



The Community
Financial Corporation



2016 ANNUAL REPORT

Our Story

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.

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Shareholder Letter

Dear Shareholder,

This past year was very successful for your Company in many important areas. The Community Financial Corporation and its subsidiary, Community Bank of the Chesapeake, continued along its path of organic growth and strong earnings production to add value to our franchise and expand our market position. We were able to achieve this success with over 18% in loan growth and prudent cost control over funding and operating expenses. As a result, net income grew by 16% in 2016 compared to 2015, while diluted earnings per share grew by 18%.

For the past 31 years, The Community Financial Corporation has consistently increased its book value through net income generated by safe and sound growth. In 2016, we made adjustments to our footprint in Virginia through branch expansion as well as achieved first place in FDIC insured deposits in Southern Maryland. We believe that our efforts in 2016 should have a positive impact on next year's financial results.

Asset quality continues to improve by all measures. For example, total non-accrual loans have fallen from \$11 million at the end of 2015 to \$8 million at the end of 2016, a drop of 27%. Other real estate owned has similarly declined from \$9 million to under \$8 million, a reduction of 18%. These measures, combined with the increase in total assets, have led to reductions in non-performing loans from 1.17% of loans in 2015 to 0.71% in 2016. Overall, non-performing assets have fallen from 1.83% of assets at the end of 2015 to 1.21% at the end of 2016.

A positive trend has been extended for quarterly increases in net earnings as the fourth quarter of 2016 marked the fifth straight quarter of increasing earnings; dating back to the middle of 2015. Earnings have increased from \$.28 per share, or \$1.3 million, in the third quarter of 2015 to \$.44 per share, or over \$2.0 million, in the fourth quarter of 2016. These earnings increases have been the result of safe and sound loan and deposit growth combined with overall operating expense control.

The Bank invested in significant infrastructure over the past several years to build service level processes that allowed it to compete more effectively in the commercial banking sector of our market. Our enhanced product lineup and outstanding customer service have enabled us to attract increasingly larger customers. As with all of our relationships, large and small, it is the personal service combined with outstanding competitive products and services that give us the edge in acquiring new relationships and maintaining them over time.

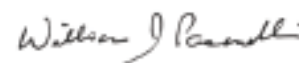
Another milestone in our success was an invitation to ring the closing bell at NASDAQ in the fourth quarter of 2016. We received widespread financial coverage and experienced positive results in our stock price appreciation during the last quarter of the year.

In closing, our Company, and its well-respected community bank has continued to build its base for successful operations in our region. It is through your support and advocacy, as well as the efforts of our staff, management team and board, that this is possible. We look forward to the future in an optimistic manner and believe together we can extend our positive trend toward top-tier performance.

Yours truly,



Michael L. Middleton
Chairman of the Board



William J. Pasenelli
President and CEO

Board of Directors



Back Row (L to R): M. Arshed Javaid / Austin J. Slater, Jr. / Mary Todd Peterson / Louis P. Jenkins, Jr. / James R. Shepherd / Gregory C. Cockerham / John K. Parlett, Jr. / Kathryn M. Zabriskie / Kimberly Briscoe-Tonic / James F. Di Misa

Front Row (L to R): James M. Burke / William J. Pasenelli / Michael L. Middleton / Joseph V. Stone, Jr.

Not pictured: Philip T. Goldstein

Management Team



Back Row (L to R): Todd Capitani, EVP, Chief Financial Officer / James F. Di Misa, EVP, Chief Operating Officer / Gregory C. Cockerham, EVP, Chief Lending Officer

Front Row (L to R): Christy M. Lombardi, EVP, Chief Administrative Officer / James M. Burke, President and Chief Risk Officer / William J. Pasenelli, Chief Executive Officer / Rebecca J. Henderson, EVP, Director of Sales

2016

January

Community Bank of the Chesapeake began a new partnership with the Charles County Arts Alliance to bring the work of local artists to the Waldorf/Home Office branch.

Since the 2014 launch of the Community Art Series, the Bank has partnered with five 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 and Color and Light Society (Charlotte Hall and Lexington Park branches), The Arts Council of Calvert County (Prince Frederick branch) and the Fredericksburg Center for the Creative Arts (FCCA) in Downtown Fredericksburg.

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 community.

April

Downtown Fredericksburg Location Opens

The Downtown Fredericksburg branch, located at 425 William Street, is the second branch location in the Fredericksburg area. The branch provides full service banking opportunities for the downtown and surrounding community.

"It is a pleasure working in a bank that continues to grow and develop while still holding true to its community values," said Becky Henderson, Executive Vice President, Director of Sales of Community Bank of the Chesapeake. "We look forward to forming lasting relationships and expanding our local reach in the Fredericksburg community. We hope to, as always, provide exceptional service and convenience to our existing and prospective customers."



