



The Community
Financial Corporation



2018 Summary 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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Cover Photo by Clara Nell Stelzer

Shareholder Letter

Dear Shareholder,

The past year was truly eventful for The Community Financial Corporation and its banking subsidiary, Community Bank of the Chesapeake. On January 1, 2018, we completed the acquisition of County First Bank. Management's work on systems integration and branch reduction continued for several quarters of the year. The migration entailed a planned approach to meet with County First customers and employees; welcoming them to Community Bank of the Chesapeake. With similar cultures and long-standing commitment to our communities, the combination of the two organizations was well executed and very successful in customer and employee retention.

After conversion, the Company and Bank began the process of leveraging acquired resources and creating operational efficiencies. As a result, our Earnings per Share and Return on Average Assets returned to a more normalized level in the third quarter. The merger provided a boost to our asset size of approximately \$200 million and, more importantly, provided us with many valuable customers and team members. After the merger completion, our focus returned to concentrating on organic growth and market penetration.

During the course of the year, the Bank launched new technology driven products and services to our growing number of customers; facilitating an improved interface with their accounts and devices. Our data analysis identified the level and nature of our transactions that are conducted through electronic channels. Through strategic partnering with financial services technology providers, our scope of services and fee generating products significantly increased.

In late December, your Board announced a managerial transition plan to address the growing demands on executive talent and anticipation of upcoming retirements among our executive management team. Our Chief Operating Officer, Jim Di Misa, retired on March 31, 2019, and our Chief Lending Officer, Greg Cockerham, will retire at the end of 2019. Both executives have been of immense value to the Company and Bank and are responsible for much of our success as a true community bank. Both will continue in their roles as directors at the Bank by offering their knowledge and expertise in our future endeavors.

With the management transition in place, the Bank's and Company's strategic business plan is to expand our profitable market share throughout our footprint with particular focus in the greater Fredericksburg, Virginia region.

In consideration of our expanded shareholder base and continued success of the Company, your Board increased its quarterly dividend to 12.5 cents per share beginning in 2019. Our dividend policy has been achieved through safe and sound growth as well as our community centered business practices at Community Bank of the Chesapeake and The Community Financial Corporation. Your Board of Directors and management team are eager to build on the progress of 2018, and optimistically look forward to the future. Your ongoing support and advocacy is greatly appreciated.

Sincerely,



Michael L. Middleton
Chairman of the Board



William J. Pasenelli
President and CEO



Back Row (L to R): James R. Shepherd / Austin J. Slater, Jr. / M. Arshed Javaid / Joseph V. Stone, Jr. / Louis P. Jenkins, Jr. / E. Larry Sanders, III / Gregory C. Cockerham / James F. Di Misa / Kathryn M. Zabriskie / James M. Burke
Front Row (L to R): Kimberly Briscoe-Tonic / Michael L. Middleton / William J. Pasenelli / Mary Todd Peterson

Not pictured: John K. Parlett, Jr.



Welcome Scott Ebron

In 2018, we warmly welcomed B. Scot Ebron to our Executive Management Team. Scot serves as our Executive Vice President and Virginia Market Banking Officer. Scot brings extensive leadership and business development experience to the organization. His experience, knowledge and professional networks in the community will be invaluable as we continue to expand within the market and a nice complement to the talented team we have in place. Scot joins the Fredericksburg team, including lenders, wealth advisors, executives and business development team members in Fredericksburg, VA.

Scot has a long history in banking. Most recently, he served as Executive Vice President at Virginia Partners Bank, serving as the head of Maryland operations. Prior to joining Virginia Partners, Scot served in other market executive positions with PNC and Mercantile Southern Maryland Bank. Scot received his Bachelor of Arts in Economics from the University of North Carolina at Chapel Hill. He is a dedicated member of the community and currently serves as a Board Member at Maryland Veterans Memorial Museum.

