



**POTOMAC  
BANCSHARES**

2019

# PTBS Shareholder Meeting April 28, 2020

Virtual Meeting Format



# Forward-Looking Statements

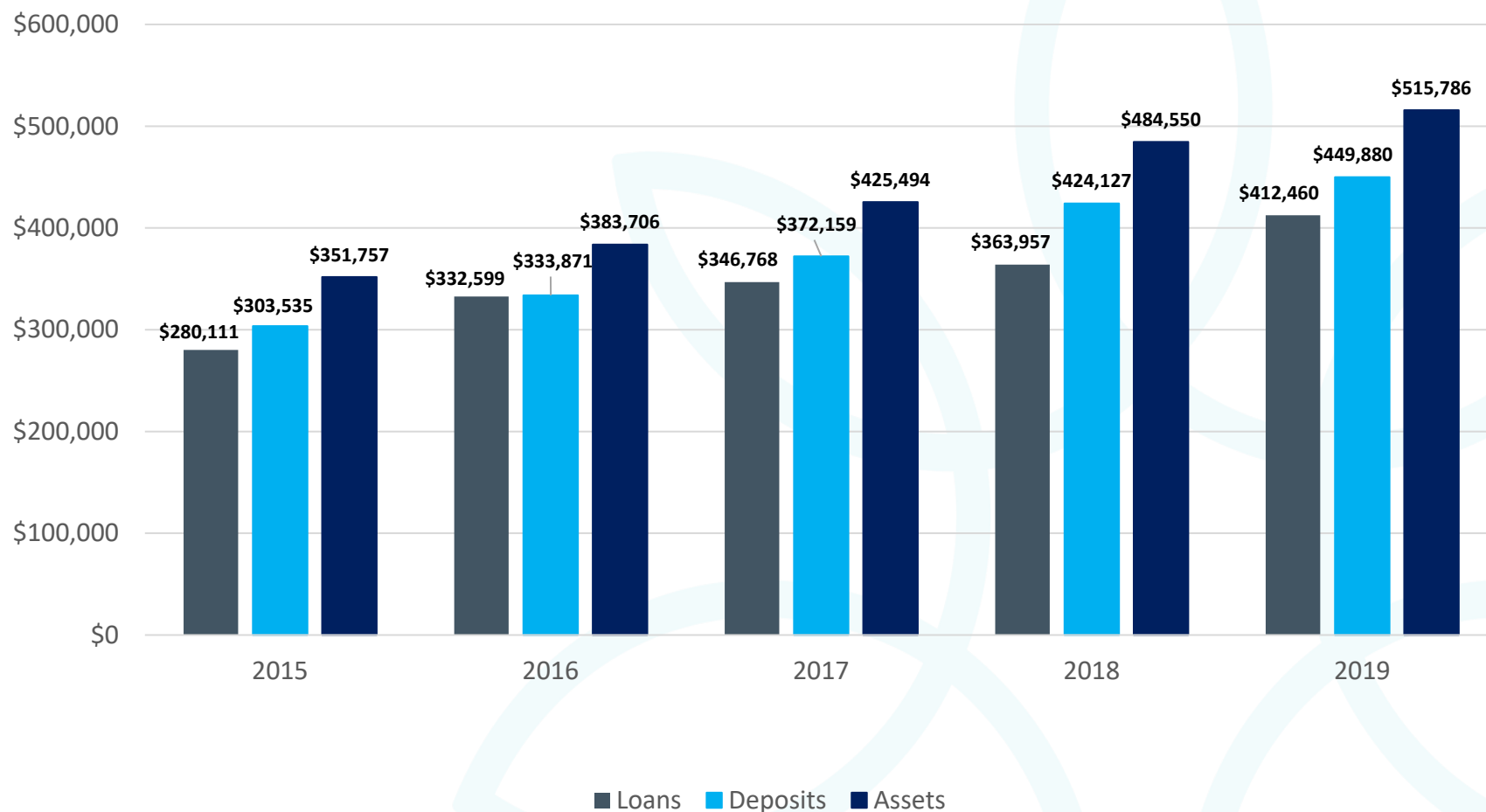
## A Warning about Forward-Looking Information

This presentation contains statements that are based on other than historical data and that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations or forecasts of future events and include, among others: (1) Statements with respect to the beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operations and performance of the Company and its subsidiaries (collectively “we,” “our,” or “us”); and (2) Statements preceded by, followed by or that include the words “may,” “could,” “should,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” “projects,” or similar expressions.