July

Community Bank of the Chesapeake and the Community Financial Corporation named Michael L. Middleton as Chairman of the Board. Mr. Middleton has devoted over 30 years to the bank as Chief Executive Officer, then Executive Chairman, shaping and supporting the bank through his inspiring leadership, visionary ideas and expert knowledge.

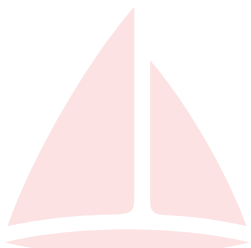
"On behalf of everyone at Community Bank of the Chesapeake, we are grateful for Mr. Middleton's decades of leadership and commitment. It has been an honor to work with him over the years and see his dedication push this bank to excel and exceed the expectations we strive for every day. Mr. Middleton's expansive knowledge and experience will help support the bank as he continues to oversee its strategy and vision," said William Pasenelli, Chief Executive Officer of Community Bank of the Chesapeake

August

Community Bank of the Chesapeake announced the appointment of James M. Burke as President and Chief Risk Officer of Community Bank of the Chesapeake. Mr. Burke previously served as Executive Vice President and Chief Risk Officer. In his role as President, Mr. Burke assumes leadership for accelerating business development, brand visibility and delivering targeted growth, while continuing to focus on the risk environment.

Community Bank of the Chesapeake announced the addition of Kim Briscoe-Tonic, James M. Burke, Gregory C. Cockerham and James F. Di Misa to the Board of Directors.

"These additions to our Board of Directors further enhance the talented team we have at the board level," said Michael L. Middleton, Chairman of the Board. "As proven business leaders with many years of experience, they will undoubtedly bring expertise and insight to the board that will be invaluable as Community Bank continues to grow in the months and years ahead."



Community Involvement

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 2016,
Community Bank
of the Chesapeake
donated over
\$160,000
and countless
volunteer hours
to community
organizations.**

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 2016, contributions to Casual for a Cause totaled \$6,000, reaching over \$60,000 in total for Casual for a Cause.

"We donated to local healthcare providers this year as a small thank you for all the hard work and dedication they put into improving the health of our community. Providing healthcare is an important part of building a strong and healthy community, and it is an honor to be able to contribute to these organizations," said William Pasenelli, Chief Executive Officer of Community Bank of the Chesapeake.



University of Maryland Charles Regional Medical Center Foundation

University of Maryland Charles Regional Medical Center is a regional, not-for-profit, integrated health system serving Charles County and the surrounding areas of Southern Maryland. With a focus on constantly reinvesting resources into the community with innovative technology, community health education and care for the poor. University of Maryland Charles Regional Health exists to always provide excellent patient care as measured by the population's health, clinical outcomes, patient satisfaction and cost effectiveness.

MedStar St. Mary's Hospital Foundation

MedStar St. Mary's Hospital is a full-service hospital, which delivers state-of-the-art emergency, acute inpatient and outpatient care. MedStar St. Mary's Hospital, located in Leonardtown, Maryland, is a community hospital that upholds its tradition of caring by continuously promoting, maintaining and improving health through education and services while assuring quality care, patient safety and fiscal integrity. MedStar St. Mary's Hospital's vision is to be the trusted leader in caring for people and advancing health.



Calvert Memorial Hospital Foundation

Calvert Health's trusted team provides Southern Maryland residents with safe, high-quality health care and promotes wellness for a healthy community. With a vision to provide exceptional care and make a difference in every life they touch, Calvert Memorial Hospital is a staple in the community.



Mary Washington Hospital Foundation

What began as a small hospital with only eight rooms in Fredericksburg, Virginia, more than a century ago has become a state-of-the-art regional system. Mary Washington Hospital is one of two hospitals that are part of the not-for-profit Mary Washington Healthcare regional system. Mary Washington Healthcare also has a network of 28 wellness services and healthcare facilities. Since the early years of Mary Washington Hospital, their mantra has stayed the same: Mary Washington Hospital exists to improve the health of people in the communities we serve.



Financial Scholars Program

Community Bank is proud to sponsor the Financial Scholars program in community schools.

Building a better community means providing education for parents, business leaders and citizens of the next generation. Through our financial partnership with EverFi, Community Bank of the Chesapeake is providing education and financial literacy to students in public high schools throughout Southern Maryland.

EverFi is building and operating the nation's largest network for K-12 online education in off-curriculum but highly valuable content areas such as financial literacy, student loan management and other key life skills for the 21st century student. The award-winning platform teaches students the principles of finance through highly engaging 3-D gaming, social networking, video and messaging applications.

