TriStone Community Bank

2007 Summary Annual Report

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Statements contained in this Summary Annual Report, which are not historical facts, are forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. Amounts herein could vary as a result of market and other factors. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in documents filed by the Bank with the Federal Deposit Insurance Corporation ("FDIC") from time to time. Such forward-looking statements may be identified by the use of such words as "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential." Examples of forward-looking statements include, but are not limited to, estimates with respect to the financial condition, expected or anticipated revenue, results of operations, and business of the Bank that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to, general economic conditions, changes in interest rates, deposit flows, loan demand, real estate values, and competition; changes in accounting principles, policies, or guidelines; changes in legislation or regulation; the strength of the United States economy in general and the strength of the local economies in which the Bank conducts operations; and other economic, competitive, governmental, regulatory, and technological factors affecting the Bank's operations, pricing, products, and services.

Any forward-looking statements in this annual report represent views only as of the date of this annual report and should not be relied upon as representing its views as of any subsequent date. The Bank anticipates that subsequent events and developments may cause its views to change. Although the Bank may elect to update these forward-looking statements publicly at some point in the future, whether as a result of new information, future events or otherwise, the Bank specifically disclaims any obligation to do so, except as required by applicable law. The Bank's forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments it may make.

TriStone Community Bank
Report of Management

April 21, 2008

Dear Shareholders:

We would like to take this opportunity to thank you, our shareholders, for your tremendous support, making 2007 another outstanding year. We are very proud of our significant progress, which is in a large part attributable to our shareholder base. Throughout the year our capable management team and staff have strived to ensure that customer satisfaction remains our highest priority.

Our main financial objective remains to grow the balance sheet sufficiently to generate earnings to cover our expenses while not sacrificing soundness. During 2007, we made significant progress toward our goals. Total deposits increased 36% from $66.4 million at December 31, 2006, to approximately $90.3 million at year end 2007. For the same period, gross loans outstanding increased 42% from $61.0 million to $86.8 million. Total assets increased 30% from $80.9 million to $105.0 million at year end.

The Bank reported a loss of $73,786, or $0.05 per share, for the year ended December 31, 2007, down from a $195,112 loss, or $0.13 per share, in 2006. Of the current 2007 loss, $135,484 represented additions to the allowance for loan losses. At year end, the Reserve totaled $867,798, or 1.00% of total loans. During the fiscal year 2007, the Bank reported loan charge offs of less than .02% and had no nonperforming loans.

As you may know, we have seen a challenging economic environment in the first few months of 2008. Many factors in the United States and around the world, such as a softening residential housing market, increasing delinquency and default rates, and increasingly volatile and constrained secondary credit markets, have contributed to the uncertain financial markets and resulted in a dramatic drop in interest rates. We believe, however, that we are well positioned to manage the increased risks resulting from these uncertain times. We believe that our strong management, staff, and Board of Directors, as well as a solid local economy in Winston-Salem, will enable us to continue to move forward and achieve our goals. In addition, our 2007 performance provides us with continued good momentum for a successful 2008.

Thank you for your confidence and support. Please remember TriStone Community Bank for all your financial service needs.

Sincerely,

Simpson O. Brown, Jr.
President & CEO

General

TriStone Community Bank (the "Bank") was incorporated on November 12, 2004, and began operations on November 30, 2004, as a North Carolina chartered commercial bank. The Bank is engaged in general commercial banking primarily in Winston-Salem, Forsyth County, North Carolina, and operates under the banking laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation and the North Carolina Commissioner of Banks.

The Bank strives to develop a personal hometown relationship with its clients while at the same time offering a wide range of deposit and loan banking services. The Bank's target market is small businesses with sales of less than $15 million, individuals, real estate homebuilders and developers, and real estate investors. The Bank began operations from a single location at 401 Knollwood Street in Winston-Salem, North Carolina, and uses an aggressive calling effort by executive officers and other bank personnel to develop client relationships. On March 14, 2007, the Bank opened its second full-service office at 312 Jonestown Road, Winston-Salem, North Carolina 27104, which is now also the location of the Bank's executive management. The Bank's advertising campaign continues to penetrate the Bank's target market through radio, newspapers, billboards, and other similar mediums. The Bank's goal is to establish the Bank as a significant presence in the Forsyth County community. The Bank strives to meet the needs of its clients while also investing its resources in accordance with sound banking practices, and thereby serve the community and create value for the Bank's shareholders.

The Bank combines a wide range of advanced products with old-fashioned hometown service. Through the use of technological advances and third-party alliances with vendors, the Bank is able to offer state-of-the art products and services to its clients in a cost-effective manner. The Bank's customers can access various banking services through its ATM's and those of other banks, through debit cards, and through the Bank's automated telephone and Internet banking products. Specific banking services offered by the Bank include deposit services, commercial and consumer loans, and various non-traditional products and services, all as described below.

Deposit services offered by the Bank include commercial and personal checking and savings accounts, certificates of deposit, money market accounts, various time deposit accounts, IRAs, safe deposit boxes, and non-profit corporate accounts.

Commercial loans include lines of credit for short-term and seasonal needs, as well as short-term and intermediate-term loans to meet clients' needs for working capital, fixed asset acquisition, business expansion, owner-occupied real estate, and other general corporate purposes. Consumer loans include mortgages, equity lines of credit, personal loans for automobiles, boats, and other personal expenditures.