These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing the Company’s or the Bank’s views as of any subsequent date. Forward-looking statements involve significant risks and uncertainties and actual results may differ materially from those presented, either expressed or implied. Factors that might cause such differences include, but are not limited to: (1) The ability of the Company and the Bank to successfully execute its business plans, manage its risks, and achieve its objectives; (2) Changes in local, national and international political and economic conditions; (3) Changes in financial market conditions, either internationally, nationally or locally in areas in which the Company conducts its operations, including without limitation reduced rates of business formation and growth, commercial and residential real estate development and real estate prices; (4) Changes in interest rates, the quality and composition of the loan and securities portfolios, demand for loan products, deposit flows and competition; (5) Changes in fiscal, monetary, regulatory, trade and tax policies and laws, and regulatory assessments and fees; (6) Continuing consolidation in the financial services industry; (7) Legal claims against the Company; (8) Increased competitive challenges and expanding product and pricing pressures among financial institutions; (9) The ability of the Company and the Bank to develop new banking products, the cost of such development, the acceptance of such new products by the Company’s and Bank’s clientele and the impact of these new product’s on the Company’s and Bank’s profitability; (10) Technological changes and the Company’s implementation of new technologies, including how the cost of implementation impacts the Company’s profitability; (11) The Company’s ability to develop and maintain secure and reliable information technology systems; (12) Legislation or regulatory changes which adversely affect the Company’s operations or business; (13) The Company’s ability to comply with applicable laws and regulations, and the cost of such compliance; and (14) Except to the extent required by law, the Company specifically disclaims any obligation to update any factors or to publicly announce the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

