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TRI COUNTY FINANCIAL CORP /MD/
Form 10-K405
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

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

For the fiscal year ended December 31, 2001
OR

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 \$.01 PER SHARE

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required
by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the
preceding 12 months (or 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 X No

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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. [X]

Based on the average of the high bid and low asked prices reported on the OTC Bulletin Board (\$28.875 per share), the aggregate market value of voting stock held by non-affiliates of the registrant was \$18.2 million as of March 15, 2002. For purposes of this calculation only, the shares held by directors and executive officers of the registrant and by any stockholder beneficially owning more than 5% of the registrant's outstanding common stock are deemed to be shares held by affiliates.

Number of shares of Common Stock outstanding as of March 15, 2002: 765,580

DOCUMENTS INCORPORATED BY REFERENCE

- 1. Portions of Proxy Statement for 2002 Annual Meeting of Stockholders. (Part III)

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PART I

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 the 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. The Bank converted to a Maryland-chartered commercial bank and adopted its current corporate title in 1997. 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 through its main office and eight branches located in Waldorf, Bryans Road, Dunkirk, Leonardtown, La Plata, Charlotte Hall, and California, Maryland. During 2001, the Bank closed a micro-branch and opened an additional full-service branch. The Bank also operates fourteen Automated Teller Machines ("ATMs") including six stand-alone locations in the Tri-County area. 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 demand and time 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 ("FHLB") Systems and its deposits are insured up to applicable limits by Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation ("FDIC").

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

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website at www.communitybktricity.com.

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, D.C. 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.

LENDING ACTIVITIES

GENERAL. The Bank offers a wide variety of 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 demand and installment loans. Most of the Bank's customers are residents of, or businesses located in the southern Maryland 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.

The Bank's previous savings and loan charter restricted its ability to hold certain loan types in its portfolio. As a result, prior to its conversion to a state chartered commercial bank, the Bank's loan portfolio was primarily made up

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of residential mortgage loans. Since conversion, the Bank has moved to diversify its lending by adding a larger portion of commercial real estate, commercial, and consumer loans to its portfolio. Management believes that this diversification of the loan portfolio will increase the Bank's overall long-term financial performance. Management recognizes that these new loan types may increase the Bank's risk of losses due to loan default.

RESIDENTIAL FIRST MORTGAGE LOANS. Prior to its conversion to a commercial bank on March 29, 1997, residential first mortgages made up the majority of the Bank's loan portfolio. Since that date, residential first mortgage loans have represented a progressively smaller portion of the Bank's loan portfolio. Since December 31, 1997, residential first mortgage loans have decreased in dollar amount to \$61.4 million from \$61.6 million, while falling as a percentage of the loan portfolio to 31.8% from 49.6%.

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 10 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- and adjustable-rate residential first mortgages.

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The Bank emphasizes the origination of adjustable-rate mortgages for its portfolio. The Bank offers mortgages which are adjustable on a one, three, and five-year basis generally with limitations on upward adjustments of two percentage points per year and six percentage points over the life of the loan. The Bank markets adjustable-rate loans with rate adjustments based upon a United States Treasury bill index. As of December 31, 2001, the Bank had \$28.9 million in loans using a U.S. Treasury bill index. In the past, the Bank also offered adjustable-rate mortgage loans based upon other indices including various cost of funds indices. These adjustable rate loans totaled \$162 thousand as of December 31, 2001. The Bank also offers long-term, fixed-rate loans. Fixed-rate loans may be packaged and sold in the secondary market, primarily to the Federal Home Loan Mortgage Corporation ("FHLMC"), private mortgage correspondents, the Federal National Mortgage Association ("FNMA") and the Mortgage Partnership Finance program of the FHLB of Atlanta, or are exchanged for FHLMC participation certificates or FNMA mortgage-backed securities. 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, 2001, the Bank serviced \$68.3 million in residential mortgage loans for various organizations.

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. It is foreseeable that 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, depending on market conditions, 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 loans up to 95% 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 other than residential real estate are generally permitted to a maximum 70% loan-to-value of the appraised value depending on the overall strength of the application. The Bank currently requires that substantially all residential 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.

All improved real estate which 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.

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COMMERCIAL REAL ESTATE AND OTHER NON-RESIDENTIAL REAL ESTATE LOANS. The Bank has increased its emphasis on loans for the permanent financing of commercial and other improved real estate projects, including, to a limited extent, office buildings, as well as churches and other special purpose projects. As a result, commercial real estate loans increased \$23.4 million or 55.4% during 2001. The primary security on a commercial real estate loan is the real property and the leases which produce income for the real property. Commercial real estate loans amounted to approximately \$65.6 million or 33.9% of the Bank's loan portfolio at

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December 31, 2001. 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 appraised value and have an initial contractual loan payment period ranging from three to 20 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.

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. The Bank restricts its commercial real estate lending primarily to owner-occupied buildings which will, to some extent, be occupied by the borrower as opposed to speculative rental projects. As a result of the greater emphasis that the Bank places on commercial real estate loans under its business plan as a commercial bank, the Bank is increasingly exposed to the risks posed by this type of lending.

CONSTRUCTION AND LAND DEVELOPMENT LOANS. The Bank offers construction loans to individuals and building contractors primarily for the construction of one- to four-family dwellings. Loans to individuals primarily consist 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 construction/permanent loans provide for disbursement of loan funds based on draw requests submitted by the builder during construction and site inspections by independent inspectors. The Bank will also make a construction loan if the borrower has a commitment from another lender for a permanent loan at the completion of the construction. These loans typically have terms of six months. The application process includes the same items which are required for other mortgage loans and also requires the borrower to submit to the Bank accurate plans, specifications, and costs of the property to be constructed. These items are used as a basis to determine the appraised value of the subject property.

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 pre-defined stages of construction or development. The Bank will lend up to 80% of the appraised value.

The Bank also offers builders lines of credit, which are revolving notes generally secured by real property. Outstanding builders lines of credit amounted to approximately \$7.8 million at December 31, 2001. The Bank offers a builder's master note program in which the builder receives a revolving line of credit at a market rate and the Bank obtains security in the form of a first lien on home sites under construction.

In addition, the Bank offers loans for the purpose of acquisition and development of land, as well as loans on undeveloped, subdivided lots for home building by individuals. Land acquisition and development loans, included in construction loans discussed above, totaled \$3.6 million at December 31, 2001. Bank policy provides 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. In the event 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

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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

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completed project as well as the accuracy of the cost estimates made to complete the project. As these projects may take an extended period of time to complete, market, economic, and regulatory conditions may change during the construction or development period.

HOME EQUITY AND SECOND MORTGAGE LOANS. The Bank has maintained a growing level of home equity and second mortgage loans in recent years. Home equity loans, which totaled \$13.1 million at December 31, 2001, 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 \$5.5 million at December 31, 2001 are fixed-rate loans which have original terms between 5 and 15 years. Loan-to-value ratios of up to 80% or 90% are allowed depending on the specific loan program.

These products represent 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.

CONSUMER AND COMMERCIAL 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 and heavy equipment. The Bank also makes home improvement loans and offers both secured and unsecured lines of credit.

The Bank also offers a variety of commercial loan services including term loans, lines of credit and equipment financing. The Bank's commercial loans are primarily underwritten on the basis of the borrower's ability to service the debt from income. Such loans are generally made for terms of five years or less at interest rates which adjust periodically.

The higher interest rates and shorter loan terms available on commercial and consumer lending make these products attractive to the Bank. In particular, the consumer and commercial loan portfolio will increase its yield as interest rates increase. Consumer and commercial business loans, however, 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 as a result of the greater likelihood of damage, loss or depreciation. 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 which 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 which it has against the seller of the underlying collateral.

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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,				AMOUNT
	2001		2000		
	AMOUNT	%	AMOUNT	%	
	(DOLLARS IN THOUSANDS)				
Real Estate Loans --					
Residential first mortgage	\$ 61,430	31.26%	\$67,975	38.89%	\$ 66,2
Commercial	65,617	33.39	42,226	24.16	29,9
Construction and land development (1)...	18,136	9.23	17,301	9.90	17,1
Home equity and second mortgage	18,580	9.46	18,637	10.66	16,6
Commercial loans.....	18,539	9.44	15,047	8.61	10,0
Consumer loans.....	14,187	7.22	13,610	7.79	9,1
Total loans.....	196,489	100.00%	174,796	100.00%	149,1
Less: Deferred loan fees.....	757		776		8
Loan loss reserve.....	2,282		1,930		1,6
Loans receivable, net.....	\$ 193,450		\$172,090		\$ 146,7

	AT DECEMBER 31,			
	1998		1997	
	AMOUNT	%	AMOUNT	%
	(DOLLARS IN THOUSANDS)			
Real Estate Loans --				
Residential first mortgage	\$ 64,243	47.55%	\$ 61,630	49.61%
Commercial	19,733	14.60	19,201	15.46
Construction and land development (1)...	20,776	15.38	14,707	11.84
Home equity and second mortgage	16,314	12.07	17,428	14.03
Commercial loans.....	6,161	4.56	4,852	3.91
Consumer loans.....	7,889	5.84	6,420	5.17
Total loans.....	135,117	100.00%	124,238	100.00%
Less: Deferred loan fees.....	930		1,060	
Loan loss reserve.....	1,540		1,310	
Loans receivable, net.....	\$132,646		\$121,867	

LOAN ORIGINATIONS, PURCHASES AND SALES. The Bank solicits loan applications

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through its branch network, direct solicitation of customers, referrals from customers, and 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, credit reports, etc. vary by loan type. Loan processing functions are generally centralized except for small consumer loans. 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 \$750,000, Senior Vice Presidents up to \$400,000, and Business Development officers up to \$150,000. Authorities may be combined up to \$1,000,000. For residential mortgage loans, the residential loan underwriter may approve loans up to the conforming loan limit of \$255,000. Selected branch personnel may approve secured loans up to \$75,000, and unsecured loans up to \$50,000. A loan committee consisting of the President and two members of the Board, ratify all real estate mortgages and approve all loans in excess of \$1,000,000. 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, pay property taxes, and other conditions.

Depending on market conditions, mortgage loans may be originated primarily with the intent to sell to third parties such as FNMA or FHLMC. During the year 2001, the Bank sold \$11.4 million of mortgage loans which were originated during the year generating \$187 thousand in income. In order 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 also routinely buys portions of loans, whole 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. 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 which the Bank is permitted to lend to any one borrower and their 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 \$2.6 million to any one borrower at December 31, 2001. 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 \$4.2 million to any one borrower at December 31, 2001. At December 31, 2001, the largest amount outstanding to any one borrower and their related interests was \$3.6 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 total amount of the Bank's outstanding commitments to originate loans at December 31, 2001, was approximately \$1.9 million, excluding undisbursed portions of loans in process. It has been the Bank's experience that few commitments expire unfunded.

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MATURITY OF LOAN PORTFOLIO. The following table sets forth certain information at December 31, 2001 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.

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	DUE WITHIN 1 YEAR AFTER DECEMBER 31, 2001 -----	DUE AFTER 1 THROUGH 5 YEARS FROM DECEMBER 31, 2001 -----	DUE MORE THAN 5 YEARS FROM DECEMBER 31, 2001 -----	
(IN THOUSANDS)				
Real estate loans --				
Residential first mortgages.....	\$ 6,632	\$ 21,989	\$ 32,809	\$
Commercial	7,746	20,833	37,038	
Construction.....	13,200	2,043	2,893	
Home equity and second mortgage.....	13,127	3,488	1,965	
Commercial loans.....	18,539			
Consumer loans.....	4,358	9,767	62	
	-----	-----	-----	-----
	\$ 63,602	\$ 58,120	\$ 74,767	\$
	=====	=====	=====	=====

The next table sets forth the dollar amount of all loans due after one year from December 31, 2001 which have predetermined interest rates and have floating or adjustable interest rates.

	FIXED RATES -----	FLOATING OR ADJUSTABLE RATES -----	TOTAL -----
(IN THOUSANDS)			
Real estate loans --			
Residential first mortgage...	\$ 25,360	\$ 29,438	\$ 54,798
Commercial.....	2,878	54,993	57,871
Construction.....	1,305	3,631	4,936
Home equity and second mortgage.....	5,453	--	5,453
Consumer.....	9,829	--	9,829
	-----	-----	-----
	\$ 44,825	\$ 88,062	\$ 132,887
	=====	=====	=====

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 over 120 days delinquent. Commercial business and real estate loans are placed on non-accrual status when the loan is

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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

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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 the assessment of the ultimate collectibility of the loan.

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 foreclosed real estate with a fair market value of approximately \$1.8 million at December 31, 2001.

During 2001, due to changes in local zoning ordinances severely restraining building permits, one borrower could not meet the financial obligations of his \$1.2 million loan. The Bank negotiated with this borrower and agreed to accept a deed in lieu of foreclosure on July 12, 2001 in order to complete development of the land. The property was transferred to a wholly owned subsidiary of the Bank on this date. As of December 31, 2001, this asset is classified as foreclosed real estate. Management has reviewed the value of the property received and related costs, approximately \$1.3 million, and has concluded that no write down of the property value is required. The value of the property will be reviewed periodically, and any necessary reduction in the carrying value of the property will be reflected in the results of operations. Management intends to aggressively pursue its rights with regard to this asset including possible legal action.