The Bank offers an array of non-traditional products such as credit cards, leasing, investment services, retirement services, asset-based lending, merchant card services, financial planning, insurance services, and fee-based asset management. We also offer limited cash management services such as overnight sweep accounts. These services are offered through strategic alliances developed by the Bank's executive management.

The operation of the Bank and depository institutions in general are significantly influenced by general economic conditions and by related monetary, fiscal, and other policies of depository institution regulatory agencies, including the Federal Reserve and the Federal Deposit Insurance Corporation. Deposit flows and costs of funds are influenced by interest rates at which such financing may be offered and other factors affecting local demand and availability of funds.

Financial Overview for Year ended December 31, 2007

The Bank, which was opened in November 2004, continues to experience substantial growth. Total assets have grown to $105.0 million as of December 31, 2007, a $24.1 million, or 30%, increase since the prior year end. The growth in total assets was a result of consistent growth in loans that were funded by growth in deposits during 2007. Gross loans have increased to $86.8 million during 2007, a $25.8 million, or 42%, increase from the prior year. Deposits grew to $90.3 million, a $23.9 million, or a 36%, increase from the prior year.

Liquidity remains adequate with cash and due from banks and federal funds sold of $7.6 million and $10.2 million at December 31, 2007 and 2006, respectively. In addition, at December 31, 2007, investment securities, which are all currently available for sale, had a fair value of $8.5 million.

The Bank had a net loss of $73,786 for the year of operations ending December 31, 2007, which was a 62% improvement compared to the $195,112 net loss in the prior year. The Bank's net interest income for 2007 was $3.3 million compared to $2.7 million in the prior year. Interest income continued to gain momentum with the increase in the loan portfolio and deposit growth ending with a net interest margin of 3.95% as of December 31, 2007, a decrease of 25 basis points, or 6%, due to the falling rate environment since the prior year end. This decrease was due to the multiple rate drops experienced during the later part of 2007, and the fact that variable rate loans reprice immediately while fixed rate deposits reprice as they mature over time.

Non-interest income ended at $425,852 in 2007, consisting primarily of mortgage operations income of $193,568 and deposit service charge income of $130,044. Non-interest expense ended at $3.7 million, only a 24% increase from the prior year. The non-interest expense consisted primarily of salaries and benefits of $2.0 million, data processing, outside service fees of $471,928, and occupancy and equipment of $520,220.

DIXON HUGHES PLLC

Certified Public Accountants and Advisors

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors
TriStone Community Bank
Winston-Salem, North Carolina

We have audited the accompanying balance sheets of TriStone Community Bank as of December 31, 2007 and 2006 and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Bank's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TriStone Community Bank as of December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes PLLC

Southern Pines, North Carolina
March 27, 2008

TRISTONE COMMUNITY BANK
BALANCE SHEETS
December 31, 2007 and 2006

	2007	2006
ASSETS		
Cash and due from banks	$ 2,046,125	$ 3,395,673
Federal funds sold	5,598,111	6,757,552
Investment securities, available for sale, net	8,491,697	8,669,547
Federal Home Loan Bank stock	145,600	112,800
Loans	86,779,868	61,004,374
Allowance for loan losses	(867,798)	(740,071)
NET LOANS	85,912,070	60,264,303
Accrued interest receivable	578,890	419,877
Bank premises and equipment, net	2,041,100	1,169,984
Other assets	176,395	105,039
TOTAL ASSETS	$ 104,989,988	$ 80,894,775
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	$ 9,953,898	$ 11,562,545
Savings	225,242	148,975
Money market and NOW	10,352,456	8,932,136
Time	69,749,548	45,748,449
TOTAL DEPOSITS	90,281,144	66,392,105
Accrued interest payable	156,914	100,402
Accrued expenses and other liabilities	136,370	86,106
TOTAL LIABILITIES	90,574,428	66,578,613
Commitments (Notes D, E and K)		
Stockholders' equity:		
Preferred stock, no par value, 5,000,000 shares authorized; no shares issued	-	-
Common stock, $5 par value, 20,000,000 shares authorized; 1,500,000 shares issued and outstanding	7,500,000	7,500,000
Additional paid-in capital	8,581,551	8,454,205
Accumulated deficit	(1,685,982)	(1,612,196)
Accumulated other comprehensive income (loss)	19,991	(25,847)
TOTAL STOCKHOLDERS' EQUITY	14,415,560	14,316,162
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 104,989,988	$ 80,894,775

See accompanying notes.