The skills and knowledge learned in this program help the youth in our communities prepare for adulthood. By equipping them to be responsible with money, we're building a brighter future for them and for our entire region.



12 Days of Giving

Community Bank of the Chesapeake took to social media to raise awareness of 12 deserving local organizations that do great things for the community. The selected charitable groups promoted a wide array of causes, from feeding and providing shelter for those in need to animal welfare, the environment and literacy.

The bank featured one per day over a 12-day period on its Facebook page. Every time a user "Liked" the bank's post, the bank donated \$1 (up to 100 Likes) to the particular organization being featured. In addition, the bank donated a base amount of \$250 to each group, for a total amount of up to \$350 given to each cause.

"We sponsored this promotion because we feel strongly about supporting local organizations that have a passion for service and community. We were hoping to inspire others to get involved, lend a hand, back a special cause and do their part to drive this community to its fullest potential," said Diane Hicks, Vice President, Director of Marketing.



At or for the Years Ended December 31,

(dollars in thousands, except per share amounts)

2016 **2015** **2014** **2013** **2012**

FINANCIAL CONDITION DATA

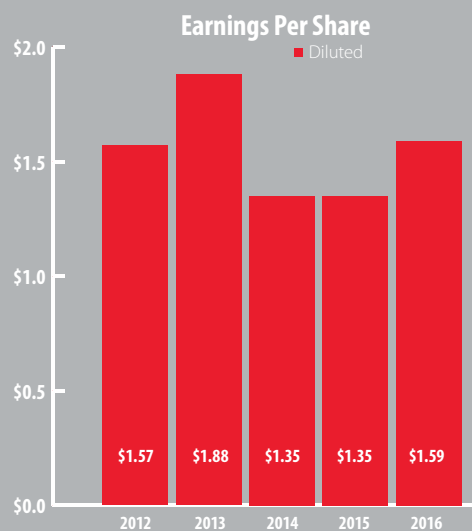
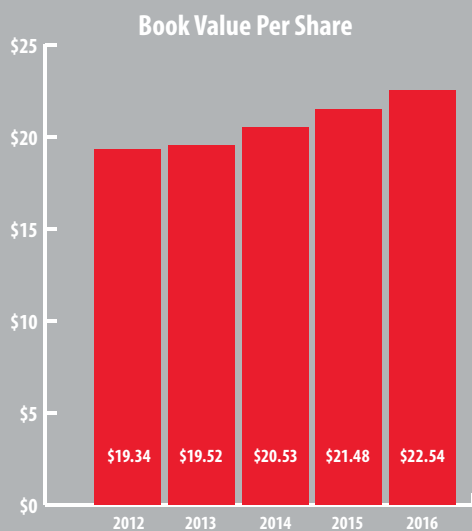
Total assets	\$ 1,334,257	\$ 1,143,332	\$ 1,082,878	\$ 1,023,824	\$ 981,639
Loans receivable, net	1,079,519	909,200	862,409	799,130	747,641
Investment securities	162,280	144,536	126,445	134,648	159,825
Deposits	1,038,825	906,899	869,384	821,295	820,231
Borrowings	144,559	91,617	76,672	70,476	61,527
Junior subordinated debentures	12,000	12,000	12,000	12,000	12,000
Subordinated notes - 6.25%	23,000	23,000	-	-	-
Stockholders' equity-preferred	-	-	20,000	20,000	20,000
Stockholders' equity-common	104,426	99,783	96,559	90,730	59,047

OPERATING DATA

Interest and dividend income	\$ 48,047	\$ 43,873	\$ 41,759	\$ 39,678	\$ 40,293
Interest expenses	8,142	7,345	6,698	7,646	10,604
Net interest income (NII)	39,905	36,528	35,061	32,032	29,689
Provision for loan losses	2,359	1,433	2,653	940	2,529
NII after provision for loan losses	37,546	35,095	32,408	31,092	27,160
Noninterest income	3,360	3,299	4,093	4,174	4,410
Noninterest expenses	29,159	28,418	26,235	24,844	23,804
Income before income taxes	11,747	9,976	10,266	10,422	7,766
Income taxes	4,416	3,633	3,776	3,771	2,776
Net income	7,331	6,343	6,490	6,651	4,990
Preferred stock dividends declared	-	23	200	200	200
Income available to common shares	\$ 7,331	\$ 6,320	\$ 6,290	\$ 6,451	\$ 4,790

COMMON SHARE DATA ^(A)

Basic earnings per common share	\$ 1.59	\$ 1.36	\$ 1.35	\$ 1.90	\$ 1.57
Diluted earnings per common share	1.59	1.35	1.35	1.88	1.57
Dividends declared per common share	0.40	0.40	0.40	0.40	0.40
Book value per common share ⁽¹⁾	22.54	21.48	20.53	19.52	19.34