Management Team



Back Row (L to R): Todd Capitani, EVP, Chief Financial Officer / Christy M. Lombardi, EVP, Chief Administrative Officer / James F. Di Misa, EVP, Chief Operating Officer / Gregory C. Cockerham, EVP, Chief Lending Officer
Front Row (L to R): William J. Pasenelli, Chief Executive Officer / James M. Burke, President

“ It is a pleasure to join Community Bank of the Chesapeake. As the Bank continues to grow in the region, I am honored to work alongside Tony Farland, Senior Vice President and Senior Lender, and the talented team in place in the market. Building on the foundation this team has established within this market positions the bank for continued growth and allows us to further serve the banking and lending needs of those in the community ”

— Scot Ebron

2018

Management Team Enhancements

With the pending retirements of Jim Di Misa, Executive Vice President and Chief Operating Officer and Greg Cockerham, Executive Vice President and Chief Lending Officer in 2019, 2018 was a time for preparing, and implementing a leadership transition plan which included elevating members of the Bank's management team to Executive Vice President effective January 1, 2019. This new management team of seasoned bankers, with their strategic focus and ability to drive results, will play an integral role in our continued success.

Daryl Motley, Executive Vice President, Controller and Treasurer will be responsible for oversight of treasury, asset liability management and SEC filings.

Don Parsons, Executive Vice President, Senior Lender will oversee the lending teams in Calvert and Anne Arundel County.

Ernie Williams, Executive Vice President, Senior Lender will be responsible for overseeing the lending teams in Charles and St. Mary's County.

John Chappelle, Executive Vice President, Digital Banking Officer will lead the Commercial Services and Business Banker departments, while executing initiatives to further the Bank's progress in digital banking.

Karrie Wood, Executive Vice President, Director of Retail Banking will be responsible for overseeing the Bank's branch network and driving deposit and sales growth in the Maryland and Virginia markets.

Lacey Pierce, Executive Vice President, Administrative Affairs Officer will be accountable for corporate administration responsibilities and provide leadership to the Lending Administration, Marketing and Facilities departments.

Patrick Pierce, Executive Vice President, Maryland Market Banking Officer will oversee the Maryland lending teams and Community Wealth Advisors.

Talal Tay, Executive Vice President, Risk Officer will be responsible for enterprise risk management as well as oversight of the Compliance, Credit and Loan Review departments.

Thomas Erickson, Executive Vice President, Senior Credit Officer will provide leadership for the Credit Department and continue to monitor the Bank's loan portfolio.

Tony Farland, Executive Vice President, Senior Lender will oversee the Virginia lending team and growth in that market.



County First Bank Joins Community Bank of the Chesapeake

In May 2018, we completed the acquisition and transition of County First Bank to Community Bank of the Chesapeake. It was with great excitement that we welcomed the County First Bank community to Community Bank of the Chesapeake. The coming together of our two banks has allowed us to reach more people and businesses with creative solutions to help grow financially. As a true community bank, we are invested in financial success and driving our community to its fullest potential. We are grateful for the support of County First Bank, their team and customer throughout the process. It has been our pleasure to welcome new banking partners and community members.

**Joining forces
to exceed
expectations.**



Community Bank
of the Chesapeake

County *First*
BANK

“ With the coming together of our two banks, we have been able to add more value to your financial life and better position you for financial success and growth. We are grateful for the opportunity to serve you and to be your banking partner. ”

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 2018,
Community Bank
of the Chesapeake
donated over
\$210,000
and countless
volunteer hours
to community
organizations.**

Casual for a Cause

Supported 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 2018, employee contributions to Casual for a Cause totaled \$6,500, reaching over \$72,000 in total for Casual for a Cause since it began in 2004.



All proceeds raised in 2018 were donated to local organizations that help those who face hunger in our region. "Hunger is a real issue throughout our communities. On average, 1 out of 6 Americans struggle with hunger. We are grateful to have organizations dedicated to providing solutions to this issue and helping those in need," said Beverly Wood, Senior Vice President, Director of HR of Community Bank of the Chesapeake. "That is why we have selected organizations who help those who are hungry for this year's Casual for a Cause donations."

