

# SELECTED FINANCIAL DATA

## SELECTED CONSOLIDATED FINANCIAL DATA

	At March 31				
	2008	2007	2006	2005	2004
SELECTED FINANCIAL CONDITION DATA (In thousands)					
Total assets	\$491,246	\$463,112	\$422,606	\$399,604	\$336,947
Loans receivable, net	437,174	399,252	358,714	336,809	279,301
Investment securities and other earning assets <sup>1</sup>	30,476	43,703	45,102	45,911	39,620
Real estate owned, net	593	181	120	138	621
Deposits	350,731	330,538	306,849	275,430	260,231
Advances and other borrowed money	98,834	90,740	78,976	91,650	46,429
Stockholders' equity	38,705	38,570	35,167	31,325	29,269

	Year Ended March 31				
	2008	2007	2006	2005	2004
SELECTED OPERATIONS DATA (In thousands)					
Total interest income	\$32,244	\$29,419	\$24,466	\$20,038	\$17,524
Total interest expense	16,978	14,792	10,312	6,281	5,542
Net interest income	15,266	14,627	14,154	13,757	11,982
Provision for loan losses	625	388	177	870	846
Net interest income after provision for loan losses	14,641	14,239	13,977	12,887	11,136
Service charges and fees	3,007	2,816	2,557	2,293	2,683
Gain on sale of subsidiary	-	-	-	-	241
Other noninterest income <sup>2</sup>	336	369	444	415	301
Noninterest expenses	12,293	11,306	10,791	10,060	9,684
Income before income taxes	5,691	6,118	6,187	5,535	4,677
Income taxes	1,855	2,027	1,919	1,729	1,195
Net income	\$ 3,836	\$4,091	\$4,268	\$3,806	\$3,482

	At or For the Year Ended March 31				
	2008	2007	2006	2005	2004
OTHER DATA					
Average interest-earning assets to average interest bearing liabilities	105.21%	104.86%	104.81%	104.81%	106.57%
Average interest rate spread during year	3.14	3.30	3.51	3.84	3.86
Non-performing assets to total assets	.33	.32	.14	.14	.51
Return on assets (ratio of net income to average total assets)	.80	.92	1.04	1.04	1.12
Return on equity (ratio of net income to average total equity)	9.77	11.06	12.79	12.56	12.45
Equity-to-assets ratio (ratio of average equity to average assets)	8.18	8.36	8.16	8.28	9.31
Allowance for loan losses to total loans	.73	.77	.82	.89	.94
Allowance for loan losses to non-performing loans	313.30	234.16	503.57	551.28	152.60

### PER SHARE DATA

Net income-diluted	\$0.87	\$0.93	\$0.98	\$.88	\$.82
Book value	8.93	8.98	8.29	7.51	7.04
Dividends	.260	.255	.225	.210	.195
Dividend payout ratio	29.22%	26.54%	22.13%	22.97%	23.22%
Number of full-service offices	10	10	9	8	8

<sup>1</sup> Includes federal funds sold, securities purchased under resale agreements and overnight deposits.

<sup>2</sup> Other income includes customer service fees and commissions, gain or loss on disposal of property and other items.

# TO OUR STOCKHOLDERS

## DEAR SHAREHOLDER,

We are pleased to present the Fiscal 2008 Annual Report and operating results for Community Financial Corporation. We continue to face challenges in our industry and work hard to meet them with a plan of action. In celebrating our 80th year of business, our primary focus is the continued success of your Company.

At our March 26, 2008 Board of Directors meeting, Norman C. "Butch" Smiley, III, was elected to succeed me, P. Douglas Richard, as president of Community Bank, the Company's wholly-owned operating subsidiary. Butch will be responsible for the day to day operation of the Bank while I will focus on the Company's strategic direction. By promoting Butch, who previously served as the Bank's Senior Vice President and Chief Lending Officer, we are beginning the Company's plan for management succession. His knowledge and expertise of the financial industry plus his leadership qualities make Butch the ideal choice to serve in this new role as President of your Bank. I will continue to serve as Chief Executive Officer of Community Bank and as President and CEO of the Company.

We ended our report last year mentioning the nation's continuing economic challenges which were anticipated to impact the financial services industry during the coming year. At that time, neither the extent of the subprime lending issues nor its effect on the financial markets was known. We have seen the Federal Reserve reduce rates significantly over the past twelve months and continue to watch the far-reaching affect that the subprime lending debacle is having on the economy as it continues to unfold. Your Company made a wise decision not to participate in the subprime business.

