UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from __________ to __________

Commission File No. 0-18279

TRI-COUNTY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**52-1652138**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3035 Leonardtown Road, Waldorf, Maryland	**20601**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(301) 645-5601**

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

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

Common Stock, par value $0.01 per share
(Title of Class)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 þ No o

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

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

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant was approximately $51.9 million based on the closing price ($25.71 per share) at which the common stock, $0.01 par value, was sold on the last business day of the Company's most recently completed second fiscal quarter. For purposes of this calculation only, the shares held by directors and executive officers of the registrant are deemed to be shares held by affiliates.

Number of shares of common stock outstanding as of March 10, 2008: 2,961,074

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders for the year ended December 31, 2007. (Part II)
2. Portions of the Proxy Statement for the 2008 Annual Meeting of Stockholders. (Part III)

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PART I

This report contains certain "forward-looking statements" within the meaning of the federal securities laws. These statements are not historical facts, rather statements based on Tri-County Financial Corporation's current expectations regarding its business strategies, intended results and future performance. Forward-looking statements are preceded by terms such as "expects," "believes," "anticipates," "intends" and similar expressions.

Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors that could affect actual results include interest rate trends, the general economic climate in the market area in which Tri-County Financial Corporation operates, as well as nationwide, Tri-County Financial Corporation's ability to control costs and expenses, competitive products and pricing, loan delinquency rates and changes in federal and state legislation and regulation. These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Tri-County Financial Corporation assumes no obligation to update any forward-looking statements.

Item 1. Business

Tri-County Financial Corporation (the "Company") is a bank holding company organized in 1989 under the laws of the State of Maryland. It presently owns all the outstanding shares of capital stock of Community Bank of Tri-County (the "Bank"), a Maryland-chartered commercial bank. The Bank was originally organized in 1950 as Tri-County Building and Loan Association of Waldorf, a mutual savings and loan association, and in 1986 converted to a federal stock savings bank and adopted the name Tri-County Federal Savings Bank. In 1997, the Bank converted to a Maryland-chartered commercial bank and adopted its current corporate title. The Company engages in no significant activity other than holding the stock of the Bank and operating the business of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank and its subsidiaries.

The Bank serves the southern Maryland counties of Charles, Calvert and St. Mary's, (the "Tri-County area") through its main office and eight branches located in Waldorf, Bryans Road, Dunkirk, Leonardtown, La Plata, Charlotte Hall, Prince Frederick and California, Maryland. The Bank operates fifteen automated teller machines ("ATMs") including six stand-alone locations in the Tri-County area. The Bank offers telephone and internet banking services. The Bank is engaged in the commercial and retail banking business as authorized by the banking statutes of the State of Maryland and applicable federal regulations, including the acceptance of deposits, and the origination of loans to individuals, associations, partnerships and corporations. The Bank's real estate financing consists of residential first and second mortgage loans, home equity lines of credit and commercial mortgage loans. Commercial lending consists of both secured and unsecured loans. The Bank is a member of the Federal Reserve and Federal Home Loan Bank (the "FHLB") system and its deposits are insured up to applicable limits by the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation (the "FDIC").

The Company's executive offices are located at 3035 Leonardtown Road, Waldorf, Maryland. Its telephone number is (301) 645-5601.

Available Information

The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and any amendments to such reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge on its website, www.cbtc.com, as soon as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission. Information on the website should not be considered a part of this Form 10-K.

Market Area

The Bank considers its principal lending and deposit market area to consist of the southern Maryland counties of Charles, Calvert and St. Mary's. These counties have experienced significant population growth during the past decade due to their proximity to the rapidly growing Washington, DC and Baltimore metropolitan areas.

Southern Maryland is generally considered to have more affordable housing than many other Washington and Baltimore area suburbs. In addition, the area has experienced rapid growth in businesses and federal facilities located in the area. Major federal facilities include the Patuxent Naval Air Station in St. Mary's County. The Patuxent Naval Air Station has undergone significant expansion in the last several years and is projected to continue to expand for several more years.

Rapid growth in our market area has been constrained by certain government policies, as all three counties have attempted to limit growth in certain areas. These policies have created some uncertainty about zoning and land use regulations. In some cases, real estate development work has been delayed or cancelled as a result of these policies. For example, Charles County introduced a user fee system, which would involve upfront payments in real estate development, but would remove subsequent regulatory delays. This system has not had an appreciable effect on the pace of residential development. Future regulatory events may adversely affect the Bank's loan growth.

Competition

The Bank faces strong competition in the attraction of deposits and in the origination of loans. Its most direct competition for deposits and loans comes from other banks, savings and loan associations, and federal and state credit unions located in its primary market area. There are currently 14 FDIC-insured depository institutions operating in the Tri-County area including subsidiaries of several regional and super-regional bank holding companies. According to statistics compiled by the FDIC, the Bank was ranked third in deposit market share in the Tri-County area as of June 30, 2007, the latest date for which such data is available. The Bank faces additional significant competition for investors' funds from mutual funds, brokerage firms, and other high quality financial institutions. The Bank competes for loans by providing competitive rates, flexibility of terms, and service. It competes for deposits by offering depositors a wide variety of account types, convenient office locations and competitive rates. Other services offered include tax-deferred retirement programs, brokerage services, and safe deposit boxes. The Bank has used direct mail, billboard and newspaper advertising to increase its market share of deposits, loans and other services in its market area. It provides ongoing training for its staff in an attempt to ensure high-quality service.

Lending Activities

General. The Bank offers a wide variety of real estate, consumer and commercial loans. The Bank's lending activities include residential and commercial real estate loans, construction loans, land acquisition and development loans, equipment financing and commercial and consumer loans. Most of the Bank's customers are residents of, or businesses located in, the Tri-County area. The Bank's primary market for commercial loans consists of small and medium-sized businesses located in southern Maryland. The Bank believes that this market is responsive to the Bank's ability to provide personal service and flexibility. The Bank attracts customers for its consumer lending products based upon its ability to offer service, flexibility, and competitive pricing, as well as by leveraging other banking relationships such as soliciting deposit customers for loans.

Residential First Mortgage Loans. Residential first mortgage loans made by the Bank are generally long-term loans, amortized on a monthly basis, with principal and interest due each month. The initial contractual loan payment period for residential loans typically ranges from ten to 30 years. The Bank's experience indicates that real estate loans remain outstanding for significantly shorter periods than their contractual terms. Borrowers may refinance or prepay loans at their option, without penalty. The Bank originates both fixed-rate and adjustable-rate residential first mortgages.

The Bank offers fixed-rate residential first mortgages on a variety of terms including loan periods from ten to 30 years and bi-weekly payment loans. Total fixed-rate loan products in our residential first mortgage portfolio amounted to $80.7 million as of December 31, 2007. Fixed-rate loans may be packaged and sold to investors or retained in the Bank's loan portfolio. Depending on market conditions, the Bank may elect to retain the right to service the loans sold for a payment based upon a percentage (generally 0.25% of the outstanding loan balance). These servicing rights may be sold to other qualified servicers. As of December 31, 2007, the Bank serviced $25.5 million in residential mortgage loans for others.

The Bank also offers mortgages that are adjustable on a one-, three- and five-year basis generally with limitations on upward adjustments of two percentage points per repricing period and six percentage points over the life of the loan. The Bank primarily markets adjustable-rate loans with rate adjustments based upon a United States Treasury Bill Index. As of December 31, 2007, the Bank had $10.2 million in adjustable-rate residential mortgage loans. The retention of adjustable-rate mortgage loans in the Bank's loan portfolio helps reduce the negative effects of increases in interest rates on the Bank's net interest income. Under certain conditions, however, the annual and lifetime limitations on interest rate adjustments may limit the increases in interest rates on these loans. There are also unquantifiable credit risks resulting from potential increased costs to the borrower as a result of repricing of adjustable-rate mortgage loans. During periods of rising interest rates, the risk of default on adjustable-rate mortgage loans may increase due to the upward adjustment of interest cost to the borrower. In addition, the initial interest rate on adjustable-rate loans is generally lower than that on a fixed-rate loan of similar credit quality and size.

The Bank makes residential first mortgage loans of up to 97% of appraised value or sales price of the property, whichever is less, to qualified owner-occupants upon the security of single-family homes. Non-owner occupied one- to four-family loans and loans secured by something other than residential real estate are generally permitted to a maximum 80% loan-to-value of the appraised value depending on the overall strength of the application. The Bank currently requires that substantially all residential first mortgage loans with loan-to-value ratios in excess of 80% carry private mortgage insurance to lower the Bank's exposure to approximately 80% of the value of the property. In certain cases, the borrower may elect to borrow amounts in excess of 80% loan-to-value in the form of a second mortgage. The second mortgage will generally have a higher interest rate and shorter repayment period than the first mortgage on the same property.

All improved real estate that serves as security for a loan made by the Bank must be insured, in the amount and by such companies as may be approved by the Bank, against fire, vandalism, malicious mischief and other hazards. Such insurance must be maintained through the entire term of the loan and in an amount not less than that amount necessary to pay the Bank's indebtedness in full.

Commercial Real Estate and Other Non-Residential Real Estate Loans. The permanent financing of commercial and other improved real estate projects, including office buildings, retail locations, churches, and other special purpose buildings is the largest single component of the Bank's loan portfolio. Commercial real estate loans amounted to $190.5 million, or 41.6%, of the loan portfolio at December 31, 2007. This was an increase in absolute size over the prior year but a slight decline as a percentage of the loan portfolio. The primary security on a commercial real estate loan is the real property and the leases that produce income for the real property. The Bank generally limits its exposure to a single borrower to 15% of the Bank's capital and frequently participates with other lenders on larger projects. Loans secured by commercial real estate are generally limited to 80% of the lower of the appraised value or sales price and have an initial contractual loan payment period ranging from three to 25 years. Virtually all of the Bank's commercial real estate loans, as well as its construction loans discussed below, are secured by real estate located in the Bank's primary market area. At December 31, 2007, the largest outstanding commercial real estate loan was a $3.8 million loan, which is secured by an apartment complex. This loan was performing according to its terms at December 31, 2007.

Loans secured by commercial real estate are larger and involve greater risks than one- to four-family residential mortgage loans. Because payments on loans secured by such properties are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. As a result of the greater emphasis that the Bank places on commercial real estate loans, the Bank is increasingly exposed to the risks posed by this type of lending. To monitor cash flows on income properties, the Bank requires borrowers and loan guarantors, if any, to provide annual financial statements on multi-family or commercial real estate loans. In reaching a decision on whether to make a multi-family or commercial real estate loan, the Bank considers the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property. Environmental surveys are generally required for commercial real estate loans over $250,000.

Construction and Land Development Loans. The Bank offers construction loans to individuals and building contractors for the construction of one- to four-family dwellings. Construction loans totaled $19.7 million at December 31, 2007. Loans to individuals primarily consist of construction/permanent loans, which have fixed rates, payable monthly for the construction period and are followed by a 30-year, fixed- or adjustable-rate permanent loan. The Bank also provides construction and land development loans to home building and real estate development companies. Generally, these loans are secured by the real estate under construction as well as by guarantees of the principals involved. Draws are made upon satisfactory completion of predefined stages of construction or development. The Bank will typically lend up to the lower of 80% of the appraised value or purchase price.

In addition, the Bank offers loans to acquire and develop land, as well as loans on undeveloped, subdivided lots for home building by individuals. Land acquisition and development loans totaled $30.9 million at December 31, 2007. Bank policy requires that zoning and permits must be in place prior to making development loans.

The Bank's ability to originate all types of construction and development loans is heavily dependent on the continued demand for single-family housing construction in the Bank's market areas. If the demand for new houses in the Bank's market areas were to decline, the Bank may be forced to shift a portion of its lending emphasis. There can be no assurance of the Bank's ability to continue growth and profitability in its construction lending activities in the event of such a decline.

Construction and land development loans are inherently riskier than providing financing on owner-occupied real estate. The Bank's risk of loss is dependent on the accuracy of the initial estimate of the market value of the completed project as well as the accuracy of the cost estimates made to complete the project. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the development. If the estimate of value proves to be inaccurate, the Bank may be confronted, at or before the maturity of the loan, with a project having a value that is insufficient to assure full repayment. As a result of the foregoing, construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of the borrower or guarantor to repay principal and interest. If the Bank is forced to foreclose on a project before or at completion due to a default, there can be no assurance that the Bank will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs.

Home Equity and Second Mortgage Loans. The Bank has maintained a portfolio of home equity and second mortgage loans. Home equity loans, which totaled $17.0 million at December 31, 2007, are generally made in the form of lines of credit with minimum amounts of $5,000, have terms of up to 20 years, variable rates priced at prime or some margin above prime, and require an 80% or 90% loan-to-value ratio (including any prior liens), depending on the specific loan program. Second mortgage loans, which totaled $7.6 million at December 31, 2007 are fixed and variable-rate loans that have original terms between five and 15 years. Loan-to-value ratios of up to 80% or 95% are allowed depending on the specific loan program.

These products contain a higher risk of default than residential first mortgages as in the event of foreclosure, the first mortgage would need to be paid off prior to collection of the second. The Bank believes that its policies and procedures are sufficient to mitigate the additional risk.

Commercial Loans. The Bank offers commercial loans to its business customers. The Bank offers a variety of commercial loan services including term loans and lines of credit. Such loans are generally made for terms of five years or less. The Bank offers both fixed-rate and adjustable-rate loans under these product lines. This portion of our portfolio has grown rapidly in the last several years, growing from $15.0 million and 8.6% of the portfolio in 2000 to $76.7 million and 18.0% of the overall loan portfolio at December 31,2006. However, due to the worsening economy, commercial business loans decreased slightly to $75.2 million and 16.4% of the overall loan portfolio at December 31, 2007. When making commercial business loans, the Bank considers the financial statements of the borrower, the borrower's payment history of both corporate and personal debt, the projected cash flow of the business, the viability of the industry in which the consumer operates, the value of the collateral, and the borrower's ability to service the debt from income. These loans are primarily secured by equipment, real property, accounts receivable, or other security as determined by the Bank. The higher interest rates and shorter loan terms available on commercial lending make these products attractive to the Bank. Commercial business loans, however, entail greater risk than residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income and which are secured by real property whose value tends to be more easily ascertainable, commercial loans are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. In the case of business failure, collateral would need to be liquidated to provide repayment for the loan. In many cases, the highly specialized nature of collateral equipment would make full recovery from the sale of collateral problematic. The Bank attempts to control these risks by establishing guidelines that provide for over collateralization of the loans. At December 31, 2007, the largest outstanding commercial loan was $3.8 million, which was secured by commercial real estate. This loan was performing according to its terms at December 31, 2007.

Consumer Loans. The Bank has developed a number of programs to serve the needs of its customers with primary emphasis upon direct loans secured by automobiles, boats, recreational vehicles and trucks. The Bank also makes home improvement loans and offers both secured and unsecured personal lines of credit. The higher interest rates and shorter loan terms available on consumer lending make these products attractive to the Bank. Consumer loans entail greater risk than residential mortgage loans, particularly in the case of consumer loans, which are unsecured or secured by rapidly depreciable assets such as automobiles. In such cases, any repossessed collateral may not provide an adequate source of repayment of the outstanding loan balance. The remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent on the borrower's continuing financial stability and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans. Such loans may also give rise to claims and defenses by a consumer loan borrower against an assignee such as the Bank, and a borrower may be able to assert against such assignee claims and defenses that it has against the seller of the underlying collateral.

Commercial Equipment Loans. The Bank has also grown its commercial equipment financing. These loans consist primarily of fixed-rate, short-term loans collateralized by customers' equipment including trucks, cars, construction equipment, and other more specialized equipment. When making commercial equipment loans, the Bank considers the financial statements of the borrower, the borrower's payment history of both corporate and personal debt, the projected cash flows of the business, the viability of the industry in which the consumer operates, the value of the collateral and the borrower's ability to repay the loans from income. The higher interest rates and shorter loan terms available on commercial equipment lending make these products attractive to the Bank. These loans entail greater risk than loans such as residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income and which are secured by real property whose value tends to be more easily ascertainable, commercial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. In the case of business failure, collateral would need to be liquidated to provide repayment for the loan. In many cases, the highly specialized nature of collateral equipment would make full recovery from the sale of collateral problematic. The Bank attempts to control these risks by establishing guidelines that provide for over collateralization of the loans.

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Loan Portfolio Analysis. Set forth below is selected data relating to the composition of the Bank's loan portfolio by type of loan on the dates indicated.

	At December 31,									
	2007		2006		2005		2004		2003	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Real Estate Loans										
Commercial	$ 190,484	41.55%	$ 181,933	42.63%	$ 170,096	45.53%	$ 137,983	47.07%	$ 94,850	42.93%
Residential first mortgage	90,932	19.83%	80,781	18.93%	73,628	19.71%	59,087	20.16%	42,971	19.45%
Construction and land development	50,577	11.03%	41,715	9.78%	31,450	8.42%	17,598	6.00%	19,599	8.87%
Home equity and second mortgage	24,650	5.38%	24,572	5.76%	25,884	6.93%	23,925	8.16%	19,562	8.85%
Commercial loans	75,247	16.41%	76,651	17.96%	52,651	14.09%	37,495	12.79%	29,411	13.31%
Consumer loans	2,465	0.54%	2,813	0.66%	3,128	0.84%	3,463	1.18%	4,097	1.85%
Commercial equipment	24,113	5.26%	18,288	4.29%	16,742	4.48%	13,596	4.64%	10,473	4.74%
Total loans	458,468	100.00%	426,754	100.00%	373,579	100.00%	293,147	100.00%	220,963	100.00%
Less: Deferred loan fees	372		490		604		764		650	
Loan loss reserve	4,482		3,784		3,383		3,058		2,573	
Loans receivable, net	$ 453,614		$ 422,480		$ 369,592		$ 289,325		$ 217,740	

Loan Originations, Purchases and Sales. The Bank solicits loan applications through its branch network, directly through referrals from customers, and through marketing by commercial and residential mortgage loan officers. Loans are processed and approved according to guidelines deemed appropriate for each product type. Loan requirements such as income verification, collateral appraisal, and credit reports vary by loan type. Loan processing functions are generally centralized except for small consumer loans.

Loan Approvals, Procedures and Authority. Loan approval authority is established by Board policy and delegated as deemed necessary and appropriate. Loan approval authorities vary by individual with the President having approval authority up to $1.25 million, Chief Lending Officer $1.0 million, and the Chief Credit Officer $750 thousand. The individual lending authority of the other lenders is set by management and based on their individual abilities. The loan approval authorities of the President, Chief Lending Officer and the Chief Credit Officer may be combined and a minimum of at least two of the three need to be present in an officers' loan committee up to $2.0 million. In cases where time is of the essence, the officers' loan committee consisting of all three members may unanimously approve loans to relationships in excess of the $2.0 million up to the legal limit with a later ratification by the Board Credit Review Committee. A loan committee consisting of at least three board members of the Board (the "Credit Review Committee") ratifies all commercial real estate loans and approves or renews all loans to relationships that exceed $2.0 million, except for those noted above that exceed the $2.0 million limit in certain cases. Depending on the loan and collateral type, conditions for protecting the Bank's collateral are specified in the loan documents. Typically these conditions might include requirements to maintain hazard and title insurance and to pay property taxes

Depending on market conditions, mortgage loans may be originated primarily with the intent to sell to third parties such as Fannie Mae or Freddie Mac. However, no mortgage loans were sold by the Bank in 2007. To comply with internal and regulatory limits on loans to one borrower, the Bank routinely sells portions of commercial and commercial real estate loans to other lenders. The Bank sold $8.8 million in participations in 2007. The Bank also routinely buys portions of loans, or participation certificates from other lenders. The Bank only purchases loans or portions of loans after reviewing loan documents, underwriting support, and other procedures, as necessary. The Bank purchased $6.7 million in participations in 2007. Purchased loans are subject to the same regulatory and internal policy requirements as other loans in the Bank's portfolio.

Loans to One Borrower. Under Maryland law, the maximum amount that the Bank is permitted to lend to any one borrower and his or her related interests may generally not exceed 10% of the Bank's unimpaired capital and surplus, which is defined to include the Bank's capital, surplus, retained earnings and 50% of its reserve for possible loan losses. Under this authority, the Bank would have been permitted to lend up to $6.2 million to any one borrower at December 31, 2007. By interpretive ruling of the Commissioner of Financial Regulation, Maryland banks have the option of lending up to the amount that would be permissible for a national bank, which is generally 15% of unimpaired capital and surplus (defined to include a bank's total capital for regulatory capital purposes plus any loan loss allowances not included in regulatory capital). Under this formula, the Bank would have been permitted to lend up to $9.6 million to any one borrower at December 31, 2007. At December 31, 2007, the largest amount outstanding to any one borrower and his or her related interests was $8.0 million.