12 Days of Giving

Community Bank of the Chesapeake once again took to social media to raise awareness of 12 deserving local organizations that do great things for the community. The selected charitable groups promote a wide array of causes, from feeding the hungry 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 150 Likes) to the particular organization being featured. In addition, the bank donated a base amount of \$350 to each group, for a total amount of up to \$500 given to each cause.

"12 Days of Giving presents a unique and fun way for the Bank to help give to local non-profits during the holiday season," said Diane Hicks, Vice President and Director of Marketing of Community Bank of the Chesapeake. "These charitable organizations provide so much for the community and we hope everyone will join us in helping support them - one like is all it takes!"

The 12 organizations chosen for Community Bank of the Chesapeake's 12 Days of Giving included: 1st Responder Canine, Calvert Hospice, Center for Children, End Hunger in Calvert County, Friends of Jefferson Patterson Park, Last Chance Animal Rescue, Loisann's Hope House, Patriot Springs, Patuxent Habitat for Humanity, Promise Resource Center, Sagepoint and The Arc of Central Chesapeake Region.



Community Cash Mob

In 2017, Community Bank of the Chesapeake launched the Community Cash Mob – an opportunity for Community Bank to show their support for local businesses and encourage the community to shop local. Since the launch, the Community Cash Mob has supported 23 local businesses and contributed over \$16,000 towards those local businesses.

Local businesses are the heart of every community and as a community bank we want to see our neighbors thrive. We are thrilled to have introduced the Community Cash Mob and look forward to continuing to shine light on the unique retailers, restaurants and businesses that make up and support our community.



“ As a business owner, I'm very grateful for your emphasis on the idea of shopping small and the extra attention you provided for our business. From the video interview you made, to the excitement you provided the day of, it's clear you went above and beyond. All our customers seemed very excited and full of energy that morning too, so I know the event was well-received! ”

— MJ, Agora Downtown Coffee Shop



The Community Cash Mob is an organized group of bank employees who visit a local business during a set day and time. During this time, our Cash Mob team spends an allotted amount of funds, donated by the Bank, at the chosen business. The Cash Mob welcomes community members to join them by providing the first 50 customers with \$10 vouchers towards their purchase that day. What better way to support and Shop Local?

To learn more about the Community Cash Mob, visit ctbc.com/cashmob or follow us on Facebook for updates.



“ I recently had a customer come in and say it was her first time at the store and that she had not thought about coming until she heard about the Cash Mob, she is now a regular customer. It's exciting that the cash mob brings in people who may not have come otherwise ”

— Barbara, Wild Birds Unlimited

Financial Scholars Program



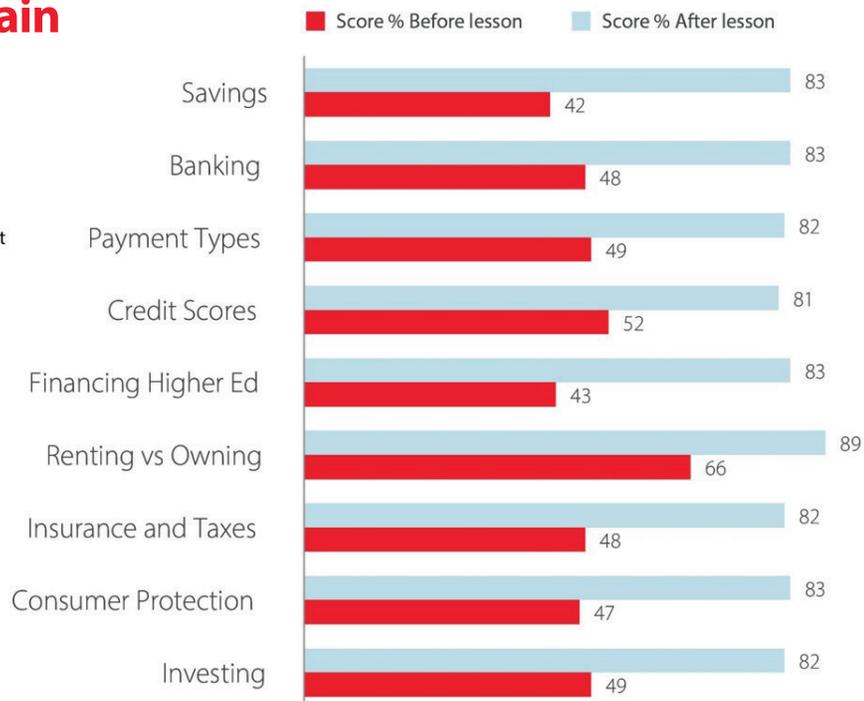
At Community Bank of the Chesapeake, we value financial literacy and educating those in our communities. We are extremely proud of our Financial Scholars Program, utilized by many teachers throughout our region's schools. These educators make financial education a priority in their classroom and we are honored to be able to provide them the program/curriculum. Thank you for educating, inspiring and nurturing the students in our community!