TRISTONE COMMUNITY BANK
STATEMENTS OF OPERATIONS
Years Ended December 31, 2007 and 2006

	2007	2006
INTEREST INCOME		
Loans	$ 5,731,927	$ 3,847,152
Investment securities	372,839	378,912
Federal funds sold and deposits in other banks	320,425	404,960
TOTAL INTEREST INCOME	6,425,191	4,631,024
INTEREST EXPENSE		
Money market, NOW and savings deposits	310,157	306,720
Time deposits	2,764,103	1,578,016
Short-term borrowings	4,599	475
TOTAL INTEREST EXPENSE	3,078,859	1,885,211
NET INTEREST INCOME	3,346,332	2,745,813
PROVISION FOR LOAN LOSSES	135,484	294,284
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,210,848	2,451,529
NON-INTEREST INCOME		
Deposit service charges	130,044	62,945
Mortgage operations	193,568	218,191
Other	102,240	73,790
TOTAL NON-INTEREST INCOME	425,852	354,926
NON-INTEREST EXPENSE		
Salaries and employee benefits	2,043,661	1,770,813
Occupancy and equipment	520,220	276,650
Advertising and promotion	98,476	101,734
Data processing and outside service fees	471,928	403,066
Office supplies, telephone and postage	157,422	113,360
Other	418,779	335,944
TOTAL NON-INTEREST EXPENSE	3,710,486	3,001,567
LOSS BEFORE INCOME TAXES	(73,786)	(195,112)
INCOME TAXES	-	-
NET LOSS	$ (73,786)	$ (195,112)
NET LOSS PER COMMON SHARE	$ (.05)	$ (.13)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	1,500,000	1,500,000

See accompanying notes.

TRISTONE COMMUNITY BANK
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2007 and 2006

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount				
Balance at December 31, 2005	1,500,000	$ 7,500,000	$ 8,201,654	$ (1,417,084)	$ (53,301)	$ 14,231,269
Comprehensive loss:						
Net loss	-	-	-	(195,112)	-	(195,112)
Unrealized holding gains on available for sale securities, net	-	-	-	-	27,454	27,454
Total comprehensive loss	-	-	-	-	-	(67,658)
Stock compensation expense	-	-	252,551	-	-	252,551
Balance at December 31, 2006	1,500,000	7,500,000	8,454,205	(1,612,196)	(25,847)	14,316,162
Comprehensive loss:						
Net loss	-	-	-	(73,786)	-	(73,786)
Unrealized holding gains on available for sale securities, net	-	-	-	-	45,838	45,838
Total comprehensive loss	-	-	-	-	-	(27,948)
Stock compensation expense	-	-	127,346	-	-	127,346
Balance at December 31, 2007	1,500,000	$ 7,500,000	$ 8,581,551	$ (1,685,982)	$ 19,991	$ 14,415,560

See accompanying notes.

TRISTONE COMMUNITY BANK
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (73,786)	$ (195,112)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	254,894	134,324
Net amortization of premiums and discounts on investments	(3,463)	(2,131)
Provision for loan losses	135,484	294,284
Stock compensation expense	127,346	252,551
Change in assets and liabilities:		
Increase in accrued interest receivable	(159,013)	(230,151)
Increase in other assets	(98,340)	(899)
Increase in accrued interest payable	56,512	52,211
Increase in accrued expenses and other liabilities	50,264	5,486
NET CASH PROVIDED BY OPERATING ACTIVITIES	289,898	310,563
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans	(25,783,251)	(25,266,015)
Purchase of investment securities	(6,516,111)	(3,000,000)
Purchase of FHLB stock	(32,800)	(64,700)
Proceeds from maturities of investment securities	6,500,000	2,000,000
Proceeds from mortgage-backed security paydowns	270,246	235,807
Purchases of bank premises and equipment	(1,126,010)	(339,418)
NET CASH USED BY INVESTING ACTIVITIES	(26,687,926)	(26,434,326)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposit accounts	23,889,039	24,366,137
NET CASH PROVIDED BY FINANCING ACTIVITIES	23,889,039	24,366,137
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,508,989)	(1,757,626)
CASH AND CASH EQUIVALENTS, BEGINNING	10,153,225	11,910,851
CASH AND CASH EQUIVALENTS, ENDING	$ 7,644,236	$ 10,153,225
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	$ 3,022,347	$ 1,833,000
Net unrealized gain on securities available for sale	$ 45,838	$ 27,454

See accompanying notes.

NOTE A - ORGANIZATION AND OPERATIONS

TriStone Community Bank (the "Bank") was incorporated on November 12, 2004 and began banking operations on November 30, 2004. The Bank is engaged in general commercial and retail banking in the Winston-Salem area of North Carolina, principally Forsyth County, operating under the banking laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation and the North Carolina Commissioner of Banks. The Bank undergoes periodic examinations by those regulatory authorities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the 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 relate to the determination of the allowance for losses on loans.

Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash and due from banks and federal funds sold.

Securities Available for Sale

Available for sale securities are reported at fair value and consist of debt instruments that are not classified as trading securities nor as held to maturity securities. Unrealized holding gains and losses, net of applicable deferred income tax, on available for sale securities are reported as a net amount in other comprehensive income. Gains and losses on the sale of available for sale securities are determined using the specific-identification method. Declines in the fair value of individual available for sale securities below their cost that are other than temporary would result in write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Non-Marketable Equity Securities

As a requirement for membership, the Bank invests in stock of the Federal Home Loan Bank of Atlanta ("FHLB"). These investments are carried at cost. Because of the redemption provisions of the FHLB, the Bank estimates that the fair value of this investment is equal to its cost.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Operations

The Bank originates single family, residential first mortgage loans on a presold basis. The Bank recognizes certain origination and service release fees upon the sale, which are included in non-interest income on the statements of operations under the caption "Mortgage operations."

