 2008

Section 8: EX-31.1 (CERTIFICATION)

Exhibit 31.1

Certifications under Section 302 of the Sarbanes-Oxley Act of 2002

Certification of Chief Executive Officer

I, Jack W. Gibson, certify that:

1. I have reviewed this Annual Report on Form 10-K of Hampton Roads Bankshares, Inc. for the period ended December 31, 2007;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2008

/s/ Jack W. Gibson
Jack W. Gibson
President and Chief Executive Officer

Section 9: EX-31.2 (CERTIFICATION)

Exhibit 31.2

Certification of Chief Financial Officer

I, Donald W. Fulton, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K of Hampton Roads Bankshares, Inc. for the period ended December 31, 2007;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined

in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2008

/s/ Donald W. Fulton, Jr.
Donald W. Fulton, Jr.
Senior Vice President and Chief Financial Officer

Section 10: EX-32.1 (CERTIFICATIONS)

Exhibit 32.1

Certification under Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of Hampton Roads Bankshares, Inc. (the "Company") for the period ended December 31, 2007 to be filed with the Securities and Exchange Commission ("Report"), we, Jack W. Gibson, Chief Executive Officer, and Donald W. Fulton, Jr., Chief Financial Officer, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

(a) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jack W. Gibson
Jack W. Gibson
Chief Executive Officer
Date: March 11, 2008

/s/ Donald W. Fulton, Jr.
Donald W. Fulton, Jr.
Chief Financial Officer
Date: March 11, 2008

Section 11: EX-99.1 (KPMG REPORT)

Exhibit 99.1

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Hampton Roads Bankshares, Inc.:

We have audited the accompanying consolidated balance sheet of Hampton Roads Bankshares, Inc. and subsidiaries (the Company) as of December 31, 2006, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our

responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hampton Roads Bankshares, Inc. and subsidiaries as of December 31, 2006, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1(l) to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, on January 1, 2006.

/s/ KPMG LLP

Norfolk, Virginia
March 1, 2007