The Financial Scholars Program, powered by Everfi, helps students develop the skills necessary to making responsible financial decisions. The platform makes learning lifelong financial skills engaging, relatable and fun.

Knowledge Gain

EVERFI

After participating in Community Bank of the Chesapeake's Financial Scholars Program, our students increased their scores on assessment tests by an average of 68%. Here's how they performed by topic:



Current Program Reach

<p>REACH</p> <p>So far this academic year our program has reached:</p>	<p>3,303 Students</p>	<p>16 Schools 17 Courses</p>	<p>IMPACT</p> <p>Our program is lives, as evidence by:</p>	<p>15,203 Modules</p> <p>Learning modules completed by students.</p>	<p>In total, students spent</p> <p>11,398 Hours</p> <p>Learning critical skills.</p>
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(dollars in thousands, except per share amounts)	At or for the Years Ended December 31,				
	2018	2017	2016	2015	2014
FINANCIAL CONDITION DATA					
Total assets	\$ 1,689,227	\$ 1,405,961	\$ 1,334,257	\$ 1,143,332	\$ 1,082,878
Loans receivable, net	1,337,129	1,140,615	1,079,519	909,200	862,409
Investment securities	220,884	167,531	162,280	144,536	126,445
Goodwill	10,835	-	-	-	-
Core deposit intangible	2,806	-	-	-	-
Deposits	1,429,629	1,106,237	1,038,825	906,899	869,384
Borrowings	55,436	142,998	144,559	91,617	76,672
Junior subordinated debentures	12,000	12,000	12,000	12,000	12,000
Subordinated notes - 6.25%	23,000	23,000	23,000	23,000	-
Stockholders' equity—preferred	-	-	-	-	20,000
Stockholders' equity—common	154,482	109,957	104,426	99,783	96,559