Loan Commitments. The Bank does not normally negotiate standby commitments for the construction and purchase of real estate. Conventional loan commitments are granted for a one-month period. The Bank's outstanding commitments to originate loans at December 31, 2007 was approximately $18.3 million, excluding undisbursed portions of loans in process. It has been the Bank's experience that few commitments expire unfunded.

Maturity of Loan Portfolio. The following table sets forth certain information at December 31, 2007 regarding the dollar amount of loans maturing in the Bank's portfolio based on their contractual terms to maturity. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less.

	Due within one year after December 31, 2007	Due after one year through five years from December 31, 2007	Due more than five years from December 31, 2007
		(Dollars in thousands)	
Real Estate Loans			
Commercial	$ 20,871	$ 28,334	$ 141,279
Residential first mortgage	3,239	13,976	73,717
Construction and land development	45,362	5,215	—
Home equity and second mortgage	15,996	3,412	5,242
Commercial lines of credit	75,247	—	—
Consumer loans	652	400	1,413
Commercial equipment	7,662	12,504	3,947
Total loans	$ 169,029	$ 63,841	$ 225,598

The following table sets forth the dollar amount of all loans due after one year from December 31, 2007, which have predetermined interest rates and have floating or adjustable interest rates.

	Fixed Rates	Floating or Adjustable Rates	Total
		(Dollars in thousands)	
Real Estate Loans			
Commercial	$ 23,295	$ 146,318	$169,613
Residential first mortgage	77,747	9,946	87,693
Construction and land development	—	5,215	5,215
Home equity and second mortgage	8,654	—	8,654
Commercial lines of credit	—	—	—
Consumer loans	1,813	—	1,813
Commercial equipment	16,451	—	16,451
	$127,960	$ 161,479	$289,439

Delinquencies. The Bank's collection procedures provide that when a loan is 15 days delinquent, the borrower is contacted by mail and payment is requested. If the delinquency continues, subsequent efforts will be made to contact the delinquent borrower and obtain payment. If these efforts prove unsuccessful, the Bank will pursue appropriate legal action including repossession of the collateral and other actions as deemed necessary. In certain instances, the Bank will attempt to modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize his financial affairs.

Non-Performing Assets and Asset Classification. Loans are reviewed on a regular basis and are placed on a non-accrual status when, in the opinion of management, the collection of additional interest is doubtful. Residential mortgage loans are placed on non-accrual status when either principal or interest is 90 days or more past due unless they are adequately secured and there is reasonable assurance of full collection of principal and interest.

Consumer loans generally are charged off when the loan becomes more than 120 days delinquent. Commercial business and real estate loans are placed on non-accrual status when the loan is 90 days or more past due or when the loan's condition puts the timely repayment of principal and interest in doubt. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on management's assessment of the ultimate collectibility of the loan.

Foreclosed Real Estate

Real estate acquired by the Bank as a result of foreclosure or by deed in lieu of foreclosure is classified as foreclosed real estate until such time as it is sold. When such property is acquired, it is recorded at its fair market value. Subsequent to foreclosure, the property is carried at the lower of cost or fair value less selling costs. Additional write-downs as well as carrying expenses of the foreclosed properties are charged to expenses in the current period. The Bank had no foreclosed real estate at December 31, 2007.

Delinquent and Nonaccrual Loans

The following table sets forth information with respect to the Bank's non-performing loans for the dates indicated. At the dates shown, the Bank had loans in the amount of $755,000 considered impaired loans within the meaning of Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" and 118, "Accounting by Creditors for Impairment of a Loan — Income Recognition and Disclosures" and no accruing loans that are contractually past due 90 days or more.

	At December 31,				
	2007	2006	2005	2004	2003
			(In thousands)		
Loans accounted for on a nonaccrual basis:					
Real Estate Loans					
Commercial	$ —	$ 390	$ —	$ —	$ —
Residential first mortgage	274	273	273	273	275
Construction and land development	—	—	—	—	—
Home equity and second mortgage	—	—	53	—	—
Commercial loans	60	303	258	393	103
Consumer loans	80	80	7	9	1
Commercial equipment	—	—	—	—	—
Total	414	1,046	591	675	379
Total non-performing loans	$ 414	$ 1,046	$ 591	$ 675	$ 379

During the year ended December 31, 2007, gross interest income of $125,000 would have been recorded on loans accounted for on a non-accrual basis if the loans had been current throughout the period. During 2007, the Company recognized $24,000 in interest on these loans. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. Consumer loans are charged-off no later than 180 days past due. In all cases, loans are placed on non-accrual or charged-off at an earlier date, if collection of principal or interest is considered doubtful. All interest accrued but not collected from 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 principal and interest amounts contractually due are brought current and future payments are reasonably assured.

In addition to the loans contained in the table above, at December 31, 2007, the Bank identified a loan relationship totaling $3.5 million in which the borrower had possible credit problems that caused management to have doubts as to the ability of such borrower to comply with the present loan repayment terms and that may result in the future inclusion of such loan in the table above. These loans have been classified by the Bank as substandard.

The following table sets forth an analysis of activity in the Bank's allowance for loan losses for the periods indicated.

	At December 31,				
	2007	2006	2005	2004	2003
			(Dollars in Thousands)		
Balance at beginning of period	$ 3,784	$ 3,383	$ 3,058	$ 2,573	$ 2,314
Charge-offs:					
Commercial real estate	29	—	—	—	—
Commercial loans	73	—	3	1	35
Consumer loans	56	8	2	3	2
Commercial equipment	—	—	4	14	24
Total Charge-offs:	158	8	9	17	61
Recoveries:					
Residential first mortgage	—	—	—	33	—
Consumer loans	2	3	—	9	—
Commercial equipment	—	—	5	8	2
Total Recoveries	2	3	5	49	2
Net charge-offs	156	5	4	(32)	58
Provision for Possible Loan Losses	854	406	329	453	317
Balance at End of Period	$ 4,482	$ 3,784	$ 3,383	$ 3,058	$ 2,573
Ratio of net charge -offs to average loans outstanding during the year	0.03%	0.00%	0.01%	(0.01%)	0.02%

The following table allocates the allowance for loan losses by loan category at the dates indicated. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

	At December 31,									
	2007		2006		2005		2004		2003	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)									
Real Estate Loans										
Commercial	$ 1,739	41.55%	$ 1,479	41.69%	$ 1,466	44.66%	$ 1,909	46.51%	$ 1,409	42.46%
Residential first mortgage	266	19.83%	97	18.93%	73	19.71%	59	20.16%	64	19.45%
Construction and land development	1,125	11.03%	662	10.01%	502	8.73%	132	6.00%	281	8.87%
Home equity and second mortgage	98	5.38%	104	5.76%	109	6.93%	120	8.16%	244	8.85%
Commercial loans	930	16.41%	1,135	18.66%	709	14.65%	530	13.35%	381	13.77%
Consumer loans	96	0.54%	126	0.66%	124	0.84%	138	1.18%	63	1.85%
Commercial equipment	228	5.26%	181	4.29%	400	4.48%	170	4.64%	131	4.75%
Total allowance for loan losses	$ 4,482	100.00%	$ 3,784	100.00%	$ 3,383	100.00%	$ 3,058	100.00%	$ 2,573	100.00%

The Bank closely monitors the loan payment activity of all its loans. The Bank periodically reviews the adequacy of the allowance for loan losses based on an analysis of the loan portfolio, the Bank's historical loss experience, economic conditions in the Bank's market area, and a review of selected individual loans. Loan losses are charged off against the allowance when the uncollectibility is confirmed. Subsequent recoveries, if any, are credited to the allowance. The Bank believes it has established its existing allowance for loan losses in accordance with accounting principles generally accepted in the United States of America and is in compliance with appropriate regulatory guidelines. However, the establishment of the level of the allowance for loan losses is highly subjective and dependent on incomplete information as to the ultimate disposition of loans. Accordingly, there can be no assurance that actual losses may not vary from the amounts estimated or that the Bank's regulators will not require the Bank to significantly increase or decrease its allowance for loan losses, thereby affecting the Bank's financial condition and earnings. For a more complete discussion of the allowance for loan losses, see the section captioned *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies"* in the Company's 2007 Annual Report to Stockholders.

Investment Activities

The Bank maintains a portfolio of investment securities to provide liquidity as well as a source of earnings. The Bank's investment securities portfolio consists primarily of mortgage-backed and other securities issued by U.S. government-sponsored enterprises ("GSEs") including Freddie Mac and Fannie Mae. The Bank also has smaller holdings of privately issued mortgage-backed securities, U.S. Treasury obligations, and other equity and debt securities. As a member of the Federal Reserve and FHLB system, the Bank is also required to invest in the stock of the Federal Reserve Bank of Richmond and FHLB of Atlanta.

The following table sets forth the carrying value of the Company's investment securities portfolio and FHLB of Atlanta and Federal Reserve Bank stock at the dates indicated. At December 31, 2007, their estimated fair value was $106 million.

	At December 31,		
	2007	2006	2005
		(Dollars in thousands)	
Asset-backed securities:			
Freddie Mac and Fannie Mae	$ 72,072	$ 72,602	$ 84,334
Other	25,283	29,956	37,383
Total asset-backed securities	97,355	102,558	121,717
Freddie Mac and Fannie Mae stock	251	342	719
Bond mutual funds	3,390	3,262	127
Treasury bills	799	800	499
Other Investments	37	145	604
Total investment securities	101,832	107,107	123,666
FHLB and Federal Reserve Bank stock	5,355	6,100	7,190
Total investment securities and FHLB and Federal Reserve Bank stock	$107,187	$113,207	$130,856

The maturities and weighted average yields for investment securities available for sale and held to maturity at December 31, 2007 are shown below.

	One Year or Less		After One Through Five Years		After Five Through Ten Years		After Ten Years	
	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield
	(Dollars in thousands)							
Investment securities available for sale:								
Corporate equity securities	$ 200	4.86%	$ —	0.00%	$ —	0.00%	$ —	0.00%
Asset-backed securities	79	4.85%	1,981	4.82%	3,285	4.78%	378	5.04%
Mutual Funds	3,332	4.30%	—	0.00%	—	0.00%	—	0.00%
Total investment securities available for sale	$ 3,611	4.34%	$ 1,981	4.82%	$ 3,285	4.78%	$ 378	5.04%
Investment securities held-to- maturity:								
Asset-backed securities	$ 12,055	5.12%	$ 43,328	5.12%	$ 23,613	5.37%	$ 12,856	6.29%
Treasury bills	799	4.18%	—	0.00%	—	0.00%	—	0.00%
Other investments	—	0.00%	37	3.20%	—	0.00%	—	0.00%
Total investment securities held-to-maturity	$ 12,854	5.06%	$ 43,365	5.12%	$ 23,613	5.37%	$ 12,856	6.29%

The Bank's investment policy provides that securities that will be held for indefinite periods of time, including securities that will be used as part of the Bank's asset/liability management strategy and that may be sold in response to changes in interest rates, prepayments and similar factors, are classified as available for sale and accounted for at fair value. Management's intent is to hold securities reported at amortized cost to maturity. Certain of the Company's asset-backed securities are issued by private issuers (defined as an issuer that is not a government or a government-sponsored entity). Listed below are the Company's investments in certain of these issuers that aggregate to more than 10% of the Company's equity. For further information regarding the Company's investment securities, see Note 3 of Notes to Consolidated Financial Statements.

Issuer	Book Value	Rating
Master Asset Securitization Trust	$ 5,783,724	AAA

Deposits and Other Sources of Funds

General. The funds needed by the Bank to make loans are primarily generated by deposit accounts solicited from the communities surrounding its main office and eight branches in the southern Maryland area. Total deposits were $445.0 million as of December 31, 2007. The Bank uses borrowings from the FHLB of Atlanta, reverse repurchase agreements, and other sources to supplement funding from deposits.

Deposits. The Bank's deposit products include savings, money market, demand deposit, IRA, SEP, Christmas clubs, and time deposit accounts. Variations in service charges, terms and interest rates are used to target specific markets. Ancillary products and services for deposit customers include safe deposit boxes, travelers checks, night depositories, automated clearinghouse transactions, wire transfers, ATMs, and online and telephone banking. The Bank is a member of JEANIE, Cirrus and STAR ATM networks. The Bank has occasionally used deposit brokers to obtain funds. At December 31, 2007 the Bank had no brokered deposits. At December 31, 2006, brokered deposits totaled $24.3 million.

The following table sets forth for the periods indicated the average balances outstanding and average interest rates for each major category of deposits.

	(Dollars in thousands)					
	2007		2006		2005	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Savings	$ 28,391	0.97%	$ 34,570	1.18%	$ 36,696	0.59%
Interest-bearing demand and money market accounts	137,001	3.00%	104,410	2.92%	89,394	1.55%
Certificates of deposit	222,769	4.72%	204,675	4.21%	146,512	3.32%
Total interest-bearing deposits	388,161	3.84%	343,655	3.51%	272,602	2.37%
Noninterest-bearing demand deposits	45,969		42,030		39,855	
	$434,130	3.43%	$385,685	3.13%	$312,457	2.07%

The following table indicates the amount of the Bank's certificates of deposit and other time deposits of more than $100,000 by time remaining until maturity as of December 31, 2007.

Maturity Period	Certificates of Deposit
	(In thousands)
Three months or less	$ 33,622
Three through six months	13,740
Six through twelve months	15,726
Over twelve months	9,167
Total	$ 72,255

Borrowings. Deposits are the primary source of funds for the Bank's lending and investment activities and for its general business purposes. The Bank uses advances from the FHLB of Atlanta to supplement its supply of lendable funds and to meet deposit withdrawal requirements. Advances from the FHLB are secured by the Bank's stock in the FHLB, a portion of the Bank's residential mortgage loans, and its eligible investments. Generally the Bank's ability to borrow from the FHLB of Atlanta is limited by its available collateral and also by an overall limitation of 40% of assets. In addition to advances the Bank uses reverse repurchase agreements to enhance its funding. Other short-term debt consists of notes payable to the U.S. Treasury on Treasury, tax and loan accounts. Long-term borrowings consist of adjustable-rate advances with rates based upon LIBOR, fixed-rate advances, and convertible advances. The table below sets forth information about borrowings for the years indicated.

	At or for the Year Ended December 31,		
	2007	2006	2005
		(Dollars in thousands)	
Long-term debt outstanding at end of period	$86,005	$ 96,046	$107,824
Weighted average rate on outstanding long-term debt	4.45%	4.42%	4.25%
Maximum outstanding long-term debt of any month end	$96,042	$108,078	$107,826
Average outstanding long-term debt	$86,993	$101,520	$ 93,409
Approximate average rate paid on long-term debt	5.16%	4.42%	4.25%
Short-term debt outstanding at end of period	$ 1,555	$ 6,568	$ 20,075
Weighted average rate on outstanding short-term debt	3.58%	5.08%	4.43%
Maximum outstanding short-term debt at any month end	$ 5,555	$ 37,590	$123,968
Average outstanding short-term debt	$ 2,902	$ 18,129	$ 82,665
Approximate average rate paid on short-term debt	3.51%	4.99%	3.10%

For more information regarding the Bank's borrowings, see Note 9 of Notes to Consolidated Financial Statements.

Subsidiary Activities

Under the Maryland Financial Institutions Code, commercial banks may invest in service corporations and in other subsidiaries that offer the public a financial, fiduciary or insurance service. In April 1997, the Bank formed a wholly owned subsidiary, Community Mortgage Corporation of Tri-County, to offer mortgage banking, brokerage, and other services to the public. This corporation was inactive until 2001. At that time, the Bank transferred a property that was acquired by deed in lieu of foreclosure to this subsidiary in order to complete development of this parcel. In August 1999, the Bank formed a wholly-owned subsidiary, Tri-County Investment Corporation to hold and manage a portion of the Bank's investment portfolio. Tri-County Investment Corporation was dissolved in November 2007.

The Company has two direct subsidiaries other than the Bank. In July 2004, Tri-County Capital Trust I was established as a statutory trust under Delaware law as a wholly-owned subsidiary of the Company to issue trust preferred securities. Tri-County Capital Trust I issued $7.0 million of trust preferred securities on July 22, 2004. In June 2005, Tri-County Capital Trust II was also established as a statutory trust under Delaware law as a wholly owned subsidiary of the Company to issue trust preferred securities. Tri-County Capital Trust II issued $5.0 million of trust preferred securities on June 15, 2005.

SUPERVISION AND REGULATION

Regulation of the Company

General. The Company is a public company registered with the Securities and Exchange Commission (the "SEC") and, as the sole stockholder of the Bank, it is a bank holding company and registered as such with the Board of Governors of the Federal Reserve System (the "FRB"). Bank holding companies are subject to comprehensive regulation by the FRB under the Bank Holding Company Act of 1956, as amended (the "BHCA"), and the regulations of the FRB. As a public company the Company is required to file annual, quarterly and current reports with the SEC, and as a bank holding company, the Company is required to file with the FRB annual reports and such additional information as the FRB may require, and is subject to regular examinations by the FRB. The FRB also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders, and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices. The following discussion summarizes certain of the regulations applicable to the Company but does not purport to be a complete description of such regulations and is qualified in its entirety by reference to the actual laws and regulations involved.

Under the BHCA, a bank holding company must obtain FRB approval before: (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares (unless it already owns or controls the majority of such shares); (ii) acquiring all or substantially all of the assets of another bank or bank holding company; or (iii) merging or consolidating with another bank holding company. In evaluating such application, the FRB considers factors such as the financial condition and managerial resources of the companies involved, the convenience and needs of the communities to be served and competitive factors.

The Riegle-Neal Interstate Banking and Branching Efficiency of 1994 (the "Riegle-Neal Act") authorized the FRB to approve an application of a bank holding company meeting certain qualitative criteria to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than such holding company's home state, without regard to whether the transaction is prohibited by the laws of any state. The FRB may not approve the acquisition of a bank that has not been in existence for the minimum time period (not exceeding five years) specified by the statutory law of the host state. The Riegle-Neal Act also prohibits the FRB from approving such an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. The Riegle-Neal Act does not affect the authority of states to limit the percentage of total insured deposits in the state that may be held or controlled by a bank or bank holding company to the extent such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% state-wide concentration limit contained in the Riegle-Neal Act. Under Maryland law, a bank holding company is prohibited from acquiring control of any bank if the bank holding company would control more than 30% of the total deposits of all depository institutions in the State of Maryland unless waived by the Commissioner of Financial Regulation.

Additionally, the federal banking agencies are authorized to approve interstate bank merger transactions without regard to whether such transaction is prohibited by the law of any state, unless the home state of one of the banks opted out of the Riegle-Neal Act by adopting a law after the date of enactment of the Riegle-Neal Act and prior to June 1, 1997, which applies equally to all out-of-state banks and expressly prohibits merger transactions involving out-of-state banks. The State of Maryland did not pass such a law during this period. Interstate acquisitions of branches are permitted only if the law of the state in which the branch is located permits such acquisitions. Interstate mergers and branch acquisitions are also subject to the nationwide and statewide insured deposit concentration amounts described above.

The BHCA also prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities which, by statute or by FRB regulation or order, have been identified as activities closely related to the business of banking or managing or controlling banks. The list of activities permitted by the FRB includes, among other things, operating a savings institution, mortgage company, finance company, credit card company or factoring company; performing certain data processing operations; providing certain investment and financial advice; underwriting and acting as an insurance agent for certain types of credit-related insurance; leasing property on a full-payout, non-operating basis; selling money orders, travelers' checks and United States Savings Bonds; real estate and personal property appraising; providing tax planning and preparation services; and, subject to certain limitations, providing securities brokerage services for customers.

Effective with the enactment of the Gramm-Leach-Bliley Act (the "G-L-B Act"), bank holding companies whose financial institution subsidiaries are "well capitalized" and "well managed" and have satisfactory Community Reinvestment Act records can elect to become "financial holding companies", which are permitted to engage in a broader range of financial activities than are permitted to bank holding companies. Financial holding companies are authorized to engage in, directly or indirectly, financial activities. A financial activity is an activity that is: (i) financial in nature; (ii) incidental to an activity that is financial in nature; or (iii) complementary to a financial activity and that does not pose a safety and soundness risk. The G-L-B Act includes a list of activities that are deemed to be financial in nature. Other activities also may be decided by the FRB to be financial in nature or incidental thereto if they meet specified criteria. A financial holding company that intends to engage in a new activity to acquire a company to engage in such an activity is required to give prior notice to the FRB. If the activity is not either specified in the G-L-B Act as being a financial activity or one that the FRB has determined by rule or regulation to be financial in nature, the prior approval of the FRB is required.

Federal law provides that no person (broadly defined to include business entities) "directly or indirectly or acting in concert with one or more persons, or through one or more subsidiaries, or through one or more transactions," may acquire "control" of a bank holding company or insured bank without the approval of the appropriate federal regulator, which in the Company's (and Bank's) case will be the FRB. Control is defined to mean direct or indirect ownership, control of, or holding irrevocable proxies representing 25% or more of any class of voting stock, control in any manner of the election of a majority of the bank's directors or a determination by the FRB that the acquirer has or would have the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of stock creates a rebuttable presumption of control under certain circumstances that requires that a filing be made with the FRB unless the FRB determines that the presumption has been rebutted. Any company that seeks to acquire 25% or more of a class of a bank's voting stock, or otherwise acquire control, must first receive the prior approval of the FRB under the Bank Holding Company Act and no existing bank holding company may acquire more than 5% of any class of a nonsubsidiary bank's voting stock without prior FRB approval.