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The following table sets forth information with respect to the Bank's non-performing loans for the periods indicated. During the periods shown, the Bank had no impaired loans within the meaning of Statement of Financial Accounting Standards No. 114 and 118.

	AT DECEMBER 31,				
	2001	2000	1999	1998	1997
	-----	-----	-----	-----	-----
	(DOLLARS IN THOUSANDS)				
Restructured loans.....	\$ --	\$ --	\$ --	\$ --	\$ --
Accruing loans which are contractually past due 90 days or more:					
Real estate:					
Residential first mortgage.....	\$ --	\$ --	\$ --	\$ --	\$ --
Commercial.....	--	--	--	--	--
Construction and land development.	--	--	--	--	--
Home equity and second mortgage.....	25	102	171	196	
Commercial	--	--	--	--	
Consumer.....	--	--	--	--	

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Total.....	25	102	171	196	
Loans accounted for on a nonaccrual basis:					
Real estate:					
Residential first mortgage.....	\$ 134	\$ --	\$ 20	\$ 126	\$
Commercial.....	--	--	--	--	
Construction and land development.	--	--	--	--	
Home equity and second mortgage.....	--	--	--	--	
Commercial	--	--	--	85	
Consumer.....	70	7	198	58	
Total.....	204	7	218	269	
Total non-performing loans.....	\$ 229	\$ 109	\$ 389	\$ 465	\$
Non-performing loans to total loans.....					
	0.07%	0.06%	0.26%	0.34%	
Allowance for loan losses to non-performing loans.....					
	996.07%	1,770.55%	424.94%	331.18%	

During the year ended December 31, 2001, gross interest income of \$10 thousand would have been recorded on loans accounted for on a non-accrual basis if the loans had been current throughout the period. During the year 2001, the Company recognized \$0 in interest on these loans.

At December 31, 2001, there were no loans outstanding not reflected in the above table as to which known information about possible credit problems of borrowers caused management to have serious doubts as to the ability of such borrowers to comply with present loan repayment terms.

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

	YEAR ENDED DECEMBER 31,				
	2001	2000	1999	1998	19
	(DOLLARS IN THOUSANDS)				
Balance at Beginning of Period.....	\$ 1,930	\$ 1,653	\$ 1,540	\$ 1,310	\$
Charge-Offs:					
Real estate loans --					
Residential first mortgages.....	--	56	--	--	
Commercial	--	33	102	--	
Consumer.....	39	6	32	10	

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Total Charge-Offs.....	39	95	134	10	
	-----	-----	-----	-----	-----
Recoveries:					
Real estate loans --					
Residential first mortgages.....	--	--	--	--	
Commercial.....	--	--	--	--	
Consumer.....	31	12	7	--	
	-----	-----	-----	-----	-----
Total Recoveries.....	31	12	7	--	
	-----	-----	-----	-----	-----
Net Charge-Offs.....	8	83	127	10	
	-----	-----	-----	-----	-----
Provision for Possible Loan Losses....	360	360	240	240	
	-----	-----	-----	-----	-----
Balance at End of Period.....	\$ 2,282	\$ 1,930	\$ 1,653	\$ 1,540	\$
	=====	=====	=====	=====	=====
Ratio of Net Charge-Offs to Average Loans Outstanding During the Period.....	0.01%	0.05%	0.09%	0.01%	
	=====	=====	=====	=====	=====

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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,			
	2001		2000	
	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 --				
Residential first mortgage.....	\$ 160	31.3%	\$ 192	38.9%
Commercial.....	923	33.4	645	24.1
Construction and land development.....	355	9.2	285	9.9
Home equity and second mortgage.....	373	9.5	394	10.7
Commercial.....	186	9.4	138	8.6
Consumer.....	285	7.2	276	7.8
	-----	-----	-----	-----
Total allowance for loan losses...	\$ 2,282	100.0%	\$ 1,930	100.0%
	=====	=====	=====	=====

	AT DECEMBER 31,	
	1998	1997
	PERCENT OF	PERCENT OF
	-----	-----

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	AMOUNT	LOANS IN EACH		LOANS IN EACH	
		CATEGORY TO		CATEGORY TO	
	-----	TOTAL LOANS	AMOUNT	TOTAL LOANS	-----
(DOLLARS IN THOUSANDS)					
Real estate loans --					
Residential first mortgage.....	\$ 652	47.6%	\$ 579	49.6%	
Commercial.....	281	14.6	255	15.5	
Construction and land development.....	211	15.4	138	11.8	
Home equity and second mortgage.....	166	12.1	164	14.0	
Commercial.....	117	4.5	87	3.9	
Consumer.....	113	5.8	87	5.2	
	-----	-----	-----	-----	-----
Total allowance for loan losses...	\$ 1,540	100.0%	\$ 1,310	100.0%	
	=====	=====	=====	=====	=====

The Bank closely monitors the loan payment activity of all its loans. A loan loss provision is provided by a regular accrual. 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 generally accepted accounting principles 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 vary from the amounts estimated or that the Bank's regulators will not request the Bank to significantly increase or decrease its allowance for loan losses, thereby affecting the Bank's financial condition and earnings.

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 FHLMC, FNMA, SLMA and the FHLB System. 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 Systems, the Bank is also required to invest in the stock of the Federal Reserve Bank of Richmond and FHLB of Atlanta, respectively.

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, 2001, their market value was \$47 million.

	AT DECEMBER 31,	
	2001	2000
	----	----
(IN THOUSANDS)		
Asset-backed securities:		

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FHLMC and FNMA.....	\$ 26,084	\$ 30,577
Other.....	8,993	16,855
	-----	-----
Total asset-backed securities.....	35,077	47,432
FHLMC, FNMA, SLMA and FHLB notes.....	--	7,912
FHLMC and FNMA stock.....	727	764
Money market funds.....	5,868	753
Treasury bills.....	300	200
Other investments.....	1,989	1,514
	-----	-----
Total investment securities.....	43,961	58,575
FHLB and Federal Reserve Bank stock.....	3,036	3,036
	-----	-----
Total investment securities and FHLB and Federal Reserve Bank stock.....	\$ 46,997	\$ 61,611
	=====	=====

The maturities and weighted average yields for investment securities available for sale and held to maturity at December 31, 2001 are shown below.

	ONE YEAR OR LESS		AFTER ONE THROUGH FIVE YEARS		AFTER FIVE THROUGH TEN YEARS	
	CARRYING VALUE	AVERAGE YIELD	CARRYING VALUE	AVERAGE YIELD	CARRYING VALUE	AVERAGE YIELD
	-----	-----	-----	-----	-----	-----
	(DOLLARS IN THOUSANDS)					
Investment securities available for sale:						
Corporate equity securities...	\$ 727	3.76%	\$ --	--%	\$ --	--%
Asset-backed securities.....	8,068	5.55	14,606	6.09	12,108	4.00
Money market funds.....	5,868	1.70	--	--	--	--
	-----	-----	-----	-----	-----	-----
Total investment securities available for sale.....	\$ 14,663	3.92 %	\$14,606	6.09%	\$12,108	4.00%
	=====	=====	=====	=====	=====	=====
Investment securities held-to- maturity:						
Treasury bills.....	\$ 300	5.30%	\$ --	--%	\$ --	--%
Other investments.....	978	6.18	1,011	5.90	--	--
	-----	-----	-----	-----	-----	-----
Total investment securities held-to-maturity.....	\$ 1,278	5.97	\$ 1,011	5.90%	\$ --	--%
	=====	=====	=====	=====	=====	=====

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 the fair value. Management's intent is to hold securities reported at amortized cost to maturity.

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Certain of the Company's securities are issued by private issuers (defined as an issuer which is not a government or a government sponsored entity). Although the Company generally limits its exposure to private issuers to total investments from any one issuer to less than 10% of equity, in certain cases the Company has made higher investments. These investments are classified as available for sale, and carrying value therefore equals market value. Details of such investments at December 31, 2001 follow:

ISSUER -----	MOODY'S RATING -----	ESTIMATED FAIR MARKET VALUE ----- (IN THOUSANDS)
GE Capital Mortgage Services.....	AAA	\$ 4,571

For further information regarding the Company's investment securities, see Note 2 of Notes to Consolidated Financial Statements.

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 seven branches in the southern Maryland area. Consolidated total deposits were \$183,116,534 as of December 31, 2001. The Bank uses borrowings from the FHLB of Atlanta and other sources to supplement funding from deposits.

DEPOSITS. The Bank's deposit products include regular savings accounts (statements), money market deposit accounts, demand deposit accounts, interest-bearing demand deposit accounts, IRA and SEP accounts, Christmas club accounts and certificates of deposit. 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, money orders and travelers checks, night depositories, automated clearinghouse transactions, wire transfers, ATMs, and telephone banking. The Bank is a member of JEANIE, Cirrus and Honor ATM networks. The Bank has occasionally used deposit brokers to obtain funds. At year end, no brokered deposits were held.

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

	FOR THE YEAR ENDED DECEMBER 31,				
	2001		2000		AVERA
	AVERAGE BALANCE	AVERAGE RATE	AVERAGE BALANCE	AVERAGE RATE	BALAN
	(DOLLARS IN THOUSANDS)				
Savings.....	\$ 19,723	2.01%	\$ 20,051	2.37%	\$ 2
Interest-bearing demand and money market accounts.....	72,052	2.35	59,720	3.58	4
Certificates of deposit.....	70,453	5.45	69,592	5.32	7
Total interest-bearing deposits.....	162,228	3.65	149,363	4.23	14
Noninterest-bearing demand deposits.....	13,872		10,691		
Total average deposits.....	\$ 176,100	3.37	\$ 160,324	3.94	\$ 15

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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, 2001.

MATURITY PERIOD -----	CERTIFICATES OF DEPOSIT ----- (IN THOUSANDS)
Three months or less.....	\$ 7,496
Three through six months.....	2,202
Six through twelve months.....	2,615
Over twelve months.....	4,705

Total.....	\$ 17,018 =====

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 35% of assets. 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. Information about borrowings for the years indicated (which consisted almost entirely of FHLB advances) is as follows:

	AT OR FOR THE YEAR ENDED DECEMBER	
	2001 -----	2000 -----
	(DOLLARS IN THOUSANDS)	
Long-term amounts outstanding at end of period.....	\$ 48,650	\$ 41,400
Weighted average rate on outstanding long-term.....	5.41%	5.91%
Short-term borrowings outstanding at end of period.....	\$ 1,813	\$ 13,551
Weighted average rate on outstanding short-term.....	1.83%	6.35%
Maximum outstanding short-term debt at any month end.....	\$ 15,725	\$ 35,100
Average outstanding short-term debt	\$ 6,213	\$ 25,810
Approximate weighted average rate paid on short-term debt (1).....	5.75%	6.62%

For more information regarding the Bank's borrowings, see Note 7 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

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financial, fiduciary or insurance service. In 1985, the Bank formed Tri-County Federal Finance One as a finance subsidiary for the purpose of issuing a \$6.5 million collateralized mortgage obligation. In June 1999, the obligation was satisfied, allowing the return of the participation certificates serving as collateral to the Bank and closing the subsidiary. 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 which 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 in the State of Delaware.

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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 15 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 sixth in deposit market share in the Tri-County area as of June 30, 2001, 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 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, safe deposit boxes, and miscellaneous services. 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.

SUPERVISION AND REGULATION

REGULATION OF THE BANK

GENERAL. The Bank is a Maryland commercial bank and its deposit accounts are insured by the SAIF. 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 Board of Governors of the Federal Reserve System (the "FRB") and to Maryland and federal statutory and regulatory provisions governing such matters as capital standards, mergers and establishment of branch offices. The Bank is required to file reports with the Commissioner and the FRB concerning its activities and financial condition and will be 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 regulations promulgated by the FRB, including Regulation B (Equal Credit Opportunity), Regulation D (Reserve Requirements), Regulation E (Electronic Fund Transfers), 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

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comprehensive framework for the operations of the Bank and is intended primarily for the protection of the FDIC and the depositors of the Bank. 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.

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 1% to 2% above the minimum ratio, depending on the assessment of an individual organization's capital adequacy by its primary

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regulator. 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; and subordinated debt and intermediate-term preferred stock.

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: (1) Tier 2

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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 federal banking agencies, including the FRB, have proposed a system for measuring and assessing the exposure of a bank's net economic value to changes in interest rates. The federal banking agencies, including the FRB, have stated their intention to propose a rule establishing an explicit capital charge for interest rate risk based upon the level of a bank's measured interest rate risk exposure after more experience has been gained with the proposed measurement process. FRB regulations do not specifically take into account interest rate risk in measuring the capital adequacy of bank holding companies.

