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

BANK OF THE JAMES FINANCIAL GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Commission file number 000-50548

Virginia **(State or Other Jurisdiction of Incorporation or Organization)**	**20-0500300** **(I.R.S. Employer Identification No.)**
828 Main Street, Lynchburg, VA **(Address of Principal Executive Offices)**	**24504** **(Zip Code)**

(434) 846-2000
(Issuer's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act: None
Securities registered under Section 12(g) of the Exchange Act: Common Stock, $2.14 par value

Indicate by check mark if the registrant is a well-know 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 Section13 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 Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

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

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

The aggregate value of the voting common equity held by nonaffiliates as of June 29, 2007, the last business day of the registrant’s most recently completed second fiscal quarter, was approximately $37,294,000 based on the price at which the common stock last sold on such day. This price reflects inter-dealer prices without retail mark up, mark down, or commissions, and may not represent actual transactions.

The number of shares outstanding of Common Stock, $2.14 par value as of March 14, 2008 was approximately 2,553,078.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 2008 Proxy Statement for the Annual Meeting of Shareholders, scheduled to be held on May 20, 2008, are incorporated by reference into Part III of this Form 10-K

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Part I

Item 1. Business

Overview and History

Bank of the James Financial Group, Inc. (“Financial”) is a bank holding company with its headquarters in Lynchburg, Virginia. Financial was incorporated at the direction of Bank of the James (the “Bank”) on October 3, 2003 to serve as a bank holding company of the Bank. Financial acquired all of the shares of the Bank in a statutory share exchange on a one-for-one basis on January 1, 2004. In addition to the Bank, Financial wholly-owns BOTJ Investment Group, Inc. (“Investment Group”) through which we offer brokerage, fixed and variable annuity products, and related services to the public through a third party broker-dealer. These two entities are our only subsidiaries and primary assets.

The Bank is a Virginia banking corporation headquartered in Lynchburg, Virginia. The Bank was incorporated under the laws of the Commonwealth of Virginia as a state chartered bank in 1998 and began banking operations in July 1999. The Bank was organized to engage in general retail and commercial banking business.

The Bank was organized in part as a response to the loss of many of the Central Virginia, Region 2000 area’s (as defined in below) local financial institutions through mergers with larger, non-local banks and bank holding companies. The organizers perceived that local customers who once relied on experienced personal attention were being forced to use 800 numbers, computerized menus, and persons in other localities who were not familiar with their needs.

The Bank opened for business on July 22, 1999 to fill this void left in the Region 2000 market. The Bank’s organizers recognized that an opportunity existed to create a banking institution designed exclusively for a market that expected personalized service. The idea was to build a financial institution staffed with experienced professionals who would place a high value on knowing their customers and serving their distinctive banking needs.

The Bank was capitalized by more than 2,400 shareholders that wanted a new local bank. These investors provided the initial customer base and are integral to the success of the Bank. Management believes that the key to the Bank’s success lies in providing Bank customers with personalized service while providing products and services that meet their banking needs.

The Bank’s principal office is located at 828 Main Street, Lynchburg, Virginia 24504 and its telephone number is (434) 846-2000. The Bank also maintains a website at www.bankofthejames.com.

Location and Market Area

The Bank’s market area primarily consists of Region 2000, which encompasses the seven jurisdictions of the Town of Altavista, Amherst County, Appomattox County, the City of Bedford, Bedford County, Campbell County, and the City of Lynchburg. Region 2000 supports a diverse, well-rounded economy. U.S. Routes 29, 60, 221, 460 and 501 and State Routes 24 and 40 all pass through the trade area and provide efficient access to other regions of the state. Regional airport service and rail service provide additional transportation channels.

Total population in the market area equals approximately 230,000. According to U.S. Census estimates, in 2005 the populations of the localities in the Region 2000 market area were approximately as follows: City of Lynchburg – 65,113; Amherst County – 31,894; Appomattox County – 13,967; Bedford County (including the City of Bedford) – 65,286; Campbell County (including the Town of Altavista) – 52,339. The area is serviced by one daily newspaper and a number of radio and television stations providing diverse media outlets. Median family income has continued to increase in Region 2000 during the past ten years.

Region 2000 has a broad range of services, light industry, and manufacturing plants. Principal service, industrial, research and development employers include: BWX Technologies, Inc. (nuclear fuel); AREVA (nuclear services); Centra Health, Inc. (health care services); C.B. Fleet, Inc. (medical supplies); Genworth Financial (life insurance and other financial products); Frito-Lay, Inc. (snack foods); Lynchburg Foundry Company (castings); R.R. Donnelley Printing Inc. (printed products); as well as six colleges including Randolph College, Sweet Briar College, Liberty University, and Lynchburg College.

Competition

The banking business is highly competitive. We compete with other commercial banks, savings institutions, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds and other financial institutions operating in the Region 2000 market area and elsewhere. Many of our nonbank competitors are not subject to the same extensive federal regulations that govern federally-insured banks and state regulations governing state chartered banks. As a result, such nonbank competitors may have certain advantages over the Bank in providing certain services.

Virginia law permits statewide branching by banks. Consequently, the Bank's market area is a highly competitive, highly branched banking market. Competition in the market area for loans to individuals, small businesses, and professional concerns, the Bank's target market, is keen, and pricing is important. Most of the Bank's competitors have substantially greater resources and lending limits than the Bank and offer certain services, such as extensive and established branch networks and trust services, that the Bank is not currently providing. Moreover, larger institutions operating in the Region 2000 market area have access to borrowed funds at a lower cost than presently available to the Bank. Deposit competition is strong and comes from institutions in the market, U.S. Government securities, private issuers of debt obligations and suppliers of other investment alternatives for depositors, among other sources. As a result, the Bank has paid, and may in the future pay, above-market rates to attract deposits.

The adoption of legislation permitting nationwide interstate banking and branching and the use of financial holding companies may also increase competition in the Bank's market area. See "Supervision and Regulation of Financial" below.

Supervision and Regulation of Financial

General . As a bank holding company registered under the Bank Holding Company Act of 1956 (the "BHCA"), Financial is subject to regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). Financial is required to file with the Federal Reserve Board an annual report and such other additional information as the Federal Reserve Board may require pursuant to the BHCA. Financial must also provide the Virginia Bureau of Financial Institutions (the "Commission") with information regarding Financial and the Bank. The Federal Reserve Board and the Commission may also examine Financial and the Bank.

The Federal Reserve Board has jurisdiction under the BHCA to approve any bank or non-bank acquisition, merger or consolidation proposed by a bank holding company. The BHCA generally limits the activities of a bank holding company and its subsidiaries to that of banking, managing or controlling banks, or any other activity that is so closely related to banking or to managing or controlling banks as to be a proper incident thereto.

Since September 1995, the BHCA has permitted bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including nationwide and state imposed concentration limits. Banks are also able to branch across state lines, provided certain conditions are met, including that applicable state laws expressly permit such interstate branching. Virginia has adopted legislation that permits branching across state lines, provided there is reciprocity with the state in which the out-of-state bank is based.

Financial is also subject to the periodic reporting requirements of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), including the filing with the Securities and Exchange Commission (the “SEC”) of annual, quarterly and other reports on the financial condition and performance of the organization. As a reporting company under the Exchange Act, Financial is directly affected by the recently enacted Sarbanes-Oxley Act of 2002 (the “SOx”), which is aimed at improving corporate governance and reporting procedures and requires expanded disclosure of Financial’s corporate operations and internal controls. Financial intends to be in compliance with any applicable rules and regulations as they become effective. Management anticipates that compliance with SOx will be costly. The new legislation and its implementing regulations will potentially lead to an increase in certain outside professional costs.

The Federal Reserve Board requires a bank holding company to act as a source of financial strength and to take measures to preserve and protect its bank subsidiaries. Financial would be compelled by the Federal Reserve Board to invest additional capital in the event the Bank experiences either significant loan losses or rapid growth of loans or deposits.

Capital Requirements . The Federal Reserve Board (“FRB”) had adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the BHCA. The FRB’s capital adequacy guidelines are similar to those imposed on the Bank by the FRB. See “Regulation of the Bank – Capital Requirements.”

Limits on the Payment of Dividends . Financial is a legal entity, separate and distinct from the Bank. A significant portion of Financial’s revenues will be from dividends paid to it by the Bank. Both Financial and the Bank are subject to laws and regulations that limit the payment of dividends, including requirements to maintain capital at or above regulatory minimums. Banking regulators have indicated that Virginia banking organizations should generally pay dividends only (1) from net undivided profits of the bank, after providing for all expenses, losses, interest and taxes accrued or due by the bank and only (2) if the prospective rate of earnings retention appears consistent with the organization’s capital needs, asset quality and overall financial condition. In particular, under the current supervisory practices of the Federal Reserve Board, prior approval from the Federal Reserve Board and a supermajority of the Bank’s shareholders is required if cash dividends declared in any given year exceed net income for that year plus retained earnings of the two preceding years. In addition, under the FDIA, insured depository institutions such as the Bank are prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become “undercapitalized” (as such term is used in the statute).

Regulation of the Bank

The Bank is subject to various state and federal banking laws and regulations that impose specific requirements or restrictions on and provide for general regulatory oversight with respect to virtually all aspects of its operations. The following is a brief summary of the material provisions of certain statutes, rules and regulations that will affect the Bank. This summary is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below.

General . The Bank is under the supervision of, and subject to regulation and examination by, the Federal Reserve Board, and the State Corporation Commission of Virginia Bureau of Financial Institutions (the “Commission”). As such, the Bank is subject to various statutes and regulations administered by these agencies that govern, among other things, required reserves, investments, loans, lending limits, acquisitions of fixed assets, interest rates payable on deposits, transactions among affiliates and the Bank, the payment of dividends, mergers and consolidations, and establishment of branch offices.

The earnings of the Bank are affected by general economic conditions, management policies and the legislative and governmental actions of the various regulatory authorities, including those referred to above.

Insurance of Accounts, Assessments and Regulation by the FDIC . The Bank is a Virginia chartered commercial bank and a member of the Federal Reserve System. Its deposit accounts are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation up to the maximum legal limits of the FDIC and it is subject to regulation, supervision and regular examination by the Virginia Bureau of Financial Institutions and the Federal Reserve. The regulations of these various agencies govern most aspects of the Bank's business, including required reserves against deposits, loans, investments, mergers and acquisitions, borrowings, dividends and location and number of branch offices. The laws and regulations governing the Bank generally have been promulgated to protect depositors and the deposit insurance funds, and not for the purpose of protecting shareholders.

The FDIC has adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities. The system assesses higher rates on those institutions that pose greater risks to the Deposit Insurance Fund (the "DIF"). The FDIC places each institution in one of four risk categories using a two-step process based first on capital ratios (the capital group assignment) and then on other relevant information (the supervisory group assignment). Within the lower risk category, Risk Category I, rates will vary based on each institution's CAMELS component ratings, certain financial ratios, and long-term debt issuer ratings.

Capital group assignments are made quarterly and an institution is assigned to one of three capital categories: (1) well capitalized; (2) adequately capitalized; and (3) undercapitalized. These three categories are substantially similar to the prompt corrective action categories described above, with the "undercapitalized" category including institutions that are undercapitalized, significantly undercapitalized and critically undercapitalized for prompt corrective action purposes. The FDIC also assigns an institution to one of three supervisory subgroups based on a supervisory evaluation that the institution's primary federal banking regulator provides to the FDIC and information that the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds. Assessments range from 5 to 43 cents per $100 of deposits, depending on the institution's capital group and supervisory subgroup. Institutions that are well capitalized will be charged a rate between 5 and 7 cents per $100 of deposits.

The FDIC may terminate its insurance of deposits if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

The Bank is a member of the DIF and pays its deposit insurance assessments to the DIF.

Capital Requirements . The various federal bank regulatory agencies, including the Federal Reserve Board, have adopted risk-based capital requirements for assessing bank capital adequacy. In addition, Virginia chartered banks must also satisfy the capital requirements adopted by the Commission. The federal capital standards define capital and establish minimum capital requirements in relation to assets and off-balance sheet exposure, as adjusted for credit risk. The risk-based capital standards currently in effect are designed to make regulatory capital requirements more sensitive to differences in risk profiles among bank holding companies and banks, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Under these guidelines, assets and off-balance sheet items are assigned to broad risk categories, with each multiplied by one of several risk adjustment percentages. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

The minimum requirement for the ratio of total capital to risk-weighted assets (including certain off-balance sheet obligations, such as stand-by letters of credit) for a bank to be “adequately capitalized” is 8.0%. At least half of the risk-based capital must consist of stockholders’ equity (including retained earnings) and qualifying noncumulative preferred stock, less deductions for goodwill and various other intangibles (“Tier 1 capital”). The remainder (“Tier 2 capital”) generally consists of a limited amount of subordinated debt, certain hybrid capital instruments and other debt securities, preferred stock and a limited amount of the general valuation allowance for loan losses. No element of Tier 1 or Tier 2 capital may contain covenants, terms, or restrictions that are inconsistent with sound banking practices. The sum of Tier 1 capital and Tier 2 capital is “total risk-based capital.” The Tier 1 and total capital to risk-weighted asset ratio of the Bank as of December 31, 2007 and December 31, 2006 was 10.97% and 9.09%, respectively, exceeding the minimums required.

The Federal Reserve Board also has adopted regulations that supplement the risk-based guidelines to include a minimum leverage ratio of Tier 1 capital to quarterly average assets (“Leverage ratio”) of 3.0%. The Federal Reserve Board has emphasized that the foregoing standards are supervisory minimums and that a banking organization will be permitted to maintain such minimum levels of capital only if it receives the highest rating under the regulatory rating system and the banking organization is not experiencing or anticipating significant growth. Such banks are expected to maintain capital ratios well above minimum levels. All other banking organizations are required to maintain a Leverage ratio of at least 4.0% to 5.0% of Tier 1 capital. These rules further provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain capital positions substantially above the minimum supervisory levels and comparable to peer group averages, without significant reliance on intangible assets. The tangible Tier 1 Leverage ratio is the ratio of a banking organization’s Tier 1 capital, less deductions for intangibles otherwise includable in Tier 1 capital to total tangible assets. The Leverage ratio of the Bank as of December 31, 2007 and 2006 was 8.96% and 7.66%, respectively, exceeding the minimums required.

Further, the Federal Reserve Board and other federal banking agencies have adopted regulations to ensure that banks with significant exposure to market risk maintain adequate capital to support that exposure. Under these rules, the Federal Reserve Board must explicitly include a bank’s exposure to declines in the economic value of its capital due to changes in interest rates as a factor in evaluating a bank’s capital adequacy.

Mergers and Acquisitions . The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 authorizes the Federal Reserve Board to permit adequately capitalized and adequately managed bank holding companies to acquire all or substantially all of the assets of an out-of-state bank or bank holding company, subject to certain conditions, including nationwide and state concentration limits. Banks also are able to branch across state lines, provided certain conditions are met, including that applicable state law must expressly permit such interstate branching. Virginia law permits branching across state lines, provided there is reciprocity with the state in which the out-of-state bank is based.

Financial Modernization . On November 12, 1999, financial modernization legislation known as the Gramm-Leach-Bliley Act (the “Act”) was signed into law. The Act, which was effective March 11, 2000, permits bank holding companies to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. A bank holding company may become a financial holding company by filing a declaration that the bank holding company wishes to become a financial holding company if each of its subsidiary banks (i) is well capitalized under regulatory prompt corrective action provisions, (ii) is well managed, and (iii) has at least a satisfactory rating under the Community Reinvestment Act (“CRA”). No regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board.

The Act defines “financial in nature” to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Board has determined to be closely related to banking. Subsidiary banks of a financial holding company must continue to be well capitalized and well managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions, which could include divestiture of the financial in nature subsidiary or subsidiaries. In addition, a financial holding company or a bank may not acquire a company that is engaged in activities that are financial in nature unless each of the subsidiary banks of the financial holding company or the bank has a CRA rating of satisfactory or better.

Although the above laws may have a significant impact on the banking industry by promoting, among other things, competition, it is not possible for the management of the Bank to determine, with any degree of certainty, the impact of such laws on the Bank.

Community Reinvestment Act . The Bank is also subject to the requirements of the CRA. The CRA imposes on financial institutions an affirmative and ongoing obligation to meet the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. Each financial institution’s efforts in meeting community credit needs currently is evaluated as part of the examination process pursuant to a number of assessment factors. These factors also are considered in evaluating mergers, acquisitions and applications to open branches.

Safety and Soundness . The federal banking agencies have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institutions in question are “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” or “critically undercapitalized,” all such terms are defined under uniform regulations defining such capital levels issued by each of the federal banking agencies.