The Maryland Financial Institutions Code prohibits a bank holding company from acquiring more than 5% of any class of voting stock of a bank or bank holding company without the approval of the Commissioner of Financial Regulation, except as otherwise expressly permitted by federal law or in certain other limited situations. The Maryland Financial Institutions Code additionally prohibits any person from acquiring voting stock in a bank or bank holding company without 60 days prior notice to the Commissioner if such acquisition will give the person control of 25% or more of the voting stock of the bank or bank holding company or will affect the power to direct or to cause the direction of the policy or management of the bank or bank holding company. Any doubt whether the stock acquisition will affect the power to direct or cause the direction of policy or management shall be resolved in favor of reporting to the Commissioner. The Commissioner may deny approval of the acquisition if the Commissioner determines it to be anti-competitive or to threaten the safety or soundness of a banking institution. Voting stock acquired in violation of this statute may not be voted for five years.

Dividends. The FRB has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the FRB's view that a bank holding company should pay cash dividends only to the extent that the company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the company's capital needs, asset quality and overall financial condition. The FRB also indicated that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the prompt corrective action regulations adopted by the FRB pursuant to Federal Deposit Insurance Corporation Improvement Act ("FDICIA"), the FRB may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized."

Stock Repurchases. Bank holding companies are required to give the FRB prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the their consolidated retained earnings. The FRB may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, FRB order, or any condition imposed by, or written agreement with, the FRB. There is an exception for this approval requirement for certain well-capitalized, well-managed bank holding companies.

Capital Requirements. The FRB has established capital requirements, similar to the capital requirements for state member banks, for bank holding companies with consolidated assets of $500 million or more. As of December 31, 2007, the Company's levels of consolidated regulatory capital exceeded the FRB's minimum requirements.

Regulation of the Bank

General. The Bank is a Maryland commercial bank and its deposit accounts are insured by the Deposit Insurance Fund of the FDIC. The Bank is a member of the Federal Reserve and FHLB systems. The Bank is subject to supervision, examination and regulation by Commissioner of Financial Regulation of the State of Maryland (the "Commissioner") and the FRB and to Maryland and federal statutory and regulatory provisions governing such matters as capital standards, mergers, and establishment of branch offices. The FDIC, as deposit insurer, has certain secondary examination and supervisory authority. The Bank is required to file reports with the Commissioner and the FRB concerning its activities and financial condition and is required to obtain regulatory approvals prior to entering into certain transactions, including mergers with, or acquisitions of, other depository institutions.

As an institution with federally insured deposits, the Bank is subject to various operational regulations promulgated by the FRB, including Regulation B (Equal Credit Opportunity), Regulation D (Reserve Requirements), Regulation E (Electronic Fund Transfers), Regulation P (Privacy), Regulation W (Transactions Between Member Banks and Their Affiliates), Regulation Z (Truth in Lending), Regulation CC (Availability of Funds and Collection of Checks) and Regulation DD (Truth in Savings).

The system of regulation and supervision applicable to the Bank establishes a comprehensive framework for the operations of the Bank and is intended primarily for the protection of the FDIC and the depositors of the Bank. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities, including with respect to the classification of assets and the establishment of loss reserves for regulatory purposes. Changes in the regulatory framework could have a material effect on the Bank and its respective operations that in turn, could have a material effect on the Company. The following discussion summarizes certain of the regulations applicable to the Bank but does not purport to be a complete description of such regulations and is qualified in its entirety by reference to the actual laws and regulations involved.

Capital Adequacy. The FRB has established guidelines with respect to the maintenance of appropriate levels of capital by bank holding companies and state member banks, respectively. The regulations impose two sets of capital adequacy requirements: minimum leverage rules, which require bank holding companies and member banks to maintain a specified minimum ratio of capital-to-total assets, and risk-based capital rules, which require the maintenance of specified minimum ratios of capital to "risk-weighted" assets.

The regulations of the FRB require bank holding companies and state member banks, respectively, to maintain a minimum leverage ratio of "Tier 1 capital" (as defined in the risk-based capital guidelines discussed in the following paragraphs) to total assets of 3.0%. Although setting a minimum 3.0% leverage ratio, the capital regulations state that only the strongest bank holding companies and banks, with composite examination ratings of 1 under the rating system used by the federal bank regulators, would be permitted to operate at or near such minimum level of capital. All other bank holding companies and banks are expected to maintain a leverage ratio of at least 4.0%. Any bank or bank holding company experiencing or anticipating significant growth would be expected to maintain capital well above the minimum levels. In addition, the FRB has indicated that whenever appropriate, and in particular when a bank holding company is undertaking expansion, seeking to engage in new activities, or otherwise facing unusual or abnormal risks, it will consider, on a case-by-case basis, the level of an organization's ratio of tangible Tier 1 capital (after deducting all intangibles) to total assets in making an overall assessment of capital.

The risk-based capital rules of the FRB require bank holding companies and state member banks, respectively, to maintain minimum regulatory capital levels based upon a weighting of their assets and off-balance sheet obligations according to risk. Risk-based capital is composed of two elements: Tier 1 capital and Tier 2 capital. Tier 1 capital consists primarily of common stockholders' equity, certain perpetual preferred stock (which must be noncumulative in the case of banks), and minority interests in the equity accounts of consolidated subsidiaries; less all intangible assets, except for certain servicing assets, purchased credit card relationships, deferred tax assets and credit enhancing interest-only strips. Tier 2 capital elements include, subject to certain limitations, the allowance for losses on loans and leases; perpetual preferred stock that does not qualify as Tier 1 capital and long-term preferred stock with an original maturity of at least 20 years from issuance; hybrid capital instruments, including perpetual debt and mandatory convertible securities, subordinated debt and intermediate-term preferred stock and up to 45% of unrealized gains on available for sale equity securities with readily determinable market values.

The risk-based capital regulations assign balance sheet assets and credit equivalent amounts of off-balance sheet obligations to one of four broad risk categories based principally on the degree of credit risk associated with the obligor. The assets and off-balance sheet items in the four risk categories are weighted at 0%, 20%, 50% and 100%. These computations result in the total risk-weighted assets. The risk-based capital regulations require all banks and bank holding companies to maintain a minimum ratio of total capital (Tier 1 capital plus Tier 2 capital) to total risk-weighted assets of 8%, with at least 4% as Tier 1 capital. For the purpose of calculating these ratios: (i) Tier 2 capital is limited to no more than 100% of Tier 1 capital; and (ii) the aggregate amount of certain types of Tier 2 capital is limited. In addition, the risk-based capital regulations limit the allowance for loan losses includable as capital to 1.25% of total risk-weighted assets.

FRB regulations and guidelines additionally specify that state member banks with significant exposure to declines in the economic value of their capital due to changes in interest rates may be required to maintain higher risk-based capital ratios.

The FRB has issued regulations that classify state member banks by capital levels and which authorize the FRB to take various prompt corrective actions to resolve the problems of any bank that fails to satisfy the capital standards. Under such regulations, a well capitalized bank is one that is not subject to any regulatory order or directive to meet any specific capital level and that has or exceeds the following capital levels: a total risk-based capital ratio of 10%, a Tier 1 risk-based capital ratio of 6%, and a leverage ratio of 5%. An adequately capitalized bank is one that does not qualify as well capitalized but meets or exceeds the following capital requirements: a total risk-based capital ratio of 8%, a Tier 1 risk-based capital ratio of 4%, and a leverage ratio of either (i) 4% or (ii) 3% if the bank has the highest composite examination rating. A bank not meeting these criteria is treated as undercapitalized, significantly undercapitalized, or critically undercapitalized depending on the extent to which the bank's capital levels are below these standards. A state member bank that falls within any of the three undercapitalized categories established by the prompt corrective action regulation will be subject to regulatory sanctions. As of December 31, 2007, the Bank was well capitalized as defined by the FRB's regulations.

Branching. Maryland law provides that, with the approval of the Commissioner, Maryland banks may establish branches within the State of Maryland without geographic restriction and may establish branches in other states by any means permitted by the laws of such state or by federal law. The Riegle-Neal Act authorizes the FRB to approve interstate branching *de novo* by merger by state member banks in any state that did not opt out and only in states that specifically allow for such branching. The Riegle-Neal Act also required the appropriate federal banking agencies to prescribe regulations that prohibit any out-of-state bank from using the interstate branching authority primarily for the purpose of deposit production. These regulations include guidelines to ensure that interstate branches operated by an out-of-state bank in a host state are reasonably helping to meet the credit needs of the communities which they serve.

Dividend Limitations. Pursuant to the Maryland Financial Institutions Code, Maryland banks may only pay dividends from undivided profits or, with the prior approval of the Commissioner, their surplus in excess of 100% of required capital stock. The Maryland Financial Institutions Code further restricts the payment of dividends by prohibiting a Maryland bank from declaring a dividend on its shares of common stock until its surplus fund equals the amount of required capital stock or, if the surplus fund does not equal the amount of capital stock, in an amount in excess of 90% of net earnings.

Without the approval of the FRB, a state member bank may not declare or pay a dividend if the total of all dividends declared during the year exceeds its net income during the current calendar year and retained net income for the prior two years. The Bank is further prohibited from making a capital distribution if it would be thereafter undercapitalized within the meaning of the prompt corrective action regulations discussed above. In addition, the Bank may not make a capital distribution that would reduce its net worth below the amount required to maintain the liquidation account established for the benefit of its depositors at the time of its conversion to stock form.

Insurance of Deposit Accounts. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Deposit Insurance Fund is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged in 2006. The FDIC amended its risk-based assessment system for 2007 to implement authority granted by the Federal Deposit Insurance Reform Act of 2005 ("Reform Act"). Under the revised system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Risk category I, which contains the least risky depository institutions, is expected to include more than 90% of all institutions. Unlike the other categories, Risk Category I contains further risk differentiation based on the FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the FDIC and currently range from five to seven basis points for the healthiest institutions (Risk Category I) to 43 basis points of assessable deposits for the riskiest (Risk Category IV). The FDIC may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points. No institution may pay a dividend if in default of the FDIC assessment.

The Reform Act also provided a one-time credit for eligible institutions based on their assessment base as of December 31, 1996. Subject to certain limitations, credits could be used beginning in 2007 to offset assessments until exhausted. The Bank's one-time credit approximated $196,000, of which $168,000 was used in 2007 and $28,000 is still available. The Reform Act also provided for the possibility that the FDIC may pay dividends to insured institutions once the Deposit Insurance fund reserve ratio equals or exceeds 1.35% of estimated insured deposits.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. That payment is established quarterly and during the calendar year ending December 31, 2007 averaged 1.18 basis points of assessable deposits.

The Reform Act provided the FDIC with authority to adjust the Deposit Insurance Fund ratio to insured deposits within a range of 1.15% and 1.50%, in contrast to the prior statutorily fixed ratio of 1.25%. The ratio, which is viewed by the FDIC as the level that the fund should achieve, has been established by the agency at 1.25% for 2008, which was unchanged from 2007.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or 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 Federal Deposit Insurance Corporation or the FRB. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Transactions with Affiliates. A state member bank or its subsidiaries may not engage in "covered transactions" with any one affiliate in an amount greater than 10% of such bank's capital stock and surplus, and for all such transactions with all affiliates a state member bank is limited to an amount equal to 20% of capital stock and surplus. All such transactions must also be on terms substantially the same, or at least as favorable, to the bank or subsidiary as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar types of transactions. Certain covered transactions, such as loans to affiliates, must meet specified collateral requirements. An affiliate of a state member bank is any company or entity that controls or is under common control with the state member bank and, for purposes of the aggregate limit on transactions with affiliates, any subsidiary that would be deemed a financial subsidiary of a national bank. In a holding company context, the parent holding company of a state member bank (such as the Company) and any companies that are controlled by such parent holding company are affiliates of the state member bank. The BHCA further prohibits a depository institution from extending credit to or offering any other services, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or certain of its affiliates or not obtain services of a competitor of the institution, subject to certain limited exceptions.

Loans to Directors, Executive Officers and Principal Stockholders. Loans to directors, executive officers and principal stockholders of a state member bank must be made on substantially the same terms as those prevailing for comparable transactions with persons who are not executive officers, directors, principal stockholders or employees of the bank unless the loan is made pursuant to a compensation or benefit plan that is widely available to employees and does not favor insiders. Loans to any executive officer, director and principal stockholder together with all other outstanding loans to such person and affiliated interests generally may not exceed 15% of the bank's unimpaired capital and surplus and all loans to such persons may not exceed the institution's unimpaired capital and unimpaired surplus. Loans to directors, executive officers and principal stockholders, and their respective affiliates, in excess of the greater of $25,000 or 5% of capital and surplus, or any loans aggregating $500,000 or more, must be approved in advance by a majority of the board of directors of the bank with any "interested" director not participating in the voting. State member banks are prohibited from paying the overdrafts of any of their executive officers or directors unless payment is made pursuant to a written, pre-authorized interest-bearing extension of credit plan that specifies a method of repayment or transfer of funds from another account at the bank. In addition, loans to executive officers may not be made on terms more favorable than those afforded other borrowers and are restricted as to type, amount and terms of credit.

Enforcement. The Commissioner has extensive enforcement authority over Maryland banks. Such authority includes the ability to issue cease and desist orders and civil money penalties and to remove directors or officers. The Commissioner may also take possession of a Maryland bank whose capital is impaired and seek to have a receiver appointed by a court.

The FRB has primary federal enforcement responsibility over state banks under its jurisdiction, including the authority to bring enforcement action against all "institution-related parties," including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an institution. Formal enforcement action may range from the issuance of capital directive or cease and desist order to removal of officers and/or directors, receivership, conservatorship or termination of deposit insurance. Civil money penalties cover a wide range of violations and actions, and range up to $25,000 per day or even up to $1 million per day (in the most egregious cases). Criminal penalties for most financial institution crimes include fines of up to $1 million and imprisonment for up to 30 years.

Personnel

As of December 31, 2007, the Bank had 108 full-time employees and eight part-time employees. The employees are not represented by a collective bargaining agreement. The Bank believes its employee relations are good.

Executive Officers of the Registrant

The executive officers of the Company are as follows:

Michael L. Middleton (60 years old) is President and Chief Executive Officer of the Company and the Bank. He joined the Bank in 1973 and served in various management positions until 1979 when he became president of the Bank. Mr. Middleton is a Certified Public Accountant and holds a Master of Business Administration. As President and Chief Executive Officer of the Bank, Mr. Middleton is responsible for the overall operation of the Bank pursuant to the policies and procedures established by the Board of Directors. From 1996 to 2004, Mr. Middleton served on the Board of Directors of the Federal Home Loan Bank of Atlanta, and served as Chairman from 2003 to 2004. Mr. Middleton also served as Federal Home Loan Bank of Atlanta representative to the Council of Federal Home Loan Banks. Mr. Middleton currently serves on the board of the Baltimore Branch of the Federal Reserve Bank of Richmond.

C. Marie Brown (65 years old) has been employed with the Bank since 1972 and has served as Chief Operating Officer since 1999 before she retired in February 2008. Before her appointment as Chief Operating Officer, Ms. Brown served as Senior Vice President of the Bank. She is a supporter of the Handicapped and Retarded Citizens of Charles County, a member of the Zonta Club of Charles County and serves on various administrative committees of the Hughesville Baptist Church.

Gregory C. Cockerham (53 years old) joined the Bank in November 1988 and has served as Chief Lending Officer since 1996. Before his appointment as Executive Vice President, Mr. Cockerham served as Vice President of the Bank. Mr. Cockerham has been in banking for 29 years. He is a Paul Harris Fellow with the Rotary Club of Charles County and serves on various civic boards in the County.

William J. Pasenelli (49 years old) joined the Bank as Chief Financial Officer in April 2000. Before joining the Bank, Mr. Pasenelli had been Chief Financial Officer of Acacia Federal Savings Bank, Annandale, Virginia since 1987. Mr. Pasenelli is a member of the American Institute of Certified Public Accountants, the DC Institute of Certified Public Accountants, and other civic groups.

James M. Burke (39 years old) joined the Bank in 2006. He serves as the Bank's Executive Vice President — Credit. Before his appointment as Executive Vice President — Credit, he served as the Bank's senior credit officer. Prior to joining the Bank, Mr. Burke served as Executive Vice President of Mercantile Southern Maryland Bank. Mr. Burke has 17 years of banking experience. Mr. Burke is member of the board of directors of Civista Medical Center and other civic groups.

James F. DiMisa (48 years old) joined the Bank in 2006. He serves as Executive Vice President- Bank Operations. Prior to joining the Bank, Mr. DiMisa served as Executive Vice President of Mercantile Southern Maryland Bank. Mr. DiMisa has 29 years of banking experience. Mr. DiMisa is Chairman of the Board of Trustees for the Maryland Bankers School and a member of several other civic and professional groups.

Item 1A. Risk Factors

An investment in shares of our common stock involves various risks. Our business, financial condition and results of operations could be harmed by any of the following risks or by other risks that have not been identified or that we may believe are immaterial or unlikely. The value or market price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. The risks discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

Our business strategy includes the continuation of significant growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

Our assets have increased $316.3 million, or 112.1%, from $282.1 million at December 31, 2002 to $598.4 million at December 31, 2007, primarily due to increases in loans and investment securities. We expect to continue to experience growth in the amount of our assets, the level of our deposits and the scale of our operations. Achieving our growth targets requires us to attract customers that currently bank at other financial institutions in our market, thereby increasing our share of the market. Our ability to successfully grow will depend on a variety of factors, including our ability to attract and retain experienced bankers, the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market areas and our ability to manage our growth. While we believe we have the management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or that we will successfully manage our growth. If we do not manage our growth effectively, we may not be able to achieve our business plan and our business and prospects could be harmed.

Certain interest rate movements may hurt our earnings.

Short-term market interest rates (which we use as a guide to price our deposits) have until recently risen from historically low levels, while longer-term market interest rates (which we use as a guide to price our longer-term loans) have not. This "flattening" of the market yield curve has had a negative impact on our interest rate spread and net interest margin, which has reduced our profitability. For 2007 our interest rate spread was 2.92% compared to 2.82% in 2006. If short-term interest rates rise, and if rates on our deposits reprice upwards faster than the rates on our long-term loans and investments, we would experience compression of our interest rate spread and net interest margin, which would have a negative effect on our profitability. Recently, however, the U.S. Federal Reserve decreased its target for the federal funds rate from 5.25% to 3.00%. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such loan or securities proceeds into lower-yielding assets, which might also negatively impact our income.

Our increased emphasis on commercial and construction lending may expose us to increased lending risks.

At December 31, 2007, our loan portfolio consisted of $190.5 million, or 41.6%, of commercial real estate loans, $50.6 million, or 11.0%, of construction and land development loans, $75.2 million, or 16.4%, of commercial business loans and $24.1 million, or 5.3%, of commercial equipment loans. We intend to increase our emphasis on these types of loans. These types of loans generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property, the income stream of the borrowers and, for construction loans, the accuracy of the estimate of the property's value at completion of construction and the estimated cost of construction. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. Commercial business loans expose us to additional risks since they typically are made on the basis of the borrower's ability to make repayments from the cash flow of the borrower's business and are secured by non-real estate collateral that may depreciate over time. In addition, since such loans generally entail greater risk than one- to four-family residential mortgage loans, we may need to increase our allowance for loan losses in the future to account for the likely increase in probable incurred credit losses associated with the growth of such loans. Also, many of our commercial and construction borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan.

Our recent results may not be indicative of our future operating results.

We have achieved significant growth in earnings per share in recent years. For example, net earnings per share (diluted) grew from $0.73 for the year ended December 31, 2002 to $1.79 for the year ended December 31, 2007. Our strong performance during this time period was, in part, the result of an extremely favorable interest rate environment. In the future, we may not have the benefit of a favorable interest rate environment. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or restrict our ability to increase earnings at this same rate.

Strong competition within our market area could hurt our profits and slow growth.

We face intense competition both in making loans and attracting deposits. This competition has made it more difficult for us to make new loans and has occasionally forced us to offer higher deposit rates. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which reduces net interest income. According to the Federal Deposit Insurance Corporation, as of June 30, 2007, we held 12.1% of the deposits in Calvert, Charles and St. Mary's counties, Maryland, which was the third largest market share of deposits out of the 14 financial institutions which held deposits in these counties. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our market area.

If we do not achieve profitability on our new branch, it may negatively impact our earnings.