In spite of these challenges, your Company has grown total assets by \$28 million to \$491.3 million. Our loan portfolio at fiscal year end increased 9.5% to \$437 million, while deposits ended the year at \$350 million, up 6.1 % from the previous year. Net income for fiscal year 2008 was \$3,836,000 or \$0.87 diluted earnings per share, compared to \$4,091,000 or \$0.93 diluted earnings per share for the previous fiscal year, a 6.5% decrease in diluted earnings per share. The decrease in net income for the fiscal year compared to the same period last year can be attributed to an increase in non-interest expenses and the provision for loan losses offset by an increase in net interest income. The increase in non-interest expenses was due primarily to compensation related increases, as well as expenses related to implementing Section 404 of the Sarbanes-Oxley Act of 2002, marketing, information technology upgrades and professional fees. The increase in the provision for loan losses is primarily attributable to the growth in the commercial real estate loan portfolio. The increase in net interest income is attributable to an increase in loans receivable, partially offset by a decrease in the interest rate spread for this fiscal year compared to last.

Competition for core deposits has always been strong among financial institutions and with the compression of interest rate spreads that most

institutions are experiencing, competition for these lower cost accounts is becoming even stronger. In an effort to increase our checking account base, we have stream-lined the types of accounts being offered, both to the consumer and to our business customers. This will allow us to operate, as well as sell and market the enhanced benefits of these competitive products, more efficiently.

With technology continuing in the forefront of all we do, your Bank has been reviewing new operating systems to allow for growth, and also to maximize proficiency in serving our customers. We plan to implement a remote deposit capture service during the second fiscal quarter of this year which will give our commercial customers the convenience of making deposits to their accounts from their offices. A new website design is also scheduled to come online in early summer. We hope our customers will find these enhancements a refreshing change with much more functionality.

Our newsletter, "Community Notes of Interest," was introduced at the end of last year and gives our customers a snapshot of news for the quarter. In addition to announcing new staff members, internal promotions, and information on new products and services, the newsletter also serves as an educational tool to share industry news and updates.

We continue to look for opportunities to increase our presence in existing markets in order to provide added convenience to our customers. We also continually evaluate opportunities that new markets might present. While we did not open any new branch locations this fiscal year, we did acquire an existing building and parking lot in downtown Staunton at 211 West Frederick Street. This will provide office space for future growth of the Bank and much needed parking for our customers and employees.

At Community Bank, we are aware of the many changes in the banking industry in the areas we serve. From new competitors arriving in the marketplace to mergers and name changes, Community Bank remains your truly LOCAL bank. We are proud to have served the Shenandoah Valley since 1928 and the Hampton Roads market since 1997. During the past eighty years, we have provided our customers with financing to achieve home ownership as well as checking, savings, retirement and investment accounts and consumer loans to help them meet their financial needs. We have assisted commercial customers with the development of new businesses or expansion of existing ones - many times tailoring these products and services to meet the requirements of our customers.

Our board feels strongly that you, our stockholders, should share in the Company's success. They have recently approved and declared a \$0.065 per share dividend which was paid on May 28, 2008 to Stockholders of record as of May 14, 2008. This past fiscal year your Company paid out dividends to stockholders of \$1,121,000, or 29.2% of net earnings.

In summary, fiscal 2009 could be even more challenging than fiscal

# TO OUR STOCKHOLDERS

2008. As this report goes to press, we continue to see gas prices rise to record levels, uncertainty in the housing market and financial institutions concerned with margin compression and, in many instances, the deterioration of asset quality. Unlike many of our peers, our asset quality remains strong. Our loan charge-off rate for fiscal year 2008 was only .08% compared to our peers' charge-off rate of .73%. We believe that this will be a key factor in the continued success and prosperity of your Company. The changing landscape in our markets as a result of consolidations that have or will occur will also provide opportunities for us to expand our market share.

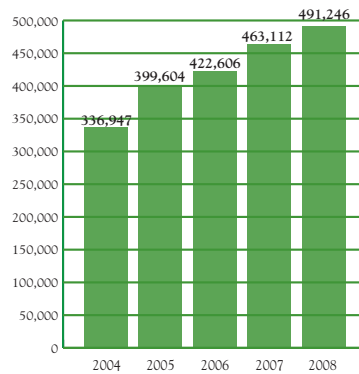
Our stock's performance has been somewhat disappointing; however, we don't always have control over the forces that influence its value. Your Board and Management have just completed a strategic plan which reaffirms the Company's focus on building long term shareholder value and we feel very optimistic about the future of your Company.

