



**The Community**  
*Financial Corporation*



2017 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 Suzanne Cassidy

# Shareholder Letter

Dear Shareholder,

As we reflect on our performance in 2017, we are extremely proud of the many accomplishments the organization was able to achieve. It was one of the most exciting and important years in the history of our organization. The year continued our very positive trend of earnings improvement over the prior year. This was the result of a carefully executed strategy which relied on the continued growth of the Bank while managing the rate of growth and operating expenses. The result was reflected in our shareholder value appreciation.

The rise in market capitalization led to the inclusion of the Company in the Russell 2000 Index. This index, which is made up of 2,000 of the top 3,000 largest publicly traded companies, collectively represents a large portion of the stock market in the United States. Inclusion in this index means that the Company's stock will be more widely purchased by mutual funds seeking to mirror the index. Overall, inclusion in the Russell 2000 should create considerably higher trading volume in the Company's stock and better liquidity for our shareholders. We are proud that our efforts and commitment to increasing shareholder value has accomplished this strategic objective.

While our business strategy is to focus on organic growth, the Company is always seeking opportunities through acquisition of financial institutions. As a result of these efforts, the Company announced its intent to acquire County First Bank in July 2017. County First Bank represented a natural fit for our Company with a sound core deposit base in Southern Maryland. Our two banks have much in common, including our dedication to putting customers, employees, shareholders and community first. We believe that the acquisition of the County First Bank franchise should add significantly to our Company and Bank performance in 2018 and beyond.

Over the past several months, our management and staff have enjoyed working with County First Bank customers, many of whom are also our customers. We are delighted to expand our branch network with the addition of the Downtown La Plata branch. In addition, E. Larry Sanders, III, Chairman of County First Bank's Board of Directors, joined the Company and Bank Board of Directors in 2018. We welcome Larry, and his insight, wealth of knowledge and experience in the banking and financial industry.

As you are aware, the United States had one of the highest corporate income tax rates in the developed world. As a result, many large U.S. companies moved operations overseas for tax reasons. Community banks and their holding companies pay some of the highest corporate tax rates in the United States, while credit unions are exempt from taxation. In late 2017, Congress and the President moved to address this issue by effectively reducing corporate tax rates through the Tax Cuts and Jobs Act of 2017. Although this will be very beneficial to the Company and Bank in 2018 and beyond, the decreased tax rates caused the Bank and Company to revalue deferred tax assets as of December 2017. This downward revision in deferred tax asset values, combined with one-time merger and acquisition costs, caused a net loss for the fourth quarter of 2017. While these one-time charges reduced net income for the year, operating income continued to improve.

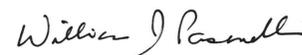
In 2018, the fair value accounting adjustment related to the acquisition of County First Bank will continue through the first half of 2018. The tax rate reduction and the expected cost savings from the acquisition should favorably impact subsequent quarters. We are excited by the positive changes in the Company results that we believe will occur in 2019 and beyond.

Throughout 2017, our Company and Bank continued to grow and prosper. We are eager to build on the many successes achieved over the past year and your ongoing support and advocacy is greatly appreciated.

Sincerely,



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



We are pleased, and honored, to have E. Lawrence "Larry" Sanders, III, County First Bank Chairman of the Board, join the Company and Bank Board of Directors in 2018. Mr. Sanders is a founding member of the Board of Directors of County First Bank and most recently served as Chairman of the Board since his appointment in 2014. Prior to serving as Chairman, Mr. Sanders served as Vice Chairman for over 12 years. As Chairman of the County First Bank Board of Directors, Larry brings to The Community Financial Corporation his expertise, insight, guidance and wealth of knowledge of the financial and banking industry.

Mr. Sanders is a third-generation owner of Edward L. Sanders Insurance Agency and began his insurance career in 1975. He obtained his Property and Casualty license in 1975 from Mutual Education Insurance Foundation, his Certified Insurance Counselor designation in 1979 and became a licensed Insurance Advisor in 1981. He graduated from NC State University in 1978 with a BA in Business and a BA in Economics. Mr. Sanders is active in the community and currently a member, and past President, of the Charles County Rotary Club.

# Management Team



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

Front Row (L to R): James M. Burke, President and Chief Risk Officer / William J. Pasenelli, Chief Executive Officer

# 2017

## County First Bank joins Community Bank of the Chesapeake

In July, The Community Financial Corporation and County First Bank jointly announced that they have signed a definitive agreement pursuant to which County First Bank, headquartered in La Plata, MD, will be merged with and into Community Bank of the Chesapeake.