We opened our Prince Frederick branch office on May 19, 2005. We opened a branch office in Lusby on January 23, 2008. Numerous factors contribute to the performance of a new branch, such as a suitable location, qualified personnel and an effective marketing strategy. Additionally, it takes time for a new branch to generate significant deposits and make sufficient loans to produce enough income to offset expenses, some of which, like salaries and occupancy expense, are relatively fixed costs. We expect that it may take a period of time before the new branch offices can become profitable. During this period, operating these new branch offices may negatively impact our net income.

If the value of real estate in southern Maryland were to decline materially, a significant portion of our loan portfolio could become under-collateralized, which could have a material adverse effect on us.

With most of our loans concentrated in southern Maryland, a decline in local economic conditions could adversely affect the value of the real estate collateral securing our loans. A decline in property values would diminish our ability to recover on defaulted loans by selling the real estate collateral, making it more likely that we would suffer losses on defaulted loans. Additionally, a decrease in asset quality could require additions to our allowance for loan losses through increased provisions for loan losses, which would hurt our profits. Also, 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. Real estate values are affected by various factors in addition to local economic conditions, including, among other things, changes in general or regional economic conditions, governmental rules or policies and natural disasters.

Our business is subject to the success of the local economy in which we operate.

Because the majority of our borrowers and depositors are individuals and businesses located and doing business in southern Maryland, our success depends to a significant extent upon economic conditions in southern Maryland. Adverse economic conditions in our market area could reduce our growth rate, affect the ability of our customers to repay their loans and generally affect our financial condition and results of operations. Conditions such as inflation, recession, unemployment, high interest rates, short money supply, scarce natural resources, international disorders, terrorism and other factors beyond our control may adversely affect our profitability. We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Any sustained period of increased payment delinquencies, foreclosures or losses caused by adverse market or economic conditions in the State of Maryland could adversely affect the value of our assets, revenues, results of operations and financial condition. Moreover, we cannot give any assurance we will benefit from any market growth or favorable economic conditions in our primary market areas if they do occur.

The trading history of our common stock is characterized by low trading volume. Our common stock may be subject to sudden decreases.

Although our common stock trades on OTC Electronic Bulletin Board, it has not been regularly traded. We cannot predict the extent to which investor interest in us will lead to a more active trading market in our common stock or how liquid that market might become. A public trading market having the desired characteristics of depth, liquidity and orderliness depends upon the presence in the marketplace of willing buyers and sellers of our common stock at any given time, which presence is dependent upon the individual decisions of investors, over which we have no control.

The market price of our common stock may be highly volatile and subject to wide fluctuations in response to numerous factors, including, but not limited to, the factors discussed in other risk factors and the following:

- actual or anticipated fluctuations in our operating results;
- changes in interest rates;
- changes in the legal or regulatory environment in which we operate;
- press releases, announcements or publicity relating to us or our competitors or relating to trends in our industry;
- changes in expectations as to our future financial performance, including financial estimates or recommendations by securities analysts and investors;
- future sales of our common stock;
- changes in economic conditions in our marketplace, general conditions in the U.S. economy, financial markets or the banking industry; and
- other developments affecting our competitors or us.

These factors may adversely affect the trading price of our common stock, regardless of our actual operating performance, and could prevent you from selling your common stock at or above the price you desire. In addition, the stock markets, from time to time, experience extreme price and volume fluctuations that may be unrelated or disproportionate to the operating performance of companies. These broad fluctuations may adversely affect the market price of our common stock, regardless of our trading performance.

We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations.

Community Bank of Tri-County is subject to extensive regulation, supervision and examination by the Commissioner of Financial Regulation of the State of Maryland, its chartering authority, the Federal Reserve Board, as its federal regulator, and by the Federal Deposit Insurance Corporation, as insurer of its deposits. Tri-County Financial Corporation is subject to regulation and supervision by the Federal Reserve Board. Such regulation and supervision govern the activities in which an institution and its holding company may engage and are intended primarily for the protection of the insurance fund and for the depositors and borrowers of Community Bank of Tri-County. The regulation and supervision by the Commissioner of Financial Regulation of the State of Maryland, the Federal Reserve Board and the Federal Deposit Insurance Corporation are not intended to protect the interests of investors in Tri-County Financial Corporation common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

Provisions of our articles of incorporation, bylaws and Maryland law, as well as state and federal banking regulations, could delay or prevent a takeover of us by a third party.

Provisions in our articles of incorporation and bylaws and the corporate law of the State of Maryland could delay, defer or prevent a third party from acquiring us, despite the possible benefit to our stockholders, or otherwise adversely affect the price of our common stock. These provisions include: supermajority voting requirements for certain business combinations; the election of directors to staggered terms of three years; and advance notice requirements for nominations for election to our board of directors and for proposing matters that shareholders may act on at shareholder meetings. In addition, we are subject to Maryland laws, including one that prohibits us from engaging in a business combination with any interested shareholder for a period of five years from the date the person became an interested shareholder unless certain conditions are met. These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, our common stock. These provisions could also discourage proxy contests and make it more difficult for you and other shareholders to elect directors other than the candidates nominated by our Board.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The following table sets forth the location of the Bank's offices, as well as certain additional information relating to these offices as of December 31, 2007.

Office Location	Year Facility Commenced Operation	Leased Or Owned	Date of Lease Expiration	Approximate Square Footage
Main Office: 3035 Leonardtown Road Waldorf, Maryland	1974	Owned	—	16,500
Branch Offices: 22730 Three Notch Road Lexington Park, Maryland	1992	Owned	—	2,500
25395 Point Lookout Road Leonardtown, Maryland	1961	Owned	—	Under construction
101 Drury Drive La Plata, Maryland	2001	Owned	—	2,645
10321 Southern Maryland Boulevard Dunkirk, Maryland	1991	Leased	2009	2,500
8010 Matthews Road Bryans Road, Maryland	1996	Owned	—	2,500
20 St. Patrick's Drive Waldorf, Maryland	1998	Leased (Land) Owned (Building)	—	2,840
30165 Three Notch Road Charlotte Hall, Maryland	2001	Leased (Land) Owned (Building)	2026	2,800
200 Market Square Prince Frederick, Maryland	2005	Leased (Land) Owned (Building)	2028	2,800

Item 3. Legal Proceedings

Neither the Company, the Bank, nor any subsidiary is engaged in any legal proceedings of a material nature at the present time. From time to time the Bank is a party to legal proceedings in the ordinary course of business.

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

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

PART II

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

Market Price and Dividends on Registrant's and Related Stockholder Matters.

The information contained under the section captioned "Market for the Registrant's Common Stock and Related Security Holder Matters" in the Company's Annual Report to Stockholders for the fiscal year ended December 31, 2007 (the "Annual Report") filed as Exhibit 13 hereto is incorporated herein by reference.

Stock Performance Graph.

This information contained under the section captured "Comparison of Cumulative Total Return" of the Annual Report filed as Exhibit 13 hereto is incorporated by reference.

Recent Sales of Unregistered Securities.

On December 17, 2007, the Company issued 18,884 shares of its common stock, par value $0.01 per share, a price of in a private placement exempt from registration under Section 4(2) of the Securities Act of 1933, as amended and Rule 506 of Regulation D of the rules and regulations promulgated thereunder. An underwriter was not utilized in the transactions. The Company received an aggregate of $495,705 in cash for the shares that were issued. There were no underwriting discounts or commissions. The net proceeds from the offering were distributed to the Bank to support its growth.

On November 30, 2007, the Company issued 249,371 shares of its common stock, par value $0.01 per share, a price of in a private placement exempt from registration under Section 4(2) of the Securities Act of 1933, as amended and Rule 506 of Regulation D of the rules and regulations promulgated thereunder. An underwriter was not utilized in the transactions. The Company received an aggregate of $6,545,989 in cash for the shares that were issued. There were no underwriting discounts or commissions. The net proceeds from the offering were distributed to the Bank to support its growth.

On August 22, September 13, October 16 and October 18, 2006, the Company issued 5,000 shares of its common stock, par value $0.01 per share, respectively, in a private placement exempt from registration under Section 4(2) of the Securities Act of 1933, as amended. An underwriter was not utilized in the transactions. Shares were sold to two persons, both of whom were newly appointed directors of the Company and Community Bank of Tri-County and each were accredited investors. The Company received an aggregate of $177,500 in cash for the shares that were issued. There were no underwriting discounts or commissions. The net proceeds from the offering were used for general corporate purposes.

On December 30, 2005, the Company issued 15,768 shares of its common stock, par value $0.01, in a private placement exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, and Regulation D of the rules and regulations promulgated thereunder. An underwriter was not utilized in the transaction. Shares were sold to 7 persons, which consisted of officers and directors of the Company and Community Bank of Tri-County and their outside counsel. Of the 7 persons purchasing shares in the offering, 4 were accredited investors. The Company received an aggregate of $473,040 in cash for the shares that were issued. There were no underwriting discounts or commissions. The net proceeds from the offering were used for general corporate purposes.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers for the Most Recent Fiscal Quarter.

The Company did not purchase any shares of its common stock during the quarter ended December 31, 2007.

Item 6. Selected Financial Data

The information contained under the section captioned "Selected Financial Data" of the Annual Report filed as Exhibit 13 hereto is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The information contained in the section captioned *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* of the Annual Report filed as Exhibit 13 hereto is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Not applicable as the Company is a smaller reporting company.

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements, Notes to Consolidated Financial Statements and Report of Independent Registered Public Accounting Firm included in the Annual Report filed as Exhibit 13 hereto are incorporated herein by reference.

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

None.

Item 9A(T). Controls and Procedures

(a) Disclosure Controls and Procedures

The Company's management, including the Company'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, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company 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.

(b) Internal Controls Over Financial Reporting

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

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

(c) Changes to Internal Control Over Financial Reporting

Except as indicated herein, there were no changes in the Company's internal control over financial reporting during the three months ended December 31, 2007 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

For information concerning the Company's directors, the information contained under the section captioned *"Proposal 1 — Election of Directors"* in the Company's definitive proxy statement for the Company's 2008 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference. For information concerning the executive officers of the Company, see *"Item 1 - Business — Executive Officers"* under Part I of this Annual Report on Form 10-K.

For information regarding compliance with Section 16(a) of the Exchange Act, the cover page of this Annual Report on Form 10-K and the information contained under the section captioned *"Section 16(a) Beneficial Ownership Reporting Compliance"* in the Proxy Statement are incorporated herein by reference.

For information concerning the Company's code of ethics, the information contained under the section captioned "Corporate Governance — Code of Ethics and Business Conduct" in the Proxy Statement is incorporated by reference. A copy of the code of ethics and business conduct is filed as Exhibit 14 hereto.

For information regarding the audit committee and its composition and the audit committee financial expert, the section captioned *"Corporate Governance — Committees of the Board of Directors — Audit Committee"* in the Proxy Statement is incorporated by reference.

Item 11. Executive Compensation

For information regarding executive compensation, the information contained under the sections captioned *"Executive Compensation"* and *"Directors' Compensation"* in the Proxy Statement is incorporated herein by reference.

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

(a) Security Ownership of Certain Owners

The information required by this item is incorporated herein by reference to the section captioned *"Principal Holders of Voting Securities"* in the Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the section captioned *"Principal Holders of Voting Securities"* in the Proxy Statement.

(c) Changes in Control

Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

(d) Equity Compensation Plan Information

The Company has adopted a variety of compensation plans pursuant to which equity may be awarded to participants. In 2005, the 1995 Stock Option and Incentive Plan and the 1995 Stock Option Plan for Non-Employee Directors expired. In 2005, the stockholders approved the Tri-County Financial Corporation 2005 Equity Compensation Plan. This plan covers employees and non-employee directors. The following table sets forth certain information with respect to the Company's Equity Compensation Plans as of December 31, 2007.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted average exercise price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity plans approved by security holders	368,421	$ 15.00	137,118
Equity compensation plans not approved by security holders (1)	60,200	$ 13.05	—
Total	428,621	$ 14.72	137,118

(1) Consists of the Company's 1995 Stock Option Plan for Non-Employee Directors, which expired in 2005 and which provided grants of non-incentive stock options to directors who are not employees of the Company or its subsidiaries. Options were granted at an exercise price equal to their fair market value at the date of grant and had a term of ten years. Options are generally exercisable while an optionee serves as a director or within one year thereafter.

Item 13. Certain Relationships, Related Transactions and Director Independence

The information regarding certain relationships and related transactions, the section captioned *"Relationships and Transactions with the Company and the Bank"* in the Proxy Statement is incorporated herein by reference.

For information regarding director independence, the section captioned *"Proposal 1 – Election of Directors"* in the Proxy Statement is incorporated by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the section captioned *"Proposal 2 – Ratification of Appointment of Auditors"* in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) List of Documents Filed as Part of this Report

(1) *Financial Statements*. The following consolidated financial statements and notes related thereto are incorporated by reference from Item 7 hereof:

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

(2) *Financial Statement Schedules*. All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are omitted because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements and related notes thereto.

(3) *Exhibits*. The following is a list of exhibits filed as part of this Annual Report on Form 10-K and is also the Exhibit Index.

No.	Description
3.1	Articles of Incorporation of Tri-County Financial Corporation (1)
3.2	Amended and Restated Bylaws of Tri-County Financial Corporation (2)
10.1*	Tri-County Financial Corporation 1995 Stock Option and Incentive Plan, as amended (3)
10.2*	Tri-County Financial Corporation 1995 Stock Option Plan for Non-Employee Directors, as amended (3)
10.3*	Employment Agreement with Michael L. Middleton (4)
10.4*	Executive Incentive Compensation Plan (3)
10.5*	Executive Compensation Plan 2003 Amendment (5)
10.6*	Retirement Plan for Directors (6)
10.7*	Split Dollar Agreements with Michael L. Middleton and C. Marie Brown (3)
10.8*	Split Dollar Agreement with William J. Pasenelli (7)
10.9*	Salary Continuation Agreement with Michael L. Middleton (5)
10.10*	Salary Continuation Agreement with C. Marie Brown (5)
10.11*	Salary Continuation Agreement with Gregory C. Cockerham (4)
10.12*	Salary Continuation Agreement with William J. Pasenelli (4)
10.13*	Tri-County Financial Corporation 2005 Equity Compensation Plan (8)
10.14*	Community Bank of Tri-County Executive Deferred Compensation Plan (6)
10.15*	Amended and Restated Employment Agreement by and among Community Bank of Tri-County, William J. Pasenelli and Tri-County Financial Corporation, as guarantor (9)
10.16*	Amended and Restated Employment Agreement by and among Community Bank of Tri-County, Gregory C. Cockerham and Tri-County Financial Corporation, as guarantor (9)
10.17*	Amended and Restated Employment Agreement by and among Community Bank of Tri-County, C. Marie Brown and Tri-County Financial Corporation, as guarantor (9)

10.18*	Amendment No. 1 to the Tri-County Financial Corporation 2005 Equity Compensation Plan (10)
13	Annual Report to Stockholders for the year ended December 31, 2007
14	Code of Ethics (11)
21	Subsidiaries of the Registrant
23	Consent of Stegman & Company
31.1	Rule 13a-14a Certification of Chief Executive Officer
31.2	Rule 13a-14a Certification of Chief Financial Officer

No.	Description
32	Certification pursuant to 18 U.S.C. Section 1350

* Management contract or compensatory arrangement.

(1) Incorporated by reference to the Registrant's Registration Statement on Form S-4 (No. 33-31287).

(2) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.

(3) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

(4) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

(5) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

(6) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

(7) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

(8) Incorporated by reference to Appendix A in the definitive proxy statement (File No. 000-18279) filed with the Securities and Exchange Commission on April 11, 2005.

(9) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

(10) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.

(11) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005.

(b) **Exhibits.** The exhibits required by Item 601 of Regulation S-K are either filed as part of this Annual Report on Form 10-K or incorporated by reference herein.

(c) **Financial Statements and Schedules Excluded From Annual Report.** There are no other financial statements and financial statement schedules which were excluded from this Annual Report pursuant to Rule 14a-3(b)(1) which are required to be included herein.

SIGNATURES

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

TRI-COUNTY FINANCIAL CORPORATION

Date: March 19, 2008

By: /s/ Michael L. Middleton
Michael L. Middleton
President and Chief Executive Officer
(Duly Authorized Representative)

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

By: /s/ Michael L. Middleton
Michael L. Middleton
Director, President and Chief Executive Officer
(Principal Executive Officer)

Date: March 19, 2008

By: /s/ William J. Pasenelli
William J. Pasenelli
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: March 19, 2008

By: /s/ C. Marie Brown
C. Marie Brown
Director

Date: March 19, 2008

By: /s/ Herbert N. Redmond, Jr.
Herbert N. Redmond, Jr.
Director

Date: March 19, 2008

By: /s/ H. Beaman Smith
H. Beaman Smith
Director

Date: March 19, 2008

By: /s/ Austin J. Slater, Jr.
Austin J. Slater, Jr.
Director

Date: March 19, 2008

By: /s/ Louis P. Jenkins, Jr.
Louis P. Jenkins, Jr.
Director

Date: March 19, 2008

By: /s/ James R. Shepherd
James R. Shepherd
Director

Date: March 19, 2008

By: /s/ Philip T. Goldstein
Philip T. Goldstein
Director

Date: March 19, 2008

By: /s/ Joseph V. Stone, Jr.
Joseph V. Stone, Jr.
Director

Date: March 19, 2008

EXHIBIT 13

ANNUAL REPORT TO STOCKHOLDERS

[LETTERHEAD OF TRI-COUNTY FINANCIAL CORPORATION]

Dear Shareholder:

I am pleased to report to you that Tri-County Financial Corporation and its subsidiary Community Bank of Tri County have completed another successful year of operation. For the year ended December 31, 2007, net income increased to $5,105,635 from $4,441,257 for the previous year. Diluted earnings per share increased to $1.79 from $1.58 in the previous year. A cash dividend of $0.40 per share was declared and payable in April 2008.

During 2007, the Company completed several initiatives of our strategic plan. The new branch in Lusby, Maryland was finished by began operations in early January 2008. Our Leonardtown branch was temporarily relocated to a trailer while we demolished the old facility to make way for a new regional banking center. We expect to move into our new building in the third quarter of 2008. In December 2007, the Bank raised over $7 million in private placements of our common stock.

In addition, the Company continued to expand its market share in Southern Maryland. Total deposits grew by $26,980,613 during 2007 while the Bank reduced brokered deposits by $24,286,385. Retail deposits therefore grew by $51,566,998 or 13%. During 2007, the Bank reduced long-term debt and short-term borrowings by $10 million and $5 million respectively. The net loan balances increased by $31,134,344 or 7%. The Company achieved these impressive growth figures while maintaining our level of credit quality in a contracting economy. Tri-County Financial has never been involved as an investor or originator in the “sub-prime” mortgage lending market and is working with our community leaders to lend a hand in resolving the growing housing crisis.

As we move into 2008, I am certain that the Company will face many challenges. Uncertainty in the economy has seldom been higher and the financial markets are extremely unsettled. With a strong capital position, a dedicated work force and a diversified customer base, I remain firmly optimistic about our Company’s continued success.

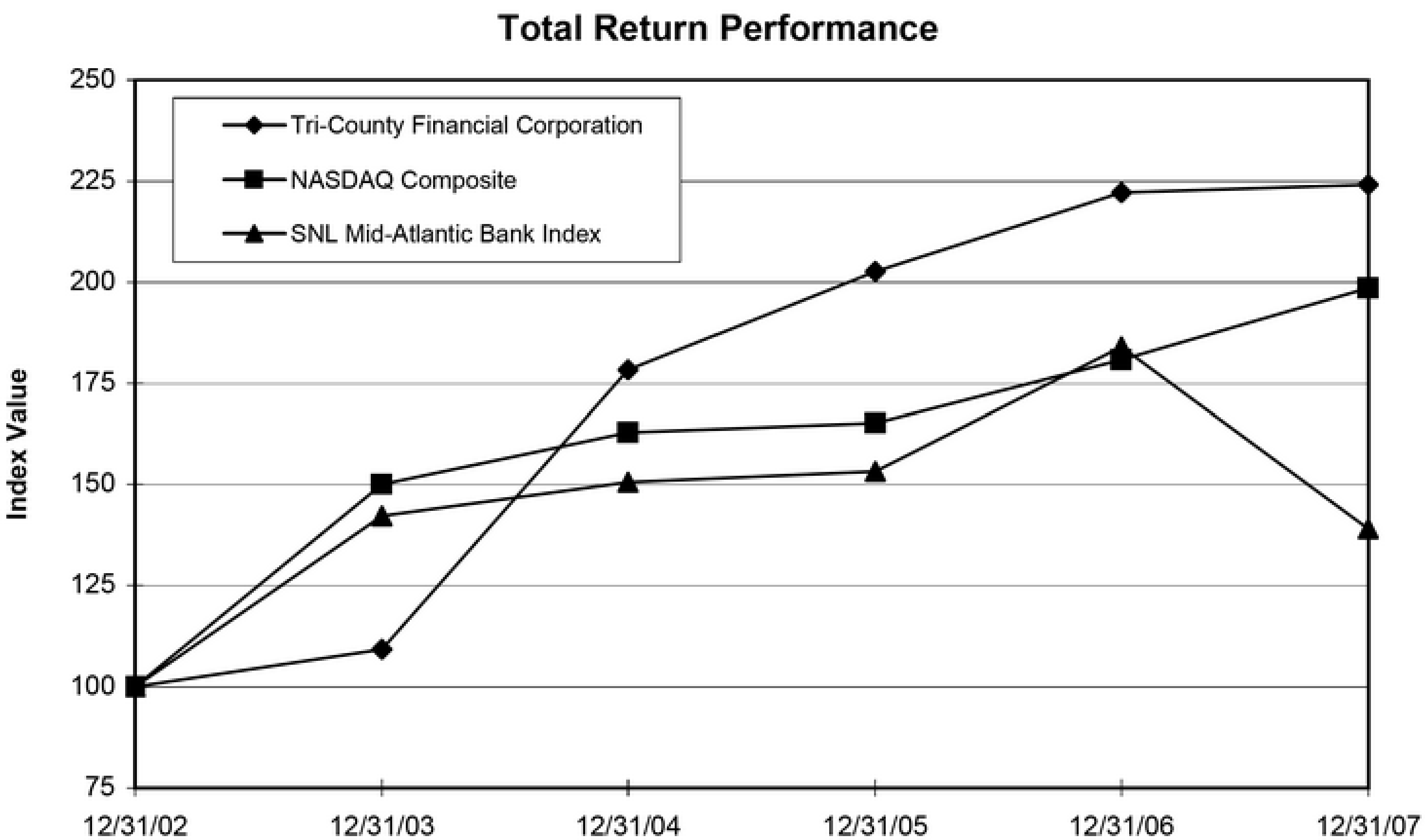
/s/ Michael L. Middleton

Michael L. Middleton

COMPARISON OF FIVE-YEAR TOTAL RETURN

The following graph compares the cumulative total return of the Company common stock with the cumulative total return of the SNL Mid-Atlantic Bank Index and the Index for the Nasdaq Stock Market (U.S. Companies, all SIC). The graph assumes that $100 was invested on December 31, 2002. Cumulative total return assumes reinvestment of all dividends.