On December 19, 1991, the FDICIA was enacted into law. FDICIA requires each federal banking regulatory agency to prescribe, by regulation or guideline, standards for all insured depository institutions and depository institution holding companies relating to (i) internal controls, information systems and audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; (vi) compensation, fees and benefits; and (vii) such other operational and managerial standards as the agency determines to be appropriate. The compensation standards would prohibit employment contracts or other compensatory arrangements that provide excess compensation, fees or benefits or could lead to material financial loss. In addition, each federal banking regulatory agency must prescribe, by regulation or guideline, standards relating to asset quality, earnings and stock valuation as the agency determines to be appropriate. The federal banking agencies, including the Federal Reserve Board, have adopted regulations concerning standards for safety and soundness required to be prescribed by regulation pursuant to Section 39 of the FDIA. In general, the standards relate to (1) operational and managerial matters; (2) asset quality and earnings; and (3) compensation. The operational and managerial standards cover (a) internal controls and information systems, (b) internal audit systems, (c) loan documentation, (d) credit underwriting, (e) interest rate exposure, (f) asset growth, and (g) compensation, fees and benefits.

Activities and Investments of Insured State-Chartered Banks . The activities and equity investments of FDIC-insured, state-chartered banks are generally limited to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank is not prohibited from, among other things, (i) acquiring or retaining a majority interest in a subsidiary, (ii) investing as a limited partner in a limited partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank’s total assets, (iii) acquiring up to 10% of the voting stock of a company that solely provides or reinsures directors’, trustees’ and officers’ liability insurance coverage or bankers’ blanket bond group insurance coverage for insured depository institutions, and (iv) acquiring or retaining the voting shares of a depository institution if certain requirements are met. In addition, an insured state-chartered bank may not, directly, or indirectly through a subsidiary, engage as “principal” in any activity that is not permissible for a national bank unless the FDIC has determined that such activities would pose no risk to the insurance fund of which it is a member and the bank is in compliance with applicable regulatory capital requirements. Any insured state-chartered bank directly or indirectly engaged in any activity that is not permitted for a national bank must cease the impermissible activity.

Regulatory Enforcement Authority . Applicable banking laws include substantial enforcement powers available to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions, including the filing of misleading or untimely reports with regulatory authorities, may provide the basis for enforcement action.

USA Patriot Act . The USA Patriot Act became effective on October 26, 2001 and provides for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering. Among other provisions, the USA Patriot Act permits financial institutions, upon providing notice to the United States Treasury, to share information with one another in order to better identify and report to the federal government concerning activities that may involve money laundering or terrorists’ activities. The USA Patriot Act is considered a significant banking law in terms of information disclosure regarding certain customer transactions. Although it does create a reporting obligation, the Bank does not expect the USA Patriot Act to materially affect its products, services or other business activities.

Reporting Terrorist Activities . The Federal Bureau of Investigation (“FBI”) has sent, and will send, our banking regulatory agencies lists of the names of persons suspected of involvement in the September 11, 2001, terrorist attacks on New York City and Washington, DC. The Bank has been asked, and may be asked again, to search its records for any relationships or transactions with persons on those lists. If the Bank finds any relationships or transactions, it must file a suspicious activity report and contact the FBI. The Office of Foreign Assets Control (“OFAC”), which is a division of the Department of the Treasury is responsible for helping to ensure that United States entities do not engage in transactions with “enemies” of the United States, as defined by various Executive Orders and Acts of Congress. OFAC has sent, and will send, our banking regulatory agencies lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account, file a suspicious activity report and notify the FBI. The Bank has appointed an OFAC compliance officer to oversee the inspection of its accounts and the filing of any notifications. The Bank actively checks high-risk OFAC areas such as new accounts, wire transfers and customer files. The Bank performs these checks utilizing software, which is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons.

Mortgage Banking Regulation . The Bank’s mortgage banking division is subject to the rules and regulations of, and examination by the Department of Housing and Urban Development (“HUD”), the Federal Housing Administration (the “FHA”), the Department of Veteran Affairs and state regulatory authorities with respect to originating, processing, servicing and selling mortgage loans. Those rules and regulations, among other things, establish standards for loan origination, prohibit discrimination, provide for inspections and appraisals of property, require credit reports on prospective borrowers and, in some cases, restrict certain loan features, and fix maximum interest rates and fees. In addition to other federal laws, mortgage origination activities are subject to the Equal Credit Opportunity Act, Truth-in-Lending Act, Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, and the Home Ownership Equity Protection Act, and the regulations promulgated thereunder. These laws prohibit discrimination, require the disclosure of certain basic information to mortgagors concerning credit and settlement costs, limit payment for settlement services to the reasonable value of the services rendered and require the maintenance and disclosure of information regarding the disposition of mortgage applications based on race, gender, geographical distribution and income level.

Banking Products and Services

The Bank currently conducts business from seven full-service offices. Four of the full-service offices are located in Lynchburg, Virginia, one full-service location is located in Madison Heights, Virginia, one is located in the Town of Amherst, Virginia and one is located in Forest, Virginia. The Bank established a mortgage loan origination division that conducts business under the name “Bank of the James Mortgage, a Division of Bank of the James.” The mortgage division conducts business primarily from the division’s main office located in the Forest branch of the Bank and an office located in Moneta, Virginia.

Deposit Services . Deposits are a major source of our funding. The Bank offers a full range of deposit services that are typically available in most banks and savings and loan associations including checking accounts, savings accounts and other time deposits of various types, ranging from daily money market accounts to longer-term certificates of deposit. The transaction accounts and time certificates are tailored to the Bank’s market area at rates competitive to those offered in the area. In addition, the Bank offers its customers Individual Retirement Accounts (IRAs). All deposit accounts are insured by the Federal Deposit Insurance Corporation (the “FDIC”) up to the maximum amount allowed by law (generally, $100,000 per depositor, subject to aggregation rules). The Bank solicits such accounts from individuals, businesses, associations and organizations, and governmental authorities.

Lending Services . The Bank offers a full range of short- to medium-term commercial and consumer loans. Our primary focus is on making loans to small businesses and consumers in the Region 2000 market area. In addition, we also provide a wide range of real estate finance services. Our primary lending activities are principally directed to our primary market area in the Region 2000 area. Commercial loans include both secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements), and purchase of equipment and machinery. Consumer loans include secured and unsecured loans for financing automobiles, home improvements, education and personal investments. Additionally, the Bank originates fixed and floating-rate mortgage loans and real estate construction and acquisition loans. Where appropriate, the Bank attempts to limit interest rate risk through the use of variable interest rates and terms of less than five years.

In general, the Bank offers the following lending services:

Commercial Business Lending. We make loans to small- and medium-sized businesses in Region 2000 for purposes such as purchases of equipment, facilities upgrades, inventory acquisition and various working capital purposes.

Real Estate Construction . We make commercial and residential construction and development loans to customers in our market area.

Commercial Real Estate Mortgage . We grant loans to borrowers secured by commercial real estate. In underwriting these types of loans we consider the historic and projected future cash flows of the real estate.

Consumer . We offer various types of secured and unsecured consumer loans, including personal loans, lines of credit, overdraft lines of credit, automobile loans, installment loans, demand loans, and home equity loans. We make consumer loans primarily for personal, family or household purposes.

Loan Participations . We sell loan participations in the ordinary course of business when a loan originated by us exceeds our legal lending limit or we otherwise want to share risk with another bank. We also purchase loan participations from time to time from other banks in the ordinary course of business, usually without recourse against that bank. Purchased loan participations are underwritten in accordance with our loan policy and represent a source of loan growth.

Consumer Residential Mortgage Origination . The Bank, through Bank of the James Mortgage, a Division of Bank of the James (the “Mortgage Division”) originates consumer residential mortgage loans. Through the Mortgage Division, the Bank originates conforming and non-conforming home mortgages primarily in the Region 2000 area. As part of the Bank’s overall risk management strategy, the loans originated and closed by the Mortgage Division are pre-sold to major mortgage banking or other financial institutions and at no time are such loans carried on the Bank’s balance sheet.

Other Services . Other services offered by the Bank include safe deposit boxes, travelers checks, direct deposit of payroll and social security checks, automatic drafts for various accounts, and credit card merchant services. The Bank also has become associated with a shared network of automated teller machines (ATMs) that may be used by Bank customers throughout Virginia and the United States. The Bank operates a deposit pick-up service (under the name “Business Partners Program”) pursuant to which the Bank will pick-up the non-cash deposits of its business customers as needed, up to once daily.

The Bank intends to introduce new products and services desired by the public and as permitted by the regulatory authorities or desired by the public. The Bank remains committed to meeting the challenges that require technology. The Bank provides its customers with access to the latest technological products, such as telephone banking and internet banking, including on-line bill pay. This service allow customers to handle routine transactions using a standard touch tone telephone and via the internet at the Bank’s website.

Brokerage and Investment Services

We provide brokerage and investment services through our Investment Group subsidiary. Investment Group provides securities brokerage services to Bank customers and others through an agreement with Community Bankers’ Securities, LLC (“CB Securities”), a registered broker-dealer. We began providing these services on April 4, 2006. Under our agreement, CB Securities will operate service centers in one or more branches of the Bank. Currently, the only center is located in the Church Street branch. Given the relatively short operating history of Investment Group, to date the results of Investment Group have not had a material impact on our financial performance.

Employees

As of March 14, 2008, we had approximately 108 full-time equivalent employees. None of our employees are represented by any collective bargaining agreements, and relations with employees are considered excellent. We maintain employee benefit programs that include health insurance, a flexible spending account, and a 401(k) plan.

Item 1A. Risk Factors

In addition to other information set forth in this report, the following factors should be considered carefully in evaluating our business.

Risks Related to Our Business

The markets for our services are highly competitive and we face substantial competition . The banking business is highly competitive. We compete as a financial intermediary with other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms soliciting business from residents of and businesses located in Lynchburg, Virginia and surrounding areas and elsewhere. Many of these competing institutions have greater resources than we have. Specifically, many of our competitors enjoy competitive advantages, including greater financial resources, a wider geographic presence or more accessible branch office locations, the ability to offer additional services, greater marketing resources, more favorable pricing alternatives, and lower origination and operating costs. We are also subject to lower lending limits than our larger competitors. Increased competitive pressures have been one effect of the Gramm-Leach-Bliley Act. This competition could result in a decrease in loans we originate and could negatively affect our results of operations.

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

We have a limited operating history upon which to base any estimate of our future success . We and our subsidiaries have limited operating histories. As a consequence, there is limited historical financial information on which to base any estimate of our future performance. The financial statements presented in this report may not be as meaningful as those of a company which has a longer history of operations. Because of our limited operating history, you may not have access to the type and amount of information that would be available to a shareholder of a financial institution with a more extended operating history.

Opening new branches may not result in increased assets or revenues for us . As set forth below, we are considering opening additional branches over the next 18 months (see "Management's Discussion and Analysis – Expansion Plans"). The investment necessary for these branch expansions may negatively impact our earnings and efficiency ratio. There is a risk that we will be unable to manage our growth, as the process of opening new branches may divert our time and resources. There is a risk that, if we do open these branches, they may not be profitable, which would negatively impact our results of operations. There is also risk that we may fail to open any additional branches.

Our plans for future expansion depend, in some instances, on factors beyond our control, and an unsuccessful attempt to achieve growth could have a material adverse effect on our business, financial condition, results of operations and future prospects . We expect to continue to engage in new branch expansion in the future. We may also seek to acquire other financial institutions, or parts of those institutions, though we have no present plans in that regard. Expansion involves a number of risks, including:

- the time and costs of evaluating new markets, hiring experienced local management and opening new offices;
- the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- our entrance into new markets where we lack experience; and
- the introduction of new products and services with which we have no prior experience into our business.

We could suffer loan losses from a decline in credit quality . We could sustain losses if borrowers, guarantors, and related parties fail to perform in accordance with the terms of their loans. We have adopted underwriting and credit monitoring procedures and policies, including the establishment and review of the allowance for loan losses that we believe are appropriate to minimize this risk by assessing the likelihood of nonperformance, tracking loan performance, and diversifying our credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could materially adversely affect our results of operations.

Additional growth may require us to raise additional capital in the future, and capital may not be available when it is needed, which could adversely affect our financial condition, and results of operations . We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate our capital resources are sufficient to satisfy our capital requirements for the foreseeable future. We may at some point, however, need to raise additional capital to support our continued growth. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations could be materially impaired.

If the value of real estate in our core market were to decline materially, a significant portion of our loan portfolio could become under-collateralized, which could have a material adverse effect on our business, financial condition and results of operations . With most of our loans concentrated in the Region 2000 areas surrounding Lynchburg, Virginia, a decline in local economic conditions could adversely affect the values of our real estate collateral. Consequently, a decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are more geographically diverse.

In addition to considering the financial strength and cash flow characteristics of borrowers, we often secure loans with real estate collateral . At December 31, 2007, approximately 82% of our loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the teamwork and increased productivity fostered by our culture, which could harm our business . We believe that a critical contributor to our success has been our corporate culture, which we believe fosters teamwork and increased productivity. As our organization grows and we are required to implement more complex organizational management structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our future success.

If we fail to retain our key employees, our growth and profitability could be adversely affected . Our success is, and is expected to remain, highly dependent on our executive management team, consisting of Robert R. Chapman III, J. Todd Scruggs, and Martin E. Waltemyer. This is particularly true because, as a community bank, we depend on our management team’s ties to the community to generate business for us. Our growth will continue to place significant demands on our management, and the loss of any such person’s services may have an adverse effect upon our growth and profitability.

As a community bank, the Bank has different lending risks than larger banks. We provide services to our local communities . Our ability to diversify our economic risks is limited by our own local markets and economies. We lend primarily to small to medium-sized businesses, professionals, and individuals which may expose us to greater lending risks than those of banks lending to larger, better-capitalized businesses with longer operating histories.

We manage our credit exposure through careful monitoring of loan applicants and loan concentrations in particular industries, and through loan approval and review procedures . We have established an evaluation process designed to determine the adequacy of our allowance for loan losses. While this evaluation process uses historical and other objective information, the classification of loans and the establishment of loan losses is an estimate based on experience, judgment, and expectations regarding our borrowers, the economies in which we and our borrowers operate, as well as the judgment of our regulators. We cannot assure you that our loan loss reserves will be sufficient to absorb future loan losses or prevent a material adverse effect on our business, financial condition, or results of operations.

Risks Related to Our Industry

Our profitability is vulnerable to interest rate fluctuations . Our profitability depends substantially upon our net interest income. Net interest income is the difference between the interest earned on assets, such as loans and investment securities, and the interest paid on liabilities, such as NOW accounts, savings accounts, time deposits and other borrowings. Market interest rates for loans, investments and deposits are highly sensitive to many factors beyond our control. Recently, interest rate spreads have generally narrowed due to changing market conditions, policies of various government and regulatory authorities and competitive pricing pressures, and we cannot predict whether these rate spreads will narrow further. This narrowing of interest rate spreads could adversely affect our financial condition and results of operations. In addition, we cannot predict whether interest rates will continue to remain at present levels. Changes in interest rates may cause significant changes, up or down, in our net interest income. Depending on our portfolio of loans and investments, our results of operations may be adversely affected by changes in interest rates.

We are subject to extensive regulation that could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business, which limitations or restrictions could adversely affect our profitability . As a bank holding company, we are primarily regulated by the Board of Governors of the Federal Reserve System ("Federal Reserve"). The Bank is primarily regulated by the Federal Reserve and the Virginia Bureau of Financial Institutions ("BFI"). Our compliance with Federal Reserve and the BFI regulations is costly and may limit our growth and restrict certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capital requirements by our regulators.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes on our business and profitability . Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, our cost of compliance could adversely affect our ability to operate profitably.

The costs of being a public company are proportionately higher for small companies like us due to the requirements of the Sarbanes-Oxley Act . The Sarbanes-Oxley Act of 2002 and the related rules and regulations promulgated by the Securities and Exchange Commission have increased the scope, complexity, and cost of corporate governance, reporting, and disclosure practices. Many of these regulations are applicable to our company. We expect to experience increasing compliance costs, including costs related to internal controls and the requirement that our auditors attest to and report on management's assessment of our internal controls, as a result of the Sarbanes-Oxley Act. These necessary costs are proportionately higher for a company of our size and will affect our profitability more than that of some of our larger competitors.

Changes in monetary policies may have an adverse effect on our business, financial condition and results of operations . Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the Federal Reserve Board. Actions by monetary and fiscal authorities, including the Federal Reserve Board, could have an adverse effect on our deposit levels, loan demand or business and earnings.

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Item 1B. Unresolved Staff Comments

Not applicable

Item 2. Properties

Current Locations and Property

As of December 31, 2007 the Bank conducted its banking business from seven locations, its mortgage origination services business primarily from two locations, and its investment services business primarily from one location.