Very much like Community Bank of the Chesapeake, County First Bank has a long history of building long term partnerships with businesses, individuals and families throughout Southern Maryland. The coming together of our two community banks puts our Bank in an even better

position to deliver exceptional products and services that exceed the expectations of our customers in Southern Maryland.

Founded in 1990, County First had deposits of \$209 million and loans of \$156 million, as of June 30, 2017, with branches in Charles, Calvert and St. Mary's County.

"We have admired County First for quite some time and are excited to now be able to partner with them," stated William J. Pasenelli, Chief Executive Officer of Community Bank of the Chesapeake.

"Our organizations share many common attributes, including an intense focus on the employee and customer experience. The transaction will further strengthen Community Bank of the Chesapeake's position as the number one deposit holder in the tri-county area. We are looking forward to working with the County First team to make this new partnership a success for our employees, customers, shareholders and communities."

On January 1, 2018, County First Bank officially joined Community Bank of the Chesapeake with the legal close of the transaction.

As we welcome County First Bank customers, we are committed to delivering the same outstanding service they have come to expect from a true community bank vested in our communities. Many of the same local, friendly faces County First customers have banked with over the years are still here to serve them, and look forward to continuing to doing so.

Our two operating systems will merge the weekend of May 5-6, 2018, at which time County First Bank customers will officially become Community Bank of the Chesapeake customers and the merger project will be completed.

We are grateful for the continued support the County First Bank community has shown, and for the opportunity to be their banking partner.

**Joining forces  
to exceed  
expectations.**



**Community Bank**  
*of the Chesapeake*

County *First*  
BANK



## The Community Financial Corporation Added to Russell 2000® Index

The Community Financial Corporation was added to the Russell 3000® Index and Russell 2000® Index when Russell Investments reconstituted its comprehensive set of U.S. and global equity indexes on June 26, 2017.

"We are happy that our efforts to increase shareholder value have led to inclusion in the Russell 2000® Index," said William Pasenelli, Community Bank of the Chesapeake Chief Executive Officer. "Our entire team is excited by this recognition."

The annual reconstitution of the Russell 3000® captures the 3,000 largest U.S. stocks as of the end of May, ranking them by total market capitalization. The largest 1,000 companies in this

ranking comprise the Russell 1000® and the next 2,000 companies become Russell 2000®. The Russell 3000® also serves as the U.S. component to the Russell Global Index, which Russell launched in 2007.

Russell indexes are widely used by investment agencies and institutional investors for both index funds and as benchmarks for passive and active investment strategies. In the U.S. marketplace, approximately 99% of the U.S. equity assets are benchmarked by the Russell 3000®, representing more than \$8.5 trillion. The Company will hold its membership until FSSE Russell reconstitutes it indexes in June 2018.

### Tax Cuts and Jobs Reform Act of 2017

In December 2017, Congress and the President passed into law the Tax Cuts and Jobs Act of 2017. The passing of the Act is a big win for the Bank, and the banking industry, as it should improve our Company's profitability significantly in 2018 with a decrease in the federal corporate tax rate. The passing of the tax legislation increases the financial strength of the Company.



# 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 2017,  
Community Bank  
of the Chesapeake  
donated over  
\$180,000  
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 of our employees' deep rooted devotion to Community Bank's philanthropic spirit. In 2017, employee contributions to Casual for a Cause totaled \$6,500, reaching over \$66,000 in total for Casual for a Cause since it began.

"We donated to local educational institutions this year, as a thank you for all they do for our community. We are honored to contribute to organizations who value education, knowledge and growth," said Diane Hicks, Vice President, Director of Marketing of Community Bank of the Chesapeake.



**ARC Central Chesapeake**

**St. Mary's Public Schools**

**Charles County Public Schools**

**Stafford Junction**

**Calvert County Public Schools**



## 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.

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.



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 [cbtc.com/cashmob](http://cbtc.com/cashmob) or follow us on Facebook for updates. Use #communitycashmob to tweet and share posts.



## 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 21<sup>st</sup> 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 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.

