

2015
Annual Report

The Community
Financial Corporation



Community is our name, and we live it each day by exceeding expectations.
More creative solutions. More focus. More support. Greater compassion.
It's the best part about being a true local bank. We can get things done, strengthen
businesses and drive this community to its fullest potential. Anything is
possible when we work together.

Dear Shareholder,

During 2015 your company, The Community Financial Corporation, and its banking subsidiary, Community Bank of the Chesapeake, continued to build shareholder value and to increase its market presence. For the thirtieth year in a row, the Company increased its book value through safe and sound earnings, while we continued to serve our markets. In addition, assets grew by close to 6% in an extremely slow-growth environment, while the Company continued its long-term trend of profitability.

The Bank continues to resolve asset-quality issues that spiked upward after the recession of 2008. At the end of 2015 total delinquency was 1.27%, in line with our peers. This is the result of the Bank's efforts to minimize losses and assist our customers whenever possible. Classified assets, another measure of asset quality, continue to make rapid improvement, falling by over 10% from December 2014. The overall asset quality improvement allows the Bank to increase our lending in the future.

While the Bank continues to serve the legacy Southern Maryland market, it also has expanded into new areas. Our Annapolis, Maryland and Fredericksburg, Virginia operations have shown significant progress, largely as a result of the Bank's customer-focused service. In early 2016, we will open our newest branch in downtown Fredericksburg.

While the Bank has seen dramatic growth in new markets, it also continues to improve operations in Southern Maryland by gathering substantial new deposit relationships, which have helped to transform our franchise. These efforts have enabled us to maintain our position as the second-largest bank in the region based on deposit share, according to recent FDIC data. Community Bank has also maintained its strong lending position in the legacy market.

One of the keys to our successful increase in demand deposits has been the Bank's expansion of product offerings to attract and retain commercial customers. These efforts have included the introduction of products and services focused on enhancing the customers' ability to leverage their banking relationship to increase productivity, profitability and security. The Bank will continue to offer these products consistent with its high-touch model, which focuses on developing strong customer relationships.

Our efforts to increase book value per share through earnings and selective share buy-backs were enhanced by our Subordinated Debt offering in February 2015. This enabled us to continue our strategy of organic growth by replacing the funds obtained from the Small Business Lending Fund (SBLF) with longer-term funding.

As the Bank and Company reviewed its strategic direction during 2015, we made some difficult decisions in order to focus growth on areas where we could continue to add shareholder value. After a great deal of consideration, we accepted an offer to sell our King George facility to a credit union. While we used this location as a gateway into the Fredericksburg market, the economic activity in the King George area did not increase enough to make this location profitable. We expect that the decision will be positive for earnings by the end of 2016.

Similarly, management determined that it would be best for the Company and Bank to exit the origination of residential mortgage loans. This decision was made in response to changing market and regulatory conditions, which have greatly impacted the profitability of this line of business. Since April of 2015, the Bank has worked with third-party mortgage lenders to provide residential first mortgages to support our residential portfolio and serve our customers.

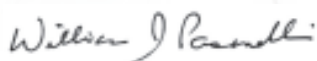
Today, more than ever, the Bank's information technology capabilities are important to our overall success. In 2015, the Bank continued to invest in improving its infrastructure. This infrastructure must accommodate multiple technologies while enhancing information security. These investments do not immediately translate into revenues but are nevertheless vital to our ongoing operation. As with all financial institutions, the threats to our information security are growing daily and demand continuous efforts by management and the Board to protect the Bank and its customers.

Throughout 2015, our Company and Bank continued to grow and prosper. We are eager to continue meeting the challenges placed before us by building an attractive, high-performing banking franchise in one of the strongest markets in the Mid-Atlantic. Our focus is on organic growth, while being open to other opportunities to increase shareholder value. Your ongoing support and advocacy, as we strive for the continued success of your Company and Bank, is greatly appreciated.

Yours truly,



Michael L. Middleton
Executive Chairman of the Board



William J. Pasenelli
President and CEO

Board of Directors



Back Row (L to R): Philip T. Goldstein / Austin J. Slater, Jr. / John K. Parlett, Jr. / Kathryn M. Zabriskie* / M. Arshed Javaid
James R. Shepherd / Louis P. Jenkins, Jr.*

Front Row (L to R): Michael L. Middleton / William J. Pasenelli / Mary Todd Peterson / Joseph V. Stone, Jr.