The Board, Management and Staff thank you, our shareholders, for your continued support. We hope you already have a financial relationship with Community Bank, but if not we would like to invite you to give us a try and open an account with us. Let us show you the level of service a local bank can offer. You won't be disappointed.

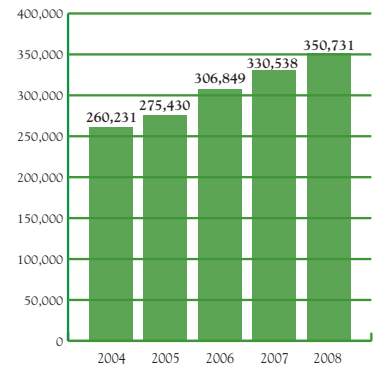
James R. Cooke, Jr.  
Chairman of the Board

P. Douglas Richard  
President & CEO

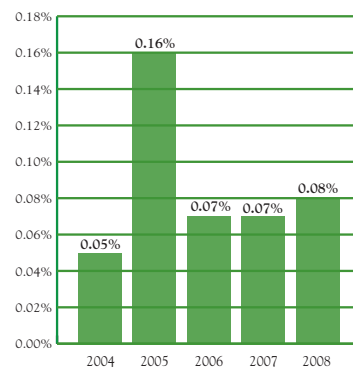
TOTAL ASSETS



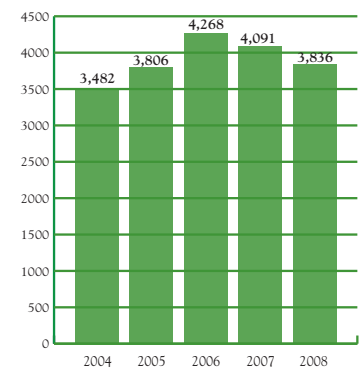
DEPOSITS



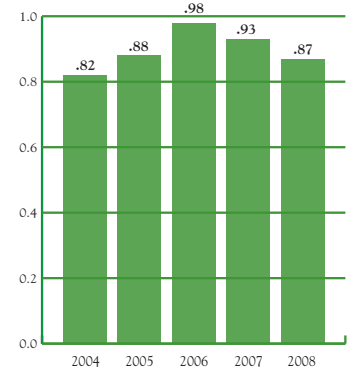
RATIO OF CHARGEOFFS TO LOANS



NET INCOME



DILUTED EARNINGS PER SHARE



## CORPORATE PROFILE

Community Bank was organized in 1928 as a Virginia-chartered building and loan association, converted to a federally-chartered savings and loan association in 1955 and to a federally-chartered savings bank in 1983. In 1988, Community Bank converted to the stock form of organization through the sale and issuance of 656,134 shares of its common stock. Community Financial was organized in 1989 by us for the purpose of becoming a thrift institution holding company. Effective January 31, 1990, Community Bank completed the holding company reorganization and Community Financial acquired all of the issued and outstanding shares of common stock of Community Bank. In 1996, Community Financial changed its place of incorporation to the Commonwealth of Virginia from the State of Delaware.

The principal asset of Community Financial is the outstanding stock of Community Bank, its wholly owned subsidiary. Community Financial

presently has no separate operations and its business consists only of the business of Community Bank.

Community Bank's primary business is to meet the financial needs of individuals, businesses and community organizations. Community Bank offers real estate, business and personal loans with complimentary deposit services such as checking, savings, certificates of deposit, money market and retirement accounts, cash management and internet banking services. Community Bank also offers insurance and investment products. Flexible, local and prompt decisions on loans and other financial service needs are a primary advantage of banking with Community Bank.

We're happy to say we've been helping people make smart banking decisions for more than 80 years!



# CORPORATE LEADERSHIP

## BOARD OF DIRECTORS

### Charles F. Andersen, M.D.

Dr. Andersen was an orthopedic surgeon in private practice in Waynesboro, Virginia for thirty years until his retirement in August, 2004.

### James R. Cooke, Jr., D.D.S.

Dr. Cooke has been a practicing dentist in Staunton, Virginia since 1965.

### Charles W. Fairchilds

Mr. Fairchilds has been the President of Allied Ready Mix Co., located in Waynesboro, Virginia since 1987.