The FRB has issued regulations which 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 severe regulatory sanctions. As of December 31, 2001, 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 state banks, only in states which specifically allow for such branching. The

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Riegle-Neal Act also required the appropriate federal banking agencies to prescribe regulations which 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.

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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.

DEPOSIT INSURANCE. The Bank is required to pay semi-annual assessments based on a percentage of its insured deposits to the FDIC for insurance of its deposits by the Savings Association Insurance Fund ("SAIF"). Under the Federal Deposit Insurance Act, the FDIC is required to set semi-annual assessments for SAIF-insured institutions to maintain the designated reserve ratio of the SAIF at 1.25% of estimated insured deposits or at a higher percentage of estimated insured deposits that the FDIC determines to be justified for that year by circumstances raising a significant risk of substantial future losses to the SAIF. In the event that the SAIF should fail to meet its statutory reserve ratio, the FDIC would be required to set semi-annual assessment rates for SAIF members that are sufficient to increase the reserve ratio to 1.25% within one year or in accordance with such other schedule that the FDIC adopts by regulation to restore the reserve ratio in not more than 15 years.

Under the risk-based deposit insurance assessment system adopted by the FDIC, the assessment rate for an insured depository institution depends on the assessment risk classification assigned to the institution by the FDIC, which is determined by the institution's capital level and supervisory evaluations. Based on the data reported to regulators for the date closest to the last day of the fourth month preceding the semi-annual assessment period, institutions are assigned to one of three capital groups -- "well capitalized, adequately capitalized or undercapitalized." Within each capital group, institutions are assigned to one of three subgroups on the basis of supervisory evaluations by the institution's primary supervisory authority and such other information as the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance fund. Under the current assessment schedule, well-capitalized banks with the best supervisory ratings are not required to pay any premium for deposit insurance. All SAIF-insured banks, however, are required to pay assessments to the FDIC to help fund interest payments on certain bonds issued by the Financing Corporation, an agency established by the federal government to finance takeovers of insolvent thrifts.

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 non-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 other types of transactions. An affiliate of a state non-member bank is any company or entity which controls or is under common control with the state non-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 non-member bank (such as the Company) and any companies which are controlled by such parent holding company are affiliates of the state non-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

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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 non-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 (up to \$500,000) 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.

REGULATION OF THE COMPANY

GENERAL. The Company, as the sole shareholder of the Bank, is a bank holding company and registered as such with 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 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.

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.

Effective September 29, 1995, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act") authorized the FRB to approve an application of an adequately capitalized and adequately managed bank holding company 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 which 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.

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Additionally, the federal banking agencies are authorized to approve interstate 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 will be permitted only if the law of the state in which the branch is located permits such acquisitions. Interstate mergers and branch acquisitions will also be 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 which 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") on November 12, 1999, 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 will be permitted to engage in a broader range of financial activities than are currently 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 Federal Reserve Board 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

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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.

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 earning 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

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FDICIA, the FRB may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized".

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.

CAPITAL REQUIREMENTS. The FRB has established capital requirements, similar to the capital requirements for state member banks described above, for bank holding companies with consolidated assets of \$150 million or more. As of December 31, 2001, the Company's levels of consolidated regulatory capital exceeded the FRB's minimum requirements.

PERSONNEL

As of December 31, 2001, the Bank had 84 full-time employees and 14 part-time employees. The employees are not represented by a collective bargaining agreement. The Bank believes its employee relations are good.

ITEM 2. PROPERTIES

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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, 2001.

OFFICE LOCATION -----	YEAR FACILITY COMMENCED OPERATION -----	LEASED OR OWNED -----	APPROXIMATE SQUARE FOOTAGE -----
MAIN OFFICE 3035 Leonardtown Road Waldorf, Maryland	1974	Owned	16,500
BRANCH OFFICES 22730 Three Notch Rd. California, Maryland	1992	Owned	2,500
25395 Point Lookout Rd. Leonardtown, Maryland	1961	Owned	2,500
101 Drury Drive La Plata, Maryland	2001	Owned	2,645
10321 Southern Md. Blvd. Dunkirk, Maryland	1991	Leased	1,400
8010 Matthews Road Bryans Road, Maryland	1996	Owned	2,500
20 St. Patrick's Drive (1) Waldorf, Maryland	1998	Leased (Land) Owned (Building)	2,840

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OFFICE LOCATION -----	YEAR FACILITY COMMENCED OPERATION -----	LEASED OR OWNED -----	APPROXIMATE SQUARE FOOTAGE -----
10195 Berry Road Waldorf, Maryland	1999	Leased	600
30165 Three Notch Road (2) Charlotte Hall, Maryland	2001	Leased (Land)	N/A

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.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2001.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

MARKET INFORMATION. Beginning in the first quarter of 2002, bid and asked quotes and last sale information became available for the Company's common stock on the OTC Bulletin Board under the symbol "TCFC." During fiscal years 2001 and 2000, there was no established trading market for the Common Stock and bid and asked quotes were not regularly available. The Company has maintained a list of persons who have expressed an interest in buying or selling the Common Stock and has made this information available to persons seeking to sell or buy shares, as the case may be, and believes that most trading activity in the Common Stock resulted from these referrals. During 2001, a total of 28,698 shares traded, with a high price of \$32.00 and a low price of \$25.00. The weighted average price was \$27.27. The Company expects to continue maintaining a list of potential buyers and sellers.

HOLDERS. The number of stockholders at December 31, 2001 was 547 and the total outstanding shares were 756,805.

DIVIDENDS. The Company has paid annual cash dividends since 1994. During fiscal year 2001 and 2000, the Company paid cash dividends of \$0.40 and \$0.30, respectively. On January 22, 2002, the Board of Directors declared a \$0.50 per share cash dividend to be distributed on April 8, 2002 to holders of record as of March 25, 2002.

The Company's ability to pay dividends is governed by the policies and regulations of the FRB which prohibit the payment of dividends under certain circumstances involving the bank holding company's financial condition and capital adequacy. The Company's ability to pay dividends is also dependent on the receipt of dividends from the Bank.

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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 Institution 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

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depositors at the time of its conversion to stock form.

EQUITY COMPENSATION PLANS. The Company has adopted a variety of compensation plans pursuant to which equity may be awarded to participants including the Company's 1995 Stock Option and Incentive Plan and the 1995 Stock Option Plan for Non-Employee Directors. The Bank's Executive Incentive Compensation Plan provides for grants of options under the 1995 Stock Option and Incentive Plan if certain performance criteria are met.

The following table sets forth certain information with respect to the Company's Equity Compensation Plans.

PLAN CATEGORY -----	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS -----	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS -----
Equity compensation plans approved by security holders	79,469	\$18.08
Equity compensation plans not approved by security holders (1)	20,210	\$22.60
Total (2)		

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ITEM 6. SELECTED FINANCIAL DATA

The following table presents consolidated selected financial data for the Company and its subsidiaries for each of the periods indicated. Dividends and earnings per share have been adjusted to give retroactive effect to stock splits and stock dividends accounted for as stock splits.

	YEAR ENDED DECEMBER 31,			
	2001	2000	1999	1998
	----- (DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)			
OPERATIONS DATA:				
Net Interest Income.....	\$ 9,757	\$ 8,862	\$ 8,412	\$ 8,125
Provision for Loan Losses.....	360	360	240	240
Noninterest Income.....	1,402	1,373	1,271	1,421
Noninterest Expense.....	6,995	6,332	6,276	5,467
Net Income.....	2,486	2,336	2,153	2,382
SHARE DATA:				
Basic Net Income Per Common Share.....	\$ 3.24	\$ 2.98	\$ 2.75	\$ 3.00
Diluted Net Income Per Common Share.....	3.11	2.85	2.59	2.79
Cash Dividends Paid Per Common Share.....	0.40	0.30	0.20	0.125
Weighted Average Common Shares Outstanding:				
Basic.....	766,927	784,605	782,950	793,458

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Diluted.....	798,787	821,139	832,283	853,145
FINANCIAL CONDITION DATA:				
Total Assets.....	\$ 261,957	\$ 248,339	\$ 222,897	\$ 206,863
Loans Receivable, Net.....	193,450	172,090	146,710	132,646
Total Deposits.....	183,117	167,806	155,742	151,815
Long and Short Term Debt.....	50,463	54,951	44,798	33,434
Total Stockholders' Equity.....	25,586	23,430	21,115	20,975
PERFORMANCE RATIOS:				
Return on Average Assets.....	0.97%	1.00%	1.00%	1.20%
Return on Average Equity.....	10.09	10.65	10.23	11.87
Net Interest Margin.....	4.02	3.98	4.11	4.21
Efficiency Ratio.....	62.68	61.86	64.81	57.27
Dividend Payout Ratio.....	12.44	10.13	7.29	4.10
CAPITAL RATIOS:				
Average Equity to Average Assets.....	9.64%	9.37%	9.79%	10.10%
Leverage Ratio.....	9.64	9.61	9.86	10.28
Total Risk-Based Capital Ratio.....	14.08	13.53	17.23	18.27
ASSET QUALITY RATIOS:				
Allowance for Loan Losses to Total Loans.....	1.16%	1.10%	1.11%	1.14%
Nonperforming Loans to Total Loans.....	0.12	0.06	0.26	0.34
Allowance for Loan Losses to Nonperforming Loans.....	996.07	1770.55	424.94	331.18
Net Charge-offs to Average Loans.....	0.01	0.05	0.09	0.01

ITEM 7. 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 the percentage of assets represented by 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 spur asset growth. Since December 31, 1997, total loan assets have increased by \$71 million or 58.7%, with increases concentrated in commercial real estate, commercial, and consumer lending. The Bank's local focus and targeted marketing is also directed towards increasing its balances of consumer and business deposit accounts such as interest-bearing and noninterest bearing checking accounts, money market accounts, and other transaction-oriented accounts. The Bank believes that increases in these account types will lessen the Bank's dependence on time deposits such as certificates of deposit to fund loan growth.

For the year 2001, the Company earned \$2.5 million, an increase of \$149 thousand, or 6.4%, over 2000. Earnings were positively affected by the Bank's continued success in building its loan portfolio while controlling its non-performing loans. The significantly lower interest rate environment positively affected the Bank's ability to earn noninterest income in certain areas. Noninterest expense increased by 10.5% primarily in increased expenses for marketing, occupancy, and other expenses.

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FORWARD-LOOKING STATEMENTS

When used in this discussion and elsewhere in this Annual Report on Form 10-K, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including regional and national economic conditions, unfavorable judicial decisions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake and specifically disclaims any obligation to update any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

GENERAL. For the year ended December 31, 2001, the Company reported consolidated net income of \$2,485,535 (\$3.24 basic and \$3.11 fully diluted earnings per share) compared to consolidated net income of \$2,336,196 (\$2.98 basic and \$2.85 fully diluted earnings per share) for the year ended December 31, 2000, and consolidated net income of \$2,153,490 (\$2.75 basic and \$2.59 fully diluted earnings per share) for the year ended December 31, 1999. The increase in net income for 2001 compared to 2000 was attributable to several factors including growth in net interest income and improved noninterest income. These positive developments were partially offset by increases in noninterest expenses and income tax expenses. For the year ended December 31, 2001, net interest income was \$9,756,865 compared to \$8,862,072 for the year ended December 31, 2000, an increase of \$894,793 or 10.1%. The Company also increased total noninterest income to \$1,401,520 in 2001 from \$1,372,928 in 2000, an increase of \$28,532 or 2.1%. Noninterest expenses increased to \$6,994,500 for the year ended December 31, 2001, compared to \$6,331,864 an increase of \$662,636 or 10.5%. Income before income taxes increased to \$3,803,885 for the year ended December 31, 2001, compared to \$3,543,196 for the year ended December 31, 2000, an increase of \$260,689 or 7.4%. Income tax expense for 2001 increased to \$1,318,350 from \$1,207,000 for the year ended December 31, 2000.

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For the year ended December 31, 2000, net interest income was \$8,862,072 compared to \$8,412,151 for the year ended December 31, 1999, an increase of \$449,921 or 5.4%. This increase was partially offset by an increase in the provision for loan losses to \$360,000 for the year ended December 31, 2000 compared to \$240,000 for 1999, an increase of \$120,000 or 50%. The Company also increased total noninterest income to \$1,372,928 in 2000 from \$1,271,464 in 1999, an increase of \$101,524 or 8.0%. Noninterest expenses increased to \$6,331,864 for the year ended December 31, 2000, compared to \$6,276,125 an increase of \$55,739 or 0.9%. Income before income taxes increased to \$3,543,196 for the year ended December 31, 2000, compared to \$3,167,490 for the year ended December 31, 1999, an increase of \$375,706 or 11.9%.

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 determined by the spread between the yields earned on the Company's

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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.

Consolidated net interest income for the year ended December 31, 2001 was \$9,756,865 compared to \$8,862,072 for the year ended December 31, 2000 and \$8,412,151 for the year ended December 31, 1999. The \$894,793 increase in the most recent year was due to an increase of \$225,114 in interest income combined with a decrease of \$669,679 in interest expense for the same period. For the year ended December 31, 2000 compared to the prior year, interest income increased by \$2,436,232 partially offset by an increase in expense of \$1,986,311. Changes in the components of net interest income due to changes in average balances of assets and liabilities compared to changes in net interest income caused by changes in interest rates are presented in the rate volume analysis below.