** Community Bank of the Chesapeake Board Only*

Management Team



Back Row (L to R): James M. Burke, EVP, Chief Risk Officer / Gregory C. Cockerham, EVP, Chief Lending Officer
James F. Di Misa, EVP, Chief Operating Officer / Rebecca J. Henderson, EVP, Director of Sales / Christy M. Lombardi, EVP,
Chief Administrative Officer / Todd Capitani, EVP, Chief Financial Officer

Front Row (L to R): Michael L. Middleton, Executive Chairman / William J. Pasenelli, President and Chief Executive Officer

2015 Highlights

In January, William Pasenelli, President and Chief Executive Officer of Community Bank of the Chesapeake, announced the promotion of Executive Vice President Christy Lombardi to Chief Administrative Officer. With this promotion, Ms. Lombardi is responsible for administrative and corporate governance matters for the Company, while continuing to oversee Human Resources.

Throughout her years of service, Ms. Lombardi has been a dedicated leader, strategic thinker and a champion for our corporate culture of excellence. This promotion is a well-deserved recognition of all that she has done to help the Bank and its employees succeed. The other executives and I congratulate her on this accomplishment, and we look forward to continuing to work with her.

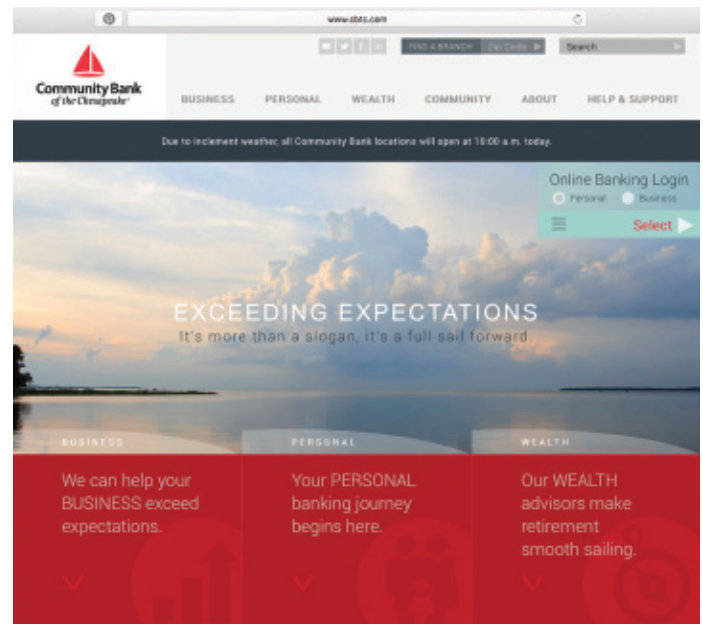
William Pasenelli, *President and CEO*
Community Bank of the Chesapeake

In February, The Community Financial Corporation redeemed all \$20.0 million of its outstanding preferred securities issued under the U.S. Treasury's Small Business Lending Fund ("SBLF") program. The redemption was funded with the proceeds of a \$23.0 million issuance of subordinated notes, which the Company completed on February 6, 2015.

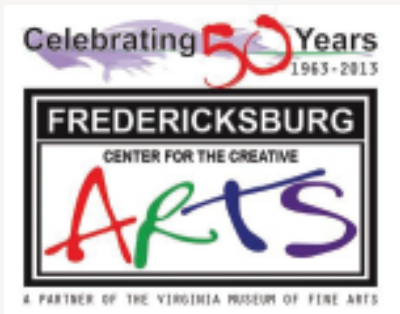
Since entering the SBLF program in September 2011, the dividend rate on the SBLF preferred stock has been 1.0%. However, under the terms of the program, the dividend rate on the SBLF preferred stock has been set to increase to 9.0% in March 2016.

Community Bank of the Chesapeake Launches New Website

In February, the Community Bank website, www.cbtc.com, was redesigned to maintain consistency with the Bank's new branding elements. The website features a clean and responsive design, streamlined navigation and more.



Working Together



In March, Community Bank of the Chesapeake began a new partnership with the Fredericksburg Center for the Creative Arts (FCCA) to bring the work of local artists to the Central Park branch.