### Jane C. Hickok

Mrs. Hickok was elected Vice Chairman of the Board in October 1994. She retired as President and Chief Executive Officer of Community Bank in October 1994 after serving since 1984. Mrs. Hickok also retired as President and Chief Executive Officer of Community Financial Corporation in January 1995, but continues to serve as a director of Community Financial and Community Bank. Mrs. Hickok was elected as a director of Community Bank in 1983 and as a director of Community



Back Row: Morgan N. Trimyer, Jr., Dale C. Smith, Charles W. Fairchilds, Charles F. Andersen, M.D.  
Seated: P. Douglas Richard, James R. Cooke, Jr., D.D.S., Jane C. Hickok

Financial in 1990 when it became the holding company of Community Bank.

### P. Douglas Richard

Mr. Richard was appointed the Acting President and Chief Executive Officer of Community Financial and Community Bank on January 12, 2000, and became the President and Chief Executive Officer

of Community Financial and Community Bank on April 26, 2000. He was appointed to the Board of Directors of Community Financial on April 26, 2000. From January 1, 1997, to January 12, 2000, Mr. Richard was a Senior Vice President of Community Bank. From December 1993 to January 1996 he was President and Chief Executive Officer of Seaboard Bancorp.

### Dale C. Smith

Mr. Smith was the General Manager and Chief Executive Officer of Augusta Cooperative-Farm Bureau, Inc., a farm supply and retail store, for thirty-nine years until his retirement September 1, 2002.

### Morgan N. Trimyer, Jr.

In January 2001, Mr. Trimyer joined Bankers Insurance, LLC, an insurance company located in Richmond, Virginia, as a Vice President and the Director of Marketing. Mr. Trimyer served as Vice President and Partner of Welton, Duke & Hawks, Inc., an insurance company headquartered in Portsmouth, Virginia from 1984 until January 2001. He was also Vice President of Valley Insurance Agency, Inc. located in Lexington, Virginia.

## HAMPTON ROADS BOARD OF DIRECTORS



Back Row: William R. Waddell, Robert M. Thornton, James R. Cooke, Jr., D.D.S., Berard Harrison, Leslie Watson, Morgan N. Trimyer, Jr.  
Seated: Chris P. Kyriakides, P. Douglas Richard

## EXECUTIVE MANAGEMENT



Norman C. Smiley, III  
President - Community Bank



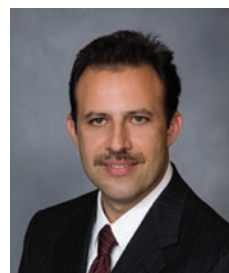
P. Douglas Richard  
CEO - Community Bank  
President & CEO - CFC



R. Jerry Giles  
Senior Vice President - Chief  
Financial Officer



Benny N. Werner  
Senior Vice President -  
Retail Banking



Chris P. Kyriakides  
Senior Vice President,  
President - Hampton Roads  
Region