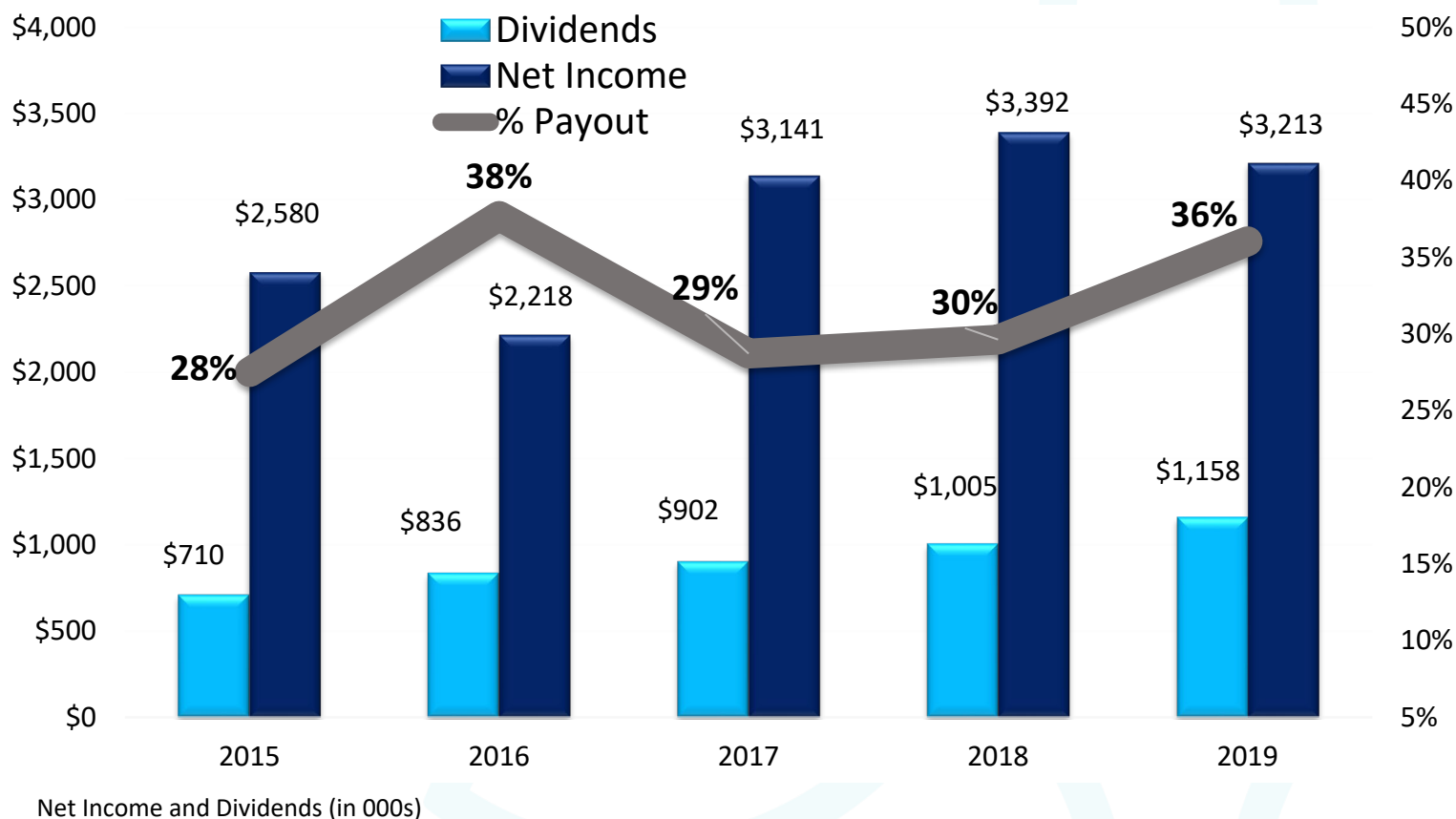
# 2019 Results And Accomplishments

# Balance Sheet Growth ('000s)



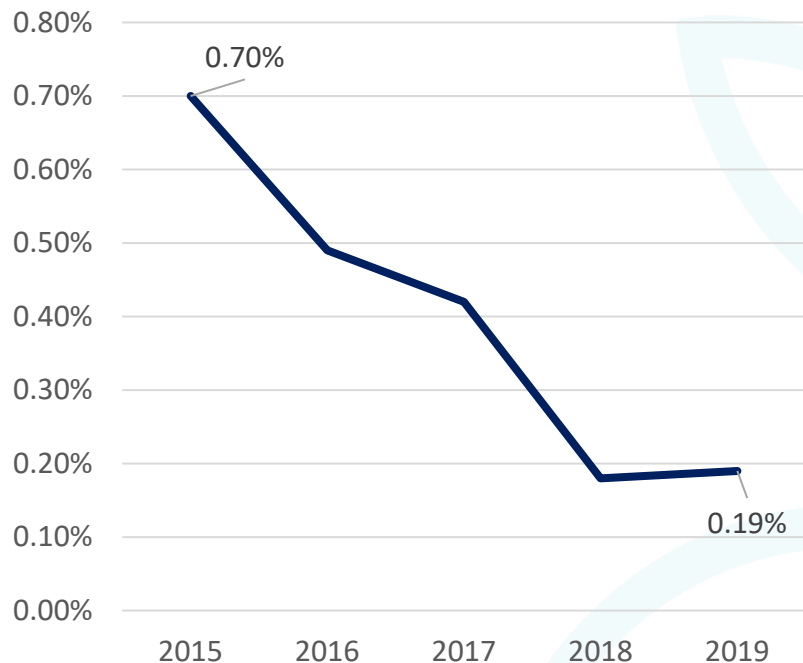
# Net Income & Dividends

Corporate growth investments and initiatives began July 2018



# Asset Quality

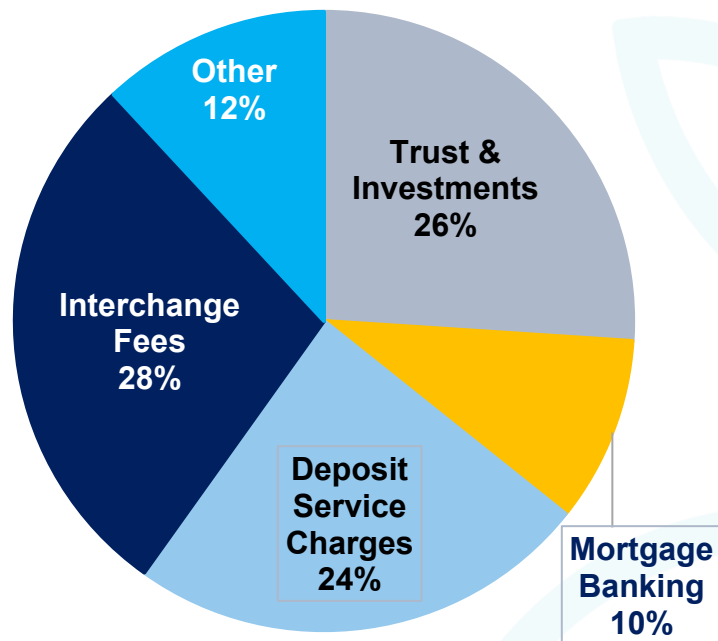
## Non Performing Assets to Total Assets