Since the 2014 launch of the Community Art Series, the Bank has partnered with three art organizations to share artwork throughout the Bank's branches. The Bank currently partners with Mattawoman Creek Art Center (La Plata branch), St. Mary's Arts Council (Charlotte Hall and Lexington Park branches) and our newest partnership, FCCA.

At Community Bank, we support our community in a number of different ways. This partnership gives us the opportunity to support talented local artists, as well as an organization that enriches the lives of the people in the Fredericksburg community. We invite our customers and the general public to stop by our branch and see these wonderful exhibits.

www.fccava.org



ARTS COUNCIL
OF CALVERT COUNTY

In June, Community Bank of the Chesapeake began a new partnership with the Arts Council of Calvert County to bring the work of local artists to the Prince Frederick branch. This is the fourth partnership in the Community Art Series.

"On behalf of the Board of Directors of the Arts Council of Calvert County, we are pleased and proud to partner with Community Bank of the Chesapeake in graciously supporting local artists in Calvert County," said Bob Carpenter, Executive Director of the Arts Council. "The art provided by the CalvART Gallery artists is among the finest in Maryland, and it is a true honor to see their work on display at the branch in Prince Frederick."

www.calvertarts.org

Community Bank of the Chesapeake expands its lending team in the Annapolis region. Community Bank welcomed Cliff W. Woodward, III to its greater Annapolis lending team. As Vice President, Commercial Loan Officer, Mr. Woodward will develop new and existing commercial relationships with customers throughout Anne Arundel County.

As we continue to grow in this market, our success depends upon having people that really know and understand the needs of customers in the area. With his years of experience in managing commercial relationships in and around Annapolis, and his background as a former small business owner, Cliff has a unique perspective on the local business community. I have no doubt that he will be a great asset to our lending team.

Greg Cockerham

Executive Vice President and Chief Lending Officer

Community Bank of the Chesapeake remains the second largest deposit holder in the Tri-County region (Calvert, Charles and St. Mary's).



Community Bank of the Chesapeake donated \$50,000 to Farming 4 Hunger, a Southern Maryland nonprofit that provides fresh produce to those in need. The Bank is donating the money over a period of five years and the funds will be used to purchase hydroponic equipment for the Farming 4 Hunger greenhouse.

With this contribution, Community Bank pledges its support to a wonderful organization that is able to help many people in our community. Farming 4 Hunger's core mission reminds us that when the community works together, everyone benefits. We are proud to make this donation in the spirit of that mission.

"With the contribution of funds from Community Bank of the Chesapeake, not only will we grow food in our greenhouse, we'll grow lives as well," said Mr. Bernie Fowler, Jr., Farming for Hunger founder. "Farming 4 Hunger was founded on the belief that when you feed the hungry, you feed your soul. The educational and volunteer programs that we have for children and adults help to heal the minds, bodies and spirits of all who take part. With this donation, the Bank is helping us continue to achieve that for our community."

Looking Ahead



Downtown Fredericksburg location to open in Spring 2016.

Scheduled to open in early 2016, the downtown Fredericksburg branch at 425 William Street will be the second in the Fredericksburg area. The branch will provide full service banking opportunities for the downtown and surrounding community.

We continue to focus on new market opportunities including within Fredericksburg, Virginia and Annapolis, Maryland. To grow awareness and prominence in each of these markets, we will focus on relationship building, loan activity, deposit acquisition and wealth advisory services.

Community Bank
of the Chesapeake



On July 1, 2016, after over 40 years of dedicated service as Chief Executive Officer and most recently Executive Chairman of the Board, Michael L. Middleton will transition to Chairman of the Board of both The Community Financial Corporation and Community Bank of the Chesapeake Board of Directors.

At Community Bank, our reason for existence is simple: We aim to provide customers and businesses with superior financial products and services so they can accomplish their goals and reach financial success. But our vision goes much deeper. It is our ultimate objective to not only support those who entrust us with their finances, but also to extend financial support to the many organizations that work every day – in countless ways – to enhance the communities we serve. By providing financial resources to these organizations, Community Bank is able to directly impact the areas where our customers live and work – helping to create vibrant, thriving communities we can all be proud to call home.