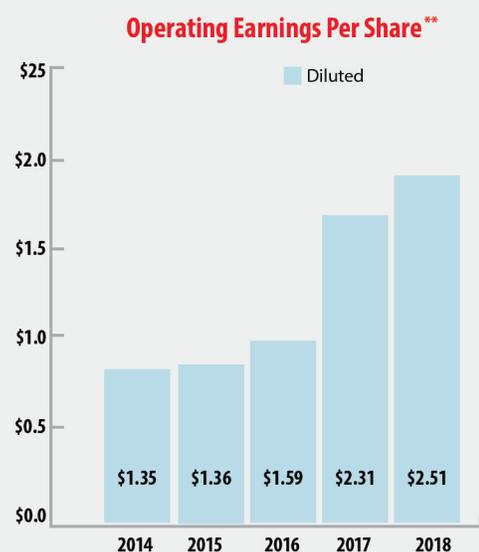
OPERATING DATA

Interest and dividend income	\$ 65,173	\$ 53,570	\$ 48,047	\$ 43,873	\$ 41,759
Interest expenses	14,286	10,182	8,142	7,345	6,698
Net interest income (NII)	50,887	43,388	39,905	36,528	35,061
Provision for loan losses	1,405	1,010	2,359	1,433	2,653
NII after provision for loan losses	49,482	42,378	37,546	35,095	32,408
Noninterest income	4,068	4,041	3,796	3,299	4,093
Noninterest expenses	38,149	30,054	29,595	28,418	26,235
Income before income taxes	15,401	16,365	11,747	9,976	10,266
Income taxes	4,173	9,157	4,416	3,633	3,776
Net income	11,228	7,208	7,331	6,343	6,490
Preferred stock dividends declared	-	-	-	23	200
Income available to common shares	\$ 11,228	\$ 7,208	\$ 7,331	\$ 6,320	\$ 6,290

COMMON SHARE DATA

Basic earnings per common share	\$ 2.02	\$ 1.56	\$ 1.59	\$ 1.36	\$ 1.35
Diluted earnings per common share	2.02	1.56	1.59	1.35	1.35
Dividends declared per common share	0.40	0.40	0.40	0.40	0.40
Book value per common share	27.70	23.65	22.54	21.48	20.53
Tangible book value per common share (1)**	25.25	n/a	n/a	n/a	n/a

**See Non-GAAP ratios on page 13



(dollars in thousands, except per share amounts)	At or for the Years Ended December 31,				
	2018	2017	2016	2015	2014
SELECTED FINANCIAL RATIOS					
Return on average assets	0.70%	0.52%	0.60%	0.58%	0.63%
Return on average common equity	7.53%	6.55%	7.09%	6.33%	6.69%
Net interest margin	3.43%	3.37%	3.48%	3.60%	3.68%
Efficiency ratio (2)	69.42%	63.37%	67.72%	71.35%	67.00%
Net operating expense to average assets(3)	2.13%	1.89%	2.10%	2.30%	2.16%
Tier 1 capital to average assets (Leverage)	9.50%	8.79%	9.02%	10.01%	12.24%
Total risk-based capital to risk-weighted assets	13.68%	13.40%	13.60%	14.58%	15.21%
Common equity to assets	9.15%	7.82%	7.83%	8.73%	8.92%
Tangible common equity to tangible assets (1)	8.41%	n/a	n/a	n/a	n/a

SELECTED ASSET QUALITY DATA AND RATIOS					
Classified assets	40,819	50,298	39,246	43,346	54,022
Allowance for loan losses	10,976	10,515	9,860	8,540	8,481
Non-accrual loans (4)	19,282	4,693	8,374	11,433	10,263
Accruing troubled debt restructures (TDRs) (5)	6,676	10,021	10,448	13,133	13,249
Other Real Estate Owned (OREO)	8,111	9,341	7,763	9,449	5,883
Non-accrual loans, OREO and TDRs	\$ 34,069	\$ 24,055	\$ 26,585	\$ 34,015	\$ 29,395
Classified assets to total assets	2.42%	3.58%	2.94%	3.79%	4.99%
Classified assets to risk-based capital	21.54	32.10	26.13	30.19	39.30
Allowance for loan losses to total loans	0.81	0.91	0.91	0.93	0.97
Allowance for loan losses to non-accrual loans	56.92	224.06	117.75	74.70	82.64
Net charge-offs to avg. outstanding loans	0.07	0.03	0.11	0.16	0.28
Non-accrual loans to total loans	1.43	0.41	0.77	1.24	1.18
Non-accrual loans and OREO to total assets	1.62	1.00	1.21	1.83	1.49
Non-accrual loans, OREO and TDRs to total assets	2.02	1.71	1.99	2.98	2.71

⁽¹⁾ The Company had no intangible assets between 2014-2017. The acquisition of County FirstBank in January 2018 added intangible assets for goodwill and core deposits.

⁽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 non-interest expense offset by non-interest income.