Tri-County Financial Corporation



	Period Ending					
Index	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**
Tri-County Financial Corporation	$100.00	$109.21	$178.31	$202.55	$222.11	$224.15
NASDAQ Composite	100.00	150.01	162.89	165.13	180.85	198.60
SNL Mid-Atlantic Bank Index	100.00	142.18	150.59	153.26	183.94	139.10

Forward-Looking Statements

This annual report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of Tri-County Financial Corporation (the “Company”) and Community Bank of Tri-County (the “Bank”). These forward-looking statements are generally identified by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project” or similar expressions.

The Company and the Bank’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors that could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company and the Bank’s market area, changes in real estate market values in the Company and the Bank’s market area, and changes in relevant accounting principles and guidelines.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances.

Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Since its conversion to a commercial bank charter in 1997, the Bank has sought to increase total assets as well as certain targeted loan types. The Bank feels that its ability to offer fast, flexible and local decision-making in the commercial, commercial real estate and consumer loan areas will continue to attract significant new loans and enhance asset growth. The Bank’s local focus and targeted marketing is also directed towards increasing its balances of consumer and business transaction deposit accounts. The Bank believes that increases in these account types will lessen the Bank’s dependence on higher-costing time deposits, such as certificates of deposit, and borrowings to fund loan growth. Although management believes that this strategy will increase financial performance over time, we recognize that increasing the balances of certain products, such as commercial lending and transaction accounts, will also increase the Bank’s noninterest expense. We also recognize that certain lending and deposit products also increase the possibility of losses from credit and other risks.

In December 2006 the Company declared a three-for-two stock split in the form of a stock dividend. All per share numbers in the following discussion reflect retroactive application of the stock split.

Critical Accounting Policies

The Company’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and the general practices of the United States banking industry. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements. Accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. The Company considers its determination of the allowance for loan losses and the valuation of deferred tax assets to be critical accounting policies. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When these sources are not available, management makes estimates based upon what it considers to be the best available information.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two principles of accounting: (a) Statement on Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies," which requires that losses be accrued when they are probable of occurring and are estimable and (b) SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," which requires that losses be accrued when it is probable that the Company will not collect all principal and interest payments according to the contractual terms of the loan. The loss, if any, is determined by the difference between the loan balance and the value of collateral, the present value of expected future cash flows, or values observable in the secondary markets.

The allowance for loan loss balance is an estimate based upon management's evaluation of the loan portfolio. Generally the allowance is comprised of a specific and a general component. The specific component consists of management's evaluation of certain classified loans and their underlying collateral. Loans are examined to determine a specific allowance based upon the borrower's payment history, economic conditions specific to the loan or borrower, and other factors that would impact the borrower's ability to repay the loan on its contractual basis. Management assesses the ability of the borrower to repay the loan based upon any information available. Depending on the assessment of the borrower's ability to pay the loan as well as the type, condition, and amount of collateral, management will establish an allowance amount specific to the loan.

In establishing the general component of the allowance, management analyzes non-classified and non-impaired loans in the portfolio including changes in the amount and type of loans. Management also examines the Bank's history of write-offs and recoveries within each loan category. The state of the local and national economy is also considered. Based upon these factors, the Bank's loan portfolio is categorized and a loss factor is applied to each category. These loss factors may be higher or lower than the Bank's actual recent average losses in any particular loan category, particularly in loan categories where the Bank is rapidly increasing the size of its portfolio. Based upon these factors, the Bank will adjust the loan loss allowance by increasing or decreasing the provision for loan losses.

Management has significant discretion in making the judgments inherent in the determination of the provision and allowance for loan losses, including in connection with the valuation of collateral, a borrower's prospects of repayment and in establishing allowance factors on the general component of the allowance. Changes in allowance factors will have a direct impact on the amount of the provision and a corresponding effect on net income. Errors in management's perception and assessment of the global factors and their impact on the portfolio could result in the allowance not being adequate to cover losses in the portfolio, and may result in additional provisions or charge-offs. For additional information regarding the allowance for loan losses, refer to Notes 1 and 4 to the Consolidated Financial Statements and the discussion under the caption "Provision for Loan Losses" below.

Deferred Tax Assets

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or the entire deferred tax asset will not be realized.

At December 31, 2007 and 2006, the Company had deferred tax assets in excess of deferred tax liabilities of $2,313,390 and $1,911,265, respectively. For the reasons cited below, at December 31, 2007 and 2006, management determined that it is more likely than not that the entire amount of such assets will be realized.

The Company periodically evaluates the ability of the Company to realize the value of its deferred tax asset. If the Company were to determine that it was not more likely than not that the Company would realize the full amount of the deferred tax asset, it would establish a valuation allowance to reduce the carrying value of the deferred tax asset to the amount it believes would be realized. The factors used to assess the likelihood of realization are the company's forecast of future taxable income and available tax-planning strategies that could be implemented to realize the net deferred tax assets.

Failure to achieve forecasted taxable income might affect the ultimate realization of the net deferred tax assets. Factors that may affect the company's ability to achieve sufficient forecasted taxable income include, but are not limited to, the following: increased competition, a decline in net interest margins, and loss of market share.

The Company's provision for income taxes and the determination of the resulting deferred tax assets and liabilities involve a significant amount of management judgment and are based on the best information available at the time. The company operates within federal and state taxing jurisdictions and is subject to audit in these jurisdictions. For additional information regarding the allowance for loan losses, refer to Note 10 to the Consolidated Financial Statements.

Comparison of Results of Operations For the Years Ended December 31, 2007 and 2006

General. For the year ended December 31, 2007, the Company reported consolidated net income of $5,105,635 ($1.92 basic and $1.79 diluted earnings per share) compared to consolidated net income of $4,441,257 ($1.68 basic and $1.58 diluted earnings per share) for the year ended December 31, 2006. The increase in net income for 2007 was primarily attributable to increases in net interest income and noninterest income, which was partially offset by increases in the provision for loan loss and noninterest expenses. The Bank increased its loan portfolio and deposit balances in 2007. The Bank used funds from the increases in its deposit balances and decreases in its securities to decrease wholesale borrowings balances and fund loan growth. The allowance for loan losses increased in 2007 due to increases in the loan portfolio, particularly in commercial real estate and commercial equipment loans, which carry a higher risk of default than one-to-four family loans, as well as changes in the local and national economies. The amount of increase in the allowance was moderated by the Bank's excellent asset quality. Noninterest income increased in 2007 primarily due to the increases in income from bank owned life insurance, increases in service charges and, to a larger extent, recognition of gain on the sale of foreclosed property. Noninterest expenses increased primarily due to increases in personnel, occupancy, depreciation, ATM expenses and other expenses. Income tax expenses increased by $809,347 or 37.39%, in 2007.

Net Interest Income. The primary component of the Company's net income is its net interest income, which is the difference between income earned on assets and interest paid on the deposits and borrowings used to fund them. Net interest income is affected by the spread between the yields earned on the Company's interest-earning assets and the rates paid on interest-bearing liabilities as well as the relative amounts of such assets and liabilities. Net interest income, divided by average interest-earning assets, represents the Company's net interest margin.

Net interest income for the year ended December 31, 2007 was $18,991,900 compared to $17,326,808 for the year ended December 31, 2006. The $1,665,092 increase was due to an increase in interest income of $3,212,376, partially offset by the increase in interest expense of $1,547,284. Changes in the components of net interest income due to changes in average balances of assets and liabilities and to changes caused by changes in interest rates are presented in the rate volume analysis below.

During 2007, the Company's interest rate spread increased because the Bank's yield on interest earning assets increased at a faster rate than the increase in the cost of the Company's interest-bearing liabilities. The Bank's yield on loans increased as a result of larger average loan balances compared to the prior year. The Company's yield on investment securities also increased as certain securities re-priced due to rate changes. The Company's yield on short-term investments also increased as the principal in these investments matured and was replaced by higher-yielding instruments. In addition to the factors noted above, the Company increased the relative amount of higher-yielding loans in its earning assets and decreased the relative amount of lower-yielding securities. Certificates of deposits, interest-bearing demand and money market accounts, guaranteed preferred beneficial interests in junior subordinated debentures, and long-term borrowings all increased in cost as interest rates increased. The costs of savings deposits were restrained by adjustments to deposit pricing. The average interest rates incurred on short-term debt fell as the Bank was able to increase the relative portion of the notes payable to the U.S. Treasury in its overall short-term debt. These notes have a lower interest rate than our other short-term debt. Interest income increased due to an increase in the average balance of loans, offset by a decrease in the average balance of securities. Interest expense increased due to the increase in the average certificates of deposits, offset by a decrease in the average balance of borrowings. Increases in interest income and interest expense were also due to increases in interest rates.

The decrease in securities and borrowings reflect the company's decision to pay down these items with the funds it received from loan and deposit growth. These changes in the average balance sheet of the Company from 2006 to 2007 tended to increase interest rate spread and the net yield on interest-earning assets.

The following table presents information on the average balances of the Company's interest-earning assets and interest-bearing liabilities and interest earned or paid thereon for the past two fiscal years.

dollars in thousands	2007 Average Balance	2007 Interest(2)	2007 Average Yield/ Cost	2006 Average Balance	2006 Interest	2006 Average Yield/ Cost
Assets						
Interest-earning assets:						
Loan portfolio (1)	$438,276	$ 33,048	7.54%	$398,381	$ 29,292	7.35%
Investment securities, federal funds sold and interest-bearing deposits	119,101	5,850	4.91%	135,824	6,394	4.71%
Total interest-earning assets	557,377	38,898	6.98%	534,205	35,686	6.68%
Cash and due from banks	3,004			4,072		
Other assets	22,505			20,133		
	$582,886			$558,410		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Savings	$ 28,391	$ 275	0.97%	$ 34,570	$ 409	1.18%
Interest-bearing demand and money market accounts	137,001	4,115	3.00%	104,410	3,053	2.92%
Certificates of deposit	222,769	10,511	4.72%	204,675	8,609	4.21%
Long-term debt	86,993	3,906	4.49%	101,520	4,491	4.42%
Short-term debt	2,901	132	4.55%	18,129	905	4.99%
Guaranteed preferrred beneficial interest in junior subordinated debentures	12,000	967	8.06%	12,000	892	7.43%
Total Interest-Bearing Liabilities	490,055	19,906	4.06%	475,304	18,359	3.86%
Noninterest-bearing demand deposits	45,969			42,030		
Other liabilities	6,398			4,444		
Stockholders' equity	40,464			36,632		
Total Liabilities and Stockholders' Equity	$582,886			$558,410		
Net interest income		18,992			17,327	
Interest rate spread			2.92%			2.82%
Net yield on interest-earning assets			3.41%			3.24%
Ratio of average interest-earning assets to average interest bearing liabilities			113.74%			112.39%

1 Average balance includes non-accrual loans

2 There are no tax equivalency adjustments

The table below sets forth certain information regarding changes in interest income and interest expense of the Bank for the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to (1) changes in volume (changes in volume multiplied by old rate); and (2) changes in rate (changes in rate multiplied by old volume). Changes in rate-volume (changes in rate multiplied by the change in volume) have been allocated to changes due to volume.

	Year ended December 31, 2007 compared to year ended December 31,2006 Due to		
dollars in thousands	Volume	Rate	Total
Interest income:			
Loan portfolio (1)	$ 3,008	$ 748	$ 3,756
Investment securities, federal funds sold and interest bearing deposits	(821)	277	(544)
Total interest-earning assets	$ 2,187	$ 1,025	$ 3,212
Interest-bearing liabilities:			
Savings	$ (60)	$ (74)	$ (134)
Interest-bearing demand and money market accounts	979	83	1,062
Certificates of deposit	854	1,048	1,902
Long-term debt	(652)	67	(585)
Short-term debt	(693)	(80)	(773)
Guaranteed preferred beneficial interest in junior subordinated debentures	—	75	75
Total interest-bearing liabilities	$ 428	$ 1,119	$ 1,547
Net change in net interest income	$ 1,759	$ (94)	$ 1,665

Provision for Loan Losses. Provision for loan losses for the year ended December 31, 2007 was $854,739, compared to $405,809 for the year ended December 31, 2006. The loan loss provision increased in 2007 as the Bank continued to add loans to its portfolio particularly in the commercial and commercial equipment categories which carry a higher risk of default. The loan loss provision also increased due to economic conditions. The need to increase loan loss provision was moderated by the Bank's continued excellent credit quality and low level of write-offs. In 2007, the Bank recorded net charge-offs of $155,977 (0.04% of average loans) compared to net charge-offs of $5,422 (0.00% of average loans) in 2006. There was a decrease in the non-accrual loans from $1,046,000 in 2006 to $414,000 in 2007. The loan loss allowance and the provision for loan losses is determined based upon an analysis of individual loans and the application of certain loss factors to different loan categories. Individual loans are analyzed for impairment as the facts and circumstances warrant. In addition, a general component of the loan loss allowance is added based on a review of the portfolio's size and composition. At December 31, 2007, the allowance for loan loss equaled 1083% of non-accrual and past due loans compared to 362% at December 31, 2006.

Noninterest Income.

	Years Ended December 31,		% change 2007 vs. 2006
dollars in thousands	2007	2006	
Loan appraisal, credit, and miscellaneous charges	$ 358,946	$ 362,145	(0.88%)
Income from bank owned life insurance	361,527	328,586	10.03%
Service charges	1,436,290	1,359,409	5.66%
(Loss) gain on the sale of investment securities	(27,335)	197,001	(113.88%)
Gain on sale of foreclosed property	1,272,161	—	na
Total noninterest income	$3,401,589	$2,247,141	51.37%

Income from bank owned life insurance ("BOLI") increased from last year as the Bank purchased an additional $1 million in BOLI in 2007. Service charges and fees are primarily generated by the Bank's ability to attract and retain transaction-based deposit accounts and by loan servicing fees net of amortization of and valuation allowances on mortgage servicing rights. In 2007, service charges increased as the Bank increased its average transaction account balances during the year. The Bank also increased certain service fees on accounts during 2007. In 2007, the Bank recorded a net loss on the sale of investment securities compared to a gain in the prior year. The Bank recorded a gain in the amount of $1,276,161 on the sale of foreclosed property during 2007 compared to no activity in 2006.

Noninterest Expenses.

	Years Ended December 31,		% change 2007 vs. 2006
dollars in thousands	**2007**	**2006**	
Noninterest expense			
Salary and employee benefits	$ 7,604,140	$ 7,006,369	8.53%
Occupancy expense	1,340,820	1,316,261	1.87%
Advertising	469,995	474,554	(0.96%)
Data processing expense	833,726	821,392	1.50%
Depreciation of furniture, fixtures, and equipment	665,974	513,348	29.73%
Telephone communications	87,176	93,319	(6.58%)
ATM expenses	293,656	274,403	7.02%
Office supplies	161,538	141,144	14.45%
Professional fees	646,779	655,503	(1.33%)
Other	1,355,549	1,266,175	7.06%
	$13,459,353	$12,562,468	7.14%

The increase in salary and employee benefit costs reflect growth in the Bank's workforce to fully staff branches, an increasing need for highly skilled employees due to the higher complexity level of the Bank's business, and continued increases in the Bank's benefit and incentive costs. Expenses also included certain supplemental retirement benefits, which were funded by the BOLI income. Depreciation expense increased as the Bank wrote off equipment related to a previous version of its data processing software. ATM expenses increased due to an increase in money delivery services. Professional fees decreased slightly as the Company nears satisfaction of requirements under the Sarbanes Oxley Act. Other noninterest expense increased due to the growing size and complexity of the Bank.

Income Tax Expense. During the year ended December 31, 2007, the Company recorded income tax expense of $2,973,762 compared to expenses of $2,164,415 in the prior year. The Company's effective tax rates for the years ended December 31, 2007 and 2006 were 36.81% and 32.76%, respectively. The tax rate increased as a larger percentage of pretax income was subject to state income taxes.

Comparison of Financial Condition at December 31, 2007 and 2006

	December 31,		% change 2007 vs. 2006
dollars in thousands	**2007**	**2006**	
Assets			
Cash and due from banks	$ 3,267,920	$ 3,157,595	3.49%
Fed Funds sold	885,056	772,351	14.59%
Interest-bearing deposits with banks	7,273,661	14,260,560	(48.99%)
Securities available for sale	9,144,069	9,301,676	(1.69%)
Securities held to maturity	92,687,603	97,804,849	(5.23%)
Federal Home Loan Bank and Federal Reserve Bank stock	5,354,500	6,100,400	(12.23%)
Loans receivable, net	453,614,133	422,479,799	7.37%
Premises and equipment, net	9,423,302	6,822,461	38.12%

dollars in thousands	December 31, 2007	December 31, 2006	% change 2007 vs. 2006
Foreclosed real estate	—	460,884	(100.00%)
Accrued interest receivable	3,147,569	2,837,413	10.93%
Investment in bank owned life insurance	10,124,288	8,762,761	15.54%
Other assets	3,483,733	2,735,265	27.36%
TOTAL ASSETS	$598,405,834	$575,496,014	3.98%
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	$ 48,041,571	$ 43,723,436	9.88%
Interest-bearing	396,952,444	374,289,966	6.05%
Total deposits	444,994,015	418,013,402	6.45%
Short-term borrowings	1,555,323	6,567,702	(76.32%)
Long-term debt	86,005,508	96,045,936	(10.45%)
Guaranteed preferred beneficial interest in junior subordinated debentures	12,000,000	12,000,000	0.00%
Accrued expenses and other liabilities	5,003,912	5,139,637	(2.64%)
TOTAL LIABILITIES	549,558,758	537,766,677	2.19%
Stockholders' equity:			
Common stock	29,100	26,423	10.13%
Additional paid in capital	16,914,373	9,499,946	78.05%
Retained earnings	32,303,353	28,353,792	13.93%
Accumulated other comprehensive loss	(73,097)	(53,822)	35.81%
Unearned ESOP shares	(326,653)	(97,002)	236.75%
Total stockholders' equity	48,847,076	37,729,337	29.47%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$598,405,834	$575,496,014	3.98%

In 2007, the Bank used the payments received from the maturation of its investment securities portfolio to fund loans. The Bank also increased retail deposits and used the funds to pay down short-term wholesale borrowings as well as to increase earning assets. In 2007, the total of cash and cash equivalents decreased to $11,426,637 from $18,190,506, a decrease of 37.18%. The decrease in cash equivalents was used to decrease borrowings. Securities available for sale and held to maturity both decreased due to continued principal repayments on the portfolio. The effect of principal repayments was partially offset by the purchase of $11 million of held to maturity securities in 2007. Federal Home Loan Bank and Federal Reserve Bank stock declined as the level of borrowings from the Federal Home Loan Bank system declined. Loans receivable increased as the Bank continued to add to its loan portfolio, primarily in the commercial business and commercial real estate areas. Accrued interest receivable increased due to higher interest-earning asset balances. Other assets increased due to an increase in certain prepaid tax accounts. Deposits increased during 2007 as the Bank increased its market share through additional marketing including advertising campaigns and the introduction of attractive deposit products. Short and long-term borrowings declined, as the Bank replaced borrowings with deposits.