In 2015, Community Bank of the Chesapeake donated over

\$140,000

and countless volunteer hours.



Casual for a Cause

Supported entirely by employee contributions, Casual for a Cause is a unique initiative in which employees are allowed to dress casually for the summer in exchange for a monetary donation.

The success of this campaign each year is a testament to the employees' deep-rooted devotion to Community Bank's philanthropic spirit. In 2015, contributions to Casual for a Cause totaled \$6,500, which were used to benefit the following non-profit organizations.

Southern Maryland Volunteer Firemen's Association

The Southern Maryland Volunteer Firemen's Association was founded in 1947 and consists of over thirty member fire and rescue companies. The organization was originally founded to organize the regional fire service in an effort to improve fire insurance rates, promote a kindly spirit among its members and strive to improve the service to the community.

EmpowerHouse

EmpowerHouse is a nonprofit, 501(c) 3, Virginia-accredited domestic violence program that serves Fredericksburg, Caroline, King George, Spotsylvania and Stafford. The organization runs assistance and educational programs including a secret shelter, 24-hour hotline, victim advocacy, children's services, support groups for victims, teens and children, Spanish language and culturally relevant services, transition in-place housing assistance, court advocacy, accompaniment to court and health care visits, teen dating violence prevention, as well as batterer intervention programs.

At Community Bank of the Chesapeake, we understand that by strengthening local businesses with great products, stellar service and meaningful banking partnerships, we are driving this community to its fullest potential.

The Arc of Southern Maryland

For more than 40 years, The Arc of Southern Maryland has been promoting community involvement, independence and personal success for children and adults with intellectual and developmental disabilities. To help build that success, the Arc provides living arrangements and job training, allowing people to find their place in the local community.

To help generate additional revenue to expand programs, The Arc is making investments in local real estate. While some properties will provide program beneficiaries with housing, renting apartments and duplexes to non-disabled people will allow The Arc to do even more.

“Community Bank of the Chesapeake made it easy to secure financing for a new property,” said Terry Long, The Arc’s executive director. “They came in and helped us out big time.”

“Part of our mission is to break down stereotypes about people with disabilities,” said Development and Public Relations Manager Nkeshi Free. “We have found that communities respond very positively to the businesses that give people with disabilities a chance.”

Community Bank is proud to support such an impactful local organization, and we look forward to seeing them grow in their ability to help people in all of our communities. You can learn more about The Arc of Southern Maryland on their website, www.arcsomd.org.

Rappahannock YMCA

When Barney Riley first took the helm of the Rappahannock YMCA in 1993, the district served 5,000 members in a single small facility. Today, Planning District 16 of the YMCA serves 30,000 members and 60,000 program participants.

“I needed a bank that I could cultivate a relationship with,” says Barney, who serves as CEO of the Rappahannock YMCA.

Tony Farland, a commercial lender at Community Bank recalls: “They wanted to be able to pick up the phone and not get a voicemail.”

Community Bank of the Chesapeake stepped in and provided consistent support and just the right relationship for which the YMCA had been searching.

“The people were so receptive and were really excellent to work with,” Barney says. “Having a bank that has our back and that totally understands what we do is critical. It’s much more than just a business thing.”

The Community Bank culture has always emphasized helping community in more ways than just offering banking products and services. It’s that spirit of volunteerism that elevates the bank in the community.

“It’s really a win-win for the community,” says Tony. “We help the Y and they help the entire community. It’s a relationship that’s very gratifying personally and professionally.”

To learn more about the Rappahannock YMCA, its facilities and its programs, visit www.family-ymca.org.

During 2015, the Company made a number of strategic decisions to meet our longer-term objectives of increased profitability and increased shareholder value. The Company continued to execute its plans to increase transaction deposits and improve asset quality. The following is a summary of progress made during 2015:

Increased transaction deposits – The Company continued to increase transaction deposits to complement interest-earning asset growth. Our efforts center on providing products and services that serve small and midsize businesses and municipal customers. This has been the primary reason for the decrease in the Company's funding costs. Since 2011, our deposit costs have decreased 96 basis points from 1.43% for the year ended December 31, 2011 to 0.47% for the three months ended December 31, 2015. Average transaction deposits for the year ended December 31, 2015 increased \$65.4 million or 15.5% to \$488.2 million.