Depending on such factors as cost, availability, and location, we may either lease or purchase our facilities. The existing facilities that we have purchased typically have been former branches of other financial institutions. We own 4 of our locations and lease 4 of our locations. The following table describes the location and general character of our facilities:

Address	Type of Facility	Year Opened	Owned/Leased
5204 Fort Avenue Lynchburg, Virginia	Full service branch with drive thru and ATM		Owned
4698 South Amherst Highway Madison Heights, Virginia	Full service branch with drive thru and ATM		Owned
17000 Forest Road Forest, Virginia	Full service branch with drive thru and ATM Headquarters for Mortgage Division		Owned
164 South Main Street Amherst, Virginia	Full service branch with drive thru and ATM		Owned
828 Main Street Lynchburg, Virginia	Corporate Headquarters; Full service branch with ATM		Leased (1)
615 Church Street Lynchburg, Virginia	Full service branch with drive thru and ATM Headquarters for Investment Group		Leased (2)

4935 Boonsboro Road, Suites C and D Lynchburg, Virginia	Full service branch with drive thru and ATM	Leased (3)
14662 Moneta Road, Suite A Moneta, Virginia	Mortgage Banking Office	Leased (4)

(1) Base lease expires July 31, 2014. We have one or more renewal options that we may exercise at our discretion subject to the terms and conditions outlined in the lease.
(2) Base lease expires August 31, 2009.
(3) Base lease expires December 31, 2010. We have one or more renewal options that we may exercise at our discretion subject to the terms and conditions outlined in the lease.
(4) Base lease expires September 30, 2009. We have one or more renewal options that we may exercise at our discretion subject to the terms and conditions outlined in the lease.

We believe that each of these operating facilities are maintained in good operating condition and are suitable for our operational needs.

In addition, the Bank may evaluate the feasibility of entering into sale/leaseback agreements for certain branches.

Interest in Additional Properties

As discussed in "Management's Discussion and Analysis—Expansion Plans" in addition to the facilities set forth above, the Bank has purchased the following properties:

- Unimproved real property located off of Independence Boulevard in the City of Bedford, Virginia; and
- Real property and improvements thereto located in the Timberlake Road area of Campbell County (Lynchburg), Virginia.

We anticipate using these properties for future expansion. None of these properties currently are suitable for its intended use as a branch bank. Each of these properties will require upfit prior to being placed in service.

Management of the Bank continues to look for and evaluate additional locations for future branch growth and will consider opening an additional branch in the next 12 months if a suitable location is available on acceptable terms. The opening of all additional branches is contingent on the receipt of regulatory approval.

We will use the internet, consistent with applicable regulatory guidelines, to augment our growth plans. We currently offer online account access, bill payment, and account management functions through our website.

Item 3. Legal Proceedings

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

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

No matters were submitted to vote to the security holders of Financial during the quarter ended December 31, 2007.

PART II

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

Market Prices and Dividends

The Common Stock of Financial is quoted on the Over the Counter Bulletin Board (OTCBB) under the symbol "BOJF ("BOJF.OB" on some systems). The volume of trading of shares of Common Stock has not been extensive. Prior to January 2, 2004, the common stock of the Bank was traded on the OTCBB under the symbol BOTJ. The following table sets forth the quarterly high and low bid prices for each quarter in fiscal 2007 and 2006 for Financial and was obtained from the OTC Bulletin Board (www.otcbb.com — "Trading Activity Reports").

	Market Prices and Dividends (1)		
	Sales Price ($)		
	High	Low	Dividends ($)
Fiscal 2007			
First Quarter	19.00	17.51	0.00
Second Quarter	20.75	16.50	0.00
Third Quarter	18.10	14.04	0.00
Fourth Quarter	15.65	12.05	0.00
Fiscal 2006			
First Quarter	25.00	18.15	0.00
Second Quarter	21.25	18.05	0.00
Third Quarter	20.50	18.05	0.00
Fourth Quarter	19.00	18.00	0.00

The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

As of March 14, 2008 (the most recent date available), the Common Stock traded for $13.00 per share. As of March 14, 2008, there were approximately 2,553,078 shares of Common Stock outstanding, which shares are held by approximately 2,951 shareholders of record. Neither Financial nor the Bank prior to the formation of Financial has declared or paid a cash dividend on its Common Stock.

Dividend Policy

The Company's future dividend policy is subject to the discretion of its Board of Directors and will depend upon a number of factors, including future earnings, financial condition, liquidity and capital requirements of both the Company and the Bank, applicable governmental regulations and policies and other factors deemed relevant by its Board of Directors.

The Company is organized under the Virginia Stock Corporation Act, which prohibits the payment of a dividend if, after giving it effect, the corporation would not be able to pay its debts as they become due in the usual course of business or if the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved, to satisfy the preferential rights upon dissolution of any preferred shareholders.

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The Company is a legal entity separate and distinct from its subsidiaries. Its ability to distribute cash dividends will depend primarily on the ability of the Bank to pay dividends to it, and the Bank is subject to laws and regulations that limit the amount of dividends that it can pay. As a state member bank, the Bank is subject to certain restrictions imposed by the reserve and capital requirements of federal and Virginia banking statutes and regulations. For a discussion of these restrictions, see “Supervision and Regulation of Financial – Limits on the Payment of Dividends.”

The Bank generated start-up losses in its beginning years; as such the organization had negative retained earnings and was not able to pay cash dividends until recently. Although Financial’s retained earnings are now positive, cash dividends are not planned at this time. Financial intends to follow a policy of keeping retained earnings, if any, for the purpose of increasing net worth and reserves of the Bank during its initial years of operation in order to promote the Bank’s growth and ability to compete in its market area. As a result, Financial does not anticipate paying a cash dividend on its Common Stock in 2008.

Stock Repurchases

On October 1, 2007 the Board of Directors of Financial authorized a stock repurchase program which calls for the repurchase of up to 25,000 shares of its common stock on or before September 30, 2008. The shares reported in the table as shares that may be repurchased under the plan represent shares eligible for the calendar year 2007. The repurchases are to be made from time to time in the open market as conditions allow and will be structured to comply with Commission Rule 10b-18. Management reports monthly to the Board of Directors on the status of the repurchase program. The Board of Directors has reserved the right to suspend, terminate, modify or cancel this repurchase program at any time for any reason. The following table lists shares repurchased during the quarter ended December 31, 2007 and the maximum amount available to repurchase under the repurchase plan.

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
Month # 1 October 1 through October 31, 2007	—	n/a	—	25,000
Month # 2 November 1 through November 30, 2007	280	13.28	280	24,720
Month # 3 December 1 through December 31, 2007	1,285	12.29	1,285	23,155
Total	1,565	12.46	1,565	23,155

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes information concerning Financial's equity compensation plans at December 31, 2007. All figures have been adjusted to reflect the 10% stock dividend declared on May 15, 2007 and paid on July 24, 2007 as well as all prior stock dividends declared by Financial. All outstanding stock options have been issued under plans approved by shareholders.

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in First Column)
Equity compensation plans approved by shareholders - 1999 Stock Option Plan of Bank of the James Financial Group, Inc.	299,984	$ 9.51	10,643
Equity compensation plans not approved by shareholders	N/A	N/A	N/A
Total	299,984	9.51	10,643

Recent Sales of Unregistered Securities

None.

Item 6. Selected Financial Data

Not applicable.

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

YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

The following discussion is intended to assist readers in understanding and evaluating our financial condition and results of operations. You should read this discussion in conjunction with our financial statements and accompanying notes included elsewhere in this report. Because Bank of the James Financial Group, Inc. ("Financial") has no material operations and conducts no business other than the ownership of its two subsidiaries, Bank of the James and BOTJ Investment Group, Inc., the discussion primarily concerns the business of these two subsidiaries. However, for ease of reading and because our financial statements are presented on a consolidated basis, references to "we," "us," or "our" refer to Financial, Bank of the James, and BOTJ Investment Group, Inc. as appropriate. The comparison of operating results for Financial between the years ended December 31, 2007 and 2006 should be read in the context of both the size and the relatively short operating history of the Bank.

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Overview

Financial is a bank holding company headquartered in Lynchburg, Virginia. We conduct our primary operations through two wholly-owned subsidiaries, Bank of the James (which we refer to as the "Bank") and BOTJ Investment Group, Inc. (which we refer to as the "Investment Group").

The Bank is a Virginia banking corporation headquartered in Lynchburg, Virginia. The Bank was incorporated under the laws of the Commonwealth of Virginia as a state chartered bank in 1998 and began banking operations in July 1999. Investment Group was incorporated under the laws of the Commonwealth of Virginia in 2006 and began providing securities brokerage services to the public in April 2006. It conducts its business primarily from one office located in the City of Lynchburg.

Although we intend to increase other sources of revenue, our operating results depend primarily upon the Bank's net interest income, which is determined by the difference between (i) interest and dividend income on earning assets, which consist primarily of loans, investment securities and other investments, and (ii) interest expense on interest-bearing liabilities, which consist principally of deposits and other borrowings. The Bank's net income also is affected by its provision for loan losses, as well as the level of its non-interest income, including loan fees and service charges, and its non-interest expenses, including salaries and employee benefits, occupancy expense, data processing expenses, miscellaneous other expenses, franchise taxes, and income taxes.

For the year ended December 31, 2007, net income was $2,084,000, an increase of $319,000 from $1,765,000 for year ended December 31, 2006. The increase in earnings resulted from a 20.7% increase in interest income and an 18.9% increase in non-interest income. For the year ended December 31, 2007, net income per share increased to $0.82 per basic share ($0.78 diluted) from $0.80 per basic share ($0.75 diluted) for the year ended December 31, 2006.

Net interest income increased in large part as a result of the growth in average interest-earning assets, specifically loans. The increase is attributable to fees derived from increased mortgage origination volume, revenue from the Bank's investment in a title insurance company, as well as commissions on investments offered through Investment Group. Non-interest expense increased in 2007 as compared to 2006 because of increases in personnel expense, outside expense, and other operating expenses resulting from the growth of the Bank's branch network.

Total assets as of December 31, 2007 were $270,060,000 compared to $232,709,000 at the end of 2006, an increase of $37,351,000 or 16.1%. Loans, net of unearned income and loan loss provision, increased from $187,469,000 as of December 31, 2006 to $224,022,000 as of the end of December 31, 2007, an increase of 19.5%. Management expects that the current level of equity capital will allow the Bank, among other things, to continue to grow its loan portfolio.

Financial experienced net interest margin compression during 2007 as a result of increased competition for deposits, price sensitive deposit customers and the inverted treasury yield curve that created higher short-term rates. The combination of these factors created a shift in the funding mix and an increased cost of funds. The net interest margin decreased 39 basis points to 4.18% for 2007, compared to 4.57% for 2006. For the fourth quarter of 2007, the net interest margin was 4.11%. Management expects the net interest margin to remain under pressure during the first and second quarters of 2008 because a significant amount of the Bank's fixed rate certificates of deposit will not reprice until later in 2008. However, the ability to attract lower cost funds, including noninterest-bearing deposits, and the shape of the yield curve will have a significant impact on future increases or decreases in net interest income.

Cautionary Statement Regarding Forward-Looking Statements

This report contains statements that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. The words “believe,” “estimate,” “expect,” “intend,” “anticipate,” “plan” and similar expressions and variations thereof identify certain of such forward-looking statements which speak only as of the dates on which they were made. Financial undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those indicated in the forward-looking statements as a result of various factors. Such factors include, but are not limited to competition, general economic conditions, potential changes in interest rates, and changes in the value of real estate securing loans made by the Bank.

Stock Dividends

On January 17, 2006, Financial declared a 25% stock dividend (or 5 for 4 split), which was paid on March 10, 2006 to shareholders of record on February 10, 2006. On May 15, 2007, Financial declared a 10% stock dividend, which was paid on July 24, 2007 to shareholders of record on June 19, 2007. Except as otherwise described in this report, all share amounts and dollar amounts per share in this report with regard to the common stock have been adjusted to reflect these and all prior stock dividends.

Critical Accounting Policies

Financial’s financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The financial information contained within our statements is, to a significant extent, based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. The Bank uses historical loss factors as one factor in determining the inherent loss that may be present in the loan portfolio. Actual losses could differ significantly from the historical factors that the Bank uses in estimating risk. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of Financial’s transactions would be the same, the timing of events that would impact the transactions could change.

The allowance for loan losses is management’s estimate of the losses that may be sustained in our loan portfolio. The allowance is based on two basic principles of accounting: (i) SFAS No. 5, “Accounting for Contingencies,” which requires that losses be accrued when they are probable of occurring and are reasonably estimable and (ii) SFAS No. 114, “Accounting by Creditors for Impairment of a Loan,” which requires that losses on impaired loans be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance. Guidelines for determining allowances for loan losses are also provided in the SEC Staff Accounting Bulletin No. 102 – “Selected Loan Loss Allowance Methodology and Documentation Issues” and the Federal Financial Institutions Examination Council’s interagency guidance, “Interagency Policy Statement on the Allowance for Loan and Lease Losses” (the “FFIEC Policy Statement”). See “Management Discussion and Analysis Results of Operations – Allowance for Loan Losses and Loan Loss Reserve” below for further discussion of the allowance for loan losses.

Because Financial has a relatively short operating history, historical trends alone do not provide sufficient information to judge the adequacy of the allowance for loan losses. Therefore, management considers industry trends, peer comparisons, as well as individual classified impaired loans, in addition to historical experience to evaluate the allowance for loan losses. Our method for determining the allowance for loan losses is discussed more fully under “Provision and Allowance for Loan Losses for the Bank” below.

Results of Operations

Year ended December 31, 2007 compared to year ended December 31, 2006

Net Income

The net income for Financial for the year ended December 31, 2007 was $2,084,000 or $0.82 per basic and $0.78 per diluted share compared with net income of $1,765,000 or $0.80 per basic and $0.75 per diluted share for the year ended December 31, 2006. Note 10 of the Audited Financial Statements provides additional information with respect to the calculation of Financial's earnings per share.

The increase of $319,000 in 2007 net income compared to 2006 net income was due in large part to the following factors: i) additional interest earned as a result of an increase in the size of the loan portfolio, Financial's primary method of investment; and ii) an increase in non-interest income. The increase was negatively impacted by i) a decrease in net interest margin as a result of maturing certificates of deposit renewing at higher rates, ii) an increase in personnel expenses and occupancy expenses related to our expansion as well as an increase in outside expenses.

Our loan loss provision was $451,000 for the year ended December 31, 2007 as compared with a loan loss provision of $630,000 for the year ended December 31, 2006. This decrease resulted from application of the Bank's impairment review, as required by SFAS 114, and an analysis of historical loss percentages, as required by SFAS 5, both of which are discussed in more detail below, performed in accordance with FFIEC Policy Statement discussed under "Critical Accounting Policies," above. Although as of December 31, 2007 the Bank had loans in excess of $1,246,000 classified as non-performing, management believes the additional impairment on these loans will be immaterial due to the fact that the anticipated losses associated with these loans have been provided for in the allowance for loan loss.

These operating results represent a return on average shareholders' equity of 9.10% for the year ended December 31, 2007 compared to 11.35% for the year ended December 31, 2006. Return on average assets for the year ended December 31, 2007 was 0.84% compared to 0.85% in 2006.

Net Interest Income

The fundamental source of Financial's earnings, net interest income, is defined as the difference between income on earning assets and the cost of funds supporting those assets. The significant categories of earning assets are loans, federal funds sold, and investment securities, while deposits, fed funds purchased, and other borrowings represent interest-bearing liabilities. The level of net interest income is impacted primarily by variations in the volume and mix of these assets and liabilities, as well as changes in interest rates when compared to previous periods of operation.

Net interest income for 2007 increased $884,000 to $9,880,000 or 9.83% from net interest income of $8,996,000 in 2006. The growth in net interest income was due to an increase in average interest-earning assets which was the result of growth in the loan portfolio funded by the growth in deposits. The net interest margin decreased to 4.18% in 2007 from 4.57% in 2006. The average rate on earning assets increased 3 basis points from 7.46% in 2006 to 7.49% in 2007 and the average rate on interest-bearing liabilities increased from 3.46% in 2006 to 4.06% in 2007. Although management cannot predict with certainty future interest rate decisions by the FOMC, management believes that the rates being offered on both loans and deposits can be adjusted to maintain an acceptable spread between the average rate the Bank receives on assets and the average rate that the Bank pays on liabilities.

Interest income increased to $17,715,000 for the year ended December 31, 2007 from $14,680,000 for the year ended December 31, 2006. This increase was due to an increase in the amount of interest earning assets, including loans and investment securities.

Interest expense increased to $7,835,000 for the year ended December 31, 2007 from $5,684,000 for the year ended December 31, 2006. This increase in interest expense was primarily due to both an increase in the aggregate balance in interest bearing deposit accounts and, in response to the interest rate increases by the FOMC during the first nine months of 2007. In addition, interest expense increased in part because of a growth in certificate of deposits, which paid increased interest rates in response to competition. The Bank expects its interest expense to begin to decrease slightly throughout the first and second quarters of 2008 as maturing certificates of deposit renew and reprice at lower rates.