Financial Service Operations

The Bank has a strategic alliance with Massachusetts Mutual Life Insurance Company (MML). TriStone Financial, the financial services division of TriStone Community Bank, offers customers a full spectrum of non-depository financial products and services. These include both investment and insurance services and are offered by a Registered Representative of MML Investors Services, Inc., member SIPC. TriStone Financial and TriStone Community Bank are not subsidiaries or affiliates of MML Investors Services, Inc. or MML.

Allowance for Loan Losses

The provision for loan losses is based upon management's estimate of the amount needed to maintain the allowance for loan losses at an adequate level. In making the evaluation of the adequacy of the allowance for loan losses, management gives consideration to current economic conditions, statutory examinations of the loan portfolio by regulatory agencies, delinquency information and management's internal review of the loan portfolio. Loans are considered impaired when it is probable that all amounts due will not be collected in accordance with the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the present value of expected future cash flows discounted at the historical effective interest rate, or upon the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the evaluations. In addition, regulatory examiners may require the Bank to recognize changes to the allowance for loan losses based on their judgments about information available to them at the time of their examination.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, which are 15 years for leasehold improvements and 3 to 7 years for furniture and equipment. Repairs and maintenance costs are charged to operations as incurred and additions and improvements to premises and equipment are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts and any gains or losses are reflected in current operations.

Foreclosed Real Estate

Real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, management periodically performs valuations of the property and the real estate is carried at the lower of cost or fair value minus estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other non-interest expense.

Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are also recognized for operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized. Interest and penalties related to income taxes, of which there have been none to date, will be included in income tax expense.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

The Bank applies the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"), and the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payment," for share-based payment awards. Accordingly, stock-based compensation expense for all share-based payment awards is based on the grant date fair value. The grant date fair value for stock option awards is estimated using the Black-Scholes option pricing model in accordance with the provisions of SFAS No. 123(R) and the grant date fair value for restricted stock awards is based upon the closing prices of the Bank's common stock on the date of grant. The Bank recognizes these compensation costs net of estimated forfeitures and recognizes stock-based compensation expense for only those awards expected to vest on a straight-line basis over the requisite service period of the award, which is currently the vesting term of three years.

Per Share Results

Basic net income 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 common share reflect additional common shares that would have been outstanding if dilutive potential 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 Bank relate solely to outstanding stock options and are determined using the treasury stock method. The Bank's outstanding common stock options had no dilutive effect for the years ended December 31, 2007 and 2006.

Comprehensive Income

The Bank reports as comprehensive income all changes in stockholders' equity during the year from sources other than shareholders. Other comprehensive income refers to all components (revenues, expenses, gains, and losses) of comprehensive income that are excluded from net income. The Bank's only component of other comprehensive income is unrealized gains and losses on investment securities available for sale.

New Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No.157 is effective for fiscal years beginning after November 15, 2007. However, on February 12, 2008, the FASB issued FASB Staff Position ("FSP") SFAS 157-2 ("FSP 157-2"), which would delay the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 partially defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP 157-2. The Bank will adopt SFAS No. 157 during 2008, except as it applies to those non-financial assets and non-financial liabilities as noted in proposed FSP 157-2. The partial adoption of SFAS No. 157 is not expected to have a material impact on the Bank's financial position, results of operations or cash flows.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Standards (Continued)

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Bank does not expect SFAS No. 159 to have a material impact on its financial position, results of operations or cash flows upon adoption.

In July 2006, the FASB issued Financial Interpretation ("FIN") 48, "Accounting for Uncertainty in Income Taxes." FIN 48 is an interpretation of SFAS No. 109, "Accounting for Income Taxes." FIN 48 provides interpretive guidance for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 requires the affirmative evaluation that it is more likely than not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the "more-likely-than-not" recognition threshold, the benefit of that position is not recognized in the financial statements. FIN 48 also requires companies to disclose additional quantitative and qualitative information in their financial statements about uncertain tax positions. FIN 48 was effective for fiscal year beginning January 1, 2007. The adoption of FIN 48 did not have a material impact on the Company's financial position, results of operations or cash flows.

In November 2007, the SEC issued SAB No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings." SAB No. 109 supersedes guidance provided by SAB No. 105, "Loan Commitments Accounted for as Derivative Instruments" and provides guidance on written loan commitments accounted for at fair value through earnings. Specifically, SAB No. 109 addresses the inclusion of expected net future cash flows related to the associated servicing of a loan in the measurement of all written loan commitments accounted for at fair value through earnings. In addition, SAB No. 109 retains the SEC's position on the exclusion of internally-developed intangible assets as part of the fair value of a derivative loan commitment originally established in SAB 105. SAB 109 is effective for fiscal years ending after December 15, 2007. The Bank currently is evaluating the impact, if any, that SAB 109 may have on its financial position, results of operations or cash flows.

From time to time, the FASB issues exposure drafts for proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements on the consolidated financial statements of the Bank and monitors the status of changes to and proposed effective dates of exposure drafts.