During 2001, the Company's interest rate spread increased slightly because; the Bank was able to decrease the amount and relative share of its assets devoted to investments and move these assets into higher yielding loans. The Bank was also able to continue its shift from lower yielding loan types to higher yielding loans types. The Bank was able to cut costs on borrowing and deposit costs commensurate with decreases in loan rates, and the Bank was able to increase the share of its funding provided by deposits as opposed to borrowings.

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 three fiscal years. Average balances are computed on the basis of month-end balances.

	FOR THE YEAR ENDED DECEMBER					
	2001			2000		
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST
						(DOLLARS IN THOUSANDS)
Interest-earning assets:						
Loan portfolio (1).....	\$184,370	\$15,223	8.26%	\$159,989	\$13,950	8.72%
Cash and investment securities.....	58,276	3,291	5.65	62,673	4,340	6.92
Total interest-earning assets.....	242,646	18,514	7.63	222,662	18,290	8.21
Interest-bearing liabilities:						
Savings deposits and escrow....	\$175,919	\$ 5,935	3.37%	\$160,324	\$ 6,315	3.94%
FHLB advances and other borrowings.....	52,387	2,822	5.39	49,664	3,113	6.26
Total interest-bearing liabilities.....	\$228,306	8,757	3.84	\$209,988	9,428	4.49
Net interest income.....		\$ 9,757			\$ 8,862	
Interest rate spread.....			3.79%			3.72%
Net yield on interest-earning						

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assets.....	4.02%	3.98%
	=====	=====
Ratio of average interest- earning assets to average interest-bearing liabilities...	106.3%	106.0%
	=====	=====

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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,				
	2001	VS.	2000	2000	VS.
	INCREASE (DECREASE) DUE TO			INCREASE (DECREASE) DUE TO	
	VOLUME	RATE	TOTAL	VOLUME	RATE
	(IN THOUSANDS)				
Interest income:					
Loan portfolio.....	\$ 2,126	\$ (853)	\$ 1,273	\$ 1,905	\$ 48
Interest-earning cash and investment portfolio.....	(304)	(744)	(1,048)	(257)	30
Total interest-earning assets.....	\$ 1,822	\$ (1,597)	\$ 225	\$ 1,648	\$ 78
	=====	=====	=====	=====	=====
Interest expense:					
Savings deposits and escrow.....	\$ 614	\$ (993)	\$ (379)	\$ 222	\$ 56
FHLB advances and other borrowings.....	170	(460)	(290)	864	33
Total interest-bearing liabilities.....	\$ 784	\$ (1,453)	\$ (669)	\$ 1,086	\$ 90
	=====	=====	=====	=====	=====

PROVISION FOR LOAN LOSSES. Provision for loan losses for the year ended December 31, 2001 was \$360,000 compared to \$360,000 and \$240,000 for December 31, 2000 and 1999. The higher provision for loan losses in 2001 and 2000 is reflective of the increases in the size of the Bank's loan portfolio as well as increased emphasis on certain loan types which have inherently higher credit risks than residential first mortgage lending. At December 31, 2001 the allowance for loan loss equaled 996% of non-accrual and past due loans compared to 1,771% and 425% at December 31, 2000 and 1999, respectively. During the year ended December 31, 2001, the Company recorded net charge-offs of \$8 thousand (0.004% of average loans) compared to \$83 thousand (0.05% of average loans) and \$127 thousand (0.09% of average loans) in net charge-offs during the years ended December 31, 2000 and 1999.

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NONINTEREST INCOME. Noninterest income increased to \$1,401,520 for the year ended December 31, 2001 compared to \$1,372,988, for the prior year, an increase of 2.1%. Noninterest income for the year ended December 31, 2000 represented an increase of 8.0% from the December 31, 1999 total of \$1,271,464. Changes in noninterest income over the past three years have been the result of wide fluctuations in certain noninterest income categories, (gain on sale of loans, gain on sale of investments, loan fees) and an increase in service charges from 1999 to 2000. Gain on sale of investments increased to \$184,704 in 2000 from a loss of \$605 in 1999. In 2001, the Company had no investment sales or income from sales. Gain on sale of loans held for sale has been highly variable reflecting the overall interest rate environment. As rates decrease, the Bank's volume of mortgage lending which is fixed rate increases, which in turn provides a higher volume of loan sales and gains. Mortgage interest rates moved higher in 2000 from 1999 levels which caused a decreased gain on sales of mortgage loans to \$85,716 in 2000, down from \$238,215 in 1999. In 2001, interest rates decreased from 2000 levels and income from gain on sale of mortgage loans increased to \$187,304. In percentage terms gain on sale of loans held for sale fell 64% from 1999 to 2000 and increased by 119% from 2000 to 2001. Loan appraisal, credit and miscellaneous charges followed a similar pattern, these charges decreased from \$182,494 in 1999 to \$76,326 in 2000, a decrease of 58.2%. From 2000 to 2001, these charges increased to \$226,641 an increase of 196.9%. Service charges and fees are primarily generated by the Bank's ability to attract and retain transaction-based deposit accounts. Service charges and fees declined slightly to \$953,496 for the year ended December 31, 2001 as compared to \$996,884 and \$811,991 in the two prior years. The decrease for the year ended December 31, 2001 from the prior year was \$43,388, or 4.4% while the increase for the year ended December 31, 1999 from the prior year was \$184,893, or 22.8%. The Company hopes to increase its service charge and fee revenues in the future by increasing the level of transaction-based accounts. Finally, other

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noninterest income declined slightly from 1999 to 2000 and increased from 2000 to 2001. For the year ended December 31, 2001, other noninterest income was \$34,079, an increase from the prior year total of \$29,358.

NONINTEREST EXPENSES. Noninterest expenses for the year ended December 31, 2001 totaled \$6,994,500, an increase of \$662,636 or 10.5% from the prior year. Salary and employee benefits increased by 4.9% to \$3,821,330 for the year ended December 31, 2001 compared to \$3,643,865 for the prior year. The small increase reflects a stabilization in the size of the Company's workforce, an effort by management to control certain discretionary employee costs such as the cost of the Company's Employee Stock Ownership Plan ("ESOP") program and other measures. Occupancy expense increased to \$689,575 compared to \$615,809 and \$540,667 in the two prior years. This increase was due to certain needed repairs and maintenance at several of the Company's locations as well as the opening of the Charlotte Hall branch. ATM and deposit expenses decreased to \$254,176 for the year 2001 from \$340,534 and \$287,178 for the prior two years. Data processing expense increased to \$291,399 from the prior year total of \$255,792, an increase of 13.9%. As discussed previously, the Bank intends to convert its core processing system in 2002 from its current provider. The Bank anticipates that this conversion will increase certain related costs including data processing and other costs above 2001 levels. The decrease in ATM and deposit expenses is reflective of certain operating changes made to decrease costs. The increase in data processing expense is reflective of the Company's additional transaction based deposit accounts and an increase in overall deposit volume. Advertising decreased from 2000 levels to \$301,975 for the year ended December 31, 2001 compared to \$246,619 and \$280,044 in the two prior years. The Company anticipates that noninterest expense will increase during 2002 due to the

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opening of a new branch in the fourth quarter of 2001.

INCOME TAX EXPENSE. During the year ended December 31, 2001, the Company recorded income tax expense of \$1,318,350 compared to expenses of \$1,207,000 and \$1,014,000 in the two prior years. The Company's effective tax rates for the years ended December 31, 2001, 2000, and 1999 were 34.7%, 34.1% and 32.0%, respectively. The increase in the tax rate during 2001 was primarily attributable to an increase in the state income tax burden. In 2000 and 1999, taxes were substantially reduced because income earned on investment securities held by the Bank's passive investment corporation subsidiary, Tri-County Investment Corporation ("TCIC"), was not subject to state income tax. In the current year, reductions in the assets invested in TCIC as well as the interest rate earned on these investments have reduced the amount of income sheltered from state income tax, increasing the effective tax rate.

COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2001 AND 2000

The Company's total assets increased \$13,617,834, or 5.5%, to \$261,957,290 as of December 31, 2001 from \$248,339,456 at December 31, 2000. The increase in assets was primarily due to an increase in the loan portfolio which grew to \$193,450,011 at December 31, 2001 from \$172,090,088 at December 31, 2000. The increase in the loan portfolio were concentrated in the loan types targeted by management in its long-term business plan to increase the financial performance of the Company. The Company experienced its greatest loan growth in the commercial mortgage loan portfolio which grew \$23,390,780 or 55.4% during 2001 to \$65,616,917. Commercial mortgages constituted 33.4% of total loans at December 31, 2001. The Company also registered strong growth in its commercial loan portfolios which grew 23%. Although residential first mortgage lending continues to be a major portion of the Company's loan portfolio, it has declined as a percentage of the loan portfolio from 38.9% at December 31, 2000 to 31.3% at December 31, 2001, while decreasing in dollar terms for the same period to \$61,429,647 from \$67,975,177 at December 31, 2000.

Investments and interest-bearing deposits totaled \$54,676,804 at December 31, 2001 compared to \$67,586,227 for December 31, 2000. The decrease of \$12,909,423, or 19.1%, is the result of principal paydowns on the portfolio, which increased over the prior year due to the lower interest rate environment. The principal paydowns were partially offset by increased market values of securities and earnings on the portfolio. Management expects that the investment portfolio will continue to be a smaller portion of the Bank's asset composition as the Company will use principal paydowns and calls to increase the size of its loan portfolio.

Premises and equipment increased \$937,417 primarily due to upgrades of computer equipment and offices, the opening of an additional branch, and the relocation of one branch from leased premises to a Bank-owned facility. Other assets increased \$863 thousand primarily due to an increase in certain prepaid tax accounts. Foreclosed real

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estate increased primarily as the result of the single large development loan discussed previously being acquired by deed in lieu of foreclosure.

Deposits increased to \$183,116,534 at December 31, 2001 compared to \$167,805,999 for the prior year. The total increase of 9.1% was concentrated in certain transaction-based account types. Noninterest-bearing demand deposits increased to \$17,738,065 at December 31, 2001 from the prior year's total of \$12,537,649, an increase of \$5,200,416, or 41.5%. Interest-bearing demand deposits increased to \$20,842,088 at year end compared with \$20,551,420, an increase of \$290,668, or 1.4%. Money market deposits increased to \$53,807,885 at December 31, 2001

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from \$44,965,316 at December 31, 2000 for the prior year end, an increase of \$8,842,569, or 19.7%. Savings deposits increased by \$1,815,057 or 9.8% to \$20,367,634 from \$18,552,577. These increases in deposit balances were offset by declines in certificates of deposit to \$70,360,762 from \$71,199,037 a decrease of \$838,275, or 1.2%.

The Company used the increases in deposits coupled with shifting assets from the investment portfolio to fund growth in the loan portfolio. The Company also decreased overall borrowings and shifted most short term borrowings into longer term debt to attempt to lock in lower interest rates during 2001. Short term borrowings declined to \$1,813,317 from \$13,550,903, a decline of \$11,737,586 or 86.6%. Long-term debt increased to \$48,650,000 from \$41,400,000, a decline of \$7,250,000 or 17.5%.

The Company experienced a \$2,156,636, or 9.2%, increase in stockholders' equity for the year ended December 31, 2001. The increase in stockholders' equity was attributable to the retention of earnings from the period less cash dividends combined with comprehensive income of \$670,442, option exercises and smaller amounts of ESOP activity. These increases in equity were partially offset by repurchases of common stock totaling \$673,920.

ASSET/LIABILITY MANAGEMENT

Net interest income, the primary component of the Company's net income, arises from the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities and the relative amounts of such assets and liabilities. The Company manages its assets and liabilities by coordinating the levels of and gap between interest-rate sensitive assets and liabilities to control changes in net interest income and in the economic value of its equity despite changes in market interest rates.