(dollars in thousands, except per share amounts)	At or for the Years Ended December 31,				
	2016	2015	2014	2013	2012
SELECTED FINANCIAL RATIOS					
Tier 1 capital to average assets (Leverage)	9.02%	10.01%	12.24%	12.5%	9.39%
Total risk-based capital to risk-weighted assets	13.60	14.58	15.21	15.62	12.84
Return on average assets	0.60	0.58	0.63	0.69	0.52
Return on average common equity	7.09	6.33	6.69	9.38	8.29
Interest rate spread	3.35	3.48	3.55	3.45	3.18
Net interest margin	3.48	3.60	3.68	3.56	3.31
Efficiency ratio ⁽²⁾	67.40	71.35	67.00	68.62	69.81
Net operating expense to average assets ⁽³⁾	2.10	2.30	2.16	2.13	2.01

SELECTED ASSET QUALITY DATA					
Classified assets	39,246	43,346	54,022	56,880	58,595
Allowance for loan losses	9,860	8,540	8,481	8,138	8,247
Non-accrual loans ⁽⁴⁾	8,374	11,433	10,263	15,451	13,141
Other Real Estate Owned (OREO)	7,763	9,449	5,883	6,797	6,891
Classified assets to total assets	2.94%	3.79%	4.99%	5.56%	5.97%
Classified assets to risk-based capital	26.13	30.19	39.30	43.11	59.02
Allowance for loan losses to total loans	0.91	0.93	0.97	1.01	1.09
Net charge-offs to avg. outstanding loans	0.11	0.16	0.28	0.14	0.27
Non-accrual loans to total loans	0.77	1.24	1.18	1.91	1.74
Non-accrual loans and OREO to total assets	1.21	1.83	1.49	2.17	2.04

^(A) 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.

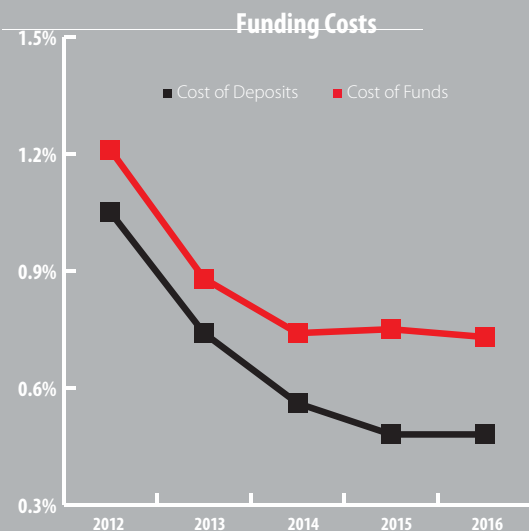
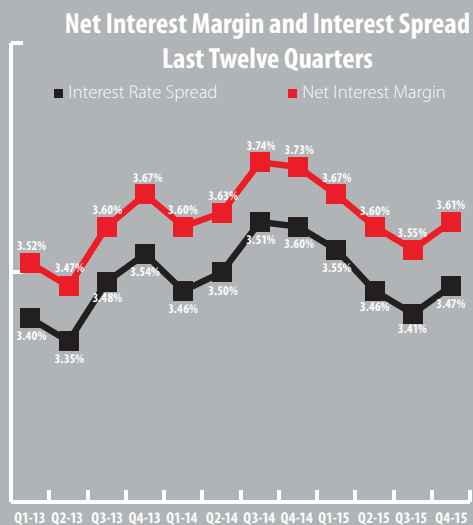
⁽¹⁾ The Company had no intangible assets as of the dates indicated. Thus, tangible book value per share is the same as book value per share for each of the periods indicated.

⁽²⁾ Efficiency ratio is noninterest expense divided by the sum of net interest income and noninterest income.

⁽³⁾ Net operating expense is the sum of noninterest expense offset by noninterest income.

⁽⁴⁾ Non-accrual loans include all loans that are 90 days or more delinquent and loans that are non-accrual due to the operating results or cash flows of a customer.

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.





Branch and Lending Office Locations

Anne Arundel County, Maryland

Annapolis – Commercial Lending Center

Calvert County, Maryland

Dunkirk

Lusby

Prince Frederick

Prince Frederick – Commercial Lending Center

Charles County, Maryland

Bryans Road

La Plata

La Plata – Commercial Lending Center

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

St. Mary's County, Maryland

Charlotte Hall

Leonardtown

Lexington Park

City of Fredericksburg, Virginia

Central Park – Branch and Commercial Lending Center

Downtown



Shareholder and Investor Relations

Barbara Lucas

Shareholder Relations

Community Bank of the Chesapeake

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