Lyle A. Moffet  
Senior Vice President - Com-  
mercial Lending Officer



# OUR EMPLOYEES

## OUR MOST VALUABLE ASSETS

Gretchen Abshire <i>Assistant Vice President</i>	Kay Dean <i>Vice President</i>	Lauren Marshall	Ramona Savidge <i>Vice President/Secretary</i>
Chassidy Ashby	Sara Dean	Stephanie Marshall	Brenda Sayre <i>Assistant Vice President</i>
Jacelyn Bailey	Grace Dick	Paul Martin <i>Vice President</i>	Marie Schmitt
Michele Bartley <i>Vice President</i>	Debra Earhart	Ryan May	Rachel Sellers
Kim Beam	Patricia Evans <i>Assistant Vice President</i>	Rich Mayer <i>Vice President/Controller</i>	Lee Ralston Shaner
Amy Beech	Rebecca Fielding	Pam McGovern	Karen Sheehan
Sarah Bennett	Danny Fields <i>Vice President</i>	Jennifer McNamera	Chad Sheffer
Greg Berkshire <i>Assistant Vice President</i>	Thomas Fleisher	Sally Medeiros	Jeanne Simmons
Marie Biser <i>Assistant Vice President</i>	Brenda Frazier	Emilie Mehrtens	Butch Smiley <i>President - Community Bank</i>
JT Bishop <i>Vice President</i>	Jerry Giles <i>Chief Financial Officer</i>	Heather Miller	Bethany Smith
Dianne Booth <i>Assistant Vice President</i>	Jessica Griffin	Peggy Miller	Crystal Sorrells
Kari Botkin	Erika Gurdag	Lyle Moffett <i>Senior Vice President</i>	Susan Sorrells
Jennifer Boxler	William Haessly	Rosalie Moster <i>Assistant Secretary</i>	Jacelyn Spears
Janet Braithwaite	Darlene Hall <i>Vice President</i>	Megan Murtagh	Sara Stanko
Emily Breeden	Jim Harlow	Phil Nicely	Fran Stauffer
Linda Brown	Norman Hart	Shay Nicely	Gene Straley
Kathy Bryan <i>Vice President</i>	Mallory Heizer	Claire O'Connor	Wendy Sutton
Jennifer Bryant	Angela Hinton	Beth O'Quinn	Carol Tanner
Marie Bufkin	Laura Lee Hostetter	Dinah Ordewald	Tami Taylor
Deborah Burnett <i>Assistant Vice President</i>	Carolyn Howell	Jane Orem <i>Vice President</i>	Julie Thomas
Garner Byram	Andrea Hunter	Shelly Parker <i>Assistant Vice President</i>	Courtney Thompson
Bill Campbell	Sabrina Johnson	Kim Patterson	Betty Trainer <i>Vice President</i>
Dianne Campbell <i>Vice President</i>	Arbutis Jones	Catherine Pauly <i>Assistant Secretary</i>	Samantha Tuennermann
Lona Cannon	Denia Jove	Robert Pennington <i>Vice President</i>	Linda Turner
Martha Chandler <i>Assistant Vice President</i>	Heather Ketchum	Liza Piszker <i>Assistant Vice President</i>	Glenn VanLear <i>Assistant Vice President</i>
Stacy Clemmer	Teresa Knapton	Debra Poole	Angie Weaver
Michelle Coffey <i>Assistant Secretary</i>	Debbie Knott	Jennifer Powell	Benny Werner <i>Senior Vice President</i>
Tess Cole	Andy Kozubal <i>Assistant Vice President</i>	Samantha Ralston	Stacy Whaley
Paul Coleman <i>Vice President</i>	Julie Krumpster	Janet Redifer <i>Assistant Vice President</i>	Jewel White
Tabitha Cote <i>Assistant Vice President</i>	Charlie Kurtz	Doug Richard <i>Chief Executive Officer President &amp; CEO - Community Financial Corporation</i>	Tammy Wilkes
Teresa Cox <i>Assistant Secretary</i>	Chris Kyriakides <i>Senior Vice President</i>	Debra Poole	Dee Wimer
John Craft <i>Vice President</i>	Kate Lamneck	Jennifer Powell	Barbara Wood <i>Assistant Vice President</i>
Gary Davenport <i>Vice President</i>	Melissa Lantz	Samantha Ralston	Linda Wood <i>Assistant Vice President</i>
Charlott Dean <i>Assistant Vice President</i>	Glenna Lawhorn <i>Assistant Vice President</i>	Janet Redifer <i>Assistant Vice President</i>	Connie Yauilla
	Rose Lilly	Doug Richard <i>Chief Executive Officer President &amp; CEO - Community Financial Corporation</i>	Charlotte Young
	Molly Losh	Debra Poole	Joe Zakaib <i>Vice President</i>
	Don Luttrell	Jennifer Powell	
	Amanda Marrs	Samantha Ralston	
	Heather Marshall	Janet Redifer <i>Assistant Vice President</i>	
	Jessica Marshall	Doug Richard <i>Chief Executive Officer President &amp; CEO - Community Financial Corporation</i>	

# LOCATIONS

## VALLEY REGION



### CORPORATE HEADQUARTERS

38 North Central Avenue  
Staunton, Virginia 24401  
Phone: 540.886.0796  
Fax: 540.885.0643



### RICHMOND ROAD

101 Community Way  
Staunton, Virginia 24401  
Phone: 540.213.3888  
Fax: 540.213.0638



### WAYNESBORO

2934 West Main Street  
Waynesboro, Virginia, 22980  
Phone: 540.943.5000  
Fax: 540.943.2097



### RAPHINE

2134 Raphine Road  
Raphine, Virginia, 24472  
Phone: 540.377.5300  
Fax: 540.377.5304

FOR OUR CUSTOMERS' CONVENIENCE, WE ALSO PROVIDE ACCESS TO COMMUNITY BANK SERVICES THRU:

### ATM LOCATIONS

- 8 On-site Locations
- 15 in Food Lion Stores in the Hampton Roads Area
- Orchard Creek Plaza in Raphine, VA
- Surcharge-free ATM usage at over 32,000 locations coast-to-coast using the Allpoint Network.