Among other tools used to monitor interest rate risk is a "gap" report which measures the dollar difference between the amount of interest-earning assets and interest-bearing liabilities subject to repricing within a given time period. Generally, during a period of rising interest rates, a negative gap position would adversely affect net interest income, while a positive gap would result in an increase in net interest income, while, conversely, during a period of falling interest rates, a negative gap would result in an increase in net interest income and a positive gap would adversely affect net interest income. The following sets forth the Bank's interest rate sensitivity at December 31, 2001:

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	0-3 MONTHS	OVER 3 TO 12 MONTHS	OVER 1 THROUGH 5 YEARS
	-----	-----	-----
	(AMOUNTS IN THOUSANDS)		
Assets:			
Cash and due from banks.....	\$ 693	\$ --	\$ --
Interest-bearing deposits.....	7,678	--	--
Securities.....	8,137	7,804	15,617
Loans held for sale.....	2,354	--	--
Loans.....	43,715	19,887	58,120
	-----	-----	-----
Total Assets.....	\$ 62,577	\$ 27,691	\$ 73,737

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	=====	=====	=====
Liabilities:			
Noninterest bearing deposits.....	\$ 17,738	\$ --	\$ --
Interest-bearing demand deposits.....	20,842	--	--
Money Market Deposits.....	53,808	--	--
Savings.....	20,368	--	--
Certificates of Deposit.....	18,573	24,285	27,503
Short-term debt.....	1,813	--	--
Long-term debt.....	--	6,400	17,250
	-----	-----	-----
Total Liabilities.....	\$ 133,142	\$ 30,685	\$ 44,753
	=====	=====	=====
Gap.....	\$ (70,565)	\$ (2,993)	\$ 28,984
Cumulative Gap.....	\$ (70,565)	\$ (73,558)	\$ (44,574)
Cumulative Gap as % of total assets.....	(26.94)%	(28.08)%	(17.02)%

The foregoing analysis assumes that the Bank's assets and liabilities move with rates at their earliest repricing opportunities based on final maturity. Mortgage-backed securities are assumed to mature during the period in which they are estimated to prepay and it is assumed that loans and other securities are not called prior to maturity. Certificates of deposit and IRA accounts are presumed to reprice at maturity. NOW and savings accounts are assumed to reprice within three months although it is the Company's experience that such accounts may be less sensitive to changes in market rates.

LIQUIDITY AND CAPITAL RESOURCES

The Company currently has no business other than that of the Bank and does not currently have any material funding commitments. 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 investments and operations are net income, deposits from its primary market area, principal and interest payments on loans, interest received on investment securities and proceeds from maturing investment securities. Its principal funding commitments are for the origination or purchase of loans 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 35% of Bank assets or the amount supportable by eligible collateral including FHLB stock, current residential first mortgage loans, and certain securities.

The Bank's most liquid assets are cash, cash equivalents, and interest-bearing deposits which are comprised of cash on hand, amounts due from financial institutions, and interest-bearing deposits. 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, cash equivalents, and interest-bearing deposits as of December 31, 2001, totaled \$8,371,597, an increase of \$1,750,466 (26.44%) from the December 31, 2000 total of \$6,621,131. This increase was primarily in interest-bearing

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deposits at other financial institutions which totaled \$7,678,158 at December 31, 2001 compared to \$5,975,314 at the end of 2000. Cash on hand increased to \$693,439 from \$645,817 at December 31, 2000.

The Company's principal sources of cash flows are its financing activities including deposits and borrowings and issuances of shares on the exercise of stock options or allocations of shares to participant accounts in the ESOP. During the year 2001, financing activities provided \$9.8 million in cash compared to \$21.6 million during 2000 and \$14.6 million during 1999. The decrease in cash flows from financing activities during the most recent period was principally due to a decrease in long and short-term borrowing activities. During 2001, net activity in short-term borrowing was a decline of \$11.7 million as compared to an increase of \$152 thousand in 2000. Net activity in long term borrowings, proceeds from borrowings minus principal payments provided a net of \$7.3 million in 2001 compared to \$10 million in 2000. These declines in cash flow from borrowing activities was partially offset by an increase in deposit funding growth. In the year ended 2000, net deposit growth was \$12.0 million, while in 2001 net deposit growth was \$15.3 million. The Company also receives cash from its operating activities which provided \$5.0 million in cash during 2001, compared to cash flows of \$4.1 million and \$4.4 million during 2000 and 1999, respectively. The increase in operating cash flows during 2001 was primarily due to higher sales of loans originated for resale.

The Company's principal use of cash has been in investing activities including its investments in loans for portfolio, investment securities and other assets. During the year ended December 31, 2001, the Company used a total of \$14.8 million in its investing activities compared to \$28.5 million in 2000 and \$16.5 million in 1999. The principal reason for the decline in cash used in investing activities was an increase in the excess of the proceeds of sales, redemptions, and principal reductions of investments over new purchases.

Federal banking regulations require the Company and the Bank to maintain specified levels of capital. At December 31, 2001 the Company was in compliance with these requirements with a leverage ratio of 9.8%, a Tier 1 risk-based capital ratio of 12.8% and total risk-based capital ratio of 14.1%. At December 31, 2001, the Bank met the criteria for designation as a well-capitalized depository institution under FRB regulations.

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with generally accepted 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable since the registrant is a small business issuer.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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The Company's financial statements and supplementary data appear in this Annual Report beginning on the page immediately following Item 14 hereof.

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained under the section captioned "Proposal I -- Election of Directors" in the Company's definitive proxy statement for the Company's 2002 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference.

The executive officers of the Company are as follows:

MICHAEL L. MIDDLETON (54 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 Masters 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. Since December 1995, Mr. Middleton has served on the Board of Directors of the Federal Home Loan Bank of Atlanta and also serves as its Board Representative to the Council of Federal Home Loan Banks.

C. MARIE BROWN (59 years old) has been employed with the Bank for over 27 years and has served as Chief Operating Officer since 1999. Prior to 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, of Zonta and serves on various administrative committees of the Hughesville Baptist Church and the board of the Charles County Chapter of the American Red Cross.

H. BEAMAN SMITH (56 years old) was the Treasurer of the Company in 1998 and became Secretary-Treasurer in January 1999 and has been the president of Accoware, a computer software company, since 1989. Prior to that time, Mr. Smith was a majority owner of the Smith's Family Honey Company in Bryans Road, Maryland. Mr. Smith is a Vice President of Fry Plumbing Company of Washington, D.C., a Trustee of the Ferguson Foundation, a member of the Bryans Road Sports Council and the Treasurer of the Mayaone Association.

GREGORY C. COCKERHAM (47 years old) joined the Bank in November 1988 and has served as Senior Vice President of Lending since 1996. Prior to his appointment as Senior Vice President, Mr. Cockerham served as Vice President of the Bank. Mr. Cockerham has been in banking for 22 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 (43 years old) joined the Bank as Chief Financial Officer in April 2000. Prior to joining the Bank, Mr. Pasenelli had been Chief Financial Officer of Acacia Federal Savings Bank, Annandale, Virginia, with which he had been employed 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.

ITEM 11. EXECUTIVE COMPENSATION

The information contained under the section captioned "Proposal I -- Election of Directors -- Executive Compensation" in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) SECURITY OWNERSHIP OF CERTAIN OWNERS

The information required by this item is incorporated herein by reference to the sections captioned "Proposal I -- Election of Directors" and "Voting Securities and Principal Holders Thereof" of the Proxy Statement.

(b) SECURITY OWNERSHIP OF MANAGEMENT

Information required by this item is incorporated herein by reference to the section captioned "Proposal I -- Election of Directors" of 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.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated herein by reference to the section captioned "Proposal I -- Election of Directors" and "Transactions with the Company and the Bank" of the Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) LIST OF DOCUMENTS FILED AS PART OF THIS REPORT

(1) Financial Statements. The following is a list of the consolidated financial statements which are being filed as part of this Annual Report on Form 10-K.

	Page ----
Independent Auditors' Report	F-1
Consolidated Balance Sheets as of December 31, 2001 and 2000	F-2
Consolidated Statements of Income for the Years Ended December 31, 2001, 2000 and 1999	F-3
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2001, 2000 and 1999	F-4
Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999	F-5

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Notes to Consolidated Financial Statements

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(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.

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(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.

3.1	Articles of Incorporation of Tri-County Financial Corporation*
3.2	Bylaws of Tri-County Financial Corporation
10.1 +	Tri-County Financial Corporation 1995 Stock Option and Incentive Plan, as amended **
10.2 +	Tri-County Financial Corporation 1995 Stock Option Plan for Non-Employee Directors, as amended ***
10.3 +	Employment Agreements with Michael L. Middleton, as amended, C. Marie Brown, as amended, and Gregory C. Cockerham ****
10.4 +	Guaranty Agreements with Michael L. Middleton, C. Marie Brown and Gregory C. Cockerham **
10.5 +	Executive Incentive Compensation Plan **
10.6 +	Employment Agreement with William J. Pasenelli **
10.7 +	Retirement Plan for Directors **
10.8 +	Split Dollar Agreements with Michael L. Middleton and C. Marie Brown **
10.9 +	Guaranty Agreement with William J. Pasenelli
10.10+	Split Dollar Agreement with William J. Pasenelli
21	Subsidiaries of the Registrant
23	Consent of Stegman & Company

+ Management contract or compensatory plan required to be filed as an exhibit pursuant to Item 14(c).

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

** Incorporated by reference to the Registrant's Form 10-K for the fiscal year ended December 31, 2000.

*** Incorporated by reference to the Registrant's Registration Statement on Form S-8 (File No. 333-70800).

**** Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998

(b) REPORTS ON FORM 8-K. No reports on Form 8-K have been filed during the -----
last quarter of the fiscal year covered by this report.

(c) 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.

(d) FINANCIAL STATEMENTS AND SCHEDULES EXCLUDED FROM ANNUAL REPORT. There -----
are no other financial statements and financial statement schedules which were excluded from the Annual Report pursuant to Rule 14a-3(b)(1) which are required to be included herein.

[LETTERHEAD OF STEGMAN & COMPANY]

Stockholders and Board of Directors
Tri-County Financial Corporation

We have audited the accompanying consolidated balance sheets of Tri-County Financial Corporation as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tri-County Financial Corporation as of December 31, 2001 and 2000, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ Stegman & Company

Baltimore, Maryland
March 6, 2002

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TRI-COUNTY FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2001 AND 2000

ASSETS

	2001	2000
	-----	-----
Cash and due from banks	\$ 693,439	\$ 645,817
Interest-bearing deposits with banks	7,678,158	5,975,314
Investment securities available for sale - at fair value	41,673,742	56,860,996
Investment securities held to maturity - at amortized cost	2,289,354	1,714,367
Stock in Federal Home Loan Bank and Federal Reserve Bank - at cost	3,035,550	3,035,550

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Loans held for sale	2,354,315	355,000
Loans receivable - net of allowance for loan losses of \$2,281,581 and \$1,929,531, respectively	193,450,011	172,090,088
Premises and equipment, net	5,432,848	4,495,431
Foreclosed real estate	1,800,569	176,626
Accrued interest receivable	1,049,401	1,353,658
Other assets	2,499,903	1,636,609
	-----	-----
TOTAL ASSETS	\$ 261,957,290	\$ 248,339,456
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:

Noninterest-bearing deposits	\$ 17,738,165	\$ 12,537,649
Interest-bearing deposits	165,378,369	155,268,350
	-----	-----
Total deposits	183,116,534	167,805,999
Short-term borrowings	1,813,317	13,550,903
Long-term debt	48,650,000	41,400,000
Accrued expenses and other liabilities	2,790,981	2,152,732
	-----	-----
Total liabilities	236,370,832	224,909,634
	-----	-----

STOCKHOLDERS' EQUITY:

Common stock - par value \$.01; authorized - 15,000,000 shares; issued 756,805 and 777,680 shares, respectively	7,568	7,777
Surplus	7,545,590	7,500,865
Retained earnings	17,678,367	16,175,708
Accumulated other comprehensive income	555,513	(114,929)
Unearned ESOP shares	(200,580)	(139,599)
	-----	-----
Total stockholders' equity	25,586,458	23,429,822
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 261,957,290	\$ 248,339,456
	=====	=====

See notes to consolidated financial statements

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TRI-COUNTY FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

	2001	2000
	----	----
INTEREST INCOME:		
Interest and fees on loans	\$15,223,463	\$13,950,2
Taxable interest and dividends on investment securities	3,215,164	4,237,3
Interest on bank deposits	76,049	102,0
	-----	-----
Total interest income	18,514,676	18,289,5

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INTEREST EXPENSE:		
Interest on deposits	5,935,478	6,314,8
Interest on short term borrowings	259,558	1,418,1
Interest on long term debt	2,562,775	1,694,4
Total interest expenses	8,757,811	9,427,4
NET INTEREST INCOME	9,756,865	8,862,0
PROVISION FOR LOAN LOSSES	360,000	360,0
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,396,865	8,502,0
NONINTEREST INCOME:		
Loan appraisal, credit, and miscellaneous charges	226,641	76,3
Net gain on sale of loans held for sale	187,304	85,7
Net gain (loss) on sales of investment securities	-	184,7
Service charges	953,496	996,8
Other	34,079	29,3
Total noninterest income	1,401,520	1,372,9
NONINTEREST EXPENSE:		
Salary and employee benefits	3,821,330	3,643,8
Occupancy expense	689,575	615,8
ATM and deposit expenses	254,176	340,5
Advertising	301,975	246,6
Data processing expense	291,399	255,7
Depreciation of furniture, fixtures, and equipment	263,535	241,7
Other expenses	1,372,510	987,5
Total noninterest expenses	6,994,500	6,331,8
INCOME BEFORE INCOME TAXES	3,803,885	3,543,1
Income tax expense	1,318,350	1,207,0
NET INCOME	\$ 2,485,535	\$ 2,336,1
INCOME PER COMMON SHARE		
Basic	\$3.24	\$2.
Diluted	3.11	2.