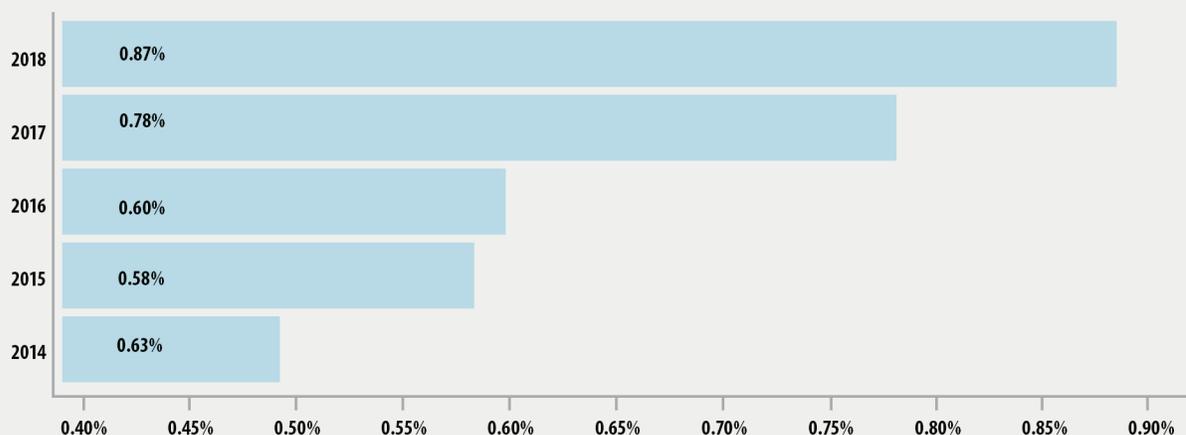
⁽⁴⁾ Non-accrual loans include all loans that are 90 days or more delinquent and loans that are non-accrual due to the operating results or cash flows of a customer.

⁽⁵⁾ TDR loans include both non-accrual and accruing performing loans. All TDR loans are included in the calculation of asset quality financial ratios. Non-accrual TDR loans are included in the non-accrual balance and accruing TDR loans are included in the accruing TDR balance.

Please refer to the statements made regarding the use of non-generally accepted accounting principles (Non-GAAP) financial measures and forward-looking statements on the back cover of this Summary Annual Report.

****See Non-GAAP ratios on page 13**

Operating Return on Average Assets**



FINANCIALS - Non-GAAP Ratios

(dollars in thousands, except per share amounts)	Years Ended December 31, 2018	Years Ended December 31, 2017
Net income (as reported)	\$ 11,228	\$ 7,208
Impact of Tax Cuts and Jobs Act of 2017	-	2,740
Merger and acquisition costs (net of tax)	2,693	724
Non-GAAP operating net income	\$ 13,921	\$ 10,672
Income before income taxes (as reported)	\$ 15,401	\$ 16,365
Merger and acquisition costs ("M&A")	3,625	829
Adjusted pretax income	19,026	17,194
Income tax expense	5,105	6,522
Non-GAAP operating net income	\$ 13,921	\$ 10,672
GAAP diluted earnings per share ("EPS")	\$ 2.02	\$ 1.56
Non-GAAP operating diluted EPS before M&A	\$2.51	\$2.31
GAAP return on average assets ("ROAA")	0.70%	0.52%
Non-GAAP operating ROAA before M&A	0.87%	0.78%
GAAP return on average common equity ("ROACE")	7.53%	6.55%
Non-GAAP operating ROACE before M&A	9.34%	9.70%
Net income (as reported)	\$ 11,228	\$ 7,208
Weighted average common shares outstanding	5,550,510	4,629,228
Average assets	\$ 1,603,393	\$ 1,376,983
Average equity	149,128	109,979
(dollars in thousands, except per share amounts)	December 31, 2018	December 31, 2017
Total assets	\$ 1,689,227	\$ 1,405,961
Less: intangible assets		
Goodwill	10,835	-
Core deposit intangible	2,806	-
Total intangible assets	13,641	-
Tangible assets	\$ 1,675,586	\$ 1,405,961
Total common equity	\$ 154,482	\$ 109,957
Less: intangible assets	13,641	-
Tangible common equity	\$ 140,841	\$ 109,957
Common shares outstanding at end of period	5,577,559	4,649,658
GAAP common equity to assets	9.15%	7.82%
Non-GAAP tangible common equity to tangible assets	8.41%	7.82%
GAAP common book value per share	\$ 27.70	\$ 23.65
Non-GAAP tangible common book value per share	\$ 25.25	\$ 23.65

Please refer to the statements made regarding the use of non-GAAP financial measures and forward-looking statements on the back cover of this Summary Annual Report.