NOTE C - INVESTMENT SECURITIES AVAILABLE FOR SALE

Investment securities available for sale at December 31, 2007 are as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U. S. Government Agencies	$ 5,997,637	$ 42,973	$ 155	$ 6,040,455
Mortgage-backed securities	2,463,576	4,466	16,800	2,451,242
Total	$ 8,461,213	$ 47,439	$ 16,955	$ 8,491,697

NOTE C - INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

Investment securities available for sale at December 31, 2006 are as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U. S. Government Agencies	$ 7,499,890	$ 4,843	$ 25,983	$ 7,478,750
Mortgage-backed securities	1,211,995	-	21,198	1,190,797
Total	$ 8,711,885	$ 4,843	$ 47,181	$ 8,669,547

The amortized cost and fair values of securities available for sale at December 31, 2007, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	Amortized Cost	Fair Value
Due within one year	$ 2,499,940	$ 2,501,410
Due after one year through five years	4,117,940	4,155,755
Due after five years through ten years	1,843,333	1,834,532
Total	$ 8,461,213	$ 8,491,697

There were no sales of securities available for sale during 2007 and 2006.

The following table shows gross unrealized losses and fair values of investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2007 and 2006. The unrealized losses result from higher market interest rates since the securities were purchased. The unrealized losses are not likely to reverse unless and until market interest rates decline to the levels that existed when the securities were purchased. Since the unrealized losses do not relate to the marketability of the securities or the issuers' ability to honor redemption obligations, the securities are not deemed to be other than temporarily impaired. As of December 31, 2007, three securities had been in a continuous loss position for twelve months or more.

	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
December 31, 2007:						
Securities available for sale:						
U.S. Government agencies	$ -	$ -	$ 499,485	$ 155	$ 499,485	$ 155
Mortgage-backed securities	505,283	3,974	958,672	12,826	1,463,955	16,800
Total temporarily impaired securities	$ 505,283	$ 3,974	$ 1,458,157	$ 12,981	$ 1,963,440	$ 16,955
December 31, 2006:						
Securities available for sale:						
U.S. Government agencies	$ 499,687	$ 313	$ 4,474,219	$ 25,671	$ 4,973,906	$ 25,983
Mortgage-backed securities	-	-	1,190,797	21,198	1,190,797	21,198
Total temporarily impaired securities	$ 499,687	$ 313	$ 5,665,016	$ 46,869	$ 6,164,703	$ 47,181

NOTE D – LOANS

Following is a summary of loans at December 31, 2007 and 2006:

	2007		2006	
	Amount	Percent of total	Amount	Percent of total
Real estate loans:				
One to four family residential	$ 2,644,718	3.05%	$ 1,811,544	2.97%
Multi-family residential and commercial	39,508,134	45.53%	28,289,163	46.37%
Construction	2,951,877	3.40%	1,960,000	3.21%
Home equity lines of credit	10,106,650	11.65%	7,936,702	13.01%
Total real estate loans	55,211,379	63.63%	39,997,409	65.56%
Other loans:				
Commercial and industrial	28,692,498	33.06%	19,346,787	31.72%
Loans to individuals	2,875,991	3.31%	1,660,178	2.72%
Total other loans	31,568,489	36.37%	21,006,965	34.44%
Total loans	86,779,868	100.00%	61,004,374	100.00%
Less allowance for loan losses	(867,798)		(740,071)	
Net loans	$ 85,912,070		$ 60,264,303	

Loans are primarily made in Forsyth County, North Carolina. Real estate loans can be affected by the condition of the local real estate market. Commercial and industrial loans can be affected by the local economic conditions.
There were $31,133 of loans greater than ninety days past due and still accruing and no restructured or impaired loans at December 31, 2007 and no nonaccrual, restructured or impaired loans at December 31, 2006. Activity in the allowance for loan losses for the years ended December 31, 2007 and 2006 is set forth below:

	2007	2006
Balance December 31, 2006	$ 740,071	$ 446,741
Add: Provision for loan losses	135,484	294,284
Less: Chargeoffs	(11,266)	(1,547)
Add: Recoveries	3,509	593
Balance December 31, 2007	$ 867,798	$ 740,071

At December 31, 2007, the Bank had $15.9 million of loan commitments outstanding and had pre-approved but unused lines of credit totaling $18.3 million. In management's opinion, these commitments represent no more than normal lending risk to the Bank and will be funded from normal sources of liquidity.
The Bank has loan transactions with its directors and executive officers. Such loans are made in the ordinary course of business and on substantially the same terms and collateral as those for comparable transactions prevailing at the time and did not involve more than the normal risk of collectibility or present other unfavorable features. A summary of related party loan transactions is as follows:

Balance at December 31, 2006	$ 3,300,753
Loan disbursements	511,010
Loan repayments	(1,597,773)
Balance at December 31, 2007	$ 2,213,990

NOTE D - LOANS (Continued)

At December 31, 2007, the Bank had pre-approved but unused lines of credit totaling $240,412 to executive officers, directors and their related interests.

NOTE E - BANK PREMISES AND EQUIPMENT

Following is a summary of bank premises and equipment at December 31, 2007 and 2006:

	2007	2006
Leasehold improvements	$ 1,718,632	$ 764,004
Furniture and equipment	829,652	385,465
Construction in progress	16,078	288,882
	2,564,360	1,438,351
Accumulated depreciation and amortization	523,260	268,366
Total	$ 2,041,100	$ 1,169,985

Depreciation amounting to $217,859 and $106,232 in 2007 and 2006, respectively, is included in occupancy and equipment expense, and amortization amounting to $37,035 and $28,092 in 2007 and 2006, respectively, is included in other operating expense.