The following table illustrates average balances of total interest earning assets and total interest bearing liabilities for the periods indicated, showing the average distribution of assets, liabilities, stockholders' equity and related revenue, expense and corresponding weighted average yields and rates. The average balances used in this table and other statistical data were calculated using average daily balances.

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Net Interest Margin Analysis
Average Balance Sheets
For the Twelve Months Ended December 31, 2007, 2006 and 2005

	2007			2006			2005		
	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid
ASSETS									
Loans, including fees	$207,772	$16,259	7.83%	$167,840	$13,280	7.91%	$149,387	$10,904	7.30%
Federal funds sold	973	49	5.04%	2,261	113	5.00%	1,879	58	3.09%
Securities	27,015	1,357	5.02%	25,778	1,240	4.81%	22,699	1,036	4.56%
Federal agency equities	810	50	6.17%	731	47	6.43%	622	30	4.82%
CBB equity	56	—	0.00%	56	—	0.00%	56	—	—
Total earning assets	236,626	17,715	7.49%	196,666	14,680	7.46%	174,643	12,028	6.89%
Allowance for loan losses	(2,162)			(1,988)			(1,575)		
Non-earning assets	14,901			12,717			10,702		
Total assets	$249,365			$207,395			$183,770		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Deposits									
Demand interest bearing	$ 42,964	$ 1,123	2.61%	$ 31,824	$ 814	2.56%	$ 18,915	$ 216	1.14%
Savings	12,572	193	1.54%	22,371	420	1.88%	44,440	858	1.93%
Time deposits	124,886	6,083	4.87%	101,486	4,224	4.16%	76,861	2,591	3.37%
Total interest bearing deposits	180,422	7,399	4.10%	155,681	5,458	3.51%	140,216	3,665	2.61%
Other borrowed funds									
Fed funds purchased	2,035	114	5.60%	715	39	5.45%	742	28	3.77%
Repurchase agreements	10,737	322	3.00%	7,694	187	2.43%	4,823	86	1.78%
Total interest-bearing liabilities	193,194	7,835	4.06%	164,090	5,684	3.46%	145,781	3,779	2.59%
Non-interest bearing deposits	33,237			27,316			23,953		
Other liabilities	631			437			207		
Total liabilities	227,062			191,843			169,941		
Stockholders' equity	22,303			15,552			13,829		
Total liabilities and Stockholders equity	$249,365			$207,395			$183,770		
Net interest earnings		$ 9,880			$ 8,996			$ 8,249	
Net interest margin			4.18%			4.57%			4.72%
Interest spread			3.43%			4.00%			4.29%

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	Volume and Rate (in thousands) Years Ending December 31, 2007			2006		
	Volume Effect	Rate Effect	Change in Income/ Expense	Volume Effect	Rate Effect	Change in Income/ Expense
Loans	$3,111	$(132)	$ 2,979	$1,417	$ 959	$ 2,376
Federal funds sold	(65)	1	(64)	14	41	55
Securities	61	56	117	145	59	204
Federal agency equities	5	(2)	3	6	11	17
CBB equity	—	—	—	—	—	—
Total earning assets	3,112	(77)	3,035	1,582	1,070	2,652
Liabilities:						
Demand interest bearing	293	16	309	212	386	598
Savings	(161)	(66)	(227)	(416)	(22)	(438)
Time deposits	1,068	791	1,859	943	690	1,633
Fed funds purchased	74	1	75	(1)	12	11
Repurchase agreements	85	50	135	63	38	101
Total interest-bearing liabilities	$1,359	$ 792	$ 2,151	$ 800	$1,105	$ 1,905
Change in net interest income	$1,753	$(869)	$ 884	$ 782	$ (35)	$ 747

Non-Interest Income of Financial

Non-interest income has been and will continue to be an important factor for increasing our profitability. We recognize this and our management continues to review and consider areas where non-interest income can be increased. Non-interest income (excluding securities gains and losses) consists primarily of fees and charges on transactional deposit accounts, mortgage loan origination fees, distributions from a title insurance agency in which we have an ownership interest, and fees generated by the investment services of Investment Group.

The Bank, through Bank of the James Mortgage, a Division of Bank of the James (the “Mortgage Division”) originates both conforming and non-conforming consumer residential mortgage loans primarily in the Region 2000 area. As part of the Bank’s overall risk management strategy, all of the loans originated and closed by the Mortgage Division are presold to mortgage banking or other financial institutions. The Mortgage Division assumes no credit or interest rate risk on these mortgages.

Effective April 4, 2006, Investment Group began providing securities brokerage services to Bank customers and others. Investment Group provides the services through an agreement with Community Bankers’ Securities, LLC (“CB Securities”), a registered broker-dealer. Under this agreement, CB Securities will operate service centers in one or more branches of the Bank. The centers will be staffed by dual employees of Investment Group and CB Securities. Investment Group receives commissions on transactions generated and in some cases ongoing management fees such as mutual fund 12b-1 fees. Due to the relatively short operating history of Investment Group, its financial impact on the consolidated financials of Financial has been immaterial. Although management cannot predict the financial impact of Investment Group with certainty, management anticipates it will continue to be a growing component of non-interest income in 2008.

Non-interest income increased to $2,710,000 (exclusive of $41,000 on gains from sales of securities) in 2007 from $2,307,000 (exclusive of $7,000 on gains from sales of securities) in 2006. The following table summarizes our non-interest income for the periods indicated.

	Non-Interest Income (dollars in thousands) At December 31, 2007	2006
Service charges and fees	$ 504	$ 627
Mortgage loan origination fees, net of commission	1,345	1,230
Investment service fees	520	150
Equity earnings from title insurance	68	89
Other	273	211
Non-interest income	2,710	2,307
Gaims on sales of available-for-sale securities	41	7
Total non-interest income	$ 2,751	$ 2,314

The increase in non-interest income for 2007 was due to an increase in fees generated by Investment Group as well as an increase in mortgage loan origination fees. The increase was offset in part by a decrease in service charges on an increased number of deposit accounts. 2007 was Investment Group's first full year of operation. In 2007, Investment Group increased its revenue as a direct result of increased transactions for its customers. For the year ended December 31, 2007, Investment Group accounted for 2.54% of Financial's total income as compared with 0.88% of Financial's total income for the year ended December 31, 2006. During 2007, mortgage loan volume continued to be strong, driven in part by an increase in home purchases, an increase in average home prices and mortgage refinancing of adjustable rate mortgages to conventional mortgages stimulated by continued low interest rates on longer term conventional mortgages, as well as a reduced number of competitors. In addition, the Mortgage Division provides opportunities to establish many new banking relationships by providing more bank services and products to new customers. The Mortgage Division originated 416 mortgage loans, totaling $71,278,000 in 2007 as compared with 388 mortgage loans, totaling $59,487,000 during the year ended December 31, 2006. For the year ended December 31, 2007, the Mortgage Division accounted for 6.57% of Financial's total income as compared with 7.23% of Financial's total income for the year ended December 31, 2006.

For the year ended December 31, 2007 non-interest income represented 13.44% of Financial's total revenues, a slight decrease when compared to the figure of 13.62% for the prior year. One of Financial's goals is to continue to evaluate and identify new sources of non-interest income as well as enhance existing ones.

Non-Interest Expense of Financial

Non-interest expenses increased from $7,933,000 for the year ended December 31, 2006 to $9,019,000 for the year ended December 31, 2007. The following table summarizes our non-interest expense for the periods indicated.

Non-Interest Expense (dollars in thousands) At December 31,	2007	2006
Salaries and employee benefits	$ 4,756	$ 4,129
Occupancy	700	615
Equipment	840	828
Supplies	326	291
Professional, data processing and other outside expenses	1,135	1,003
Marketing	375	329
Credit expense	210	195
Loss on sale of assets	51	—
Other	626	543
Total non-interest expense	$ 9,019	$ 7,933

The increase in non-interest expense was due in large part to increase in personnel expenses as well as increases in occupancy and outside expenses, all of which are directly relate to our growth. Our total personnel expense, net of fees collected from borrowers to cover direct salary costs incurred in originating certain loans (in accordance with SFAS 91), increased to $4,756,000 for the year ended December 31, 2007, from $4,129,000 for the twelve months ended December 31, 2006. This increase was due in part to the hiring of additional personnel necessary to staff our expanded operations. In late 2006, the Bank hired personnel to staff its newly-opened branch in the Town of Amherst, Virginia. Compensation for some employees of the Mortgage Division and Investment Group is commission-based and therefore subject to fluctuation. Because of increased volume of business at both the Mortgage Division and Investment Group, commission compensation and the corresponding employee benefits increased in 2007. The Bank also had increases in depreciation expense, data processing fees, other operating expenses, all of which are related to the growth of the Bank.

Because of the costs associated with increased staffing at the newest branches, Financial's efficiency ratio (that is, the cost of producing each dollar of revenue) increased slightly from 70.14% in 2006 to 71.40% in 2007. Management intends that additional interest earning assets will help lower the efficiency ratio.

Analysis of Financial Condition

General

Our total assets were $270,060,000 at December 31, 2007, an increase of $37,351,000 or 16.1% from $232,709,000 at December 31, 2006, primarily due to a growth in the loan portfolio. Loans, net of unearned income and allowance, increased to $224,022,000 on December 31, 2007 from $187,469,000 on December 31, 2006. The increase in loans was funded by a growth in deposits from $201,789,000 on December 31, 2006 to $228,723,000 on December 31, 2007.

Loans

Our loan portfolio is the largest and most profitable component of our earning assets. The Bank has comprehensive policies and procedures which cover both commercial and consumer loan origination and management of credit risk. Loans are underwritten in a manner that focuses on the borrower's ability to repay. Management's goal is not to avoid risk, but to manage it and to include credit risk as part of the pricing decision for each product.

The Bank’s loan portfolio consists of commercial short-term lines of credit, term loans, mortgage financing and construction loans that are used by the borrower to build or develop real estate properties, and consumer loans. The consumer portfolio includes residential real estate mortgages, home equity lines and installment loans.

Loans, net of unearned income and allowance, increased to $224,022,000 on December 31, 2007 from $187,469,000 on December 31, 2006. Total loans increased to $226,168,000 on December 31, 2007 from $189,560,000 on December 31, 2006. These increases can be attributed in part to an interest rate environment that made borrowing attractive to the Bank’s customers, the Bank’s increased presence in the market, and the Bank’s reputation for service.

As of December 31, 2007, the Bank had $1,246,000 in non-accrual loans compared with $646,000 at December 31, 2006. The Bank continues to pursue an aggressive charge off policy that also yields loan recoveries.

The following table summarizes the composition of the Bank’s loan portfolio for the periods indicated by dollar amount:

	Loan Portfolio (in thousands) December 31,				
	2007	2006	2005	2004	2003
Commercial loans	$ 43,877	$ 36,082	$ 30,853	$ 35,163	$ 45,455
Real estate - construction	36,296	32,087	27,303	22,251	12,044
Real estate - residential	114,278	98,151	78,058	63,215	39,765
Installment and other	31,717	23,240	21,043	21,062	18,791
Total loans	226,168	189,560	157,257	141,691	116,055
Less allowance for loan losses	2,146	2,091	1,777	1,419	1,451
Net loans	$224,022	$187,469	$155,480	$140,272	$114,604

(1) From 2003 to 2004, certain loans previously classified as commercial were reclassified because real estate served as the primary collateral for such loans.

The following table sets forth the maturities of the loan portfolio at December 31, 2007.

	Remaining Maturities of Selected Loans *(dollars in thousands)* At December 31, 2007			
	Less than One Year	One to Five Years	Greater than Five Years	Total
Commercial, financial, and agricultural	$ 782	$ 32,340	$ 10,755	$ 43,877
Real estate - construction	165	34,243	1,888	36,296
Real estate - mortgage	660	30,891	82,727	114,278
Installment and other	—	9,675	22,042	31,717
Total	$ 1,607	$107,149	$ 117,412	$226,168

For maturities over one year:	
Fixed Rates	$ 91,621
Variable Rates	132,940
Total	$224,561

Deposits

We experienced strong deposit growth from $201,789,000 for the period ended December 31, 2006 to $228,723,000 at the end of the same period in 2007, for an increase of 13.4%. Non-interest-bearing deposits increased $801,000 or 2.3% from $34,172,000 at December 31, 2006 to $34,973,000 at December 31, 2007. Interest-bearing deposits increased $26,133,000 or 15.6% from $167,617,000 at December 31, 2006 to $193,750,000 at December 31, 2007. Additionally, the Bank's effort to increase non-FDIC insured sweep accounts (repurchase agreements) resulted in an increased balance in these accounts to $10,542,000 on December 31, 2007 from $8,450,000 on December 31, 2006.

	Average Deposits and Rates Paid *(dollars in thousands)* Year Ended December 31,					
	2007		2006		2005	
	Amount	Rate	Amount	Rate	Amount	Rate
Noninterest- bearing deposits	$ 33,237		$ 27,316		$ 23,953	
Interest -bearing deposits						
Interest checking	$ 11,879	1.45%	$ 10,510	1.45%	$ 8,075	0.97%
Money market	30,988	3.06%	21,284	3.11%	10,839	1.27%
Savings	12,669	1.55%	22,401	1.88%	44,441	1.93%
Time deposits						
Less than $100,000	86,428	4.82%	73,189	4.08%	56,389	3.28%
Greater than $100,000	38,458	4.99%	28,297	4.37%	20,472	3.63%
Total interest-bearing deposits	$180,422	4.10%	$155,681	3.51%	$140,216	2.61%
Total deposits	$213,659		$182,997		$164,169	

The following table includes a summary of average deposits and average rates paid and maturities of CDs greater than $100,000.

	Maturities of CD's Greater than $ 100,000 (in thousands)				
	Less than Three Months	Three to Six Months	Six to Twelve Months	Greater than One Year	Total
At December 31, 2007	$ 8,537	$6,464	$16,645	$11,838	$43,484

Cash and Cash Equivalents

Cash and cash equivalents decreased from $9,876,000 on December 31, 2006 to $4,314,000 on December 31, 2007. This decrease was due primarily to routine fluctuations in deposits and federal funds sold. These routine fluctuations in deposits, including fluctuations in transactional accounts and professional settlement accounts, contribute to variations in cash and cash equivalents. Federal funds sold decreased from $3,138,000 on December 31, 2006 to $0 on December 31, 2007. Management considers the amount of the decrease in federal funds sold to be part of the normal course of business and immaterial.

Investment Securities

The investment securities portfolio of the Bank is used as a source of income and liquidity. The portfolio of securities available-for-sale increased to $25,733,000 as of December 31, 2007 from $18,698,000 as of December 31, 2006.

Deposited funds are generally invested in overnight vehicles, including Federal funds sold, until approved loans are funded. The decision to purchase investment securities is based on several factors or a combination thereof, including:

a) The fact that yields on acceptably rated investment securities (S&P “A” rated or better) are significantly better than the overnight Federal funds rate;

b) Whether demand for loan funding exceeds the rate at which deposits are growing, which leads to higher or lower levels of surplus cash;

c) Management’s target of maintaining a minimum of 6% of the Bank’s total assets in a combination of Federal funds sold and investment securities (aggregate of available–for-sale and held-to-maturity portfolios); and

d) Whether the maturity or call schedule meets management’s asset/liability plan.

Available-for-sale securities (as opposed to held-to-maturity securities) may be liquidated at any time as funds are needed to fund loans. Liquidation of securities may result in a net loss or net gain depending on current bond yields available in the primary and secondary markets and the shape of the U.S. Treasury yield curve. Management is cognizant of its credit standards policy and does not feel pressure to maintain loan growth at the same levels as deposit growth and thus sacrifice credit quality in order to avoid security purchases.

Management has made the decision to maintain a significant portion of its available funds in liquid assets so that funds are available to fund future growth of the loan portfolio. Management believes that this strategy will allow us to maximize interest margins while maintaining appropriate levels of liquidity.

Securities held-to-maturity decreased from $7,494,000 as of December 31, 2006 to $6,494,000 as of December 31, 2007. This immaterial decrease resulted primarily from the call of one position. The decision to invest in securities held-to-maturity is based on the same factors as the decision to invest in securities available-for-sale except that management invests surplus funds in securities held-to-maturity only after concluding that such funds will not be necessary for liquidity purposes during the term of such security. However, the held-to-maturity securities may be pledged for such purposes as short term borrowings and as collateral for public deposits.

The balancing of the above factors along with the investment policy that management currently has in place contributed to the increase in the investment securities portfolio during 2007.