Total equity increased during the year. In 2007, the Company earned net income of $5,105,635. The Company sold 268,255 shares of common stock in private placement offerings at a price of $26.25 during 2007 for total proceeds of $7,041,694. Other additions to stockholders' equity were the result of the exercise of stock options ($73,820) and the issuance of non-incentive stock options ($82,916 and $181,869, respectively). These additions to stockholders' equity were partially offset by the payment of dividends of $1,062,064, the repurchase of 3,684 shares of common stock for $94,047, changes in the unearned ESOP shares of $192,809, and a change in the accumulated other comprehensive loss account of $19,275.

Liquidity and Capital Resources

The Company currently has no business other than holding the stock of the Bank and engaging in certain passive investments and does not currently have any material funding requirements, except for payment of interest on subordinated debentures, the payment of dividends and the repurchase of stock. The Company's principal sources of liquidity are cash on hand and dividends received from the Bank. The Bank is subject to various regulatory restrictions on the payment of dividends.

The Bank's principal sources of funds for investment and operations are net income, deposits from its primary market area, borrowings, principal and interest payments on loans, principal and interest received on investment securities, and proceeds from the maturity and sale of investment securities. Its principal funding commitments are for the origination or purchase of loans, the purchase of securities, and the payment of maturing deposits. Deposits are considered the primary source of funds supporting the Bank's lending and investment activities. The Bank also uses borrowings from the FHLB of Atlanta to supplement deposits. The amount of FHLB advances available to the Bank is limited to the lower of 40% of Bank assets or the amount supportable by eligible collateral including FHLB stock, loans, and securities.

The Bank's most liquid assets are cash, cash equivalents, and federal funds sold. The levels of such assets are dependent on the Bank's operating, financing and investment activities at any given time. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows.

Cash and cash equivalents as of December 31, 2007 totaled $11,426,637 a decrease of $6,763,869 or 37.18%, from the December 31, 2006 total of $18,190,506. This decrease was used to pay down the Bank's wholesale borrowings.

The Bank's principal sources of cash flows are its financing activities including deposits and borrowings. During 2007, all financing activities provided $17,694,400 in cash compared to $28,167,675 during 2006. The decrease in cash flows from financing activities during the most recent period was principally due to a decline in the level of net increase of deposits from $54,639,662 for 2006 compared to $26,980,613 for 2007. The decline in cash-flows provided by deposits was offset by a significantly smaller use of cash in reducing net short-term borrowings. In 2007, short-term borrowings declined by $5,012,379 compared to a decline of $13,507,273 in 2006. Other significant cash flows from financing activities included proceeds of long-term debt totaling $5,000,000 and $15,260,000 during 2007 and 2006, respectively. In 2007, the Company had repayments of long-term debt of $15,040,428 compared to $27,037,822 in 2006. The Bank also receives cash from its operating activities, which provided $4,625,771 in 2007 compared to cash flows of $6,314,581 during 2006.

The Bank's principal use of cash has been in investing activities including its investments in loans for portfolio, investment securities and other assets. In 2007, the level of investing continued to decline after a significant decline in 2006. In 2007, total net cash flows invested was $29,084,040 compared to $38,866,990 in 2006. The principal reason for the change in invested cash are the fluctuations in the amount of funds used to buy investments, the funds provided by maturities and principal payments on investments, funds used for the origination of loans, and the cash provided by principal collected on loans.

Federal banking regulations require the Company and the Bank to maintain specified levels of capital. At December 31, 2007, the Company was in compliance with these requirements with a leverage ratio of 10.41%, a Tier 1 risk-based capital ratio of 12.84% and total risk-based capital ratio of 13.80%. At December 31, 2007, the Bank met the criteria for designation as a well-capitalized depository institution under FRB regulations. See Note 14 of the consolidated financial statements.

Off Balance Sheet Arrangements

In the normal course of its business, the Bank has committed to make credit available to its borrowers under various loan and other agreements provided that certain terms and conditions are met. For a discussion of these agreements including collateral and other arrangements see Note 11 to the consolidated financial statements.

Contractual Obligations

In the normal course of its business, the Bank commits to make future payments to others to satisfy contractual obligations. These commitments include commitments to repay short and long-term borrowings, and commitments incurred under operating lease agreements.

Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with generally accepted in the United States of America accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, nearly all of the Company's assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Material Commitments for Capital Expenditures

The Company is currently rebuilding one branch office in Leonardtown. The total commitment to rebuild the branch office is $3.3 million. The commitment includes demolition, engineering and design costs, site costs, banking equipment, and furniture.

Selected Financial Data

Dollars in thousands except per share data

	Year Ended December 31,				
	2007	2006	2005	2004	2003
Operations Data:					
Net interest income	**$ 18,992**	$ 17,327	$ 15,571	$ 13,800	$ 10,469
Provision for loan losses	**855**	406	329	453	317
Noninterest income	**3,402**	2,247	1,641	1,582	1,755
Noninterest expense	**13,459**	12,562	10,851	9,768	8,428
Net income	**$ 5,106**	$ 4,441	$ 3,979	$ 3,720	$ 2,446
Share Data:					
Basic net income per common share	**$ 1.92**	$ 1.68	$ 1.53	$ 1.44	$ 0.96
Diluted net income per common share	**$ 1.79**	$ 1.58	$ 1.44	$ 1.38	$ 0.91
Cash dividends paid per common share	**$ 0.40**	$ 0.37	$ 0.35	$ 0.21	$ 0.16
Weighted average common					
Shares outstanding:					
Basic	**2,664,036**	2,637,531	2,597,806	2,579,264	2,544,899
Diluted	**2,852,494**	2,815,985	2,763,616	2,697,030	2,686,571
Financial Condition Data:					
Total assets	**$ 598,406**	$ 575,496	$ 541,287	$ 505,767	$ 351,730
Loans receivable, net	**453,614**	422,480	369,592	289,325	217,740
Total deposits	**444,994**	418,013	363,374	266,755	227,555
Long and short term debt	**87,561**	102,614	127,899	198,235	94,242
Total stockholders' equity	**$ 48,847**	$ 37,729	$ 34,578	$ 31,124	$ 27,912
Performance Ratios:					
Return on average assets	**0.87%**	0.80%	0.74%	0.87%	0.78%
Return on average equity	**12.62%**	12.13%	12.11%	12.89%	8.99%
Net interest margin	**3.41%**	3.24%	3.05%	3.43%	3.55%
Efficiency ratio	**60.10%**	64.18%	63.04%	63.50%	68.95%
Dividend payout ratio	**20.80%**	21.91%	23.39%	14.56%	17.27%
Capital Ratios:					
Average equity to average assets	**10.41%**	8.74%	8.62%	9.29%	8.04%
Leverage ratio	**10.41%**	8.74%	8.62%	9.29%	8.04%
Total risk-based capital ratio	**13.80%**	11.98%	11.93%	11.89%	12.20%
Asset Quality Ratios:					
Allowance for loan losses to total loans	**0.98%**	0.89%	0.91%	1.04%	1.16%
Nonperforming loans to total loans	**0.09%**	0.25%	0.16%	0.23%	0.17%
Allowance for loan losses to Nonperforming loans	**1082.71%**	361.59%	572.96%	452.97%	678.30%
Net charge-offs to average loans	**0.00%**	0.00%	0.00%	(0.01%)	0.03%

All per share amounts have been adjusted for the three for two stock splits which were effected in December 2004, 2005 and 2006.

MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

Market Information. The following table sets forth high and low bid quotations reported on the OTC Bulletin for the Company's common stock for each quarter during 2007 and 2006. These quotes reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily reflect actual transactions. All per share amounts have been adjusted to reflect the three for two stock dividends effected in December 2005, and December 2006.

2006	High	Low
Fourth Quarter	$ 26.67	$ 23.43
Third Quarter	$ 24.33	$ 23.67
Second Quarter	$ 25.67	$ 22.88
First Quarter	$ 22.67	$ 21.53

2007	High	Low
Fourth Quarter	$ 26.50	$ 22.50
Third Quarter	$ 27.70	$ 25.71
Second Quarter	$ 60.00	$ 25.15
First Quarter	$ 27.00	$ 24.00

Holders. The number of stockholders of record of the Company at March 10, 2008 was 638.

Dividends. The Company has paid annual cash dividends since 1994. During fiscal years 2007 and 2006, the Company paid cash dividends of $0.40 and $0.37, respectively.

The Company's ability to pay dividends is governed by the policies and regulations of the Federal Reserve Board (the "FRB"), which prohibits the payment of dividends under certain circumstances dependent on the Company's financial condition and capital adequacy. The Company's ability to pay dividends is also depending on the receipt of dividends from the Bank.

Federal regulations impose certain limitations on the payment of dividends and other capital distributions by the Bank. The Bank's ability to pay dividends is governed by the Maryland Financial Institutions Code and the regulations of the FRB. Under the Maryland Financial Institutions Code, a Maryland bank (1) may only pay dividends from undivided profits or, with prior regulatory approval, its surplus in excess of 100% of required capital stock and (2) may not declare dividends on its common stock until its surplus funds equals the amount of required capital stock, or if the surplus fund does not equal the amount of capital stock, in an amount in excess of 90% of net earnings.

Without the approval of the FRB, a state member bank may not declare or pay a dividend if the total of all dividends declared during the year exceeds its net income during the current calendar year and retained net income for the prior two years. The Bank is further prohibited from making a capital distribution if it would not be adequately capitalized thereafter. In addition, the Bank may not make a capital distribution that would reduce its net worth below the amount required to maintain the liquidation account established for the benefit of its depositors at the time of its conversion to stock form.

Tri-County Financial Corporation

Report on Audits of Consolidated Financial Statements

For the Years Ended December 31, 2007 and 2006

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Management’s Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2007, utilizing the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company’s internal control over financial reporting as of December 31, 2007, is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the Company’s financial statements are prevented or timely detected.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. 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.

[LETTERHEAD OF STEGMAN & COMPANY]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Tri-County Financial Corporation
Waldorf, Maryland

We have audited the accompanying consolidated balance sheets of Tri-County Financial Corporation (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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 consolidated financial position of Tri-County Financial Corporation as of December 31, 2007 and 2006, and the results of its consolidated operations and cash flows for each of the years in the two-year period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

/s/ Stegman & Company

Baltimore, Maryland
March 7, 2008

TRI-COUNTY FINANCIAL CORPORATION

Consolidated Balance Sheets

	As of December 31, 2007	2006
Assets		
Cash and due from banks	$ 3,267,920	$ 3,157,595
Federal Funds sold	885,056	772,351
Interest-bearing deposits with banks	7,273,661	14,260,560
Securities available for sale	9,144,069	9,301,676
Securities held to maturity (fair value approximates $91,319,130 and $96,148,156, respectively)	92,687,603	97,804,849
Federal Home Loan Bank and Federal Reserve Bank stock — at cost	5,354,500	6,100,400
Loans receivable - Net of allowance for loan losses of $4,482,483 and $3,783,721	453,614,133	422,479,799
Premises and equipment, net	9,423,302	6,822,461
Foreclosed real estate	—	460,884
Accrued interest receivable	3,147,569	2,837,413
Investment in bank owned life insurance	10,124,288	8,762,761
Other assets	3,483,733	2,735,265
TOTAL ASSETS	$598,405,834	$575,496,014
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 48,041,571	$ 43,723,436
Interest-bearing	396,952,444	374,289,966
Total deposits	444,994,015	418,013,402
Short-term borrowings	1,555,323	6,567,702
Long-term debt	86,005,508	96,045,936
Guaranteed preferred beneficial interest in junior subordinated debentures	12,000,000	12,000,000
Accrued expenses and other liabilities	5,003,912	5,139,637
TOTAL LIABILITIES	549,558,758	537,766,677
Commitments and Contingencies (Note 11)		
Stockholders' Equity		
Common stock — par value $.01; authorized - 15,000,000 shares; issued 2,909,974 and 2,642,288 shares, respectively	29,100	26,423
Additional paid in capital	16,914,373	9,499,946
Retained earnings	32,303,353	28,353,792
Accumulated other comprehensive loss	(73,097)	(53,822)
Unearned ESOP shares	(326,653)	(97,002)
Total Stockholders' Equity	48,847,076	37,729,337
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$598,405,834	$575,496,014

* *See notes to consolidated financial statements*

TRI-COUNTY FINANCIAL CORPORATION

Consolidated Statements of Income

	Years Ended December 31, 2007	2006
Interest and Dividend income		
Loans, including fees	$33,047,979	$29,292,419
Taxable interest and dividends on investment securities	5,550,086	6,211,393
Interest on deposits with banks	300,047	181,924
Total interest and dividend income	**38,898,112**	**35,685,736**
Interest Expenses		
Deposits	14,900,672	12,062,016
Short-term borrowings	131,884	921,934
Long-term debt	4,873,656	5,374,978
Total interest expenses	**19,906,212**	**18,358,928**
Net interest income	**18,991,900**	**17,326,808**
Provision for loan losses	854,739	405,809
Net interest income after provision for loan losses	**18,137,161**	**16,920,999**
Noninterest income:		
Loan appraisal, credit, and miscellaneous charges	358,946	362,145
Income from Bank owned life insurance	361,527	328,586
Service charges	1,436,290	1,359,409
(Loss) gain on the sale of investment securities	(27,335)	197,001
Gain on sale of foreclosed property	1,272,161	—
Total noninterest income	**3,401,589**	**2,247,141**
Noninterest expenses		
Salary and employee benefits	7,604,140	7,006,369
Occupancy expense	1,340,820	1,316,261
Advertising	469,995	474,554
Data processing expense	833,726	821,392
Depreciation of furniture, fixtures, and equipment	665,974	513,348
Telephone communications	87,176	93,319
ATM expenses	293,656	274,403
Office supplies	161,538	141,144
Professional fees	646,779	655,503
Other	1,355,549	1,266,175
Total noninterest expenses	**13,459,353**	**12,562,468**
Income before income taxes	**8,079,397**	**6,605,672**
Income tax expense	2,973,762	2,164,415
Net income	**$ 5,105,635**	**$ 4,441,257**
Earnings per share:		
Basic	$ 1.92	$ 1.68
Diluted	$ 1.79	$ 1.58
Cash dividend paid	$ 0.40	$ 0.37

See notes to consolidated financial statements

* Share and per share data have been retroactively adjusted to effect the three-for-two common stock splits of December 2006 as if it had occurred January 1, 2006

TRI-COUNTY FINANCIAL CORPORATION

Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2007 and 2006

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Unearned ESOP Shares	Total
Balance at January 1, 2006	**$ 17,610**	**$ 9,057,805**	**$ 25,580,634**	**$ 49,362**	**$ (127,255)**	**$ 34,578,156**
Comprehensive Income						
Net Income			4,441,257			4,441,257
Unrealized Holding Losses on investment securities net of tax of $64,841				(103,184)		(103,184)
Total Comprehensive Income						**4,338,073**
Cash dividend — $0.37 per share			(972,966)			(972,966)
Excess of fair market value over cost of leveraged ESOP shares released		43,306				43,306
Exercise of stock options	163	155,959				156,122
Proceeds of private placement	50	177,450				177,500
Net change in unearned ESOP shares	(5)				30,253	30,248
Repurchase of common stock	(200)		(686,328)			(686,528)
Three-for-two stock split in the form of a dividend	8,805		(8,805)			—
Tax effect of the ESOP dividend		23,111				23,111
Tax effect of the exercise of non- ISO stock options	—	42,315	—	—	—	42,315
Balance at December 31, 2006	**26,423**	**9,499,946**	**28,353,792**	**(53,822)**	**(97,002)**	**37,729,337**
Comprehensive Income						
Net Income			5,105,635			5,105,635
Unrealized Holding Losses on investment securities net of tax of $12,128				(19,275)		(19,275)
Total Comprehensive Income						**5,086,360**
Cash dividend — $0.40 per share			(1,062,064)			(1,062,064)
Excess of fair market value over cost of leveraged ESOP shares released		36,814				36,814
Exercise of stock options	103	73,717				73,820
Proceeds of private placement	2,683	7,039,011				7,041,694
Net change in unearned ESOP shares	(72)	100			(229,651)	(229,623)
Repurchase of common stock	(37)		(94,010)			(94,047)
Stock-based compensation	—	264,785	—	—	—	264,785
Balance at December 31, 2007	**$ 29,100**	**$ 16,914,373**	**$ 32,303,353**	**$ (73,097)**	**$ (326,653)**	**$ 48,847,076**

* *See notes to consolidated financial statements*

* *All per share amounts have been adjusted for the three-for-two stock split which occurred in December 2006*

TRI-COUNTY FINANCIAL CORPORATION

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities		
Net income	$ 5,105,635	$ 4,441,257
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	854,739	405,809
Loss (Gain) on sales of investment securities	27,335	(197,001)
Depreciation and amortization	1,122,464	1,001,638
Net amortization of premium/discount on mortgage backed securities and investments	192,004	27,749
Stock based compensation expense	264,785	—
Excess tax benefits on stock-based compensation	—	(42,315)
Increase in cash surrender of Bank owned life insurance	(361,527)	(328,586)
Deferred income tax benefit	(392,194)	(412,681)
Increase in accrued interest receivable	(310,156)	(430,871)
Decrease in deferred loan fees	(119,081)	(113,379)
(Decrease) Increase in accrued expenses and other liabilities	(135,725)	1,801,223
(Increase) Decrease in other assets	(350,346)	161,738
Gain on sale of other real estate owned	(1,272,161)	—
Net Cash Provided By Operating Activities	**4,625,771**	**6,314,581**
Cash Flows From Investing Activities		
Purchase of investment securities available for sale	(309,253)	(3,127,695)
Proceeds from sale, redemption or principal payments of investment securities available for sale	408,313	1,033,358
Purchase of investment securities held to maturity	(11,009,199)	(5,100,000)
Proceeds from maturities or principal payments of investment securities held to maturity	15,936,450	23,766,300
Net sales of FHLB and Federal Reserve stock	745,900	1,089,900
Loans originated or acquired	(194,267,624)	(181,343,309)
Principal collected on loans	162,397,632	128,163,333
Purchase of premises and equipment	(3,723,304)	(1,363,554)
Proceeds from disposal of premises and equipment	4,000	—
Purchase of Bank owned life insurance policies	(1,000,000)	(2,000,000)
Proceeds of sale of foreclosed real estate	1,733,045	14,677
Net Cash Used In Investing Activities	(29,084,040)	(38,866,990)

TRI-COUNTY FINANCIAL CORPORATION

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2007 and 2006

	2007	2006
Cash Flows From Financing Activities		
Net increase in deposits	26,980,613	54,639,662
Net decrease in short-term borrowings	(5,012,379)	(13,507,273)
Dividends paid	(1,062,064)	(972,966)
Exercise of stock options	73,820	156,122
Excess tax benefits on stock based compensation	—	42,315
Proceeds from private placement	7,041,694	177,500
Net change in unearned ESOP shares	(192,809)	96,665
Repurchase of common stock	(94,047)	(686,528)
Proceeds from long-term borrowings	5,000,000	15,260,000
Payments of long-term borrowings	(15,040,428)	(27,037,822)
Net Cash Provided By Financing Activities	**17,694,400**	**28,167,675**
Decrease In Cash And Cash Equivalents	(6,763,869)	(4,384,734)
Cash and Cash Equivalents at Beginning of Year	18,190,506	22,575,240
Cash and Cash Equivalents at End of Year	$ 11,426,637	$ 18,190,506
Supplementary Cash Flow Information		
Cash paid during the year for		
Interest	$ 19,679,622	$ 18,057,377
Income taxes	$ 3,942,600	$ 2,567,400

* *See notes to consolidated financial statements*

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Tri-County Financial Corporation and its wholly owned subsidiaries, Community Bank of Tri-County (the "Bank"), Tri-County Capital Trust I and Tri-County Capital Trust II, and the Bank's wholly owned subsidiaries, Tri-County Investment Corporation and Community Mortgage Corporation of Tri-County (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and to general practices within the banking industry. Certain reclassifications have been made to amounts previously reported to conform with classifications made in 2007.

Nature of Operations

The Company provides a variety of financial services to individuals and small businesses through its offices in Southern Maryland. Its primary deposit products are demand, savings, and time deposits, and its primary lending products are consumer and commercial mortgage loans, construction and land development loans and commercial loans.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate, and deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the company's activities are with customers located in the Southern Maryland area comprising St. Mary's, Charles and Calvert counties. Note 3 discusses the types of securities held by the Company. Note 4 discusses the type of lending in which the Company is engaged. The Company does not have any significant concentration to any one customer or industry.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less when purchased to be cash equivalents.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities purchased and held principally for trading in the near term are classified as "trading securities". Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at estimated fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the estimated fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. Investment in Federal Reserve Bank and Federal Home Loan Bank of Atlanta stock are recorded at cost and are considered restricted as to marketability. The Bank is required to maintain investments in the Federal Reserve Bank and Federal Home Loan Bank based upon levels of borrowings.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value, in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Company. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold, using the specific identification method.