See notes to consolidated financial statements

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TRI-COUNTY FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

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	Common Stock	Paid-in Capital	Retained Earnings	lated Other Compre- hensive Income (Loss)	Unearned ESOP Shares
	-----	-----	-----	-----	-----
BALANCES, JANUARY 1, 1999	\$ 7,893	\$7,309,901	\$13,215,770	\$ 648,614	\$(206,883)
Comprehensive income:					
Net Income	-	-	2,153,490	-	-
Unrealized gains on investment securities net of tax of \$770,187				(1,367,112)	
Total comprehensive income					
Cash dividend \$0.20 per share	-	-	(157,034)	-	-
Excess of fair market value over cost of leveraged ESOP shares released	-	11,401	-	-	-
Exercise of stock options	222	125,938	-	-	-
Repurchase of common stock	(248)	-	(656,902)	-	-
Net change in unearned ESOP shares	15	-	-	-	30,318
	-----	-----	-----	-----	-----
BALANCES, DECEMBER 31, 1999	\$ 7,882	\$7,447,240	\$14,555,324	\$ (718,498)	\$(176,565)
Comprehensive income:					
Net Income	-	-	2,336,196	-	-
Unrealized gains on investment securities net of tax of \$310,083	-	-	-	603,569	-
Total comprehensive income					
Cash dividend \$0.30 per share	-	-	(236,595)	-	-
Excess of fair market value over cost of leveraged ESOP shares released	-	12,964	-	-	-
Exercise of stock options	50	40,661	-	-	-
Repurchase of common stock	(173)	-	(479,217)	-	-
Net change in unearned ESOP shares	18	-	-	-	36,966
	-----	-----	-----	-----	-----
BALANCES, DECEMBER 31, 2000	\$ 7,777	\$7,500,865	\$16,175,708	\$ (114,929)	\$(139,599)
Comprehensive income:					
Net Income	-	-	2,485,535	-	-
Unrealized gains on investment securities net of tax of \$343,599	-	-	-	670,442	-
Total comprehensive income					
Cash dividend \$0.40 per share	-	-	(309,204)	-	-
Excess of fair market value over cost of leveraged ESOP shares released	-	12,964	-	-	-
Exercise of stock options	56	31,761	-	-	-
Repurchase of common stock	(248)	-	(673,672)	-	-
Net change in unearned ESOP shares	(17)	-	-	-	(60,981)
	-----	-----	-----	-----	-----
BALANCES, DECEMBER 31, 2001	\$ 7,568	\$7,545,590	\$17,678,368	\$ 555,513	\$(200,580)
	=====	=====	=====	=====	=====

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TRI-COUNTY FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

2001

2000

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	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,485,535	\$ 2,336,196
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	360,000	360,000
Depreciation and amortization	396,400	348,110
Net amortization of premium/discount on mortgage backed securities and investments	66,146	(86,909)
Deferred income tax benefit	(205,000)	(118,000)
Decrease (increase) in accrued interest receivable	304,257	(207,138)
Decrease in deferred loan fees	(18,131)	(31,732)
Increase in accrued expenses and other liabilities	638,249	911,013
Decrease (increase) in other assets	(1,006,157)	323,234
Loss (gain) on disposal of premises and equipment	(8,386)	-
(Gain) loss on sale of investment securities	-	(184,704)
Origination of loans held for sale	(9,752,097)	(1,966,774)
Proceeds from sale of loans held for sale	11,938,716	2,470,589
Gain on sales of loans held for sale	(187,304)	(85,716)
	-----	-----
Net cash provided by operating activities	5,012,228	4,068,169
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase (decrease) in interest-bearing deposits with banks	(1,702,844)	(2,912,035)
Purchase of investment securities available for sale	(29,410,447)	(18,235,337)
Proceeds from sale, redemption or principal payments of investment securities available for sale	45,549,859	19,212,629
Purchase of investment securities held to maturity	(1,345,703)	(893,649)
Proceeds from maturities or principal payments of investment securities held to maturity	770,717	1,128,333
Net purchase of FHLB and Federal Reserve stock	-	(747,850)
Loans originated or acquired	(96,149,353)	(70,415,720)
Principal collected on loans	70,448,931	44,707,731
Purchase of premises and equipment	(1,334,396)	(327,155)
Proceeds from disposal of premises and equipment	8,963	-
Acquisition of foreclosed real estate	(1,623,943)	-
	-----	-----
Net cash used in investing activities	(14,788,216)	(28,483,053)
	-----	-----

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TRI-COUNTY FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

	2001	2000
	----	----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	\$ 15,310,535	\$ 12,064,199
Net (decrease) increase in short-term borrowings	(11,737,586)	152,520
Dividends paid	(309,204)	(236,590)
Exercise of stock options	31,817	40,710
Net change in unearned ESOP shares	(48,033)	49,940
Repurchase of common stock	(673,920)	(479,390)
Proceeds from long-term borrowings	12,250,000	30,000,000
Payments of long-term borrowings	(5,000,000)	(20,000,000)

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Net cash provided by financing activities	9,823,609	21,591,39
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	47,622	(2,823,48
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	645,817	3,469,30
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 693,439	\$ 645,81
Supplementary cash flow information:		
Cash paid during the year for:		
Interest	\$ 9,015,483	\$ 8,737,74
Income taxes	1,431,000	925,00
Noncash transfer from loans to foreclosed real estate	1,276,070	

See notes to consolidated financial statements.

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TRI-COUNTY FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of Tri-County Financial Corporation and its wholly owned subsidiary, Community Bank of Tri-County (the "Bank") 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 2001.

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, and the valuation of foreclosed real estate and deferred tax assets.

Nature of Operations

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The Company, through its bank subsidiary, conducts full service commercial banking operations throughout the Southern Maryland area. Its primary financial deposit products are savings, transaction, and term certificate accounts. Its primary lending products are mortgage loans on residential, construction and commercial real estate and various types of consumer and commercial lending.

Significant Group Concentrations of Credit

Most of the Company's activities take place in the Southern Maryland area comprising St. Mary's, Charles, and Calvert counties. Note 2 discusses the types of securities the Company invests in. Note 3 discusses the type of lending that the Company engages in. The Company does not have any significant concentration to any one customer or industry.

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Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities when purchased of three months or less to be cash equivalents. These instruments are presented as cash and due from banks.

Investment Securities

Investment securities that are held principally for resale in the near term are classified as trading assets and are recorded at fair value with changes in fair value recorded in earnings. The Company had no trading assets during the periods presented. 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 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 fair value, with unrealized gains and losses excluded from earnings and reported net of deferred taxes in other comprehensive income, a separate component of stockholders' equity.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sales of securities are recorded on the trade date and are determined using the specific identification method.

The Company invests in Federal Home Loan Bank and Federal Reserve Bank stock which are considered restricted as to marketability.

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.

Loans Receivable

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The Company grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by 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 generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

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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 120 days past due. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected from loans that are placed on nonaccrual 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 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 collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance for loan loss consists of an allocated component and an unallocated component. The components of allowance for loan losses represent an estimation done pursuant to either SFAS No. 5 "Accounting for Contingencies", or SFAS No. 114 "Accounting by Creditors for Impairment of a Loan". The allocated component of the allowance for loan losses reflects expected losses resulting from analysis developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on a regular analysis of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The historical loan loss element is determined statistically using a loss migration analysis that examines loss experience and the related internal gradings of loans charged-off. The loss migration analysis is performed quarterly and loss factors are updated regularly based on actual

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experience. The allocated component of the allowance for loan losses also includes management's determination of the amounts necessary for concentrations and changes in portfolio mix and volume.

The unallocated portion of the allowance is determined based on management's assessment of general economic conditions, as well as specific economic factors in the individual markets in which the Company operates. This determination inherently involves a higher risk of uncertainty and considers current risk factors that may not have yet manifested themselves in the Company's historical loss factors used to determine the allocated component of the allowance and it recognizes knowledge of the portfolio may be incomplete.

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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 are reviewed 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.

Mortgage Servicing Assets

Mortgage servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of mortgages or mortgage servicing rights. 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 fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, when available, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Premises and Equipment

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

Buildings and improvements	15 - 50 years
Furniture and equipment	3 - 15 years
Automobiles	5 years

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Foreclosed Real Estate

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at 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 fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in noninterest expense.

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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.

Earnings Per 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 potential dilutive common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options, and are determined using the treasury stock method.

Stock-Based Compensation

Stock based compensation is recognized using the intrinsic value method. For disclosure purposes, pro forma net income and earnings per share effects are provided as if the fair value method had been applied.

New Accounting Standards

In July 2001, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin ("SAB") No. 102, Selected Loan Loss Allowance Methodology and Documentation Issues. SAB 102 summarizes certain SEC views on the development, documentation, and application of a systematic methodology as required by Financial Reporting Release No. 28 for determining allowances for loan and lease losses in accordance with accounting principles generally accepted in the United States. In particular, the guidance focuses on the documentation the staff normally would expect registrants to prepare and maintain in support of their allowances for loan losses.

SAB 102 provides parallel guidance to the federal banking agencies guidance issued through the Federal Financial Institutions Examination Council as interagency guidance, "Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions". The adoption of SAB 102 had no effect on the financial position or results of operations of the Company.

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In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no

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longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. The provisions of SFAS Nos. 141 and 142 are effective for years beginning after July 1, 2001 and January 1, 2002, respectively. The adoption of SFAS No. 141 and 142 did not affect the financial position or results of operations of the Company.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which supersedes both SFAS No. 121, Accounting for the Impairment of Long-Lived Assets to be Disposed Of and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions (Opinion 30), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses in long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. The provisions of SFAS No. 144 are effective for years beginning after December 15, 2001. The adoption of SFAS No. 144 is not expected to affect the financial position or results of operations of the Company.

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2. INVESTMENT SECURITIES

The amortized cost and estimated fair values of securities with gross unrealized losses and gains are:

	December 31, 2001		
	Amortized Cost ----	Gross Unrealized Gains -----	Gross Unrealized Losses -----
Securities available for sale			
Mutual Funds	\$ 5,868,115	\$ -	\$ -
Government Sposored Enterprises (GSE's)	-	-	-
Asset-backed securities issued by:			
GSE's	25,603,305	564,133	82,494
Other	8,846,200	147,777	516
	-----	-----	-----

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Total debt securities available for sale	40,317,620	711,910	83,010
Corporate equity securities	509,010	218,212	-
	-----	-----	-----
Total securities available for sale	\$40,826,630	\$ 930,122	\$ 83,010
	=====	=====	=====
Securities held-to-maturity			
U.S. government obligations	\$ 300,000	\$ -	\$ 500
Other investments	1,989,354	-	-
	-----	-----	-----
Total securities held-to-maturity	\$ 2,289,354	\$ -	\$ 500
	=====	=====	=====

	December 31, 2000		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
	-----	-----	-----
Securities available for sale			
Mutual Funds	\$ 753,116	\$ -	\$ -
Government Sposored Enterprises (GSE's)	8,000,000	-	88,397
Asset-backed securities issued by:			
GSE's	30,894,088	139,721	456,854
Other	16,890,571	32,527	68,100
	-----	-----	-----
Total debt securities available for sale	56,537,775	172,248	613,351
Corporate equity securities	509,010	255,314	-
	-----	-----	-----
Total securities available for sale	\$57,046,785	\$ 427,562	\$ 613,351
	=====	=====	=====
Securities held-to-maturity			
U.S. government obligations	\$ 200,000	\$ -	\$ -
Other investments	1,514,367	-	-
	-----	-----	-----
Total securities held-to-maturity	\$ 1,714,367	\$ -	\$ -
	=====	=====	=====

At December 31, 2001 and 2000, U.S. Government obligations with a carrying value of \$300,000 and \$200,000, respectively, were pledged to secure public unit deposits and for other purposes required or permitted by law. In addition, at December 31, 2001 and 2000, certain other securities with a carrying value of \$3,413,300 and \$4,644,600 were pledged to secure certain deposits. At December 31, 2001, securities with a carrying value of \$34,738,000 were pledged as collateral for advances from the Federal Home Loan Bank of Atlanta.

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The scheduled maturities of securities at December 31, 2001 are as follows:

Available for Sale	
Amortized Cost	Fair Value
-----	-----

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Within one year	\$ 5,868,115	\$ 5,868,115	\$
Over one year through five years	-	-	
Over five years through ten years	-	-	
	-----	-----	
	5,868,115	5,868,115	
Mortgage-backed securities	34,449,505	35,078,405	
	-----	-----	
	\$40,317,620	\$40,946,520	\$
	=====	=====	

Proceeds from the sales of investment securities available for sale during 2001, 2000, and 1999 were \$0, \$186,900, and \$200,000, respectively. Gross gains in the years ending December 31, 2001, 2000, and 1999 were \$0, \$184,704, and \$0, respectively. Gross losses for the years ending December 31, 2001, 2000, and 1999 were \$-0-, \$0, and \$605, respectively.