Improved asset quality – The Company has been working in an assertive manner to reduce its classified assets and will continue to move non-performing or substandard credits that are not likely to become performing or passing credits in a reasonable timeframe off the balance sheet. The Company is encouraging existing classified customers to obtain financing with other lenders or enforcing its contractual rights.

As of December 31, 2015 total loan delinquency at 1.27% of loans is in line with the Company's peers. In addition, total classified assets, consisting primarily of classified loans and OREO, were \$43.3 million at December 31, 2015, a reduction of \$10.7 million, or approximately 19.8% from \$54.0 million as of December 31, 2014.

Controlled the growth of expenses – The Company's noninterest expenses for 2015, excluding OREO charges and an insurance settlement claim adjustment, were \$27.2 million, which represents a \$1.3 million or 5.1% increase over the comparable \$25.9 million for the year ended December 31, 2014. With these adjustments, noninterest expense as a percentage of average assets decreased three basis points from 2.52% for the year ended December 31, 2014 to 2.49% for the year ended December 31, 2015.

Invested in infrastructure – During 2015, the Company invested in software and professional services to support the Company's continued growth. These investments included capabilities to manage enterprise risks, interest rate risks, vendor risk management, customer information risks and cyber security risks.

Exited underwriting residential mortgages and established third-party relationships to purchase residential mortgages – The Company exited the residential mortgage origination line of business in April 2015 and has established third-party sources to fund its residential whole loan portfolio. The third-party sources will allow the Company to maintain a well-diversified residential portfolio while addressing the credit needs of the communities in its footprint.

Sold an unprofitable branch – The Company agreed to sell its King George, Virginia branch building and equipment to InFirst Federal Credit Union. The transaction closed in the first quarter of 2016. Operating results for the year ended December 31, 2015 reflect a one-time \$426,000 pre-tax provision for the loss on the transaction with a \$0.05 impact to earnings per share. The elimination of the estimated direct annual operating costs of the King George branch will have an immediate accretive impact on earnings per share in 2016 with the earned back period of less than 10 months.

Executed plans to open a branch in downtown Fredericksburg in early 2016 – The Company's second branch in Fredericksburg is scheduled to open downtown during the first quarter of 2016. The Company believes that this second branch will enhance its deposit gathering in this market and complement the strong loan growth experienced in the Fredericksburg market during 2014 and 2015.

The Company proactively refinanced preferred stock issued under the Small Business Lending Fund (SBLF) program – On February 6, 2015, the Company issued \$23.0 million of unsecured 6.25% fixed to floating rate subordinated notes due 2025 (subordinated notes). On February 13, 2015, the Company used proceeds of the offering to redeem all \$20 million of the Company's outstanding preferred stock issued under the Small Business Lending Fund program. The subordinated notes qualified as tier 2 regulatory capital and replaced SBLF tier 1 capital. The Company decided to issue the subordinated notes during 2015 because of the scheduled increase in the after-tax SBLF dividend rate to 9% in March 2016.

At or for the Years Ended December 31,

(dollars in thousands, except per share amounts)