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 - Downtown

La Plata - Drury Drive

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

St. Mary's County, Maryland

Charlotte Hall

Leonardtown

Lexington Park

City of Fredericksburg, Virginia

10 Chatham Heights Road - Commercial Lending Center

Downtown



Shareholder and Investor Relations

Barbara Lucas

Shareholder Relations

Community Bank of the Chesapeake

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The common stock of The Community Financial Corporation (symbol: TCFC) trades on the NASDAQ Stock Exchange. The Summary 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 and should be read in conjunction with this report.

Use of non-GAAP Financial Measures - Statements included in this Summary Annual Report include non-GAAP financial measures and should be read along with the accompanying tables, which provide a reconciliation of non-GAAP financial measures to GAAP financial measures. The Company's management uses these non-GAAP financial measures, and believes that non-GAAP financial measures provide additional useful information that allows readers to evaluate the ongoing performance of the Company. Non-GAAP financial measures should not be considered as an alternative to any measure of performance or financial condition as promulgated under GAAP, and investors should consider the Company's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the Company. Non-GAAP financial measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the results or financial condition as reported under GAAP.

Forward-looking Statements - This Summary Annual Report may contain forward-looking statements within the meaning of the federal securities laws. Forward-looking statements can generally be identified by the fact that they do not relate strictly to historical or current facts. They often include words like "believe," "expect," "anticipate," "estimate" and "intend" or future or conditional verbs such as "will," "would," "should," "could" or "may." Statements in this release that are not strictly historical are forward-looking and are based upon current expectations that may differ materially from actual results. These forward-looking statements include, without limitation, those relating to the Company's and Community Bank of the Chesapeake's future growth and management's outlook or expectations for revenue, assets, asset quality, profitability, business prospects, net interest margin, non-interest revenue, allowance for loan losses, the level of credit losses from lending, liquidity levels, capital levels, or other future financial or business performance strategies or expectations, and any statements of the plans and objectives of management for future operations products or services, including the expected benefits from, and/or the execution of integration plans relating to the County First acquisition; plans and cost savings regarding branch closings or consolidation; any statement of expectation or belief; projections related to certain financial metrics; and any statement of assumptions underlying the foregoing. These forward-looking statements express management's current expectations or forecasts of future events, results and conditions, and by their nature are subject to and involve risks and uncertainties that could cause actual results to differ materially from those anticipated by the statements made herein. Factors that might cause actual results to differ materially from those made in such statements include, but are not limited to: the synergies and other expected financial benefits from the County First acquisition may not be realized within the expected time frames; costs or difficulties related to integration matters might be greater than expected; general economic trends; changes in interest rates; loss of deposits and loan demand to other financial institutions; substantial changes in financial markets; changes in real estate value and the real estate market; regulatory changes; the possibility of unforeseen events affecting the industry generally; the uncertainties associated with newly developed or acquired operations; the outcome of litigation that may arise; market disruptions and other effects of terrorist activities; and the matters described in "Item 1A Risk Factors" in the Company's Annual Report on Form 10-K for the Year Ended December 31, 2018, and in its other Reports filed with the Securities and Exchange Commission (the "SEC"). The Company's forward-looking statements may also be subject to other risks and uncertainties, including those that it may discuss elsewhere in this news release or in its filings with the SEC, accessible on the SEC's Web site at www.sec.gov. The Company undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unforeseen events, except as required under the rules and regulations of the SEC.