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. In certain cases, the Bank will purchase securities of a single private issuer, defined as an issuer which is not a government or government sponsored entity, in total amounts in excess of 10% of stockholders' equity. The Bank only does so when satisfied that such concentrations pose no threat to the Bank's safety or soundness. The following summarizes securities positions and the quality of private issuers where those positions were in excess of 10% of stockholders' equity as of December 31, 2001 and 2000:

	2001		2000
	Carrying Value	Moody's Rating	Carrying Value
	-----	-----	-----
Country Wide Home Loans	\$ 2,043,415	AAA	\$3,874,885
GE Capital Mortgage Services	4,570,638	AAA	5,733,391
	-----		-----
	\$ 6,614,053		\$9,608,276
	=====		=====

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3. LOANS RECEIVABLE

Loans receivable at December 31, 2001 and 2000 consist of the following:

	2001	2000
	----	----
Commercial real estate	\$ 65,616,917	\$ 42,226,137
Residential real estate	61,429,647	67,975,177
Residential construction	18,136,008	17,301,263
Second mortgage loans	18,580,099	18,637,062
Lines of credit - commercial	18,539,209	15,046,074
Consumer loans	14,187,608	13,609,934
	-----	-----

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	196,489,488	174,795,647
	-----	-----
Less:		
Deferred loan fees	757,896	776,028
Allowance for loan losses	2,281,581	1,929,531
	-----	-----
	3,039,477	2,705,559
	-----	-----
	\$193,450,011	\$172,090,088
	=====	=====

The following table sets forth the activity in the allowance for loan losses:

	2001	2000	1999
	----	----	----
Balance January 1,	\$1,929,531	\$1,653,290	\$1,540,000
Add:			
Provision charged to operations	360,000	360,000	240,000
Recoveries	31,417	12,034	10,000
Less:			
Charge-offs	39,367	95,793	130,000
	-----	-----	-----
Balance, December 31	\$2,281,581	\$1,929,531	\$1,653,290
	=====	=====	=====

No loans included within the scope of SFAS No. 114 were identified as being impaired at December 31, 2001 or 2000 and for the years then ended.

Loans on which the recognition of interest has been discontinued, which were not included within the scope of SFAS No. 114, amounted to approximately \$280,000, \$7,000, and \$218,000 at

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December 31, 2001, 2000, and 1999, respectively. If interest income had been recognized on nonaccrual loans at their stated rates during 2001, 2000, and 1999, interest income would have been increased by approximately \$10,480, \$913, and \$27,000, respectively. No income was recognized for these loans in 2001, 2000 and 1999.

Included in loans receivable at December 31, 2001 and 2000, is \$1,223,840 and \$536,005 due from officers and directors of the Bank. Activity in loans outstanding to officers and directors is summarized as follows:

	2001	2000
	----	----
Balance, beginning of year	\$ 536,005	\$1,370,000
Changes due to retirement or addition of directors net	-	(91,000)
New loans made during year	1,150,460	130,000
Repayments made during year	(462,625)	(50,000)

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Balance, end of year	----- \$ 1,223,840 =====	----- \$ 53 =====
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4. LOAN SERVICING

Loans serviced for others and not reflected in the balance sheets are \$68,287,344 and \$64,754,825 at December 31, 2001 and 2000, 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. Mortgage servicing rights capitalized during 2001, 2000, and 1999 totaled \$182,119, \$45,365, and \$142,201, respectively.

Amortization of mortgage servicing rights totaled \$144,000, \$144,000, and \$103,097, respectively. Net servicing rights assets totaled \$525,075, \$486,956, and \$585,591 at December 31, 2001, 2000, and 1999, respectively.

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5. PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31, 2001 and 2000 is as follows:

	2001 ----	2000 ----
Land	\$1,731,941	\$ 1,533,412
Building and improvements	3,642,101	3,011,967
Furniture and equipment	2,824,015	2,318,860
Automobiles	103,144	103,144
	-----	-----
Total cost	8,301,201	6,967,383
Less accumulated depreciation	2,868,353	2,471,952
	-----	-----
Premises and equipment, net	\$5,432,848 =====	\$ 4,495,431 =====

Certain bank facilities are leased under various operating leases. Rent expense was \$242,387, \$168,921, and \$175,949 in 2001, 2000 and 1999, respectively. Future minimum rental commitments under noncancellable operating leases are as follows:

2002	\$218,902
2003	196,853
2004	196,404
2005	195,955
2006	195,506
Thereafter	507,000 -----

Total	\$1,510,620 =====
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6. DEPOSITS

Deposits outstanding at December 31 consist of:

	2001 ----	2000 ----
Noninterest-bearing demand	\$ 17,738,165	\$ 12,537,649
Interest-bearing:		
Demand	20,842,088	20,551,420
Money market deposits	53,807,885	44,965,316
Savings	20,367,634	18,552,577
Certificates of deposit	70,360,762	71,199,037
	-----	-----
Total interest-bearing	165,378,369	155,268,350
	-----	-----
Total deposits	\$183,116,534	\$167,805,999
	=====	=====

The aggregate amount of time deposits in denominations of \$100,000 or more at December 31, 2001 and 2000 were \$17,018,000 and \$14,857,000, respectively.

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At December 31, 2001, the scheduled maturities of time deposits are as follows:

2002	\$42,857,583
2003	16,056,571
2004	7,259,541
2005	1,827,744
2006	2,359,323

	\$70,360,762
	=====

7. LONG-TERM DEBT AND OTHER BORROWINGS

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, adjustable rate, and convertible advances. The Bank's fixed rate, non-convertible, long-term debt of \$8,250,000 at December 31, 2001 matures through 2006. The interest rates on fixed rate, non-convertible, long-term debt ranged from 1.125% to 5.43% at December 31, 2001 and 6.25% at December 31, 2000. At December 31, 2001 and 2000, the weighted average interest rates on fixed rate, non-convertible, long-term debt were 5.14% and 6.25%, respectively.

The Bank's fixed rate, convertible, long-term debt of \$35,000,000 at December 31, 2000 matures through 2011. This debt is callable by the issuer, after an initial period ranging from six months to five years. These advances become callable on dates ranging from 2002 to 2005. 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). At December 31, 2001 and 2000 the interest rates on this debt ranged from 4.62% to 6.25% and 4.67% to 6.25%, respectively. At December 31, 2001 and

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2000 the weighted average interest rates on fixed rate, convertible, long-term debt were 5.42% and 5.63%, respectively.

The Bank's adjustable rate, long-term debt at December 31, 2000 matures in 2002. This debt adjusts quarterly based upon a margin over the three month London Interbank Offer Rate ("LIBOR"). Margins range from 29 to 31 basis points. The debt has minimum interest rates ranging from 5.31% to 5.79%. The debt has maximum rates ranging from 7.50% to 7.81%. At December 31, 2001 and 2000, the interest rates on adjustable rate, long-term debt ranged from 5.31% to 5.79% and 6.94% to 6.96%, respectively. At December 31, 2001 and 2000, the weighted average rate on adjustable rate, long-term debt was 5.69% and 6.94%, respectively.

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The contractual maturities of long-term debt are as follows:

	December 31, 2001				2000
	Fixed Rate	Adjustable Rate	Fixed Rate Convertible	Total	Total
Due in 2002	\$ 1,000,000	\$ 6,400,000	\$ -	\$ 7,400,000	\$ 11,400,000
Due in 2003	88,000		10,000,000	10,088,000	
Due in 2004	88,000			88,000	5,000,000
Due in 2005	74,000			74,000	10,000,000
Due in 2006	7,000,000			7,000,000	
Thereafter	-	-	25,000,000	25,000,000	15,000,000
	\$ 8,250,000	\$ 6,400,000	\$ 35,000,000	\$ 49,650,000	\$ 41,400,000

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 reprice daily. These advances totaled \$1,000,000 and \$12,975,000 at December 31, 2001 and 2000, respectively. Average rates at December 31, 2001 and 2000 on this short-term debt were 1.83% and 6.35%, respectively.

Under the terms of an Agreement for Advances and Security Agreement with Blanket Floating Lien (the "Agreement"), the Company maintains eligible collateral consisting of 1 - 4 unit residential first mortgage loans, discounted at 75% of the unpaid principal balance, equal to 100% at December 31, 2000, of its total outstanding long and short term Federal Home Loan Bank advances. This amount was \$65,169,000 at December 31, 2000. At December 31, 2000, the Bank also pledged its Federal Home Loan Bank stock of \$2,961,300 and has securities with a carrying value of \$50,646,000 eligible as collateral for these advances.

During 2001, the Bank entered into an addendum to the Agreement that expanded the types of eligible collateral under the Agreement to include certain commercial real estate 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. At December 31, 2001, the Bank had eligible collateral in its commercial real estate and residential portfolios to borrow up to approximately \$78,000,000 from the Federal Home Loan

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Bank. In addition the Bank has pledged its Federal Home Loan Bank stock of \$2,961,300 and securities with a carrying value of \$34,738,000 as additional collateral for its advances.

Other short-term debt consists of 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, 2001 and 2000, such borrowings were \$813,317 and \$575,903, 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 \$786,700 and \$912,535 at December 31, 2001 and 2000, respectively.

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8. INCOME TAXES

Income tax was as follows:

	2001 ----	2000 ----	1999 ----
Current			
Federal	\$1,409,350	\$ 1,307,000	\$ 973,000
State	114,000	18,000	109,000
	-----	-----	-----
	1,523,350	1,325,000	1,082,000
	-----	-----	-----
Deferred			
Federal	(168,000)	(97,000)	(56,000)
State	(37,000)	(21,000)	(12,000)
	-----	-----	-----
	(205,000)	(118,000)	(68,000)
	-----	-----	-----
Total Income Tax Expense	\$1,318,350	\$ 1,207,000	\$1,014,000
	=====	=====	=====

Total income tax expense differed from the amounts computed by applying the federal income tax rate of 34% to income before income taxes as a result of the following:

	2001 -----		2000 -----		
	Amount	Percent of Pre Tax Income	Amount	Percent of Pre Tax Income	Amount
	-----	-----	-----	-----	-----
Expected income tax expense at federal tax rate	\$1,293,321	34.0%	\$1,205,000	34.0%	\$1,077,000
State taxes net of federal benefit	77,000	2.0%	-	0.0%	62,000
Nondeductible expenses	5,233	0.1%	14,000	0.4%	14,000
Deduction for stock options exercised	-	0.0%	-	0.0%	(90,000)
Other	(57,204)	-1.4%	(12,000)	-0.3%	(49,000)
	-----	-----	-----	-----	-----
	\$1,318,350	34.7%	\$1,207,000	34.1%	\$1,014,000
	=====	=====	=====	=====	=====

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

	2001	2000
	----	----
Deferred tax assets:		
Deferred fees	\$ 44,566	\$ 48,073
Allowance for loan losses	768,525	577,486
Deferred compensation	102,568	83,510
Unrealized loss on investment securities available for sale	-	52,000
	-----	-----
	915,659	761,069
	-----	-----
Deferred tax liabilities:		
FHLB stock dividends	153,866	152,896
Depreciation	98,328	97,708
Unrealized gain on investment securities available for sale	291,599	-
	-----	-----
	543,793	250,604
	-----	-----
	\$371,866	\$510,465
	=====	=====

Retained earnings at December 31, 2001, include 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 \$458,000 at December 31, 2001.

Prior to January 1, 1996, the Bank computed its tax bad debt deduction based upon the percentage of taxable income method as defined by the Internal Revenue Code. The bad debt deduction allowable under this method equaled 8% of taxable income determined without regard to the bad debt deduction and with certain adjustments. The tax bad debt deduction differed from the bad debt expense used for financial accounting purposes.

In August 1996, the Small Business Job Protection Act (the "Act") repealed the percentage of taxable income method of accounting for bad debts effective for years beginning after December 31, 1995. The Act required the Bank to change its method of computing reserves for bad debts to the experience method. This method is available to banks with assets less than \$500 million and allows the Bank to maintain a tax reserve for bad debts and to take bad debt deductions for reasonable additions to the reserve. As a result of this change, the Bank has to recapture into income a portion of its existing tax bad debt reserve. This recapture occurs ratably over a six-taxable year period, beginning with the 1998 tax year. For financial reporting purposes, this recapture does not result in additional tax expense as the Bank adequately provided deferred taxes in prior years. Furthermore, this change does not require the Bank to recapture its base year tax reserve.

9. 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 borrowers. 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 in 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, 2001 and 2000, in addition to the undisbursed portion of loans receivable of approximately \$6,031,000 and \$5,032,000, respectively, the Bank had outstanding loan commitments approximating \$1,926,500 and \$995,000, 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 \$5,698,000 and \$6,256,000 at December 31, 2001 and 2000, respectively. In addition to the commitments noted above, customers had approximately \$10,123,000 and \$9,891,000 available under lines of credit at December 31, 2001 and 2002, respectively.