### 24 HOUR ACCESS

- Internet Banking/Web Address at [www.cbnk.com](http://www.cbnk.com)
- Telephone Banking, ExpressLines:
  - Staunton..... 540.885.7938
  - Waynesboro..... 540.943.5070
  - Hampton Roads & all other locations..... 800.479.7938
- Email Inquiries - [cbnk@cbnk.com](mailto:cbnk@cbnk.com)



# LOCATIONS



## STUARTS DRAFT

2658 Stuarts Draft Highway  
Stuarts Draft, Virginia, 24477  
Phone: 540.337.1514  
Fax: 540.337.0665



## VERONA

21 Dick Huff Lane  
Verona, Virginia, 24482  
Phone: 540.248.0700  
Fax: 540.248.1117



## HARRISONBURG

463 Hidden Creek Lane  
Harrisonburg, Virginia, 22801  
Phone: 540.437.0515  
Fax: 540.248.2019

## INDIRECT FINANCE DEPT.

463 Hidden Creek Lane  
Harrisonburg, Virginia, 22801  
Phone: 540.437.0510  
Fax: 866.262.2166



## LEXINGTON

102 Walker Street  
Lexington, Virginia, 24450  
Phone: 540.464.9400  
Fax: 540.464.9401

## HAMPTON ROADS REGION



## REGIONAL HEADQUARTERS HILLTOP, VIRGINIA BEACH

621 Nevan Road  
Virginia Beach, Virginia, 23451  
Phone: 757.491.8810  
Fax: 757.491.8102



## LAKE JAMES, VIRGINIA BEACH

1201 Lake James Drive  
Virginia Beach, Virginia, 23464  
Phone: 757.424.5600  
Fax: 757.424.5645

# STOCKHOLDER INFORMATION

## ANNUAL MEETING

The annual meeting of stockholders of Community Financial Corporation will be held at 6:30 p.m. local time, Wednesday, July 30, 2008 at our executive offices located at 38 North Central Avenue, Staunton, Virginia.

## TRANSFER AGENT

Registrar and Transfer Company  
10 Commerce Drive  
Cranford, NJ 07016-3572  
800.368.5948  
info@rtco.com  
www.rtco.com

## INDEPENDENT AUDITORS

Yount, Hyde & Barbour, P.C.  
50 South Cameron Street  
Winchester, Virginia 22601

## MARKET MAKERS

Scott & Stringfellow, Inc.  
RBC Capital Markets Corporation  
Ferris Baker Watts, Inc.

## LEGAL COUNSEL

Silver, Freedman & Taff, L.L.P.  
3299 K Street, N.W., Suite 100  
Washington, D.C. 20007

## COMMON STOCK

As of May 30, 2008 there were approximately 449 holders of record of Community Financial common stock. Community Financial common stock is traded on The Nasdaq Small Cap Market under the symbol "CFFC." The number of shareholders of record does not reflect persons or entities who hold their stock in nominee or "street" name.

The following tables present the high, low and closing sales prices of our common stock as reported by the Nasdaq Stock Market during the last two fiscal years and the dividends declared by us for the stated periods. All information for the periods presented has been retroactively restated to reflect the stock split declared July 26, 2006.

<b>Fiscal 2008</b>	<b>High</b>	<b>Low</b>	<b>Close</b>	<b>Dividend Declared</b>
March 2008	\$ 9.09	\$7.03	\$ 8.00	\$.065
December 2007	10.40	8.37	8.99	.065
September 2007	11.00	9.20	9.30	.065
June 2007	11.89	11.00	11.43	.065
<b>Fiscal 2007</b>	<b>High</b>	<b>Low</b>	<b>Close</b>	<b>Dividend Declared</b>
March 2007	\$12.75	\$11.05	\$11.75	\$.065
December 2006	12.50	11.00	11.72	.065
September 2006	12.97	10.59	11.81	.065
June 2006	12.03	10.94	11.70	.060

The Board of Directors of Community Financial makes dividend payment decisions with consideration of a variety of factors, including earnings, financial condition, market considerations and regulatory restrictions. Our ability to pay dividends is limited by restrictions imposed by the Virginia Stock Corporation Act, and indirectly, by the Office of Thrift Supervision. Restrictions on dividend payments from Community Bank to Community Financial (Community Financial's primary source of funds for the payment of dividends to its stockholders) are described in Note 10 of the Notes to Consolidated Financial Statements contained in Item 8 of Form 10-K.