The Bank leases its Knollwood branch location under an operating lease that expires May 31, 2009, and which contains two renewal options for an additional five years each. The Bank leases its Jonestown branch under an operating lease that expires February 1, 2017, and which contains four renewal options for an additional five years each. The Bank leases its Jonestown operations department location under an operating lease that expires June 30, 2009 with no renewal options. Minimum future rentals under the branch location leases are as follows:

2008	$ 192,538
2009	131,725
2010	84,000
2011	84,000
2012	91,700
Thereafter	377,300
	$ 961,263

Rental expense amounting to $160,852 and $88,140 during the years ended December 31, 2007 and 2006, respectively, is included in occupancy and equipment expense on the accompanying statement of operations.

NOTE F - DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2007 and 2006 was $46,612,960 and $30,962,122, respectively. Interest expense on such deposits aggregated $1,736,824 and $1,114,660 for the years ended December 31, 2007 and 2006, respectively. At December 31, 2007, the scheduled maturities of certificates of deposit are as follows:

NOTE F - DEPOSITS (Continued)

	Less than $100,000	$100,000 or more	Total
Three months or less	$ 7,109,756	$ 18,673,992	$ 25,783,748
Over three months to six months	7,753,952	11,757,950	19,511,902
Over six months through one year	6,585,938	15,078,488	21,664,426
Over one year through three years	1,067,123	1,102,530	2,169,653
Over three years	619,819	-	619,819
Total	$ 23,136,588	$ 46,612,960	$ 69,749,548

NOTE G - SHORT-TERM BORROWINGS

The Bank had available lines of credit totaling $9.5 million from correspondent banks at December 31, 2007 and $9.8 million at December 31, 2006. No balances were outstanding as of December 31, 2007 and 2006.

NOTE H - INCOME TAXES

The significant components of the provision for income taxes for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
Current tax provision:		
Federal	$ -	$ -
State	-	-
Total current tax provision	-	-
Deferred tax provision:		
Federal	(53,000)	31,000
State	(11,000)	7,000
Total deferred tax provision	(64,000)	38,000
Provision for income tax expense before adjustment to deferred tax asset valuation allowance	(64,000)	38,000
Increase in valuation allowance	64,000	(38,000)
Net provision for income taxes	$ -	$ -

The difference between the provision for income taxes and the amounts computed by applying the statutory federal income tax rate of 34% to income before income taxes for the period ended December 31, 2007 and 2006 is summarized below:

	2007	2006
Tax computed at the statutory federal rate	$ (25,000)	$ (66,000)
Increase (decrease) resulting from:		
State income taxes, net of federal tax effect	(8,000)	5,000
Nondeductible stock option expense	23,000	86,000
Adjustment to deferred tax asset valuation allowance	64,000	(38,000)
Other permanent differences	(54,000)	13,000
Provision for income taxes	$ -	$ -

NOTE H - INCOME TAXES (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred taxes at December 31, 2007 and 2006 are as follows:

	2007	2006
Deferred tax assets relating to:		
Allowance for loan losses	$ 229,000	$ 177,000
Pre-opening costs and expenses	135,000	187,000
Net operating loss carryforwards	412,000	428,000
Non-qualified stock options	83,000	-
Bank premises and equipment	21,000	-
Investment securities available for sale	-	16,941
Other	3,000	-
Total deferred tax assets	883,000	808,491
Less valuation allowance	(829,000)	(765,000)
Net deferred tax assets	54,000	43,491
Deferred tax liabilities relating to:		
Prepaid expenses	(54,000)	(25,000)
Bank premises and equipment	-	(2,000)
Investment securities available for sale	(10,493)	-
Total differed tax liabilities	(64,493)	(27,000)
Net recorded deferred tax asset	$ (10,493)	$ 16,491

The Bank has net operating losses of approximately $1.1 million available to offset future taxable income. These loss carryforwards begin to expire for federal purposes in the year 2024 and for state purposes in the year 2019. The Bank's federal and state income tax returns for 2004 and subsequent years are subject to examination. The Bank's adoption of FIN 48 effective January 1, 2007 had no effect on its financial statements, and the Bank has no unrecognized tax benefits.

NOTE I - REGULATORY MATTERS

The Bank, as a North Carolina banking corporation, may pay cash dividends only out of undivided profits as determined pursuant to North Carolina General Statutes. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such limitation is in the public interest and is necessary to ensure financial soundness of the Bank.