Loans Receivable
The Company originates real estate mortgages to cover construction and land development loans, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is comprised of loans throughout Southern Maryland. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff are reported at their outstanding unpaid principal balances, adjusted for 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 mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. Consumer loans are charged-off no later than 180 days past due. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected from 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 principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses
The allowance for loan losses is established as probable 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 that 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 collectability of the loans in light of historical experience, the composition 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 for loan losses consists of a specific component and a general component. The specific component relates to loans that are classified as either, doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than carrying value of that loan. The general component covers the non-classified loans by loan category and is based on historical loss experience, peer group comparisons, industry data and loss percentages used for similarly graded loans adjusted for qualitative factors.

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

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

Servicing
Servicing assets are recognized as separate assets when rights are acquired through purchase or through the sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing based on relative estimated fair value. Estimated fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the estimated fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan, and recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Premises and Equipment
Land is carried at cost. Premises, improvements and equipment are carried at cost, less accumulated depreciation and amortization, computed by the straight-line method over the estimated useful lives of the assets, which are as follows:

Buildings and Improvements: 10 – 50 years
Furniture and Equipment: 3 – 15 years
Automobiles: 5 years

Maintenance and repairs are charged to expense as incurred while improvements that extend the useful life of premises and equipment are capitalized.

Foreclosed Real Estate
Assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at the lower of cost or estimated fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or estimated fair value less the cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in noninterest expense.

Transfers of Financial Assets
Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Advertising Costs
The Company expenses advertising costs as incurred.

Income Taxes
The Company files a consolidated federal income tax return with its subsidiaries. Deferred 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.

The Company adopted the provisions of Financial Accounting Standard Board (FASB) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (FIN 48), on January 1, 2007. The adoption of Fin 48 did not have a material impact on the Company’s consolidated financial statements. In conjunction with the adoption of FIN 48, it is the Company’s policy to recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense.

Off Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under commercial lines of credit, letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Stock-Based Compensation

The Company has stock option and incentive plans to attract and retain key personnel in order to promote the success of the business.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 123(R), “Share-Based Payment” (“SFAS No. 123(R)”). This statement replaced SFAS No. 123, “Accounting for Stock-based Compensation” and superseded Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB No. 25”). SFAS No. 123(R) requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. This statement was adopted using the modified prospective method of application, which requires the Company to recognize compensation expense on a prospective basis. Therefore, prior period financial statements have not been restated. Under this method, in addition to reflecting compensation expense for new share-based awards, expense is also recognized to reflect the remaining service period of outstanding awards that had been included in pro forma disclosures in prior periods. SFAS No. 123(R) also requires that excess tax benefits related to stock option exercises be reflected as financing cash flows instead of operating cash flows.

The Company and the Bank currently maintain incentive plans which provide for payments to be made in either cash or stock options. The Company has accrued the full amounts due under these plans, but currently it is not possible to identify the portion that will be paid out in the form of stock.

Earnings Per Common Share

Basic earnings per common share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method. As of December 31, 2007, there were 21,811 options which were excluded from the calculation as their effect would be anti-dilutive. No options were anti-dilutive as of December 31, 2006.

	Years Ended December 31, 2007	2006
Net Income	$5,105,635	$4,441,257
Average number of common shares outstanding	2,664,036	2,637,531
Effect of dilutive options	188,458	178,454
Average number of shares used to calculate diluted earnings per share	2,852,494	2,815,985

The numbers of common shares outstanding have been adjusted to give retroactive effect to the three for two stock split in December 2006.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income and related tax effects are as follows:

	Years Ended December 31, 2007	2006
Net Income	$5,105,635	$4,441,257
Other comprehensive income items		
Unrealized holding gains (losses) on available for sale securities net of tax expense (benefit) of ($22,684) and $9,136, respectively	(36,053)	17,735
Plus: reclassification adjustment for losses (gains) net of tax (provision) of $10,557 and ($76,082), respectively.	16,778	(120,919)
Total other comprehensive loss	(19,275)	(103,184)
Total comprehensive income	$5,086,360	$4,338,073

Recent Accounting Pronouncements

In July 2006, the FASB issued FIN 48. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also requires expanded disclosure with respect to the uncertainty in income taxes. The Company adopted FIN 48 on January 1, 2007, with no significant impact on the Company's financial position or results of operations.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. 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 applies to existing accounting pronouncements that require or permit fair value measurements in which FASB had previously concluded fair value is the most relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, with early adoption encouraged. The Company is currently evaluating the impact the adoption of this standard will have on its financial condition and results of operations.

In September 2006, the FASB ratified the consensus reached by the EITF on Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. EITF 06-4 requires the recognition of a liability and related compensation costs for endorsement of split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods as defined in SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. The EITF reached a consensus that Bank owned life insurance policies purchased for this purpose do not effectively settle the entity's obligation to the employee in this regard and, thus, the entity must record compensation costs and a related liability. Entities should recognize the effects of applying this Issue through either, (1) a change in accounting principle through a cumulative-effective adjustment to retained earnings, or to other components of equity or net assets in the balance sheet as of the beginning of the year of adoption, or (2) a change in accounting principle through retrospective application to all prior periods. This Issue is effective for fiscal years beginning after December 15, 2007. Management is currently evaluating the impact of adopting this Issue on the Company's consolidated financial statements.

In February 2007, FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115."* SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (1) may be applied instrument by instrument, with certain exceptions, (2) is irrevocable (unless a new election date occurs), and (3) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective for the Company on January 1, 2008, and is not expected to have a significant impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS 141, Revised 2007 (SFAS 141R), *"Business Combination"*. SFAS 141R's objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after December 31, 2008. The Company does not expect the implementation of SFAS 141R to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS 160, *"Noncontrolling Interests in Consolidated Financial Statement"*. SFAS

160's objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 shall be effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements.

NOTE 2 – RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2007 and 2006, these reserve balances amounted to $1,506,000 and $847,000, respectively.

NOTE 3 – SECURITIES

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale				
Asset-backed securities issued by GSEs	$ 5,722,921	$ 21,970	$ 241,443	$ 5,503,448
Corporate equity securities	199,710	51,073	—	250,783
Bond mutual funds	3,332,190	58,960	1,312	3,389,838
Total securities available for sale	$ 9,254,821	$132,003	$ 242,755	$ 9,144,069
Securities held-to-maturity				
Asset-backed securities issued by				
GSEs	$66,568,861	$129,531	$1,373,692	$65,324,700
Other	25,282,946	127,600	251,912	25,158,634
Total debt securities held-to-maturity	91,851,807	257,131	1,625,604	90,483,334
U.S. Government obligations	798,635	—	—	798,635
Other investments	37,161	—	—	37,161
Total securities held-to-maturity	$92,687,603	$257,131	$1,625,604	$91,319,130

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale				
Asset-backed securities issued by GSEs	$ 5,882,361	$ 22,429	$ 206,930	$ 5,697,860
Corporate equity securities	254,810	86,873	—	341,683
Bond mutual funds	3,246,054	18,173	2,094	3,262,133
Total securities available for sale	$ 9,383,225	$127,475	$ 209,024	$ 9,301,676
Securities held-to-maturity				
Asset-backed securities issued by:				
GSEs	$66,904,325	$208,890	$1,716,038	$65,397,177
Other	29,955,894	211,181	360,726	29,806,349
Total debt securities held-to-maturity	96,860,219	420,071	2,076,764	95,203,526
U.S. Government obligations	800,000	—	—	800,000
Other investments	144,630	—	—	144,630
Total securities held-to-maturity	$97,804,849	$420,071	$2,076,764	$96,148,156

Other investments consist of certain certificate of deposit strip instruments whose fair value is based on market returns on similar risk and maturity instruments because no active market exists for these instruments. At December 31, 2007, U.S. government obligations with a carrying value of $798,600 were pledged to secure municipal deposits. In addition, at December 31, 2007, certain other securities with a carrying value of $7,731,000 were pledged to secure certain deposits. At December 31, 2007, securities with a carrying value of $87,957,000 were pledged as collateral for advances from the Federal Home Loan Bank of Atlanta.

Gross unrealized losses and estimated fair value by length of time that the individual available-for-sale securities have been in a continuous unrealized loss position at December 31, 2007, are as follows:

		Continuous unrealized losses existing for:		
	Fair Value	Less Than 12 Months	More Than 12 Months	Total unrealized Losses
Asset-backed securities issued by GSEs:	$5,114,453	$ —	$ 241,443	$ 241,443
Bond mutual funds	39,469	—	1,312	1,312
	$5,153,922	$ —	$ 242,755	$ 242,755

The available-for-sale investment portfolio has a fair value of $9,144,069, of which $5,153,922 of the securities have some unrealized losses from their amortized cost. Of these securities, $5,114,453, or 99%, are mortgage-backed securities issued by GSEs and $39,469 or 1% are short duration mutual fund shares. The unrealized losses that exist in the asset-backed securities and mutual fund shares are the result of market changes in interest rates since the original purchase.

The mutual fund shares have a modest duration and are backed by one-year adjustable-rate mortgage-backed securities. The asset-backed securities have an average duration of 5.6 years and are guaranteed by their issuer as to credit risk. Total unrealized losses on these investments are small (approximately 5%). We believe that the losses in the equity securities are temporary. Persistent losses may require a reevaluation of these losses. These factors coupled with the fact the Company has both the intent and ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value substantiates that the unrealized losses in the available-for-sale portfolio are temporary.

Gross unrealized losses and estimated fair value by length of time that the individual held-to-maturity securities have been in a continuous unrealized loss position at December 31, 2007, are as follows:

		Continuous unrealized losses existing for:		
	Fair Value	Less Than 12 Months	More Than 12 Months	Total unrealized Losses
Asset-backed securities issued by GSEs:	$57,149,185	$ 153,557	$1,220,135	$ 1,373,692
Asset-backed securities issued by other	13,812,817	37,784	214,128	251,912
	$70,962,002	$ 191,341	$1,434,263	$ 1,625,604

The held-to-maturity investment portfolio has an estimated fair value of $91,319,130, of which $70,962,002 of the securities have some unrealized losses from their amortized cost. Of these securities, $57,149,185 or 81%, are mortgage-backed securities issued by GSEs and the remaining $13,812,817, are asset-backed securities issued by others. The asset-backed securities have a duration of approximately 5.0 years, are either guaranteed as to payment by the issuer or are in a superior credit position to other tranches, and have minimal losses compared to carrying value (approximately 2%). The unrealized losses that exist are the result of market changes in interest rates since the original purchase. These factors coupled with the Company's intent and ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value substantiates that the unrealized losses in the held-to-maturity portfolio are temporary.

The amortized cost and estimated fair value of debt securities at December 31, 2007, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	$3,332,190	$3,389,838	$ 798,635	$ 798,635
Over one year, through five years	—	—	37,161	37,161
	3,332,190	3,389,838	835,796	835,796
Asset-backed and equity securities	5,922,631	5,754,231	91,851,806	90,483,334
	$9,254,821	$9,144,069	$92,687,603	$91,319,130

Total sales of investments available for sale during 2007 and 2006 were $381,224 and $226,199. These sales produced a net gain (loss) of $(27,335) and $197,001. Asset-backed securities are comprised of mortgage-backed securities as well as mortgage-derivative securities such as collateralized mortgage obligations and real estate mortgage investment conduits

NOTE 4 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

A summary of the balances of loans is as follows:

	2007	2006
Commercial real estate	$190,483,998	$177,923,349
Residential first mortgages	90,931,572	80,781,270
Construction and land development	50,577,491	42,746,306
Home equity and second mortgage	24,649,581	24,572,235
Commercial loans	75,247,410	79,629,910
Consumer loans	2,464,594	2,812,945
Commercial equipment	24,113,223	18,287,840
	458,467,869	426,753,855
Less:		
Deferred loan fees	371,253	490,335
Allowance for loan loss	4,482,483	3,783,721
	4,853,736	4,274,056
	$453,614,133	$422,479,799

An analysis of the allowance for loan losses follows:

	2007	2006
Balance January 1,	$3,783,721	$3,383,334
Add:		
Provision charged to operations	854,739	405,809
Recoveries	194	2,759
Less:		
Charge-offs	156,171	8,181
Balance, December 31	**$4,482,483**	$3,783,721

At December 31, 2007, impaired loans totaled $754,700 as defined by SFAS No. 114 compared to no loans being impaired for the year ending 2006. Impaired loans had specific allocations within the allowance for loan losses. Allocations of the allowance for loan losses relative to impaired loans at December 31, 2007 were $201,000. Approximately $139,000 of interest income was recognized on average impaired loans of $528,000 for 2007. Interest recognized on impaired loans on a cash basis during 2007 was immaterial.

Loans on which the recognition of interest has been discontinued, which were not included within the scope of SFAS No. 114, amounted to approximately $414,000 and $1,046,000 at December 31, 2007 and 2006, respectively. If interest income had been recognized on nonaccrual loans at their stated rates during 2007 and 2006 interest income would have been increased by $125,085 and $75,480, respectively. Income in the amount of $23,773 and $18,121 was recognized on these loans in 2007 and 2006 respectively.

Included in loans receivable at December 31, 2007 and 2006, is $5,189,612 and $3,179,142 due from officers and directors of the Bank. These loans are made in the ordinary course of business at substantially the same terms and conditions as those prevailing at the time for comparable transactions with persons not affiliated with the bank and are not considered to involve more than the normal risk of collectability. For the years ended December 31, 2007 and 2006, all loans to directors and officers of the Bank were performing according to the original loan terms.

Activity in loans outstanding to officers and directors is summarized as follows:

	Year Ended December 31,	
	2007	2006
Balance, beginning of year	$3,179,142	$1,682,994
New loans made during year	2,429,595	1,967,257
Repayments made during year	(419,125)	(991,108)
Changes due to change in directors and officers	—	520,000
Balance, end of year	$5,189,612	$3,179,142

NOTE 5 – LOAN SERVICING

Loans serviced for others are not reflected in the accompanying balance sheets. The unpaid principal balances of mortgages serviced for others were $25,530,261 and $29,313,135 at December 31, 2007 and 2006, respectively.

Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. Loan servicing income is recorded on the accrual basis and includes servicing fees from investors and certain charges collected from borrowers, such as late payment fees. The following table presents the activity of the mortgage servicing rights.

	Year Ended December 31,	
	2007	2006
Balance at beginning of the year	$ 204,859	$ 326,061
Amortization	(121,200)	(121,202)
	$ 83,659	$ 204,859

NOTE 6 – FORECLOSED REAL ESTATE

Foreclosed assets are presented net of an allowance for losses. An analysis of the activity in foreclosed assets is as follows:

	Year Ended December 31,	
	2007	2006
Balance at beginning of the year	$ 671,740	$671,740
Disposal of underlying property	(671,740)	—
Balance at end of year	$ —	$671,740

Income (expenses) applicable to foreclosed assets include the following:

	Year Ended December 31,	
	2007	2006
Net gain on sale of foreclosed real estate	$ 1,276,161	$ —
Operating expenses	—	(3,632)
	$ 1,276,161	$ (3,632)

NOTE 7 – PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment follows:

	2007	2006
Land	$ 3,073,767	$ 2,096,381
Building and improvements	7,838,083	5,856,357
Furniture and equipment	3,374,160	3,021,560
Automobiles	241,711	168,426
Total cost	14,527,721	11,142,724
Less accumulated depreciation	5,104,419	4,320,263
Premises and equipment, net	$ 9,423,302	$ 6,822,461

Certain bank facilities are leased under various operating leases. Rent expense was $320,200 and $292,196 in 2007 and 2006, respectively. Future minimum rental commitments under non-cancellable operating leases are as follows:

2007	$ 480,302
2008	454,104
2009	306,152
2010	309,983
2011	259,921
Thereafter	3,658,997
Total	$5,469,459

In addition to the premises and equipment balances noted above, the Company plans to rebuild one branch office. The total commitment to rebuild the branch office is approximately $3.3 million.

NOTE 8 – DEPOSITS

Deposits at December 31 consist of the following:

	2007	2006
Noninterest-bearing demand	$ 48,041,571	$ 43,723,436
Interest-bearing:		
Demand	46,013,651	41,117,213
Money market deposits	99,169,429	91,072,187
Savings	25,674,548	30,187,404
Certificates of deposit	226,094,816	211,913,163
Total interest-bearing	396,952,444	374,289,967
Total deposits	$444,994,015	$418,013,403

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2007, and 2006 was $72,254,782 and $62,996,094, respectively.

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

2008	$187,067,060
2009	29,069,593
2010	6,521,165
2011	1,705,312
2012	1,731,686
	$226,094,816

NOTE 9 – SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The Bank's long-term debt consists of advances from the Federal Home Loan Bank of Atlanta. The Bank classifies debt based upon original maturity and does not reclassify debt to short term status during its life. These include fixed-rate, fixed-rate convertible, and variable convertible advances. Rates and maturities on these advances are as follows:

	Fixed Rate	Fixed Rate Convertible	Variable Convertible
2007			
Highest rate	5.15%	6.25%	4.43%
Lowest rate	1.00%	3.27%	4.43%
Weighted average rate	4.33%	4.70%	4.43%
Matures through	2036	2014	2020
2006			
Highest rate	5.15%	6.25%	4.91%
Lowest rate	1.00%	3.27%	4.17%
Weighted average rate	4.29%	4.70%	4.65%
Matures through	2036	2014	2020

Average rates of long and short-term debt were as follows:

	At or for the Year Ended December 31, (dollars in thousands) 2007	2006
Long-term debt		
Maximum outstanding long-term debt of any month end	$ 96,042	$ 108,078
Average outstanding long-term debt	86,993	101,520
Approximate average rate paid on long-term debt	5.16%	4.42%
Short-term debt		
Maximum outstanding short-term debt at any month end	$ 5,555	$ 37,590
Average outstanding short-term debt	2,902	18,129
Approximate average rate paid on short-term debt	3.51%	4.99%

The Bank's fixed-rate debt generally consists of advances with monthly interest payments and principal due at maturity.

The Bank's fixed-rate, convertible, long-term debt is callable by the issuer, after an initial period ranging from six months to five years. Advances become callable on dates ranging from 2008 to 2010. Depending on the specific instrument, the instrument is callable either continuously after the initial period (Bermuda option) or only at the date ending the initial period (European). All advances have a prepayment penalty, determined based upon prevailing interest rates. Variable convertible advances have an initial variable rate based on a discount to LIBOR. Depending on the specific instrument, the debt has a discount to LIBOR ranging from 43 to 50 basis points. After an initial period of two to five years, the advance will convert at the issuer's option to a fixed-rate advance at a rate of 4.0% to 4.21%, and a term of five to ten years. The contractual maturities of long-term debt are as follows:

	December 31, 2007			
	Fixed Rate	Fixed Rate Convertible	Variable Rate Convertible	Total
Due in 2008	$ —	$ —	$ —	$ —
Due in 2009	30,000,000	—	—	30,000,000
Due in 2010	10,000,000	10,000,000	—	20,000,000
Due in 2011	10,000,000	—	—	10,000,000
Due in 2012	—	—	—	—
Thereafter	1,005,508	15,000,000	10,000,000	26,005,508
	$51,005,508	$25,000,000	$10,000,000	$86,005,508

From time to time, the Bank also has daily advances outstanding, which are classified as short-term debt. These advances are repayable at the Bank's option at any time and are re-priced daily. These advances totaled $5,500,000 at December 31, 2006. There were no amounts outstanding as of December 31, 2007. The rate on the daily advances as of December 31, 2006, was 5.5%.

Under the terms of an Agreement for Advances and Security Agreement with Blanket Floating Lien (the "Agreement"), the Company maintained eligible collateral consisting of one-to-four residential first mortgage loans, discounted at 80% of the unpaid principal balance, equal to 100% of its total outstanding long and short-term Federal Home Loan Bank advances. During 2003 and 2004, the Bank entered into addendums to the Agreement that expanded the types of eligible collateral under the Agreement to include certain commercial real estate and second mortgage loans. These loans are subject to eligibility rules, and collateral values are discounted at 50% of the unpaid loan principal balance. In addition, only 50% of total collateral for Federal Home Loan Bank advances may consist of commercial real estate loans. Additionally, the Bank has pledged its Federal Home Loan Bank stock of $4,904,500 and securities with a carrying value of $87,956,564 as additional collateral for its advances. The Bank is limited to total advances of up to 40% of assets or $238,000,000. At December 31, 2007, the Bank had filed collateral statements identifying collateral sufficient to borrow $84,769,139 in addition to amounts already outstanding.

Also, the Bank had outstanding notes payable to the U.S. Treasury, which are federal treasury tax and loan deposits accepted by the Bank and remitted on demand to the Federal Reserve Bank. At December 31, 2007 and 2006, such borrowings were $1,555,323 and $1,067,702, respectively. The Bank pays interest on these balances at a slight discount to the federal funds rate. The notes are secured by investment securities with an amortized cost of approximately $1,667,000 and $1,759,000 at December 31, 2007 and 2006, respectively.