	2015	2014	2013	2012	2011
FINANCIAL CONDITION DATA					
Total assets	\$1,143,332	\$1,082,878	\$1,023,824	\$981,639	\$983,480
Loans receivable, net	909,200	862,409	799,130	747,641	710,089
Investment securities	144,536	126,445	134,648	159,825	195,344
Deposits	906,899	869,384	821,295	820,231	827,253
Borrowings	91,617	76,672	70,476	61,527	60,577
Junior subordinated debentures	12,000	12,000	12,000	12,000	12,000
Subordinated notes - 6.25%	23,000	-	-	-	-
Stockholders' equity—preferred	-	20,000	20,000	20,000	20,000
Stockholders' equity—common	99,783	96,559	90,730	59,047	55,454
OPERATING DATA					
Interest and dividend income	\$43,873	\$41,759	\$39,678	\$40,293	\$39,959
Interest expenses	7,345	6,698	7,646	10,604	13,121
Net interest income (NII)	36,528	35,061	32,032	29,689	26,838
Provision for loan losses	1,433	2,653	940	2,529	4,087
NII after provision for loan losses	35,095	32,408	31,092	27,160	22,751
Noninterest income	3,299	4,093	4,174	4,410	4,193
Noninterest expenses	28,418	26,235	24,844	23,804	22,249
Income before income taxes	9,976	10,266	10,422	7,766	4,695
Income taxes	3,633	3,776	3,771	2,776	1,534
Net income	6,343	6,490	6,651	4,990	3,161
Preferred stock dividends declared	23	200	200	200	672
Income available to common shares	\$6,320	\$6,290	\$6,451	\$4,790	\$2,489
COMMON SHARE DATA (1)					
Basic earnings per common share	\$1.36	\$1.35	\$1.90	\$1.57	\$0.83
Diluted earnings per common share	1.35	1.35	1.88	1.57	0.82
Dividends declared per common share	0.40	0.40	0.40	0.40	0.40
Book value per common share (2)	21.48	20.53	19.52	19.34	18.32
Common shares outstanding at end of period	4,645,429	4,702,715	4,647,407	3,052,416	3,026,557
SELECTED FINANCIAL RATIOS					
Return on average assets	0.58 %	0.63 %	0.69 %	0.52 %	0.35
Return on average common equity	6.33	6.69	9.38	8.29	4.47
Tier 1 capital to average assets	10.01	12.24	12.50	9.39	9.17
Risk-based capital to risk-weighted assets	14.58	15.21	15.62	12.84	12.69
Interest rate spread	3.48	3.54	3.44	3.18	3.05
Net interest margin	3.60	3.68	3.56	3.31	3.21
Efficiency ratio (3)	71.35	67.00	68.62	69.81	71.70
Allowance for loan losses to total loans at end of period	0.93	0.97	1.01	1.09	1.07
Net charge-offs to avg. outstanding loans	0.16	0.28	0.14	0.27	0.61

(1) In October 2013, the Company issued 1,591,300 shares of common stock at a price of \$18.75 per share resulting in net proceeds of \$27.4 million after commissions and related offering expenses. The additional shares outstanding impacted year-to-year comparability of per share earnings and book value beginning with fourth quarter 2013 results.

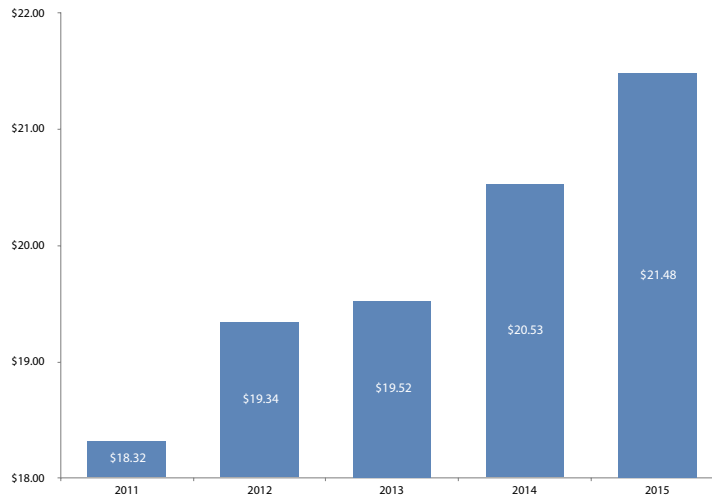
(2) The Company had no intangible assets as of the dates indicated. Thus, tangible book value per share is the same as book value per share for each of the periods indicated.

(3) Efficiency ratio is noninterest expense divided by the sum of net interest income and noninterest income.

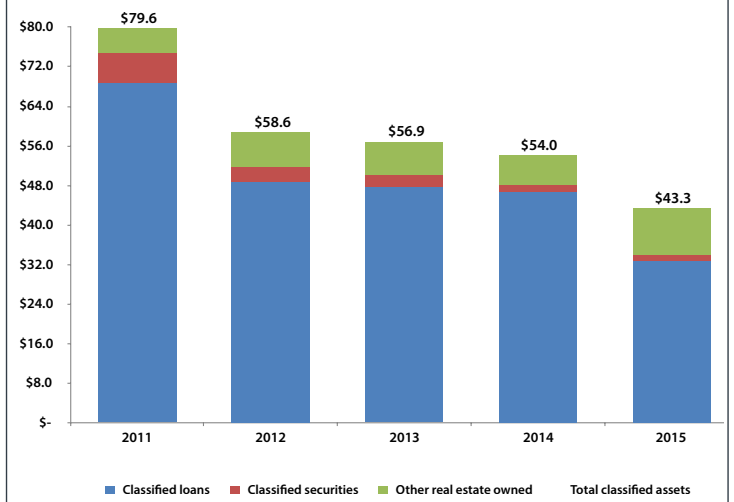
The common stock of The Community Financial Corporation (symbol: TCFC) trades on the NASDAQ Stock Exchange. The Annual Report and the Company's annual report on Form 10-K are available on the Community Bank of the Chesapeake's website at cbtc.investorroom.com. The Company's Proxy Statement and Annual Report to Stockholders are available at cbtc.com/proxyandannualreport.