Securities available-for-sale increased $7,035,000 in 2007 to $25,733,000 from $18,698,000 at December 31, 2006. This increase is due to management's decision to invest a portion of surplus funds generated through increased deposits into longer term fixed income securities.

The following table summarizes the fair value of the Bank's securities portfolio for the periods indicated:

	Securities Portfolio *(in thousands)* At December 31,		
	2007	2006	2005
Held to Maturity			
U.S. agency obligations	$ 6,523	$ 7,343	$ 7,367
Available-for-sale			
U.S. agency obligations	15,083	15,714	13,736
Mortgage - backed securities	4,734	2,144	2,684
Municipals	2,523	840	—
Corporates	3,393	—	—
Total available-for-sale	$25,733	$18,698	$16,420

The following table shows the maturities of held-to-maturity and available-for-sale securities at amortized cost and market value at December 31, 2007 and approximate weighted average yields of such securities. Yields on state and political subdivision securities are not shown on a tax equivalent basis. Financial attempts to maintain diversity in its portfolio and maintain credit quality and repricing terms that are consistent with its asset/liability management and investment practices and policies. For further information on Financial's securities, see Note 4 to the consolidated financial statements included in Item 8 of this Form 10-K.

Securities Portfolio Maturity Distribution /Yield Analysis
(dollars in thousands)
At December 31, 2007

	Less than One Year	One to Five Years	Five to Ten Years	Greater than Ten Years and Other Securities	Total
Held-to-maturity:					
U.S. agency					
Amortized cost	$ —	$ 2,000	$ 500	$ 3,994	$ 6,494
Market value	$ —	$ 2,001	$ 501	$ 4,021	$ 6,523
Weighted average yield		4.00%	6.00%	6.04%	
Available-for-sale securities:					
U.S. agency					
Amortized cost	$ —	$ 4,994	$ 2,963	$ 6,997	$14,954
Market value	$ —	$ 5,034	$ 2,998	$ 7,051	$15,083
Weighted average yield		4.36%	5.34%	6.09%	
Mortgage backed securities					
Amortized cost	$ —	$ —	$ 1,440	$ 3,324	$ 4,764
Market value	$ —	$ —	$ 1,405	$ 3,329	$ 4,734
Weighted average yield			4.26%	5.61%	
Municipals					
Amortized cost	$ —	$ —	$ 1,659	$ 888	$ 2,547
Market value	$ —	$ —	$ 1,655	$ 868	$ 2,523
Weighted average yield			6.36%	6.27%	
Corporate					
Amortized cost	$ —	$ —	$ 2,442	$ 1,036	$ 3,478
Market value	$ —	$ —	$ 2,363	$ 1,030	$ 3,393
Weighted average yield			5.75%	7.93%	
Total portfolio					
Amortized cost	$ —	$ 6,994	$ 9,004	$ 16,239	$32,237
Market value	$ —	$ 7,035	$ 8,922	$ 16,299	$32,256
Weighted average yield		4.26%	5.11%	5.99%	

Liquidity

The liquidity of Financial depends primarily on the dividends paid to it by the Bank. Payment of cash dividends by the Bank is limited by regulations of the Federal Reserve Board and is tied to the regulatory capital requirements.

The objective of liquidity management for the Bank is to ensure the continuous availability of funds to meet the demands of depositors, investors and borrowers. Stable core deposits and a strong capital position are the components of a solid foundation for the Bank’s liquidity position.

Funding sources for the Bank primarily include paid-in capital and customer-based deposits but also include borrowed funds and cash flow from operations. The Bank has in place several agreements that will provide alternative sources of funding, including, but not limited to, lines of credit, sale of investment securities, purchase of federal funds, advances through the Federal Home Loan Bank and correspondents, and brokered certificate of deposit arrangements. Management believes that the Bank has the ability to meet its liquidity needs.

Capital Resources

Capital adequacy is an important measure of financial stability and performance. Management's objectives are to maintain a level of capitalization that is sufficient to sustain asset growth and promote depositor and investor confidence.

Regulatory agencies measure capital adequacy utilizing a formula that takes into account the individual risk profiles of financial institutions. The guidelines define capital as Tier 1 (primarily common stockholders' equity, defined to include certain debt obligations) and Tier 2 (remaining capital generally consisting of a limited amount of subordinated debt, certain hybrid capital instruments and other debt securities, preferred stock and a limited amount of the general valuation allowance for loan losses). The Bank's regulatory capital levels exceed those established for well-capitalized institutions. The following table (along with Note 14 of the Audited Financial Statements) shows the minimum capital requirements and the Bank's capital position as of December 31, 2007 and 2006.

Analysis of Capital for Bank of the James

	December 31, 2007	December 31, 2006
Tier 1 Capital:		
Common stock	$ 3,743	$ 4,323
Additional paid in capital	13,311	7,706
Retained earnings	6,981	4,914
Total Tier 1 Capital	$ 24,035	$ 16,943
Tier 2 Capital:		
Allowance for loan losses	2,145	2,091
Total Tier 2 Capital:	$ 2,145	$ 2,091
Total risk-based capital	$ 26,180	$ 19,034
Risk weighted assets	$219,180	$186,290
Average total assets	$268,187	$221,169

	December 31,		Regulatory Minimums	
	2007	2006	Capital Adequacy	Well Capitalized
Capital Ratios:				
Tier 1 risk-based capital ratio	10.97%	9.09%	4.00%	6.00%
Total risk-based capital ratio	11.94%	10.22%	8.00%	10.00%
Tier 1 capital to average total assets	8.96%	7.66%	4.00%	5.00%

The Bank was initially capitalized through a public offering of its common stock, $4.00 (split adjusted to $2.14) par value per share ("Common Stock"), at $10.00 per share, which concluded in February, 1999 and resulted in a capitalization of the Bank of $9,356,300. On December 22, 2006, Financial completed a follow-on offering pursuant to which it raised $5,147,000 (net of costs and expenses of $106,000). As a result of these two offerings and funds generated from operations, Financial currently has sufficient liquidity and capital with which to operate.

On February 1, 2007, Financial made a capital contribution of $5,000,000 from the proceeds of the follow-on offering to the Bank. The above table is as of December 31, 2006 and does not include this contribution. The above table sets forth the capital position and analysis for the Bank only. The capital ratios for the Company on a consolidated basis are comparable to the capital ratios of the Bank.

Stockholder's Equity

Stockholders' equity increased $2,593,000, or 11.8% from $21,931,000 on December 31, 2006 to $24,524,000 on December 31, 2007. This increase is attributable to a) an increase in retained earnings of $2,084,000 from Financial's operating income; b) proceeds of $294,000 received from the exercise of options by employees; and c) a decrease in the unrealized loss on securities available-for-sale.

Asset Quality

We perform monthly reviews of all delinquent loans and loan officers are charged with working with customers to resolve potential payment issues. We generally classify a loan as nonaccrual when it is deemed uncollectible or when the borrower has not made a payment in 90 days. We generally restore a loan if i) a borrower is no longer 90 days past due on the loan; and ii) management determines that a borrower has the capacity to repay the loan. We also classify other real estate owned (OREO) as a non performing asset. OREO, which is accounted for in the "other assets" section of the Statement of Financial Condition, represents real property owned by the Bank either through purchase at foreclosure or received from the borrower through a deed in lieu of foreclosure.

Asset quality remained strong in 2007. Non-accrual loans increased to $1,246,000 on December 31, 2007 from $646,000 on December 31, 2006. Management has provided for the anticipated losses on these loans in the loan loss reserve. OREO decreased to $0 on December 31, 2007 from $535,000 on December 31, 2006.

The amount allocated during the year to the provision for loan losses represents management's analysis of the existing loan portfolio and credit risks. Management's policy is to maintain the allowance for loan losses at a level sufficient to absorb the estimated losses inherent in the loan portfolio. Both the amount of the provision and the level of the allowance for loan losses are impacted by many factors, including general economic conditions, actual and expected credit losses, loan performance measures, historical trends and specific conditions of the individual borrower.

In performing its loan loss analysis, the Bank assigns one of the following risk categories to each commercial loan in the Bank's portfolio:

Risk Category	Classification
Risk 1	Excellent
Risk 2	Above Average
Risk 3	Satisfactory
Risk 4	Acceptable/Low Satisfactory
Risk 5	Special Mention
Risk 6	Sub-Standard
Risk 7	Doubtful
Risk 8	Loss

Management considers the following four components when calculating its loan loss reserve requirement:

- In accordance with SFAS 114, "Accounting by Creditors for Impairment of a Loan," the Bank performs an individual impairment analysis on all loans with a Risk Rating of 5 through 8. If the results of this analysis show no impairment, the Bank reserves between 0.75% and 2.00% of the principal balance of each loan to cover losses not recognized by the individualized impairment calculation.

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- In accordance with SFAS 5, “Accounting for Contingencies,” the Bank examines historical charge-off data by classification code in order to determine a portion of the reserve related to homogeneous pools. The Bank updates its historical charge-off data twice a year and adjusts the reserve accordingly. The Bank also adjusts the historical charge-off data based on the risk rated tiering system set forth above to more accurately reflect the Bank’s actual losses.
- The Bank applies various risk factors, including, for example, levels of trends in delinquencies, current and expected economic conditions, and levels of and trends in recoveries of prior charge-offs.
- The Bank applies factors to determine the method by which to allocate the unallocated reserve for inherent losses related to the loan pool, including, for example, loan concentrations, policy and procedure changes, national and local economic trends and conditions, and overall portfolio quality.

The Bank’s allowance for loan losses increased 2.63% from $2,091,000 on December 31, 2006 to $2,146,000 on December 31, 2007. This increase is reflective of the growth in the loan portfolio and resulted from application of the Bank’s commercial loan rating system and individual impairment calculations, as discussed above, as applied to the larger total loan portfolio. As of December 31, 2007 the allowance for loan losses was equal to 0.95% of the total loan portfolio as compared with 1.10% at December 31, 2006.

The following tables set forth information regarding impaired and non-accrual loans as of December 31, 2007 and 2006:

	Impaired & Non-Accrual Loans *(dollars in thousands)* At December 31,	
	2007	2006
Impaired loans without a valuation allowance	$ 10,355	$ 2,861
Impaired loans with a valuation allowance	4,503	6,188
Total impaired loans	$ 14,858	$ 9,049
Valuation allowance related to impaired loans	$ 1,389	$ 1,121
Total non-accrual loans	$ 1,246	$ 646
Total loans past due ninety days or more and still accruing	$ —	$ —

	Average Investment in Impaired Loans *(dollars in thousands)* Years Ended December 31,	
	2007	2006
Average investment in impaired loans	$ 13,891	$ 10,217
Interest income recognized on impaired loans	$ 988	$ 597
Interest income recognized on a cash basis on impaired loans	$ 988	$ 597

No nonaccrual loans were excluded from impaired loan disclosure under SFAS No. 114 at December 31, 2007 and 2006. If interest on these loans had been accrued, such income would have approximated $88,000 and $63,000 for 2007 and 2006, respectively. Loan payments received on nonaccrual loans are applied to principal. When a loan is placed on non-accrual status there are several negative implications. First, all interest accrued but unpaid at the time of the classification is deducted from the interest income totals for the Bank. Second, accruals of interest are discontinued until it becomes certain that both principal and interest can be repaid. Third, there may be actual losses that necessitate additional provisions for credit losses charged against earnings. These loans were included in the nonperforming loan totals listed above.

An external loan review firm examined the Bank's loan portfolio in April, 2007. After examination of approximately 57 customer relationships comprising 162 loans totaling $54,588,000 in exposure, or approximately 23.72% of the Bank's total outstanding loan balances as of March 31, 2007, the results of the external loan review showed the Bank's loan portfolio to be sound and the credit underwriting practices to be fully satisfactory as compared to peer group institutions.

The following table shows sets forth the detail of loan charged-off, recovered, and the changes in the allowance for loan losses as of the dates indicated:

	Allowance for Loan Losses *(dollars in thousands)* At December 31,				
	2007	2006	2005	2004	2003
Balance, beginning of period	$2,091	$1,777	$1,419	$1,451	$1,081
Loans charged-off:					
Commercial, financial and agricultural	165	143	224	641	96
Real estate-construction	25	101	—	15	—
Real estate-mortgage	125	76	86	67	—
Installment and other	127	83	175	166	167
Total loans charged off	$ 442	$ 403	$ 485	$ 889	$ 263
Recoveries:					
Commercial, financial and agricultural	$ 22	$ 63	$ 5	$ 76	$ 28
Real estate-construction	—	—	12	—	—
Real estate-mortgage	—	3	—	—	—
Installment and other	24	21	23	27	53
Total recoveries	$ 46	$ 87	$ 40	$ 103	$ 81
Net charge-offs	$ 396	$ 316	$ 445	$ 786	$ 182
Provision for loan losses	451	630	803	754	552
Balance, end of period	$2,146	$2,091	$1,777	$1,419	$1,451

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

Allocation of Allowance for Loan Losses
(dollars in thousands)
At December 31,

	2007	Percent of Loans to Total Loans	2006	Percent of Loans to Total Loans	2005	Percent of Loans to Total Loans	2004	Percent of Loans to Total Loans	2003	Percent of Loans to Total Loans
Commercial, financial, and agricultural	$ 523	24.37%	$ 565	27.02%	$ 499	28.08%	$ 493	34.74%	$ 664	45.76%
Real estate - construction	105	4.89%	390	18.65%	143	8.05%	123	8.67%	139	9.58%
Real estate - mortgage	1,226	57.13%	712	34.05%	657	36.97%	411	28.96%	305	21.02%
Installment and other	292	13.61%	424	20.28%	478	26.90%	392	27.63%	343	23.64%
	$2,146	100.00%	$2,091	100.00%	$1,777	100.00%	$1,419	100.00%	$1,451	100.00%

The following table provides information on the Bank’s nonperforming assets as of the dates indicated:

Nonperforming Assets
(dollars in thousands)
At December 31,

	2007	2006	2005	2004	2003
Nonaccrual loans	$1,246	$ 646	$ 261	$ 380	$ 85
Restructured loans	—	—	—	—	—
Foreclosed property	—	535	—	85	—
Loans past due 90 days accruing interest	—	—	—	—	—
Total nonperforming assets	$1,246	$1,181	$ 261	$ 465	$ 85
Allowance for loan losses to period end loans	0.95%	1.10%	1.13%	1.00%	1.25%
Nonperforming assets to period end loans	0.55%	0.34%	0.17%	0.27%	0.07%
Net charge-offs (recoveries) to average loans	0.19%	0.19%	0.30%	0.62%	0.18%

Income Tax Expense

For the year ended December 31, 2007, Financial had a federal income tax expense of $1,077,000. Note 9 of the Audited Financial Statements provides additional information with respect to our 2007 federal income tax expense and the deferred tax accounts.

Interest Rate Sensitivity

The most important element of asset/liability management is the monitoring of Financial’s sensitivity to interest rate movements. The income stream of Financial is subject to risk resulting from interest rate fluctuations to the extent there is a difference between the amount of Financial’s interest earning assets and the amount of interest bearing liabilities that prepay, mature or reprice in specified periods. Management’s goal is to maximize net interest income with acceptable levels of risk to changes in interest rates. Management seeks to meet this goal by influencing the maturity and re-pricing characteristics of the various lending and deposit taking lines of business and by managing discretionary balance sheet asset and liability portfolios.

Management also is attempting to mitigate interest rate risk by limiting the dollar amount of loans carried on its balance sheet that have fixed rates in excess of five years. To reduce our exposure to interest rate risks inherent with longer term fixed rate loans, we generally do not hold such mortgages on our books. The Bank established the Mortgage Division to serve potential customers that desired fixed rate loans in excess of five years.

Management believes that Financial has been successful in managing its net interest margin despite numerous adjustments by the FOMC since 2001. During 2007, the Bank's prime rate decreased from 8.25% to 7.25% and as of March 12, 2008 was 6.00%. Our net interest margin was under pressure in part because of higher rates paid on deposit accounts, primarily certificates of deposit. Financial's spread on earning assets to interest bearing liabilities decreased from 4.00% in 2006 to 3.43% in 2007. Management attempts to mitigate this pressure by constantly monitoring and repricing deposits.

Management monitors interest rate levels on a daily basis and meets in the form of the Asset/Liability Committee ("ALCO") at least weekly or when a special situation arises (e.g., FOMC unscheduled rate change). The following reports and/or tools are used to assess the current interest rate environment and its impact on Financial's earnings and liquidity: monthly and year-to-date net interest margin and spread calculations, monthly and year-to-date balance sheet and income statements versus budget (including quarterly interest rate shock analysis), quarterly net portfolio value analysis, a weekly survey of rates offered by other local competitive institutions, and gap analysis which matches maturities or repricing dates of interest sensitive assets to those of interest sensitive liabilities.