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the 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 classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios, as prescribed by regulations, of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2007 and 2006 that the Bank meets all capital adequacy requirements to which it is subject, as set forth below:

NOTE I - REGULATORY MATTERS (Continued)

	Actual			Minimum for capital adequacy purposes			Minimum to be well capitalized under prompt corrective action provision	
	Amount	Ratio		Amount	Ratio		Amount	Ratio
				(Dollars in thousands)				
December 31, 2007								
Total Capital (to Risk-Weighted Assets)	$ 15,264	16.94%	$	7,208	8.0%	$	9,010	10.0%
Tier I Capital (to Risk-Weighted Assets)	14,396	15.98%		3,604	4.0%		5,406	6.0%
Tier I Capital (to Average Assets)	14,396	14.49%		3,573	4.0%		4,466	5.0%
December 31, 2006								
Total Capital (to Risk-Weighted Assets)	$ 15,081	23.62%	$	5,107	8.0%	$	6,383	10.0%
Tier I Capital (to Risk-Weighted Assets)	14,341	22.46%		2,554	4.0%		4,437	6.0%
Tier I Capital (to Average Assets)	14,341	19.39%		2,958	4.0%		3,193	5.0%

NOTE J - OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation of the borrower. Collateral obtained varies but may include real estate, stocks, bonds, and certificates of deposit.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to local businesses. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

A summary of the contract amount of the Bank's exposure to off-balance sheet risk as of December 31, 2007 is as follows:

Financial instruments whose contract amounts represent credit risk:	
Commitments to extend credit	$ 15,855,684
Undisbursed lines of credit	18,303,563
Standby letters of credit	-

NOTE K - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

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

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Due from Banks and Federal Funds Sold

The carrying amounts for cash and due from banks and federal funds sold approximate fair value because of the short maturities of those instruments.

Investment Securities

Fair value for investment securities equals quoted market price if such information is available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans

For certain homogenous categories of loans, such as residential mortgages, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits

The fair value of demand deposits and savings, money market and NOW accounts is the amount payable on demand at the reporting date. The fair value of time deposits is estimated based on discounting cash flows using the rates currently offered for instruments of similar remaining maturities.

Financial Instruments with Off-Balance Sheet Risk

With regard to financial instruments with off-balance sheet risk discussed in Note J, it is not practicable to estimate the fair value of future financing commitments.

NOTE K - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The carrying amounts and estimated fair values of the Bank's financial instruments, none of which are held for trading purposes, are as follows at December 31, 2007 and 2006:

	2007		2006	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets:				
Cash and due from banks	$ 2,046,125	$ 2,046,125	$ 3,395,673	$ 3,395,673
Federal funds sold	5,598,111	5,598,111	6,757,552	6,757,552
Investments	8,637,297	8,637,297	8,782,347	8,782,347
Loans, net	85,912,070	86,512,222	60,264,303	60,410,932
Financial liabilities:				
Deposits	90,281,144	90,501,095	66,392,105	66,563,883

NOTE L - EMPLOYEE AND DIRECTOR BENEFIT PLANS

401(k) Plan

The Bank has a 401(k) Plan in which substantially all employees are eligible to participate. The Bank makes matching contributions of up to 5 percent ($1 for $1 up to 3% and $.50 to $1 for additional 2%) of an employee's compensation contributed to the Plan. Matching contributions vest to the employee immediately. Any additional discretionary contributions vest over 5 years. For the years ended December 31, 2007 and 2006, expense attributable to the Plan amounted to $53,546 and $39,348, respectively.

Employment Contracts

The Bank has entered into employment agreements with its President and Chief Executive Officer, Executive Vice President and Chief Lending Officer, and Chairman of the Board to ensure a stable and competent management base. As of December 31, 2007, the President and Chief Executive Officer's employment agreement had a remaining term of approximately two years and provides for an automatic one-year extension on each anniversary date of the Agreement. As of December 31, 2007, the Executive Vice President and Chief Lending Officer's employment agreement had a remaining term of approximately one year and provides for an automatic one-year extension on each anniversary date of such agreement. As of December 31, 2007, the Chairman of the Board's employment agreement had a remaining term of approximately one year. The agreements provide for benefits as spelled out in the contracts and cannot be terminated by the Board of Directors, except for cause, without triggering certain vested rights, including compensation. In the event of a change in control of the Bank and in certain other events, as defined in the agreements, the Bank or any successor to the Bank will be bound to the terms of these employment agreements.

Stock Option Plans

In 2005, the Bank's shareholders approved a Nonstatutory Stock Option Plan ("the Director Plan") and an Incentive Stock Option Plan ("Employee Plan"). The maximum number of shares available for grant under the plans is 300,000 shares of the Bank's common stock; 150,000 shares available for the Director Plan and 150,000 shares available for the Employee Plan. Option prices for both plans are established at market value at the date of grant. The exercise prices of all options granted to date under these plans range from $11.00 to $12.80. Options granted become exercisable in accordance with the vesting schedule specified by the Board of Directors in the Plan agreements. All options granted under both plans vest over a three-year period. All unexercised options expire ten years after the date of grant.

NOTE L - EMPLOYEE AND DIRECTOR BENEFIT PLANS (Continued)

Stock Option Plans (Continued)

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The risk-free interest rate of each option is based upon a U. S. Treasury instrument with a life that is similar to the expected life of the option grant. Because the Bank has limited historical volatility data available, volatility has been estimated based upon observable volatility of similar banking entities. The expected term of the options is based upon Management's estimate as to the average term the options are expected to be outstanding. The following table illustrates the assumptions for the Black-Scholes model used in determining the fair value of options granted to employees for the years ended December 31, 2007 and 2006.

	2007	2006
Risk-free interest rate (range)	4.68%	4.28% - 4.61%
Volatility	10%	10%
Dividend yield	0%	0%
Expected life	6.5 years	6.5 years

The Bank granted 9,000 stock options in 2 separate awards during 2007 with a weighted average fair value of $2.83 per option. During the year December 31, 2006, the Bank granted 45,750 stock options in five separate awards with a weighted average fair value of $3.36 per option. The total fair value of options issued during the years ended December 31, 2007 and 2006 was $25,470 and $153,750, respectively.