"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)

2017                      2016                      2015                      2014                      2013

## FINANCIAL CONDITION DATA

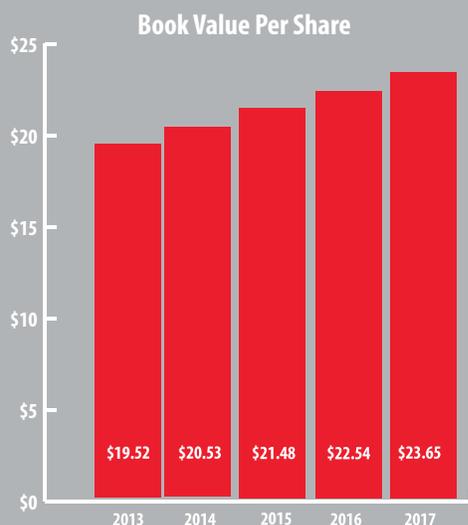
Total assets	\$ 1,405,961	\$ 1,334,257	\$ 1,143,332	\$ 1,082,878	\$ 1,023,824
Loans receivable, net	1,140,615	1,079,519	909,200	862,409	799,130
Investment securities	167,531	162,280	144,536	126,445	134,648
Deposits	1,106,237	1,038,825	906,899	869,384	821,295
Borrowings	142,998	144,559	91,617	76,672	70,476
Junior subordinated debentures	12,000	12,000	12,000	12,000	12,000
Subordinated notes - 6.25%	23,000	23,000	23,000	-	-
Stockholders' equity - preferred	-	-	-	20,000	20,000
Stockholders' equity - common	109,957	104,426	99,783	96,559	90,730

## OPERATING DATA

Interest and dividend income	\$ 53,570	\$ 48,047	\$ 43,873	\$ 41,759	\$ 39,678
Interest expenses	10,182	8,142	7,345	6,698	7,646
Net interest income (NII)	43,388	39,905	36,528	35,061	32,032
Provision for loan losses	1,010	2,359	1,433	2,653	940
NII after provision for loan losses	42,378	37,546	35,095	32,408	31,092
Noninterest income	4,084	3,360	3,299	4,093	4,174
Noninterest expenses	30,097	29,159	28,418	26,235	24,844
Income before income taxes	16,365	11,747	9,976	10,266	10,422
Income taxes	9,157	4,416	3,633	3,776	3,771
Net income	7,208	7,331	6,343	6,490	6,651
Preferred stock dividends declared	-	-	23	200	200
Income available to common shares	\$ 7,208	7,331	\$ 6,320	\$ 6,290	\$ 6,451

## COMMON SHARE DATA

Basic earnings per common share	\$ 1.56	\$ 1.59	\$ 1.36	\$ 1.35	\$ 1.90
Diluted earnings per common share	1.56	1.59	1.35	1.35	1.88
Dividends declared per common share	0.40	0.40	0.40	0.40	0.40
Book value per common share <sup>(1)</sup>	23.65	22.54	21.48	20.53	19.52



(dollars in thousands, except per share amounts)	At or for the Years Ended December 31,				
	2017	2016	2015	2014	2013
<b>SELECTED FINANCIAL RATIOS</b>					
Tier 1 capital to average assets (Leverage)	8.79%	9.02%	10.01%	12.24%	12.5%
Total risk-based capital to risk-weighted assets	13.40	13.60	14.58	15.21	15.62
Return on average assets	0.52	0.60	0.58	0.63	0.69
Return on average common equity	6.55	7.09	6.33	6.69	9.38
Interest rate spread	3.24	3.35	3.48	3.55	3.45
Net interest margin	3.37	3.48	3.60	3.68	3.56
Efficiency ratio <sup>(2)</sup>	63.40	67.40	71.35	67.00	68.62
Net operating expense to average assets <sup>(3)</sup>	1.89	2.10	2.30	2.16	2.13
<b>SELECTED ASSET QUALITY DATA</b>					
Classified assets	50,298	39,246	43,346	54,022	56,880
Allowance for loan losses	10,515	9,860	8,540	8,481	8,138
Non-accrual loans <sup>(4)</sup>	4,693	8,374	11,433	10,263	15,451
Other Real Estate Owned (OREO)	9,341	7,763	9,449	5,883	6,797
Classified assets to total assets	3.58%	2.94%	3.79%	4.99%	5.56%
Classified assets to risk-based capital	32.14	26.13	30.19	39.30	43.11
Allowance for loan losses to total loans	0.91	0.91	0.93	0.97	1.01
Net charge-offs to avg. outstanding loans	0.03	0.11	0.16	0.28	0.14
Non-accrual loans to total loans	0.41	0.77	1.24	1.18	1.91
Non-accrual loans and OREO to total assets	1.00	1.21	1.83	1.49	2.17

<sup>(1)</sup> 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.

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

<sup>(3)</sup> Net operating expense is the sum of noninterest expense offset by noninterest income.

<sup>(4)</sup> 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](http://cbtc.investorroom.com). The Company's Proxy Statement and Annual Report to Stockholders are available at [cbtc.com/proxyandannualreport](http://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 - Downtown

La Plata - Drury Drive

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 – Commercial Lending Center

Downtown



## Shareholder and Investor Relations

Barbara Lucas

Shareholder Relations

Community Bank of the Chesapeake

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