Financial currently subscribes to computer simulated modeling tools made available through its consultant, FinPro, Inc., to aid in asset/liability analysis. In addition to monitoring by the ALCO and Investment Committee, the board is informed of the current asset/liability position and its potential effect on earnings at least quarterly.

Current Trends

A variety and wide scope of economic factors affect Financial's success and earnings. Although interest rate trends are one of the most important of these factors, Financial believes that interest rates cannot be predicted with a reasonable level of confidence and therefore does not attempt to do so with complicated economic models. Management believes that the best defense against wide swings in interest rate levels is to minimize vulnerability at all potential interest rate levels. Rather than concentrate on any one interest rate scenario, Financial prepares for the opposite as well, in order to safeguard margins against the unexpected.

The downward trend in short term interest rates beginning in the last quarter of 2007 was due to the actions of the FOMC resulting from a decelerating economy. This steepened the yield curve from the inverted yield curve that existed for the first three quarters of 2007. Although it cannot be certain, management believes that short term interest rates will trend downward or remain stable for at least the first six months of 2008. It also cannot be predicted what effect a change in short term rates will have on the long term interest rates and the resulting shape of the yield curve. An increase in long-term interest rates is likely to have an adverse impact on the Mortgage Division, primarily due to reduced refinancing opportunities.

Off-Balance Sheet Arrangements

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets.

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

	Contract Amounts at December 31,	
	2007	2006
Commitments to extend credit	$50,725	$37,998
Standby letters of credit	2,069	2,882
Total	$52,794	$40,880

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. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on its credit evaluation of the customer.

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

Management does not anticipate any material losses as a result of these transactions.

Expansion Plans

The Bank previously disclosed that it had purchased property located at 164 South Main Street in the Town of Amherst, Virginia and was upfitting the property for use as a branch bank. On January 24, 2007, the Bank opened a branch office at this location.

Subject to regulatory approval, the Bank anticipates opening additional branches during the next two fiscal years. Although numerous factors could influence the Bank's expansion plans, the following discussion provides a general overview of the of the additional branch locations that the Bank currently is considering.

City of Bedford, Virginia. The Bank has purchased certain property located in the City of Bedford, Virginia, located of off Independence Boulevard. The Bank began constructing the improvements necessary to operate a bank branch location in March, 2008. We anticipate completing construction and upfit in the early fourth quarter of 2008. Management anticipates that in the second or third quarter of 2008, the Bank will request approval to open a branch at this location.

Timberlake Road Area, Campbell County (Lynchburg), Virginia. As previously disclosed, the Bank has purchased certain real property located at the intersection of Turnpike and Timberlake Roads, Campbell County, Virginia. The Bank does not anticipate opening a branch at this location until the latter part of 2009, at the earliest. The Bank has determined that the existing structures are not suitable for use as a bank branch.

The Bank estimates that the cost of improvements, furniture, fixtures, and equipment necessary to upfit these properties will be between $900,000 and $1,500,000 per location.

Although the Bank cannot predict with certainty the financial impact of each new branch, management generally anticipates that each new branch will become profitable within 12 to 18 months of operation.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements and their effect on us, see “Recent Accounting Pronouncements” in Note 19 to the consolidated financial statements included in Item 8 of this Form 10-K.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Not applicable

Item 8. Financial Statements and Supplementary Data

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

Report of Independent Registered Public Accounting Firms

Management’s Annual Report on Internal Control Over Financial Reporting

Consolidated Financial Statements

- Balance Sheets, December 31, 2007 and 2006
- Statements of Income, Years Ended December 31, 2007 and December 31, 2006
- Statements of Changes in Stockholders’ Equity and Comprehensive Income, Years Ended December 31, 2007 and December 31, 2006
- Statements of Cash Flows, Years Ended December 31, 2007 and December 31, 2006
- Notes to Financial Statements

BANK OF THE JAMES FINANCIAL GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share and per share amounts)

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Financial's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Financial's internal control over financial reporting is 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.

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.

A material weakness is a significant deficiency (as defined in Public Company Accounting Oversight Board Auditing Standard No. 2), or a combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by management or employees in the normal course by management or employees in the normal course of performing their assigned functions.

Management assessed the effectiveness of Financial's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management believes that, as of December 31, 2007, Financial's internal control over financial reporting was effective.

This annual report does not include an attestation report of Financial's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by Financial's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit Financial to provide only management's report in this annual report.

/S/ Robert R. Chapman III	/S/ J. Todd Scruggs
Robert R. Chapman III	J. Todd Scruggs
Chief Executive Officer & President	Secretary-Treasurer (Principal Financial Officer)

See notes to the financial statements

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

To the Board of Directors and Stockholders
Bank of the James Financial Group, Inc.
Lynchburg, Virginia

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the consolidated balance sheets of Bank of the James Financial Group, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bank of the James Financial Group, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years ended December 31, 2007 and 2006, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assertion about the effectiveness of Bank of the James Financial Group, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2007 included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting and, accordingly, we do not express an opinion thereon.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 20, 2008

See notes to the financial statements

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BANK OF THE JAMES FINANCIAL GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share and per share amounts)

	December 31, 2007	December 31, 2006
Assets		
Cash and due from banks	$ 4,314	$ 6,738
Federal funds sold	—	3,138
Total cash and cash equivalents	4,314	9,876
Securities held-to-maturity (fair value of $6,523 in 2007 and $7,343 in 2006)	6,494	7,494
Securities available-for-sale, at fair value	25,733	18,698
Restricted stock, at cost	986	799
Loans, net of allowance for loan losses of $2,146 in 2007 and $2,091 in 2006	224,022	187,469
Premises and equipment, net	6,002	5,644
Interest receivable	1,515	1,310
Deferred tax assets, net	443	563
Other assets	551	856
Total Assets	$270,060	$232,709
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing demand	$ 34,973	$ 34,172
NOW, money market and savings	56,995	58,104
Time	136,755	109,513
Total deposits	228,723	201,789
Federal funds purchased	5,587	—
Repurchase agreements	10,542	8,450
Interest payable	405	307
Other liabilities	279	232
Total liabilities	$245,536	$210,778
Commitments and contingencies		
Stockholders' equity		
Common stock $2.14 par value; authorized 10,000,000 shares, issued and outstanding 2,556,898 in 2007 and 2,296,424 in 2006	$ 5,472	$ 4,914
Additional paid-in-capital	15,995	12,261
Retained earnings	3,064	4,989
Accumulated other comprehensive (loss)	(7)	(233)
Total stockholders' equity	$ 24,524	$ 21,931
Total liabilities and stockholders' equity	$270,060	$232,709

See notes to the financial statements

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share amounts)

	Years Ended December 31, 2007	2006
Interest and Dividend Income		
Loans	$ 16,259	$ 13,280
Securities		
US agency obligations	1,138	1,131
Mortgage backed	120	109
Tax-exempt municipals	57	—
Dividends	50	47
Corporates	42	—
Federal funds sold	49	113
Total interest income	$ 17,715	$ 14,680
Interest Expense		
Deposits		
NOW, money market and savings	$ 1,316	$ 1,234
Time Deposits	6,083	4,224
Federal funds purchased	114	39
Repurchase agreements	322	187
Total interest expense	$ 7,835	$ 5,684
Net interest income	$ 9,880	$ 8,996
Provision for loan losses	451	630
Net interest income after provision for loan losses	$ 9,429	$ 8,366
Other operating income		
Mortgage fee income	$ 1,345	$ 1,230
Service charges and fees	735	806
Other	630	271
Gain on sale of available-for-sale securities	41	7
Total other operating income	$ 2,751	$ 2,314
Other operating expenses		
Salaries and employee benefits	$ 4,756	$ 4,129
Occupancy	700	615
Equipment	840	828
Supplies	326	291
Professional, data processing and other outside expenses	1,135	1,003
Marketing	375	329
Credit expense	210	195
Loss on sale of assets	51	—
Other	626	543
Total other operating expenses	$ 9,019	$ 7,933
Income before income taxes	$ 3,161	$ 2,747
Income tax expense	1,077	982
Net Income	$ 2,084	$ 1,765
Income per common share - basic	$ 0.82	$ 0.80
Income per common share - diluted	$ 0.78	$ 0.75

See notes to the financial statements

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BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(dollars in thousands)

	Total Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total
Balance at December 31, 2005	2,001,495	$ 4,269	$ 7,424	$ 3,224	$ (241)	$14,676
Net Income	—	—	—	1,765	—	1,765
Unrealized gains on securities available for sale net of deferred taxes of $6	—	—	—	—	13	13
Reclassification adjustment for gains included in net income, net of income tax expense $(2)	—	—	—	—	(5)	(5)
Comprehensive Income						1,773
Exercise of stock options	18,483	53	131	—	—	184
Stock compensation expense		—	151	—	—	151
Net proceeds from sale of common stock	276,446	592	4,555	—	—	5,147
Balance at December 31, 2006	2,296,424	$ 4,914	$ 12,261	$ 4,989	$ (233)	$21,931
Net Income	—	—	—	2,084	—	2,084
Unrealized gains on securities available for sale net of deferred taxes of $130	—	—	—	—	253	253
Reclassification adjustment for gains included in net income, net of income tax expense $(14)	—	—	—	—	(27)	(27)
Comprehensive Income						2,310
10% Stock dividend	229,790	497	3,512	(4,009)	—	—
Exercise of stock options	32,364	65	229	—	—	294
Stock compensation expense	—	—	12	—	—	12
Acquisition of common stock	(1,680)	(4)	(19)	—	—	(23)
Balance at December 31, 2007	2,556,898	$ 5,472	$ 15,995	$ 3,064	$ (7)	$24,524

See notes to the financial statements

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BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES OF CASH FLOWS
(dollars in thousands)

	Years Ended December 31, 2007	Years Ended December 31, 2006
Cash flows from operating activities		
Net Income	$ 2,084	$ 1,765
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	663	629
Net amortization and accretion of premiums and discounts on securities	37	71
Gain on sale of available-for-sale securities	(41)	(7)
Provision for loan losses	451	630
Loss on sale of other assets	51	—
Stock compensation expense	12	151
Provision (benefit) for deferred income taxes	3	(178)
(Increase) in interest receivable	(205)	(234)
(Increase) in other assets	(757)	(581)
Increase (decrease) in income taxes payable	(104)	46
Increase in interest payable	98	159
Increase (decrease) in other liabilities	151	(99)
Net cash provided by operating activities	$ 2,443	$ 2,352
Cash flows from investing activities		
Purchases of securities held-to-maturity	$ —	$ (1,000)
Proceeds from maturities and calls of securities held-to-maturity	1,000	1,000
Purchases of securities available-for-sale	(14,616)	(6,827)
Proceeds from maturities and calls of securities available-for-sale	3,442	500
Proceeds from sale of securities available-for-sale	4,487	4,004
Purchases of Federal Home Loan Bank stock	(27)	(50)
Purchases of Federal Reserve Bank stock	(160)	—
Origination of loans, net of principal collected	(37,004)	(32,618)
Purchases of premises and equipment	(1,022)	(1,377)
Proceeds from sale of other assets	1,011	—
Net cash used in investing activities	$ (42,889)	$ (36,368)
Cash flows from financing activities		
Net increase in deposits	$ 26,934	$ 27,833
Net increase in federal funds purchased	5,587	—
Net increase in repurchase agreements	2,092	1,493
Acquisition of common stock	(23)	—
Proceeds from common stock offering	—	5,147
Proceeds from exercise of stock options	294	184
Net cash provided by financing activities	$ 34,884	$ 34,657
Increase (decrease) in cash and cash equivalents	(5,562)	640
Cash and cash equivalents at beginning of period	$ 9,876	$ 9,236
Cash and cash equivalents at end of period	$ 4,314	$ 9,876
Non cash transactions		
Transfer of loans to foreclosed assets	$ 527	$ 535
Fair value adjustment for securities	342	12
Cash transactions		
Cash paid for interest	$ 7,737	$ 5,525
Cash paid for taxes	1,164	989

See notes to the financial statements

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006
(dollars in thousands, except share and per share data)

Note 1 - Organization

Bank of the James Financial Group, Inc. ("Financial" or the "Company"), a Virginia corporation, was organized in 2003 and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. Financial is headquartered in Lynchburg, Virginia. Financial conducts its business activities through the branch offices of its wholly owned subsidiary bank, Bank of the James (the "Bank") and through BOTJ Investment Group, Inc. ("BOTJIG"), a wholly-owned investment services firm operating from an office within the Bank branch located at 615 Church Street in Lynchburg. Financial exists primarily for the purpose of holding the stock of its subsidiaries, the Bank and BOTJIG, and of such other subsidiaries as it may acquire or establish.

Bank of the James was incorporated on October 23, 1998, and began banking operations on July 22, 1999. The Bank is a Virginia chartered bank and is engaged in lending and deposit gathering activities in Region 2000, which includes the counties of Amherst, Appomattox, Bedford and Campbell and the cities of Bedford and Lynchburg, Virginia. It operates under the laws of Virginia and the Rules and Regulations of the Federal Reserve System and the Federal Deposit Insurance Corporation. The Bank's seven locations consist of four in Lynchburg, Virginia, one in Forest, Virginia which includes the Mortgage Division, one in Madison Heights, Virginia, and one in the Town of Amherst, Virginia.

Note 2 - Summary of significant accounting policies

Consolidation

The consolidated financial statements include the accounts of Bank of the James Financial Group, Inc. and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Basis of presentation and use of estimates

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

Cash and cash equivalents

Cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which mature within ninety days. Generally, federal funds are purchased and sold for one-day periods.

Securities

The Bank classifies its securities in three categories: (1) debt securities that the Bank has the positive intent and ability to hold to maturity are classified as "held-to-maturity securities" and reported at amortized cost, amortization of premiums and accretion of discounts are adjusted on a basis which approximates the level yield method; (2) debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as "trading securities" and reported at fair value, with

Note 2 - Summary of significant accounting policies (continued)

unrealized gains and losses included in net income; and (3) debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as "available-for-sale securities" and reported at fair value, with unrealized gains and losses excluded from net income and reported in a separate component of stockholders' equity, net of applicable deferred taxes. The Bank does not engage in trading securities.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of Financial to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restricted investments

As members of the Federal Reserve Bank (FRB) and the Federal Home Loan Bank of Atlanta (FHLB), the Bank is required to maintain certain minimum investments in the common stock of the FRB and FHLB, which are carried at cost. Required levels of investment are based upon the Bank's capital and a percentage of qualifying assets.

Loans

Financial grants real estate, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans collateralized by real estate within Region 2000. The ability of Financial's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the area.

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

The accrual of interest on real estate and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer term loans are typically charged-off no later than 120 days whereas consumer revolving credit loans are typically charged-off no later than 180 days. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current (within 90 days past due) and future payments are reasonably assured.

Note 2 - Summary of significant accounting policies (continued)

Allowance for loan loss

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

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

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the collateral value of the impaired loan or discounted cash flows is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, Financial does not separately identify individual consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Property, equipment and depreciation

Property and equipment, including leasehold improvements, are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the respective assets on the straight-line basis, which range from 3 to 7 years for equipment and 10 to 39.5 years for buildings and improvements. Leasehold improvements are amortized over a term which includes the remaining lease term and probable renewal periods. Land is carried at cost and is not depreciable. Expenditures for major renewals and betterments are capitalized and those for maintenance and repairs are charged to operating expenses as incurred.

Note 2 - Summary of significant accounting policies (continued)

Foreclosed properties

Foreclosed properties consist of properties acquired through foreclosure or deed in lieu of foreclosure. These properties are carried at the lower of cost or fair market value less estimated costs to sell at the date of foreclosure. Losses from the acquisition of property in full or partial satisfaction of loans are charged against the allowance for loan losses. Subsequent write-downs, if any, are charged against expense. Gains and losses on the sales of foreclosed properties are included in determining net income in the year of the sale.

Income taxes

Deferred income tax assets and liabilities are determined using the liability (or 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.

Stock options

Effective January 1, 2006, Financial adopted SFAS No. 123 (Revised 2004), “Share-Based Payment” (SFAS 123R), which replaces SFAS No. 123, “Accounting for Stock-Based Compensation” (SFAS 123), and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees” (APB Opinion No. 25). SFAS 123R requires the costs resulting from all share-based payments to employees be recognized in the financial statements. Stock-based compensation is estimated at the date of grant, using the Black-Scholes option valuation model for determining fair value. The model employs the following assumptions:

1. Dividend yield – calculated as the ratio of historical dividends paid per share of common stock to the stock price on the date of grant;
2. Expected life (term of the option) – based on the average of the contractual life and vesting schedule for the respective option;
3. Expected volatility – based on the monthly historical volatility of Financial’s stock price over the expected life of the options;
4. Risk-free interest rate – based on the 10 year U.S. Treasury yield on the day of grant.