A summary of the Bank's option plans as of and for the year ended December 31, 2007 is as follows:

			Outstanding Options	
	Shares Available for Future Grants	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Term in Years
At December 31, 2006	16,000	284,000	$ 11.22	
Exercised	-	-	-	
Authorized	-	-	-	
Forfeited	1,500	(1,500)	11.60	
Granted	(9,000)	9,000	11.39	
Outstanding December 31, 2007	8,500	291,500	$ 11.23	7.2
Exercisable December 31, 2007	-	177,156	$ 11.19	7.0

NOTE L - EMPLOYEE AND DIRECTOR BENEFIT PLANS (Continued)

Stock Option Plans (Continued)

Following is a summary of the Bank's non-vested options for the year ended December 31, 2007.

	Number of Options	Weighted average grant date fair value
Non-vested at December 31, 2006	209,251	$ 2.75
Granted	9,000	2.83
Vested	(96,990)	2.70
Forfeited	(1,500)	2.88
Non-vested December 31, 2007	119,761	$ 2.77

The Bank’s outstanding and exercisable options at December 31, 2007, had no intrinsic value. The fair value of options vested for the year ended December 31, 2007 and 2006 was $127,346 and $252,552, respectively.

As of December 31, 2007, there was $48,438 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under all of the Bank’s stock benefit plans. That cost is expected to be recognized over a weighted-average period of 1.4 years.

Board of Directors

Gordon H.T. Sheeran
Chairman of the Board
TriStone Community Bank

Simpson O. Brown, Jr.
President and Chief Executive Officer
TriStone Community Bank

Sandra Combs Boyette
Senior Advisor to the President,
Wake Forest University;
Vice Chair of the Board, TriStone Community Bank

Gerald Chrisco
Chief Financial Officer, The Budd Group, Inc.;
Treasurer, TriStone Community Bank

T. Vernon Foster
Director of Sales, Josten's, Inc.;
Vice President and Owner, J. La'Verne Designs;
Secretary, TriStone Community Bank

Scott J. Gerding
President and CEO, Midtown Café & Dessertery

Robert E. Helms
Chairman Emeritus, Prudential Carolina's Realty

Ronald A. Joyce
President, Joyce Foods, Inc.

David Davis Meyer, M.D.
President, Triad Neurological Associates

Ched W. Neal
President and Owner, Foothill Ford, Inc;
Vice President and Partner, Parkway Ford Suzuki.

Deborah F. Tornow
President and Owner, Peak Views of Beech, Inc.

Ronald D. Wellman
Director of Athletics, Wake Forest University

Bank Executive Officers

Simpson O. Brown, Jr.
President and Chief Executive Officer

Mark R. Evans
Executive Vice President and Chief Lending Officer;
Assistant Secretary

Donald E. Brown
Vice President of Financial Services

Gary Bryan
Vice President of Mortgage Services

Office Locations

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Fax: (336) 714-9696

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Winston-Salem, North Carolina 27104
Phone: (336) 794-0811
Fax: (336) 794-0815

Website: www.tristonebank.com

Regulatory and Securities Counsel

Womble Carlyle Sandridge & Rice, PLLC
One West Fourth Street
Winston-Salem, North Carolina 27101

Stock Transfer Agent

First Citizens Bank & Trust Company
Post Office Box 29622
Raleigh, North Carolina 27626

Independent Auditors

Dixon Hughes PLLC
130 Turnberry Way
Southern Pines, North Carolina 28387

Annual Shareholders Meeting

The Annual Meeting of the shareholders of TriStone Community Bank will be held at 10:00 a.m. on May 28, 2008, at the Forsyth Country Club, Continental Room, 3101 Country Club Road in Winston-Salem, North Carolina.

Common Stock and Related Matters

The Bank's outstanding common stock shares were held by approximately 718 holders of record as of March 14, 2008. As of March 14, 2008, the Bank had 1,500,000 shares of common stock outstanding. To date, the Bank has not paid any cash dividends. The Bank was not permitted to pay cash dividends in its first three years of operations (November 2004-November 2007).

Market for Common Stock

The Bank's common stock is currently traded in the over-the-counter market and listed under the symbol "TCMB" on the Over-the-Counter Bulletin Board. The Bank's stock began trading over-the-counter on November 13, 2005. The Bank's stock is also listed on various websites, including the Market Watch website, http://www.marketwatch.com/. Known trades have been made within the following price ranges:

	High	Low
2007		
First quarter	$ 12.74	$ 12.05
Second quarter	$ 12.40	$ 11.31
Third quarter	$ 11.25	$ 9.65
Fourth quarter	$ 12.50	$ 8.25
2006		
First quarter	$ 12.80	$ 12.30
Second quarter	$ 12.25	$ 11.50
Third quarter	$ 12.25	$ 11.50
Fourth quarter	$ 12.55	$ 12.10

This Summary Annual Report serves as the annual financial disclosure statement furnished pursuant to the Federal Deposit Insurance Corporation's rules and regulations. This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.