NOTE 10 – INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions is as follows:

	2007	2006
Current		
Federal	$2,681,047	$2,014,469
State	684,909	562,627
	3,365,956	2,577,096
Deferred		
Federal	(335,726)	(347,874)
State	(56,468)	(64,807)
	(392,194)	(412,681)
Total Income Tax Expense	$2,973,762	$2,164,415

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	2007		2006	
	Amount	Percent of Pre-Tax Income	Amount	Percent of Pre-Tax Income
Expected income tax expense at federal tax rate	$2,746,995	34.00%	$2,245,928	34.00%
State taxes net of federal benefit	414,771	5.13%	328,561	4.97%
Nondeductible expenses	62,131	0.77%	4,779	0.07%
Nontaxable income	(221,942)	(2.75%)	(196,225)	(2.97%)
Other	(28,193)	(0.35%)	(218,628)	(3.31%)
	$2,973,762	36.81%	$2,164,415	32.76%

The net deferred tax assets in the accompanying balance sheets include the following components:

	2007	2006
Deferred tax assets:		
Deferred fees	$ 2,492	$ 3,298
Allowance for loan losses	1,701,537	1,431,675
Deferred compensation	954,910	704,417
Valuation allowance on foreclosed real estate	—	259,991
Unrealized loss on investment securities available for sale	37,656	27,726
	2,696,595	2,427,107
Deferred tax liabilities:		
FHLB stock dividends	152,896	152,896
Depreciation	230,309	362,946
	383,205	515,842
	$2,313,390	$1,911,265

Retained earnings at December 31, 2007, included approximately $1.2 million of bad debt deductions allowed for federal income tax purposes (the "base year tax reserve") for which no deferred income tax has been recognized. If, in the future, this portion of retained earnings is used for any purpose other than to absorb bad debt losses, it would create income for tax purposes only and income taxes would be imposed at the then prevailing rates. The unrecorded income tax liability on the above amount was approximately $463,000 at December 31, 2007.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Bank is 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 are commitments to extend credit. These instruments may, but do not necessarily involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheets. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for on-balance-sheet loans receivable.

As of December 31, 2007 and 2006, in addition to the undisbursed portion of loans receivable of $14,376,468 and $17,897,673, respectively, the Bank had outstanding loan commitments approximating $18,340,200 and $12,239,000, respectively.

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are issued primarily to support construction borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash or a secured interest in real estate as collateral to support those commitments for which collateral is deemed necessary. Standby letters of credit outstanding amounted to $12,490,756 and $8,382,853 at December 31, 2007 and 2006, respectively. In addition to the commitments noted above, customers had approximately $93,712,096 and $62,845,000 available under lines of credit at December 31, 2007 and 2006, respectively.

NOTE 12 – STOCK OPTION AND INCENTIVE PLAN

The Company has stock option and incentive plans to attract and retain personnel and provide incentive to employees to promote the success of the business. On January 31, 2005, the Company's 1995 Stock Option and Incentive Plan and 1995 Stock Option Plan for Non-Employee Directors each expired. All shares authorized and available under this plan were awarded as of December 31, 2004. In May 2005, the 2005 Equity Compensation Plan was approved by the shareholders. The exercise price for options granted under this plan is set at the discretion of the committee administering this plan, but is not less than the market value of the shares as of the date of grant. An option's maximum term is ten years and the options vest at the discretion of the committee administering this plan. All outstanding options were fully vested at December 31, 2007.

	2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	417,099	$13.86	444,753	$13.59
Granted	21,811	27.70	—	
Exercised	(10,289)	7.17	(19,585)	7.97
Forfeitures	—		(8,070)	13.24
Outstanding at end of year	428,621	14.72	417,099	13.86

Option amounts and exercise prices have been adjusted retroactively to give effect to the three for two stock split which occurred in December 2006. Options outstanding are all currently exercisable and are summarized as follows:

Number Outstanding December 31, 2007	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
22,904	1 years	$ 7.16
23,126	2 years	7.88
37,639	3 years	7.90
40,851	4 years	7.90
22,822	5 years	11.56
71,088	6 years	12.91
99,878	7 years	15.89
88,502	8 years	22.29
21,811	10 years	27.70
428,621		14.72

Stock-based compensation expense totaled $ 264,785 in 2007 compared to no stock-based compensation expense in 2006. Aggregate intrinsic value of outstanding stock options and exercisable stock options was $4,101,000 at December 31, 2007. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last training day of the period, which was 24.11 at December 31, 2007, and the exercise price multiplied by the number of options outstanding.

The fair value of the Company's employee stock options granted is estimated on the date of grant using the Black-Scholes option pricing model. The weighted-average fair value of stock options granted was $12.14 for 2007. The Company estimated expected market price volatility and expected term of the options based on historical data and other factors. The weighted-average assumptions used to determine the fair value of options granted are detailed in the table below:

	2007
Expected dividend yield	1.32%
Expected stock price volatility	31.95
Risk-free interest rate	5.05
Expected life of options	10
Weighted average fair value	$12.14

NOTE 13—EMPLOYEE BENEFIT PLANS

The Bank has an Employee Stock Ownership Plan (“ESOP”) which covers substantially all its employees. The ESOP acquires stock of Tri-County Financial Corporation. The Company accounts for its ESOP in accordance with AICPA Statement of Position 93-6. Accordingly, unencumbered shares held by the ESOP are treated as outstanding in computing earnings per share. Shares issued to the ESOP but pledged as collateral for loans obtained to provide funds to acquire the shares are not treated as outstanding in computing earnings per share. Dividends on ESOP shares are recorded as a reduction of retained earnings. Contributions are made at the discretion of the Board of Directors. Expense recognized for the years ended 2007 and 2006 totaled $68,103 and 76,842 respectively. As of December 31, 2007, the ESOP plan held 181,647 allocated and 15,194 unallocated shares with an approximate market value of $4,379,514 and $366,323, respectively.

The Company also has a 401(k) plan. The Company matches a portion of the employee contributions. This ratio is determined annually by the Board of Directors. In 2007 and 2006, the Company matched one-half of the employee’s first 8% deferral. All employees who have completed 6 months of service and have reached the age of 21 are covered under this defined contribution plan. Contributions are determined at the discretion of the Board of Directors. For the years ended December 31, 2007 and 2006, the expense recorded for this plan totaled $143,500 and $129,027 respectively.

The Bank has a separate nonqualified retirement plan for non-employee directors. Directors are eligible for a maximum benefit of $3,500 a year for ten years following retirement from the Board of Community Bank of Tri-County. The maximum benefit is earned at 15 years of service as a non-employee director. Full vesting occurs after two years of service. Expense recorded for this plan was $9,718 and $7,193 for the years ended December 31, 2007 and 2006 respectively.

In addition, the Bank has established a separate supplemental retirement plan for certain key executives of the Bank. This plan provides a retirement income payment for 15 years from the date of the employee’s expected retirement date. The payments are set at the discretion of the Board of Directors and vesting occurs ratably from the date of employment to the expected retirement date. Expense recorded for this plan totaled $297,000 and $341,000 for 2007 and 2006, respectively.

NOTE 14—REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible 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 of the Bank’s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank’s capital amounts and classification 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 Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations) to total adjusted assets (as defined), and of risk-based capital (as defined) to risk-weighted assets (as defined). Management believes, as of December 31, 2007, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2007, the most recent notification from the Federal Reserve 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 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company's or the Bank's category. The Company's and the Bank's actual capital amounts and ratios for 2007 and 2006 are presented in the tables below.

	Actual		Required for capital adequacy purposes		To be considered well capitalized under prompt corrective action	
At December 31, 2007						
Total Capital (to risk weighted assets)						
The Company	$65,620	13.80%	$38,051	8.00%		
The Bank	$64,410	13.58%	$37,954	8.00%	$47,443	10.00%
Tier 1 Capital (to risk weighted assets)						
The Company	$61,077	12.84%	$19,026	4.00%		
The Bank	$59,867	12.62%	$18,977	4.00%	$28,466	6.00%
Tier 1 Capital (to average assets)						
The Company	$61,077	10.41%	$23,458	4.00%		
The Bank	$59,867	10.23%	$23,418	4.00%	$29,272	5.00%
At December 31,2006						
Total Capital (to risk weighted assets)						
The Company	$53,504	11.98%	$35,723	8.00%		
The Bank	$52,388	11.78%	$35,648	8.00%	$44,560	10.00%
Tier 1 Capital (to risk weighted assets)						
The Company	$49,675	11.12%	$17,862	4.00%		
The Bank	$48,559	10.92%	$17,824	4.00%	$26,736	6.00%
Tier 1 Capital (to average assets)						
The Company	$49,675	8.74%	$22,722	4.00%		
The Bank	$48,559	8.58%	$22,682	4.00%	$28,353	5.00%

NOTE 15—FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. Therefore, any aggregate unrealized gains or losses should not be interpreted as a forecast of future earnings or cash flows. Furthermore, the fair values disclosed should not be interpreted as the aggregate current value of the Company.

	Year Ended December 31, 2007		Year Ended December 31, 2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 11,677,420	$ 11,677,420	$ 18,190,506	$ 18,190,506
Investment securities and stock in FHLB and FRB	107,186,172	105,817,699	113,206,926	111,550,233
Loans receivable, net	453,614,133	462,328,386	422,479,799	425,336,840
Liabilities				
Savings, NOW, and money market accounts	218,899,199	218,899,199	206,100,240	206,100,240
Time certificates	226,094,816	226,973,013	211,913,163	211,025,358
Long-term debt and other borrowed funds	87,560,831	87,129,375	102,613,638	101,093,038
Guaranteed preferred beneficial interest in junior subordinated securities	12,000,000	12,000,000	12,000,000	12,000,000

At December 31, 2007 and 2006, the Company had outstanding loan commitments and standby letters of credit of $94 million and $12 million, respectively. Based on the short-term lives of these instruments, the Company does not believe that the fair value of these instruments differs significantly from their carrying values.

Valuation Methodology Cash and Cash Equivalents - For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Investment Securities - Fair values are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans Receivable - For conforming residential first-mortgage loans, the market price for loans with similar coupons and maturities was used. For nonconforming loans with maturities similar to conforming loans, the coupon was adjusted for credit risk. Loans which did not have quoted market prices were priced using the discounted cash flow method. The discount rate used was the rate currently offered on similar products. Loans priced using the discounted cash flow method included residential construction loans, commercial real estate loans, and consumer loans. The estimated fair value of loans held for sale is based on the terms of the related sale commitments.

Deposits - The fair value of checking accounts, saving accounts, and money market accounts was the amount payable on demand at the reporting date.

Time Certificates - The fair value was determined using the discounted cash flow method. The discount rate was equal to the rate currently offered on similar products.

Long-Term Debt and Other Borrowed Funds - These were valued using the discounted cash flow method. The discount rate was equal to the rate currently offered on similar borrowings.

Guaranteed Preferred Beneficial Interest in Junior Subordinated Securities — These were valued using discounted cash flows. The discount rate was equal to the rate currently offered on similar borrowings.

Off-Balance Sheet Instruments - The Company charges fees for commitments to extend credit. Interest rates on loans for which these commitments are extended are normally committed for periods of less than one month. Fees charged on standby letters of credit and other financial guarantees are deemed to be immaterial and these guarantees are expected to be settled at face amount or expire unused. It is impractical to assign any fair value to these commitments.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2007 and 2006. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amount presented herein.

NOTE 16 – GUARANTEED PREFERRED BENEFICIAL INTEREST IN JUNIOR SUBORDINATED DEBENTURES

On June 15, 2005, Tri-County Capital Trust II (“Capital Trust II”), a Delaware business trust formed, funded and wholly owned by the Company, issued $5,000,000 of variable-rate capital securities with an interest rate of 5.07% in a private pooled transaction. The variable rate is based on the 90-day LIBOR rate plus 1.70%. The Trust as of December 31, 2007, along with the $155,000 for Capital Trust II’s common securities used the proceeds from this issuance to purchase $5,155,000 of the Company’s junior subordinated debentures. The interest rate on the debentures and the trust preferred securities is variable and adjusts quarterly. The Company has, through various contractual arrangements, fully and unconditionally guaranteed all of Capital Trust II’s obligations with respect to the capital securities. These capital securities qualify as Tier I capital and are presented in the Consolidated Balance Sheets as “Guaranteed Preferred Beneficial Interests in Junior Subordinated Debentures.” Both the capital securities of Capital Trust II and the junior subordinated debentures are scheduled to mature on June 15, 2035, unless called by the Company not earlier than June 15, 2010.

On July 22, 2004, Tri-County Capital Trust I (“Capital Trust I”), a Delaware business trust formed, funded and wholly owned by the Company, issued $7,000,000 of variable-rate capital securities with an interest rate of 4.22% in a private pooled transaction. The variable rate is based on the 90-day LIBOR rate plus 2.60%. The Trust as of December 31, 2007 used the proceeds from this issuance, along with the Company’s $217,000 capital contribution for Capital Trust I’s common securities, to purchase $7,217,000 of the Company’s junior subordinated debentures. The interest rate on the debentures and the trust preferred securities is variable and adjusts quarterly. The Company has, through various contractual arrangements, fully and unconditionally guaranteed all of Capital Trust I’s obligations with respect to the capital securities. These debentures qualify as Tier I capital and are presented in the Consolidated Balance Sheets as “Guaranteed Preferred Beneficial Interests in Junior Subordinated Debentures.” Both the capital securities of Capital Trust I and the junior subordinated debentures are scheduled to mature on July 22, 2034, unless called by the Company not earlier than July 22, 2009.

Costs associated with the issuance of the trust-preferred securities were less than $10,000 and were expensed as period costs.

NOTE 17 – PRIVATE PLACEMENTS

During 2007, the Company conducted two private placements of its common stock. On November 30, 2007, the Company sold 249,371 shares at a price of $26.25 per share to qualified investors. The Company received a total of $6,545,989 in cash for the shares. In addition, on December 14, 2007, the Company sold an additional 18,884 shares at a price of $26.25 to directors and officers of the Company. The Company received a total of $495,705 in cash for these shares.

During 2006, the Company sold securities at the then current market value to new directors. The amount of total shares issued in this manner during 2006 was 7,500 shares at an average price of $23.67. These offers were exempt from the registration requirements of the Securities Act of 1933. All share and per share amounts have been adjusted for the three for two stock split effected in December 2006.

NOTE 18 – CONDENSED FINANCIAL STATEMENTS — PARENT COMPANY ONLY

Balance Sheets

	As of December 31, 2007	2006
Assets		
Cash — noninterest bearing	$ 256,965	$ 799,984
Cash — interest bearing	156,120	155,244
Investment securities available for sale	39,215	37,475
Investment in wholly owned subsidiaries	60,166,153	48,985,298
Other assets	1,170,281	565,881
Total assets	$61,788,735	$50,543,882

Balance Sheets

	As of December 31, 2007	2006
Liabilities and Stockholders' Equity		
Current liabilities	$ 569,659	$ 442,545
Guaranteed preferred beneficial interest in junior subordinated debentures	12,372,000	12,372,000
Total liabilities	12,941,659	12,814,545
Stockholders' Equity		
Common stock	29,100	26,423
Surplus	16,914,373	9,499,946
Retained earnings	32,303,353	28,353,792
Total accumulated other comprehensive loss	(73,097)	(53,822)
Unearned ESOP shares	(326,653)	(97,002)
Total Stockholders' Equity	48,847,076	37,729,337
Total Liabilities and Stockholders' Equity	$61,788,735	$50,543,882

Condensed Statements of Income

	Years Ended December 31, 2007	2006
Dividends from subsidiary	$2,000,000	$2,000,000
Interest income	52,425	16,220
Interest expense	967,079	891,890
Net interest income	1,085,346	1,124,330
Miscellaneous expenses	(961,945)	(420,129)
Income before income taxes and equity in undistributed net income of subsidiary	123,401	704,201
Federal and state income tax benefit	604,401	439,804
Equity in undistributed net income of subsidiary	4,377,833	3,297,252
NET INCOME	$5,105,635	$4,441,257

Condensed Statements of Cash Flows

	Years Ended December 31, 2007	2006
Cash Flows from Operating Activities		
Net income	$ 5,105,635	$ 4,441,257
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed earnings of subsidiary	(4,377,833)	(3,297,252)
Increase in other assets	(523,746)	(28,023)
Deferred income tax benefit	(80,654)	(56,117)
Increase in current liabilities	127,113	34,877
Net Cash Provided By Operating Activities	250,515	1,094,742
Cash Flows from Investing Activities		
Purchase of investment securities available for sale	(1,740)	(1,637)
Net Cash Used By Investing Activities	(1,740)	(1,637)
Cash Flows from Financing Activities		
Dividends paid	(1,062,064)	(972,966)
Proceeds from private placement	7,041,694	177,500
Downstream of capital to subsidiary	(6,822,297)	—
Exercise of stock options	73,820	198,437
Stock based compensation	264,785	—
Net change in ESOP loan	(192,809)	96,665
Redemption of common stock	(94,047)	(686,528)
Net Cash Used In Financing Activities	(790,918)	(1,186,892)

Condensed Statements of Cash Flows

	Years Ended December 31, 2007	2006
Decrease In Cash	(542,143)	(93,787)
Cash At Beginning of Year	955,228	1,049,015
Cash At End of Year	$ 413,085	$ 955,228

NOTE 19—QUARTERLY FINANCIAL COMPARISON

	2007				2006			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest and dividend income	$9,694,195	$9,941,838	$9,737,887	$9,524,192	$9,371,065	$9,186,802	$8,827,910	$8,299,959
Interest Expense	4,868,029	5,118,104	4,939,047	4,981,032	4,995,112	4,844,077	4,473,923	4,045,816
Net interest income	4,826,166	4,823,734	4,798,840	4,543,160	4,375,953	4,342,725	4,353,987	4,254,143
Provision for loan loss	195,451	304,845	97,917	256,526	116,674	116,563	86,087	86,485
Net interest income after provision	4,630,715	4,518,889	4,700,923	4,286,634	4,259,279	4,226,162	4,267,900	4,167,658
Noninterest income	537,401	1,761,048	552,447	550,693	744,359	519,452	505,612	477,718
Noninterest expense	3,826,883	3,228,407	3,142,913	3,261,150	3,162,634	3,071,666	3,197,613	3,130,555
Income before income taxes	1,341,233	3,051,530	2,110,457	1,576,177	1,841,004	1,673,948	1,575,899	1,514,821
Provision for income taxes	472,972	1,165,891	768,341	566,558	534,872	570,895	516,964	541,684
Net income	$ 868,261	$1,885,639	$1,342,116	$1,009,619	$1,306,132	$1,103,053	$1,058,935	$ 973,137
Earnings per common share								
Basic	$ 0.24	$ 0.71	$ 0.51	$ 0.38	$ 0.50	$ 0.42	$ 0.40	$ 0.37
Diluted	$ 0.23	$ 0.67	$ 0.47	$ 0.36	$ 0.46	$ 0.39	$ 0.37	$ 0.35

1 All per share amounts have been adjusted for the three for two stock split in December 2006.

2 Earnings per share are based upon quarterly results and may not be additive to the annual earnings per share amounts.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Parent
Tri-County Financial Corporation

Subsidiary	Percentage Owned	State of Incorporation
Community Bank of Tri-County	100%	Maryland
Tri-County Capital Trust I	100%	Delaware
Tri-County Capital Trust II	100%	Delaware
Subsidiaries of Community Bank of Tri-County		
Community Mortgage Corporation of Tri-County	100%	Maryland

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation of our report dated March 7, 2008, relating to the 2007 consolidated financial statements of Tri-County Financial Corporation, by reference in Registration Statements Nos. 33-97174, 333-79237, 333-70800, and 333-125103, each of Form S-8, and in the Annual Report on Form 10-K of Tri-County Financial Corporation, for the year ended December 31, 2007.

/s/ Stegman & Company

Baltimore, Maryland
March 18, 2008

EXHIBIT 31.1

Certification

I, Michael L. Middleton, certify that:

1. I have reviewed this Annual Report on Form 10-K of Tri-County Financial Corporation;

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; and

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 19, 2008

/s/ Michael L. Middleton
Michael L. Middleton
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

Certification

I, William J. Pasenelli, certify that:

1. I have reviewed this Annual Report on Form 10-K of Tri-County Financial Corporation;

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; and

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 19, 2008

/s/ William J. Pasenelli
William J. Pasenelli
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32

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

The undersigned executive officers of Tri County Financial Corporation (the "Registrant") hereby certify that this Annual Report on Form 10-K for the year ended December 31, 2007 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

By: /s/ Michael L. Middleton
Name: Michael L. Middleton
Title: President and Chief Executive Officer

By: /s/ William J. Pasenelli
Name: William J. Pasenelli
Title: Chief Financial Officer

Date: March 19, 2008