Under APB Opinion No. 25, compensation expense was generally not recognized if the exercise price of the option equaled or exceeded the market price of the stock on the date of grant. For the years ended December 31, 2007 and 2006, Financial recognized stock-based compensation expense of $12 and $151 thousand respectively, in accordance with SFAS No. 123R.

Note 2 - Summary of significant accounting policies (continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for the year ended December 31, 2006; dividend yield of 0%, expected volatility of 40%, a risk-free interest rate of 4.87%, and expected lives of 7 years. The following weighted average assumptions were used for the year ended December 31, 2007; dividend yield of 0%, expected volatility of 40%, a risk-free interest rate of 4.75%, and expected lives of 7 years. During 2007, the company took into consideration guidance under SFAS 123R and SEC Staff Accounting Bulletin No. 107 (“SAB 107”) when reviewing and updating assumptions.

Financial has elected to adopt the modified prospective method which requires compensation expense to be recorded for the unvested portion of previously issued awards that remained outstanding as of January 1, 2006. In addition, compensation expense is recorded for any awards issued, modified, or settled after the effective date of this standard and prior periods are not restated. For awards granted prior to the effective date, the unvested portion of the awards are recognized in periods subsequent to the adoption based on the grant date fair value determined for pro forma disclosure purposes under SFAS No. 123.

SFAS No. 123R requires Financial to estimate forfeitures when recognizing compensation expense and that this estimate of forfeitures be adjusted over the requisite service period or vesting schedule based on the extent to which actual forfeitures differ from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change, and also will impact the amount of estimated unamortized compensation expense to be recognized in future periods.

Reclassification

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

Comprehensive income

Statement of Financial Accounting Standards No. 130, “Reporting Comprehensive Income” (SFAS 130), establishes standards for reporting and presentation of comprehensive income and its components in a full set of general purpose financial statements. SFAS 130 was issued to address concerns over the practice of reporting elements of comprehensive income directly in equity.

The Bank is required to classify items of other comprehensive income (such as net unrealized gains (losses) on securities available-for-sale) by their nature in a financial statement and present the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. It does not require per share amounts of comprehensive income to be disclosed.

In accordance with the provisions of the SFAS 130, the Bank has included in the accompanying financial statements, comprehensive income resulting from such activities. Comprehensive income consists of the net income or loss and net unrealized income or losses on securities available-for-sale. These amounts are reported net of the income tax effect less any related allowance for realization. Also, accumulated other comprehensive income is included as a separate disclosure within the statements of changes in stockholders’ equity in the accompanying financial statements.

Note 2 - Summary of significant accounting policies (continued)

Marketing

The Bank expenses advertising costs as incurred.

Note 3 - Restrictions on cash

To comply with Federal Reserve regulations, the Bank is required to maintain certain average cash reserve balances. The daily average cash reserve requirements were approximately $1,096 and $929 for the weeks including December 31, 2007 and 2006, respectively.

Note 4 - Securities

A summary of the amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

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BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
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Note 4 - Securities (continued)

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity				
U.S. agency obligations	$ 6,494	$ 32	$ (3)	$ 6,523
Available-for-sale				
U.S. agency obligations	$ 14,954	$ 129	$ —	$15,083
Mortgage-backed securities	4,764	19	(49)	4,734
Municipals	2,547	1	(25)	2,523
Corporates	3,478	—	(85)	3,393
	$ 25,743	$ 149	$ (159)	$25,733

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity				
U.S. agency obligations	$ 7,494	$ 2	$ (153)	$ 7,343
Available-for-sale				
U.S. agency obligations	$ 16,007	$ —	$ (293)	$15,714
Mortgage-backed securities	2,203	—	(59)	2,144
Municipals	840	—	—	840
	$ 19,050	$ —	$ (352)	$18,698

The following tables show the gross unrealized losses and fair value of the Bank’s investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2007 and 2006:

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

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Note 4 - Securities (continued)

December 31, 2007	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	More than 12 months Fair Value	More than 12 months Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. agency obligations	$ —	$ —	$ 1,992	$ 3	$ 1,992	$ 3
Mortgage-backed securities	1,001	18	1,569	31	2,570	49
Corporates	3,393	85	—	—	3,393	85
Municipals	1,684	24	497	1	2,181	25
Total temporarily impaired securities	$6,078	$ 127	$ 4,058	$ 35	$10,136	$ 162

December 31, 2006	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	More than 12 months Fair Value	More than 12 months Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. agency obligations	$3,957	$ 32	$18,595	$ 414	$22,552	$ 446
Mortgage-backed securities	—	—	1,896	59	1,896	59
Total temporarily impaired securities	$3,957	$ 32	$20,491	$ 473	$24,448	$ 505

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and may do so more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of Financial to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2007, the Company does not consider the unrealized losses as other-than-temporary losses due to the nature of the securities involved. The securities consist of 23 bonds, all of which have an S&P rating of A or higher or are indirectly backed by the U.S. Government. For these reasons, management believes the default risk to be minimal. The $10,136 in securities in which there is an unrealized loss of $162 includes unrealized losses ranging from $1 to $49 or from 0.01% to 10.24% of the original cost of the investment. As management has the ability to hold securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary.

The amortized costs and fair values of securities at December 31, 2007, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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

Note 4 - Securities (continued)

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Values	Amortized Cost	Fair Values
Due after one year through five years	$ 2,000	$2,001	$ 4,994	$ 5,034
Due after five years through ten years	500	501	8,504	8,421
Due after ten years	3,994	4,021	12,245	12,278
	$ 6,494	$6,523	$ 25,743	$25,733

The Bank sold $4,487 of securities available-for-sale in 2007 with realized gains totaling $41. The Bank sold $4,004 of securities available-for-sale in 2006 with realized gains on the sales totaling $7.

The amortized costs of securities pledged as collateral for public deposits and other short term borrowings were approximately $19,447 and $14,997 (fair value of $19,592 and $14,686) at December 31, 2007 and 2006, respectively.

Note 5 - Loans and allowance for loan losses

A summary of loans, net is as follows:

	December 31, 2007	December 31, 2006
Commercial loans	$ 43,877	$ 36,082
Real estate - construction	36,296	32,087
Real estate - residential	114,278	98,151
Installment and other	31,717	23,240
Total loans	226,168	189,560
Less allowance for loan losses	2,146	2,091
Net loans	$224,022	$187,469

The activity in the allowance for loan losses for 2007 and 2006 is summarized as follows:

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

Note 5 - Loans and allowance for loan losses (continued)

	2007	2006
Balance at beginning of period	$2,091	$1,777
Provision charged to operations	451	630
Loan charge-offs	(442)	(403)
Loan recoveries	46	87
Balance at end of period	$2,146	$2,091

The following tables set forth information regarding impaired and non-accrual loans as of December 31, 2007 and 2006:

	Impaired & Non-Accrual Loans At December 31,			
	2007		2006	
Impaired loans without a valuation allowance	$	10,355	$	2,861
Impaired loans with a valuation allowance		4,503		6,188
Total impaired loans	$	14,858	$	9,049
Valuation allowance related to impaired loans	$	1,389	$	1,121
Total non-accrual loans	$	1,246	$	646
Total loans past due ninety days or more and still accruing	$	—	$	—

No non-accrual loans were excluded from impaired loan disclosure for both 2007 and 2006.

	Average Investment in Impaired Loans Years Ended December 31,			
	2007		2006	
Average investment in impaired loans	$	13,891	$	10,217
Interest income recognized on impaired loans	$	988	$	597
Interest income recognized on a cash basis on impaired loans	$	988	$	597

The Bank grants primarily commercial, real estate, and installment loans to customers throughout its market area, which consists primarily of Region 2000 which includes the counties of Amherst, Appomattox, Bedford and Campbell and the cities of Bedford and Lynchburg, Virginia. The real estate portfolio can be affected by the condition of the local real estate market. The commercial and installment loan portfolio can be affected by the local economic conditions.

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

Note 5 - Loans and allowance for loan losses (continued)

The Company’s officers, directors and their related interests have various types of loan relationships with the Bank. The total outstanding balances of these related party loans at December 31, 2007 and 2006 were $2,830 and $2,559 respectively. During 2007, new loans and advances amounted to $1,439 and repayments amounted to $1,168. The terms and interest rates of these loans are similar to those for comparable loans with other borrowers of the Bank.

Note 6 – Premises and equipment

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

	December 31, 2007	December 31, 2006
Land	$ 542	$ 542
Building and improvements	3,038	2,528
Construction in progress	487	814
Furniture and equipment	4,202	3,476
Leasehold improvements	1,391	1,279
	9,660	8,639
Less accumulated depreciation	3,658	2,995
Net property and equipment	$6,002	$5,644

Total depreciation expense for the years ended December 31, 2007 and 2006 was $663 and $629, respectively.

Note 7 - Deposits

A summary of deposit accounts is as follows:

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

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Note 7 - Deposits (continued)

	December 31, 2007	December 31, 2006
Demand		
Non-interest bearing	$ 34,973	$ 34,172
Interest bearing	46,595	42,617
Savings	10,400	15,487
Time, $100,000 or more	43,484	31,835
Other time	93,271	77,678
	$228,723	$201,789

At December 31, 2007, maturities of time deposits are scheduled as follows:

Year Ending December 31,	Amount
2008	$100,770
2009	7,648
2010	19,958
2011	3,420
2012	4,959
	$136,755

The Bank held related party deposits of $5,074 and $1,750 at December 31, 2007 and 2006, respectively.

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

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Note 8 - Other borrowings

Short-term borrowings consist of the following at December 31, 2007 and 2006:

	2007	2006
Federal funds purchased	$ 5,587	$ —
Securities sold under agreements to repurchase	10,542	8,450
Total short term borrowings	$16,129	$8,450
Weighted interest rate	3.41%	2.43%

Short-term borrowings consist of securities sold under agreements to repurchase, which are secured transactions with customers and generally mature the day following the date sold. Short-term borrowings may also include Federal funds purchased, which are unsecured overnight borrowings from other financial institutions.

Unsecured federal fund lines and their respective limits are maintained with the following institutions: Community Bankers' Bank, $4,900; Suntrust Bank, $3,000; and Compass Bank, $2,250. In addition, the Bank maintains a $3,000 reverse repurchase agreement with Suntrust whereby securities may be pledged as collateral in exchange for funds for a minimum of 30 days with a maximum of 90 days. The Bank also maintains a secured federal funds line with Community Bankers' Bank whereby it may pledge securities as collateral with no specified minimum or maximum amount or term.

Note 9 - 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.

Income tax expense attributable to income before income tax expense is summarized as follows:

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

Note 9 - Income taxes (continued)

	December 31, 2007	December 31, 2006
Current federal income tax expense	$1,074	$1,160
Deferred federal income tax (benefit)	3	(178)
Income tax provision	$1,077	$ 982

Income tax expense differed from amounts computed by applying the U.S. Federal income tax rate of 34% to income before income tax expense as a result of the following:

	2007	2006
Computed "expected" income tax provision	$1,075	$934
Increase (reduction) in income tax resulting from:		
Non-taxable income	(16)	—
Non-deductible expenses	18	48
Income tax provision	$1,077	$982

The tax effects of temporary differences result in deferred tax assets and liabilities as presented below:

	2007	2006
Deferred tax assets		
Allowance for loan losses	$527	$530
Unrealized loss on available-for-sale securities	3	120
Gross deferred tax assets	530	650
Deferred tax liability		
Depreciation	71	72
Prepaid expenses	16	15
Gross deferred tax liability	87	87
Net deferred tax asset	$443	$563

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

Note 10 - Earnings per share

Basic EPS excludes dilution and is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or resulted in the issuance of common stock that then shared in the earnings of the entity. All amounts have been restated for stock dividend in 2007.

The basic and diluted earnings per share calculations are as follows:

	2007	2006
Numerator:		
Net income available to stockholders	$ 2,084	$ 1,765
Basic EPS weighted average shares outstanding	2,552,765	2,216,245
Effect of dilutive securities:		
Incremental shares attributable to Stock Option Plan	125,772	149,449
Diluted EPS weighted-average shares outstanding	2,678,537	2,365,694
Basic earnings per share	$ 0.82	$ 0.80
Diluted earnings per share	$ 0.78	$ 0.75

There were 2,530 shares excluded from the 2007 earnings per share calculation because their effects were anti-dilutive. No shares were excluded from the earnings per share calculation for 2006.

Note 11 - Defined contribution benefit plan

The Company adopted a 401(k) defined contribution plan on October 1, 2000, which is administered by the Virginia Bankers' Association. Participants have the right to contribute up to a maximum of 19% of pretax annual compensation or the maximum allowed under Section 401 (g) of the internal revenue Code, whichever is less. In 2007 and 2006, the Company made a matching contribution to the plan in the amount of 50% of the first 6% of the elective contributions made by the participants. The Company's expense for the plan totaled $91 and $79 for 2007 and 2006, respectively.

Note 12 - Stock option plan

On October 21, 1999, the Board of Directors adopted the "1999 Stock Option Plan" for officers and employees. In 2006 and 2007, stock dividends of 25% and 10% respectively were declared affecting the aforementioned grants retroactively (See Note 13). There are 10,643 remaining shares available for grant as of December 31, 2007.

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

Note 12 - Stock option plan (continued)

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, “Share-Based Payment” (SFAS 123R). SFAS 123R requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, such as stock options and restricted stock, based on the fair value of those awards at the date of grant and eliminates the choice to account for employee stock options under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (APB 25). The Company adopted SFAS 123R effective January 1, 2006 using the modified prospective method and as such, results for prior periods have not been restated. Prior to January 1, 2006, no compensation expense was recognized by the Company for stock option grants as all such grants had an exercise price not less than fair market value on the date of grant. The Company has not issued any non-vested stock.

Stock option plan activity for the twelve months ended December 31, 2007 is summarized below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Value of in-the-money options (Aggregate Intrinsic Value)
Options outstanding, January 1, 2007	336,813	$ 9.44		
Granted	1,100	17.27		
Exercised	(32,364)	7.99		
Forfeited	(5,565)	12.26		
Options outstanding, December 31, 2007	299,984	$ 9.51	5.59	$ 1,397
Options exercisable, December 31, 2007	298,719	$ 9.47	5.58	$ 1,353
Weighted average fair value of options granted during the year		$ 9.53		

The total approximate value of in-the-money options exercised during 2007 was $194. As of December 31, 2007, there was approximately $3 of total unrecognized compensation expense related to non vested option awards which will be recognized over the remaining service period.

The following is summarized information concerning currently outstanding and exercisable options as adjusted for all stock dividends previously declared and paid:

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Note 12 - Stock option plan (continued)

Options Outstanding			
Range of Exercise Prices	Number of Options	Remaining Contractual Life	Weighted Average Exercise Price
$4.41 to $4.95	85,309	2.8 years	$ 4.70
$6.61 to $9.81	91,898	5.6 years	$ 8.46
$10.91 to $14.55	120,247	7.5 years	$ 13.53
$18.00 to $18.18	2,530	8.3 years	$ 18.02
$4.41 to $18.18	299,984	5.6 years	$ 9.51

Note 13 - Stockholders' equity

The Bank was initially capitalized through a public offering of its common stock, $4.00 (split adjusted to $2.14) par value per share ("Common Stock"), at $10.00 per share, which concluded in February, 1999 and resulted in a capitalization of the Bank of $9,356,300. On December 22, 2006, Financial completed a follow-on offering pursuant to which it raised $5,147,000 (net of costs and expenses of $106,000). As a result of these two offerings and funds generated from operations, Financial currently has sufficient liquidity and capital with which to operate.

The Bank is subject to certain legal and regulatory restrictions on the amount of cash dividends it may declare. As of December 31, 2007, the aggregate amount of unrestricted funds which could be transferred from Financial's subsidiaries to Financial without regulatory approval, totaled $6,886 or 28% of total consolidated stockholders' equity.

On January 17, 2006, the Board of Directors of Bank of the James Financial Group, Inc. declared a 25% stock split effected in the form of a dividend to its shareholders of record on January 10, 2006. The dividend was paid on March 10, 2006 and increased the outstanding shares of common stock by 400,448. All per share amounts have been retroactively adjusted to reflect this dividend.

On May 15, 2007, the Board of Directors of the Company declared a 10% stock dividend. The stock dividend was paid on July 24, 2007 to shareholders of record June 19, 2007. Following the stock dividend, the number of outstanding shares increased by 229,790. The dividend required a reclassification of retained earnings effective May 15, 2007 in the amount of $4,009,000. Of this amount, $497,000 was reclassified as common stock and $3,512,000 was reclassified as additional paid-in-capital. The reclassification did not change total stockholders' equity. All per share amounts have been retroactively adjusted to reflect this dividend.

Note 14 - Regulatory matters (all amounts in thousands)

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures

Note 14 - Regulatory matters (all amounts in thousands) (continued)

of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2007 that the Bank meets all capital adequacy requirements to which it is subject. The Bank's actual regulatory capital amounts and ratios for December 31, 2007 and 2006 are also presented in the table below, dollars are in thousands.