Financials

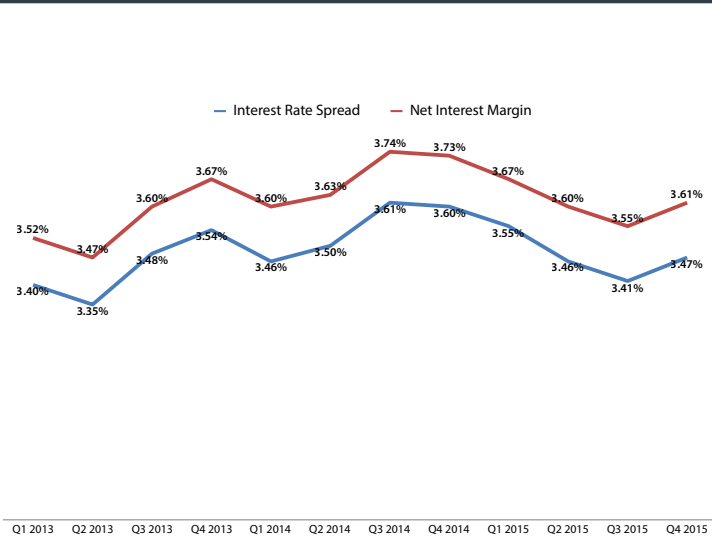
Book Value Per Share



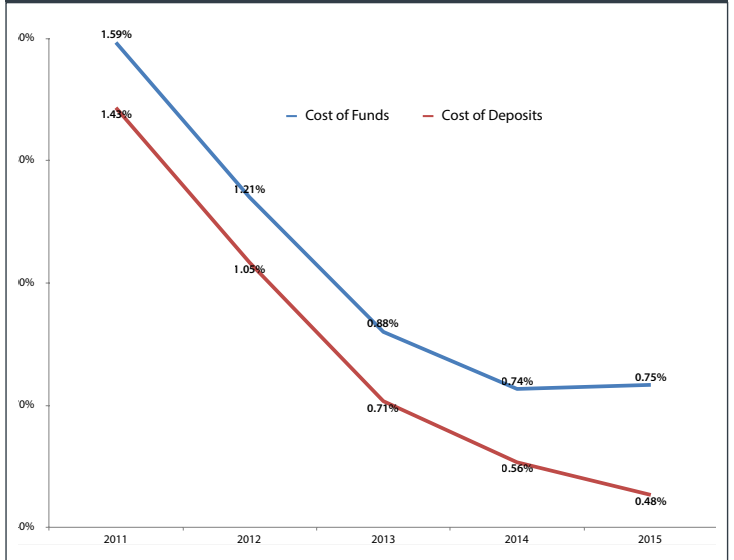
Classified Assets



Net Interest Margin and Interest Spread, Last 12 Quarters



Funding Costs



Branch and Lending Offices

Maryland

Anne Arundel County

Annapolis – Commercial Lending Center

Calvert County

Dunkirk

Lusby

Prince Frederick

Prince Frederick – Commercial Lending Center

Charles County

Bryans Road

La Plata

La Plata – Commercial Lending Center

Waldorf (St. Patrick's Drive and Leonardtown Road)

St. Mary's County

Charlotte Hall

Leonardtown

Lexington Park

Virginia

City of Fredericksburg

Central Park – Branch and Commercial Lending Center

Downtown – Coming Spring 2016

Shareholder and Investor Relations

Barbara Lucas

Shareholder Relations

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