10. STOCK OPTION AND INCENTIVE PLAN

The Company has a stock option and incentive plan to attract and retain personnel and provide incentive to employees to promote the success of the business. At December 31, 2001, 61,081 shares of stock have been authorized and are available for grants of options under this plan. The exercise price for options granted is set at the discretion of the Board, 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 generally vest immediately upon issuance.

The Company applies APB Opinion 25 and related Interpretations in accounting for the stock option plan. Accordingly, no compensation cost has been recognized. Had compensation cost for the Company's stock option plan been determined based upon fair values at the grant dates for awards under the plan consistent with the method prescribed by SFAS No. 123, the Company's net income and earnings per share would have been adjusted to the pro forma amounts indicated below:

		2001 ----	2000 ----	1999 ----
Net Income	As reported	\$ 2,485,535	\$ 2,336,119	\$ 2,153,490
	Pro forma	2,259,284	2,270,079	1,990,645
Basic Earnings Per Share	As reported	3.24	2.98	2.75
	Pro forma	2.95	2.89	2.54

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Diluted Earnings Per Share	As reported	3.11	2.85	2.59
	Pro forma	2.83	2.76	2.39

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For the purpose of computing the pro forma amounts indicated above, the fair value of each option on the date of grant is estimated using the Black-Scholes option pricing model with the following weighted-average assumptions used for the grants:

	2001 ----	2000 ----	1999 ----
Dividend Yield	1.30%	0.75%	0.75%
Expected volatility	15.00%	15.00%	15.00%
Risk - free interest rate	4.91%	5.85%	5.72%
Expected lives (in years)	10	10	10
Weighted average fair value	\$11.06	\$12.28	\$11.51

The following tables summarize activity in the plan:

	2001 -----		2000 -----		1999 -----	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	W A E
	-----	-----	-----	-----	-----	-----
Outstanding at beginning of year	91,036	\$16.89	91,184	\$12.61	101,818	\$
Granted	20,448	26.57	9,179	26.66	14,143	
Exercised	(7,105)	10.28	(7,790)	14.61	(24,369)	
Forfeitures	(4,700)	24.41	(1,537)	25.25	(408)	
	-----	-----	-----	-----	-----	-----
Outstanding at end of year	99,679	\$18.99	91,036	\$16.89	91,184	\$
	=====	=====	=====	=====	=====	=====

Options Outstanding		Options Exercisable	
Number Outstanding 12/31/01	Weighted Remaining Contractual Life	Number Exercisable 12/31/01	
-----	-----	-----	-----
43,174	4 years	43,174	
775	6 years	775	
21,628	7 years	21,628	
8,051	8 years	8,051	
9,029	9 years	9,029	
17,022	10 years	17,022	

11. EMPLOYEE BENEFIT PLANS

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The Bank has an Employee Stock Ownership Plan (ESOP) which covers substantially all of the Bank's employees. The ESOP acquires stock of the Bank's parent corporation, 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

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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. The ESOP may acquire in the open market up to 195,700 shares. At December 31, 2001, the Plan owns 53,731 shares.

The Company also has a 401(k) plan. The Bank matches a portion of the employee contributions. This ratio is determined annually by the Board of Directors. Currently one-half of an employee's first 6% deferral is matched. All employees who have completed one year of service and have reached the age of 21 are covered under this defined contribution plan. Contributions are determined at the discretion of management and the Board of Directors. For the years ended December 31, 2001, 2000, and 1999, the Company charged \$93,000, \$90,000, and \$342,000, against earnings to fund the Plans.

12. DIVIDENDS

On January 22, 2002, the Board of Directors declared a \$.50 per share cash dividend to be paid on April 8, 2002 to holders of record as of March 25, 2002. On January 31, 2001, the Board of Directors declared a \$.40 per share cash dividend which was distributed on April 9, 2001 to holders of record as of March 26, 2001. On February 3, 2000, the Board of Directors declared a \$.30 per share cash dividend which was distributed April 14, 2000 to holders of record as of March 14, 2000.

13. 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 and the Bank'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, 2001, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2001, 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,

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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.

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The Company's and the Bank's actual capital amounts and ratios for 2001 and 2000 are presented in the tables below: (dollar amounts in thousands)

	Actual		Required for Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
At December 31, 2001:				
Total capital (to risk-weighted assets):				
The Company	\$27,314	14.08%	\$15,511	8.0%
The Bank	25,799	13.26%	15,570	8.0%
Tier 1 capital (to risk-weighted assets):				
The Company	24,841	12.81%	7,756	4.0%
The Bank	23,517	12.08%	7,785	4.0%
Tier 1 capital (to average assets):				
The Company	24,841	9.64%	10,311	4.0%
The Bank	23,517	9.46%	9,944	4.0%
At December 31, 2000:				
Total capital (to risk-weighted assets):				
The Company	25,475	13.53%	\$15,069	8.0%
The Bank	25,227	13.40%	15,069	8.0%
Tier 1 capital (to risk-weighted assets):				
The Company	23,545	12.50%	7,535	4.0%
The Bank	23,182	12.31%	7,535	4.0%
Tier 1 capital (to average assets):				
The Company	23,545	9.61%	9,803	4.0%
The Bank	23,182	9.46%	9,803	4.0%

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14. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are as

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follows:

	2001	2000	1999
	-----	-----	-----
Basic earnings per share			
Net income	\$2,485,535	\$2,336,196	\$2,153,490
Average common shares outstanding	766,927	784,605	782,950
Net income per common share - basic	\$ 3.24	\$ 2.98	\$ 2.75
Diluted earnings per share			
Net income	\$2,485,535	\$2,336,196	\$2,153,490
Average common shares outstanding	766,927	784,605	782,950
Stock option adjustment	31,860	36,534	49,333
Average common shares outstanding - diluted	798,787	821,139	832,283
Net income per common share - diluted	\$ 3.11	\$ 2.85	\$ 2.59

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 necessarily required to interpret market data to develop the estimates of fairvalue. 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.

	December 31, 2001		December 31, 2000	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	-----	-----	-----	-----
Assets:				
Cash and cash equivalents	\$ 693,439	\$ 693,439	\$ 645,817	\$ 645,817
Interest bearing deposits with banks	7,678,158	7,678,158	5,975,314	5,975,314
Investment securities and stock in FHLB and FRB	46,998,646	46,998,146	61,610,913	61,610,913
Loans receivable, net	193,450,011	199,325,377	174,795,647	174,795,647
Loans held for sale	2,354,315	2,354,315	355,000	355,000
Liabilities:				
Savings, NOW, and money market accounts	112,755,772	112,755,862	96,251,723	96,251,723
Time certificates	70,360,762	71,827,020	71,199,037	71,199,037
Long-term debt and other borrowed funds	50,463,317	52,340,500	54,950,903	54,950,903

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At December 31, 2001 and 2000, the Company had outstanding loan commitments and standby letters of credit of \$7.6 million and \$7.3 million, respectively. Based on the short-term lives of these instruments, the Company

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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.

Mortgage-Backed 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 and Loans Held for Sale - 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.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2001 and 2000. 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.

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16. CONDENSED FINANCIAL STATEMENTS - PARENT COMPANY ONLY

Financial information pertaining only to Tri-County Financial Corporation is as follows:

Balance Sheets:

ASSETS

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	2001 ----	2000 ----
Cash - noninterest-bearing	\$ 25,000	\$ 204,937
Cash - interest-bearing	925,521	280,000
Other assets	691,208	79,645
Investment securities available for sale	111,582	34,679
Investment in wholly owned subsidiary	24,073,273	23,067,087
	-----	-----
TOTAL ASSETS	\$25,826,584	\$23,666,348
	=====	=====
Current liabilities	\$ 240,126	\$ 236,526
Stockholders' equity		
Common stock	7,568	7,777
Surplus	7,545,590	7,500,865
Retained earnings	17,678,367	16,175,708
Unearned ESOP shares	(200,580)	(139,599)
Accumulated other comprehensive income	555,513	(114,929)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$25,826,584	\$23,666,348
	=====	=====

Condensed Statements of Income:

	Year Ended December 31,		
	2001 ----	2000 ----	1999 ----
Dividends from subsidiary	\$2,250,000	\$ 500,000	\$1,000,000
Interest income	26,929	27,510	42,675
Loss on sale of investment securities	-	-	(605)
Miscellaneous expenses	(167,787)	(90,391)	(97,844)
	-----	-----	-----
Income before income taxes and equity in undistributed net income of subsidiary	2,109,142	437,119	944,226
Federal and state income tax benefit	40,650	-	21,000
Equity in undistributed net income of subsidiary	335,743	1,899,077	1,188,264
	-----	-----	-----
NET INCOME	\$2,485,535	\$2,336,196	\$2,153,490
	=====	=====	=====

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Condensed Statements Cash Flows:

	2001 ----	2000 ----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,485,535	\$ 2,336,196
Adjustments to reconcile net income to net cash provided by operating activities:		

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Equity in undistributed earnings of subsidiary	(335,743)	(1,899,077)
Loss on sale of investment securities	-	-
Increase in current assets	(611,564)	(39,398)
Increase in current liabilities	3,600	-
Net cash provided by operating activities	1,541,828	397,721
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (increase) decrease in interest-bearing deposits	(645,521)	439,068
Purchase of investment securities available for sale	(76,903)	(6,677)
Maturity or redemption of investment securities available for sale	-	-
Net cash provided (used) by investing activities	(722,424)	(432,391)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(309,204)	(236,595)
Exercise of stock options	31,817	53,676
Net change in ESOP loan	(48,034)	36,984
Redemption of common stock	(673,920)	(479,391)
Net cash used in financing activities	(999,341)	(625,326)
INCREASE (DECREASE) IN CASH	(179,937)	204,786
CASH AT BEGINNING OF YEAR	204,937	151
CASH AT END OF YEAR	\$ 25,000	\$ 204,937

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17. QUARTERLY FINANCIAL RESULTS (UNAUDITED)

A summary of selected consolidated quarterly financial data for the two years ended December 31, 2001 is reported as follows:

	2001			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest and dividend income	\$ 4,326,809	\$ 4,630,360	\$ 4,649,286	\$ 4,908,360
Interest expenses	1,821,087	2,132,804	2,316,701	2,487,360
Net interest income	2,505,722	2,497,556	2,332,585	2,421,000
Provision for loan loss	90,000	90,000	90,000	90,000
Net interest income after provision for loan loss	2,415,722	2,407,556	2,242,585	2,331,000
Noninterest income	355,728	344,406	353,858	347,360
Noninterest expense	1,840,743	1,862,904	1,609,104	1,681,360
Income before income taxes	930,707	889,058	987,339	996,000
Provision for income taxes	312,650	322,000	335,700	348,000
Net Income	618,057	567,058	651,639	648,000

Earnings per common share:

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Basic	\$ 0.83	\$ 0.74	\$ 0.84	\$
	=====	=====	=====	=====
Diluted	\$ 0.79	\$ 0.71	\$ 0.81	\$
	=====	=====	=====	=====

2000

	Fourth Quarter	Third Quarter	Second Quarter	First Quart
	-----	-----	-----	-----
Interest and dividend income	\$ 4,829,400	\$ 4,637,439	\$ 4,487,475	\$ 4,335,
Interest expenses	2,619,502	2,470,503	2,289,364	2,048,
	-----	-----	-----	-----
Net interest income	2,209,898	2,166,936	2,198,111	2,287,
Provision for loan loss	90,000	90,000	90,000	90,
	-----	-----	-----	-----
Net interest income after provision for loan loss	2,119,898	2,076,936	2,108,111	2,197,
Noninterest income	470,936	300,658	309,275	292,
Noninterest expense	1,580,431	1,553,978	1,631,991	1,565,
	-----	-----	-----	-----
Income before income taxes	1,010,403	823,616	785,395	923,
Provision for income taxes	352,000	279,000	276,000	300,
Net Income	658,403	544,616	509,395	623,

Earnings per common share:

Basic	\$ 0.85	\$ 0.69	\$ 0.65	\$ 0
	=====	=====	=====	=====
Diluted	\$ 0.82	\$ 0.66	\$ 0.62	\$ 0
	=====	=====	=====	=====

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SIGNATURES

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

TRI-COUNTY FINANCIAL CORPORATION

Date: March 27, 2002

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.

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By: /s/ Michael L. Middleton

Michael L. Middleton
(Director, President and Chief
Executive Officer)

Date: March 27, 2002

By:/s/ William J. Pasenelli

William J. Pasenelli
(Chief Financial and Accounting
Officer)

Date: March 27, 2002

By: /s/ C. Marie Brown

C. Marie Brown
(Director and Chief Operating Officer)

Date: March 27, 2002

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

Herbert N. Redmond, Jr.
(Director)

Date: March 27, 2002

By: /s/ H. Beaman Smith

H. Beaman Smith
(Director and Secretary/Treasurer)

Date: March 27, 2002

By:/s/ W. Edelin Gough, Jr.

W. Edelen Gough, Jr.
(Director)

Date: March 27, 2002

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

Louis P. Jenkins, Jr.
(Director)

Date: March 27, 2002

By:/s/ Catherine A. Askey

Catherine A. Askey
(Director)

Date: March 27, 2002