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

On February 1, 2007, $5,000,000 of additional capital from Financial's recent common stock offering was transferred to the Bank level in the form of a capital contribution. The additional capital is not reflected in the table below for the period ending December 31, 2006 as the tables below are Bank only tables. The capital ratios for the Company on a consolidated basis are comparable to the capital ratios of the Bank for 2007 and 2006 as set forth below:

	December 31, 2007 (dollars in thousands)					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital						
(to risk-weighted assets)	$26,180	11.9%	$ 17,534	>8.0%	$21,918	>10.0%
Tier I capital						
(to risk-weighted assets)	$24,035	11.0%	$ 8,767	>4.0%	$13,151	>6.0%
Tier I capital (leverage)						
(to average assets)	$24,035	9.0%	$ 10,727	>4.0%	$13,409	>5.0%

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Note 14 - Regulatory matters (all amounts in thousands) (continued)

	December 31, 2006 (dollars in thousands)					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital						
(to risk-weighted assets)	$19,034	10.2%	$ 14,903	>8.0%	$18,629	>10.0%
Tier I capital						
(to risk-weighted assets)	$16,943	9.1%	$ 7,452	>4.0%	$11,177	>6.0%
Tier I capital (leverage)						
(to average assets)	$16,943	7.7%	$ 8,847	>4.0%	$11,058	>5.0%

Note 15 - Contingent liabilities

The Bank rents, under non-cancelable leases, three of its banking facilities and one mortgage production office. The initial term of the lease for 615 Church Street is for five years with an additional renewal term of five years. The Bank chose to accept the additional renewal period of 5 years and has 1.5 years remaining on this lease.

The Bank entered into a lease agreement for 828 Main Street with Jamesview Investments, LLC of which a Board member is a 33% owner. The initial term of the lease is 10 years with two five year renewal options for a total of 20 years. The Bank has 17.5 years remaining on this lease including option periods. The total expense to be incurred by the Bank over the course of the lease, including options to extend, is $1,837.

In December 2005, the Bank entered into a lease agreement for 4935 Boonsboro Road with Forehand Family Limited Partnership. The initial term of the lease is 5 years with two five year renewal options for a total of 15 years. The Bank has 13 years remaining on this lease including option periods.

In September 2006, the Bank entered into a lease agreement for a mortgage origination office at 14662 Moneta Road, Moneta, Virginia with Lakeland Development Corporation. The initial term of the lease is 3 years with 1 year renewal periods thereafter. The Bank has 1.8 years remaining on the initial 3 year term of the lease.

Rental expenses under operating leases were $265 and $274 for the years ended December 31, 2007 and 2006, respectively.

The current minimum annual rental commitments under the non-cancelable leases in effect at December 312007 are as follows:,

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

Note 15 - Contingent liabilities (continued)

Year Ending	Amount
2008	$ 273
2009	240
2010	240
2011	278
2012	283
Thereafter	458
	$1,772

Note 16 - Financial instruments with off-balance-sheet risk

The Bank is not a party to derivative financial instruments with off-balance-sheet risks such as futures, forwards, swaps and options. The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These instruments may involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract. The Bank's maximum exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of the instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The Bank requires collateral or other security to support financial instruments when it is deemed necessary. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Types of collateral vary but may include marketable securities, accounts receivable, inventory, and property, plant and equipment.

Financial instruments whose contract amounts represent credit risk are as follows:

	Contract Amounts at December 31,	
	2007	2006
Commitments to extend credit	$50,725	$37,998
Standby letters of credit	$ 2,069	$ 2,882

Note 16 - Financial instruments with off-balance-sheet risk (continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing standby letters of credit is generally less than that involved in extending loans to customers because the Bank generally holds deposits equal to the commitment. Management does not anticipate any material losses as a result of these transactions.

Note 17 - Concentration of credit risk

The Bank has a diversified loan portfolio consisting of commercial, real estate and consumer (installment) loans. Substantially all of the Bank's customers are residents or operate business ventures in its market area consisting primarily of the Lynchburg metropolitan area. Therefore, a substantial portion of its debtors' ability to honor their contracts and the Bank's ability to realize the value of any underlying collateral, if needed, is influenced by the economic conditions in this market area.

The Bank maintains a significant portion of its cash balances with one financial institution. Accounts at this institution are secured by the Federal Deposit Insurance Corporation up to $100. Uninsured balances were approximately $1,705 and $1,795 at December 31, 2007 and 2006, respectively.

Note 18 - Fair values of financial instruments

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

Note 18 - Fair values of financial instruments (continued)

The following methods and assumptions were used in estimating fair value disclosures for financial instruments:

Cash and cash equivalents

The carrying amounts of cash and short-term instruments approximate fair values.

Securities

Fair values of securities, excluding Federal Reserve Bank stock and Federal Home Loan Bank stock, are based on quoted market prices. The carrying value of Federal Reserve Bank stock and Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the respective banks.

Loans

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain fixed rate loans are based on quoted market prices of similar loans adjusted for differences in loan characteristics. Fair values for other loans such as commercial real estate and commercial and industrial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values of non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposits

Fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed rate certificates of deposit are estimated using discounted cash flow analyses that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term borrowings

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate fair value.

Accrued interest

The carrying amounts of accrued interest approximate fair value.

Off-balance sheet credit-related instruments

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing. Fair value of off-balance sheet credit-related instruments were deemed to be immaterial at December 31, 2007 and 2006.

The estimated fair values, and related carrying or notional amounts, of Financial’s financial instruments are as follows:

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

Note 18 - Fair values of financial instruments (continued)

	December 31, 2007		December 31, 2006	
	Carrying Amounts	Approximate Fair Values	Carrying Amounts	Approximate Fair Values
Financial assets				
Cash and due from banks	$ 4,314	$ 4,314	$ 6,738	$ 6,738
Federal funds sold	—	—	3,138	3,138
Securities				
Available-for-sale	25,733	25,733	18,698	18,698
Held-to-maturity	6,494	6,523	7,494	7,343
Restricted stock	986	986	799	799
Loans, net	224,022	227,777	187,469	187,441
Interest receivable	1,515	1,515	1,310	1,310
Financial liabilities				
Deposits	$228,723	$ 224,023	$201,789	$ 203,672
Federal funds purchased	5,587	5,587	—	—
Repurchase agreements	10,542	10,542	8,450	8,450
Interest payable	405	405	307	307

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on-balance-sheet and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets that are not considered financial assets include deferred income taxes and bank premises and equipment; a significant liability that is not considered a financial liability is accrued post-retirement benefits. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

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

Note 18 - Fair values of financial instruments (continued)

Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank’s overall interest rate risk.

Note 19 - Impact of Recently Issued Accounting Standards

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

In 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.

Note 19 - Impact of Recently Issued Accounting Standards (continued)

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.” 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 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.

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Note 19 - Impact of Recently Issued Accounting Standards (continued)

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.

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BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006
(dollars in thousands, except share and per share data)

Note 20 - Condensed Financial Statements of Parent Company

Financial information pertaining only to Bank of the James Financial Group, Inc. is as follows:

Balance Sheet

	December 31, 2007	December 31, 2006
Assets		
Cash	$ 153	$ 5,147
Taxes receivable	53	—
Investment in subsidiaries		
Bank of the James	24,028	16,710
BOTJ Investment Group, Inc.	290	74
Total investment in subsidiaries	24,318	16,784
Total assets	$24,524	$21,931
Liabilities and stockholders’ equity		
Total liabilities	$ —	$ —
Common stock $2.14 par value	$ 5,472	$ 4,914
Additional paid-in-capital	15,995	12,261
Retained earnings	3,064	4,989
Accumulated other comprehensive (loss)	(7)	(233)
Total stockholders’ equity	$24,524	$21,931
Total liabilities and stockholders’ equity	$24,524	$21,931

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006
(dollars in thousands, except share and per share data)

Note 20 - Condensed Financial Statements of Parent Company (continued)

Statements of Income

	Years Ended December 31, 2007	2006
Income	$ —	$ —
Operating expenses		
Legal and professional fees	152	$ —
Total expenses	$ (152)	$ —
Allocated income tax benefits	$ 52	$ —
Income before equity in undistributed income of subsidiaries	$ (100)	$ —
Equity in undistributed income - Bank of the James	$ 2,067	$ 1,791
Equity in undistributed income (loss) - BOTJ Investment Group, Inc.	117	(26)
Net Income	$ 2,084	$ 1,765

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006
(In thousands, except share and per share data)

Note 20 – Condensed Financial Statements of Parent Company (continued)

Statements of Cash Flows
(dollars in thousands)

	Years Ended December 31, 2007	2006
Cash flows from operating activities		
Net Income	$ 2,084	$ 1,765
Adjustments to reconcile net income to net cash used in operating activities:		
Increase in income taxes receivable	(53)	—
Stock compensation expense	(12)	—
Equity in undistributed net (income) of Bank of the James	(2,067)	(1,791)
Equity in undistributed net (income) loss of BOTJ Investment Group, Inc.	(117)	26
Net cash used in operating activities	$ (165)	$ —
Cash flows from investing activities		
Capital contribution to subsidiary Bank of the James	$ (5,000)	$ (184)
Capital contribution to subsidiary BOTJ Investment Group, Inc.	(100)	—
Net cash used in investing activities	$ (5,100)	$ (184)
Cash flows from financing activities		
Acquisition of common stock	$ (23)	$ —
Proceeds from issuance of stock under stock option plan	294	184
Proceeds from common stock offering	—	5,147
Net cash provided by financing activities	$ 271	$ 5,331
Increase (decrease) in cash and cash equivalents	(4,994)	5,147
Cash and cash equivalents at beginning of period	$ 5,147	$ —
Cash and cash equivalents at end of period	$ 153	$ 5,147

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosures

There has been no change in the independent accountants engaged to audit the financial statements of the Company and its subsidiaries during the last two fiscal years ended December 31, 2007. There have been no disagreements with such independent accountants during the last two fiscal years ended December 31, 2007, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

Item 9A. Controls and Procedures

Financial's management, including Financial's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, Financial's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that Financial files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management's annual report on internal control over financial reporting is incorporated herein by reference to Financial's audited Consolidated Financial Statements set forth in Item 8 of this Annual Report on Form 10-K.

There have been no significant changes during the quarter ended December 31, 2007, in the Company's internal controls over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) or in other factors that could have significantly affected those controls subsequent to the date of our most recent evaluation of internal controls over financial reporting, including any corrective actions with regard to significant deficiencies and material weaknesses.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Part of the response to this Item will be included in the information set forth under the headings "Information Concerning Nominees and Directors Continuing in Office," "Corporate Governance and the Board of Directors Matters," and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Bank's definitive Proxy Statement for its 2008 Annual Meeting of Shareholders, which Proxy Statement will be filed with the SEC within 120 days of the end of the Bank's 2007 fiscal year (the "2008 Proxy Statement"), and such information is hereby incorporated by reference.

Financial has adopted a code of ethics that applies to Financial's directors, executive officers (including the principal financial officer, principal accounting officer or controller, or persons performing similar functions), and senior officers. The code of ethics has been posted under the "Investor Relations" section on Financial's website: www.bankofthejames.com.

Item 11. Executive Compensation

The response to this Item will be included in the information set forth under the headings "Compensation of Directors and Executive Officers," "Outstanding Equity Awards at Fiscal Year End," "Corporate Governance and the Board of Directors Matters," and "Committees of the Board of Directors of Financial" in the 2008 Proxy Statement and such information is hereby incorporated by reference.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Certain information required by this Item 12 is included under "Securities Authorized for Issuance Under Equity Compensation Plans" in Part II, Item 5 of this annual report on Form 10-K. The information required by this Item will be included in the information set forth under the heading "Corporate Governance and the Board of Directors Matters – Independence of Directors" and "Security Ownership of Management" in the 2008 Proxy Statement and is hereby incorporated by reference.

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

The response to this Item will be included in the information set forth under the heading "Transactions with Management" in the 2008 Proxy Statement and is hereby incorporated by reference.

Item 14. Principal Accountant Fees and Services

The response to this Item will be included in the information set forth under the heading "Independent Public Accountants" in the 2008 Proxy Statement and is hereby incorporated by reference.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements. Listed and included in Part II, Item 8.

(2) Financial Statement Schedules. Not applicable.

(3) Exhibits. The following exhibits are filed as a part of this Form 10-K

No.	Description
2.1	Agreement and Plan of Share Exchange dated October 9, 2003 between Bank of the James Financial Group, Inc. and Bank of the James, dated as of October 9, 2003 (incorporated by reference to Exhibit 2.1 to Form 8-K12g-3 filed on January 13, 2004)
3.1	Articles of Incorporation of Bank of the James Financial Group, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K12g-3 filed on January 13, 2004)
3.2	Bylaws of Bank of the James (incorporated by reference to Exhibit 3.2 to Form 8-K filed August 18, 2006)
4.1	Specimen Common Stock Certificate of Bank of the James Financial Group, Inc. (incorporated by reference to Exhibit 4.1 to Form 10-KSB filed on March 26, 2004)
10.2	Amended and Restated Stock Option Plan (incorporated by reference to Form S-8 filed on August 14, 2004)
10.3	Lease Agreement Between W.C. English, Inc. and Bank of the James (incorporated by reference to Exhibit 10.3 to Form 10-SB Registration Statement of Bank of the James filed with the Federal Reserve Board on April 18, 2000)
10.6	Lease between Jamesview Investments LLC and Bank of the James dated October 9, 2003 (incorporated by reference to Exhibit 10.6 to Form 10-KSB filed on March 26, 2004)

16	Cherry, Bekaert & Holland, L.L.P. letter to the Securities and Exchange Commission dated November 23, 2005 (incorporated by reference to Exhibit 16 to Form 8-K filed on November 23, 2005)
21.1	List of subsidiaries (filed herewith)
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a) (filed herewith)
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a) (filed herewith)
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act Of 2002 (filed herewith)

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SIGNATURES

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities as of March 26, 2008.

Signature	Capacity
/S/ Robert R. Chapman III Robert R. Chapman III	President (Principal Executive Officer) and Director
/S/ J. Todd Scruggs J. Todd Scruggs	Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer) and Director
Kenneth S. White	Director, Chairman
/S/ Lewis C. Addison Lewis C. Addison	Director
/S/ William C. Bryant III William C. Bryant III	Director
/S/ Donna Schewel Clark Donna Schewel Clark	Director
/S/ James F. Daly James F. Daly	Director
/S/ Watt R. Foster, Jr. Watt R. Foster, Jr.	Director
/S/ Donald M. Giles Donald M. Giles	Director
/S/ Augustus A. Petticolas, Jr. Augustus A. Petticolas, Jr.	Director
/S/ Thomas W. Pettyjohn, Jr. Thomas W. Pettyjohn, Jr.	Director
/S/ Richard R. Zechini Richard R. Zechini	Director

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EXHIBIT INDEX

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Exhibit 21.1

List of Subsidiaries

Subsidiary	Jurisdiction or State of Incorporation	Names Under Which Subsidiary Does Business
Bank of the James	Virginia	Bank of the James Bank of the James Mortgage Bank of the James Mortgage, a Division of Bank of the James
BOTJ Investment Group, Inc.	Virginia	BOTJ Investment Group, Inc.

Exhibit 31.1

Certification—Principal Executive Officer

I, Robert R. Chapman III, President of Bank of the James Financial Group, Inc. certify that:

(1) I have reviewed this Form 10-K of Bank of the James Financial Group, Inc.;

(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(s) 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.

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

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

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

Date: March 26, 2008

By /S/ Robert R. Chapman III
Robert R. Chapman III
President (Principal Executive Officer) and Director

Exhibit 31.2

Certification—Principal Financial Officer and Principal Accounting Officer

I, J. Todd Scruggs, Secretary and Treasurer of Bank of the James Financial Group, Inc., certify that:

(1) I have reviewed this Form 10-K of Bank of the James Financial Group, Inc.;

(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(s) 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.

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

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

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

Date: March 26, 2008

By /S/ J. Todd Scruggs
J. Todd Scruggs
Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer) and Director

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Robert R. Chapman III, Chief Executive Officer of Bank of the James Financial Group, Inc., a Virginia corporation (the “Company”) and J. Todd Scruggs, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer), each certify in his capacity as an officer of the Company that he has reviewed the annual report on Form 10-K for the year ended December 31, 2007 (the “Report”) and to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of the Company as of the dates and for the periods covered by the Report.

BANK OF THE JAMES FINANCIAL GROUP, INC.

Date: March 26, 2008

By /S/ Robert R. Chapman III
Robert R. Chapman III
President and Director (Principal Executive Officer)

Date: March 26, 2008

By /S/ J. Todd Scruggs
J. Todd Scruggs
Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)