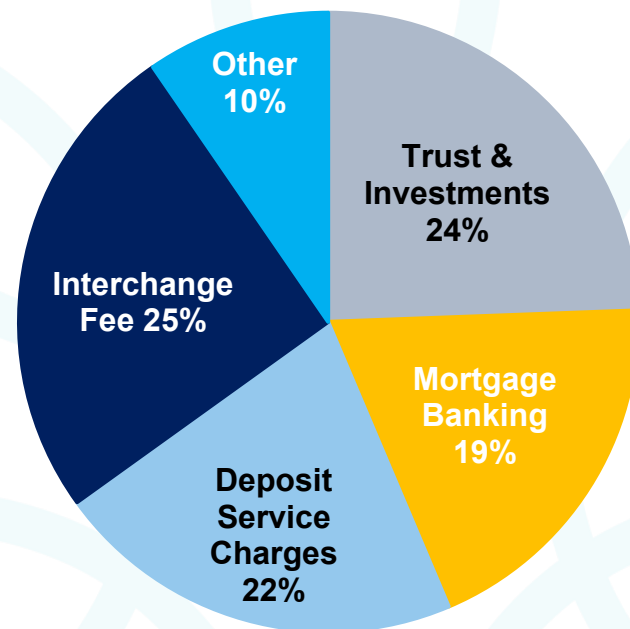
- Early 2018, strengthened credit culture and underwriting guidelines
- Early 2019, strengthened underwriting criteria for consumer lending
- Modified late pay behaviors in consumer portfolios beginning 2018
- Semi-annual credit score monitoring of consumer portfolios
- Focused commercial business development efforts with prudent credit culture in mind
- Established maximum concentrations of credit in hotel industry in June 2019

# Increased Non-Interest Income

2018



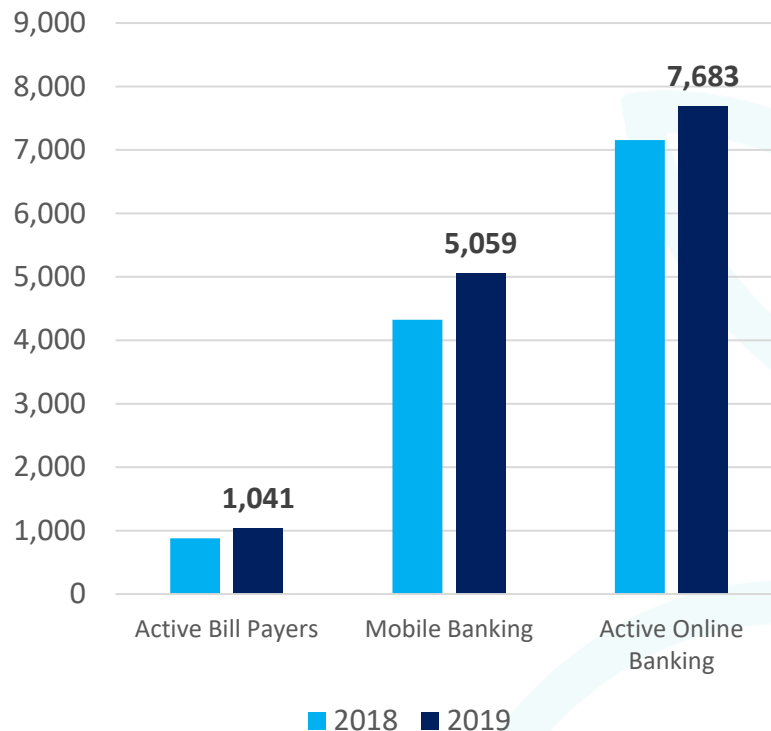
2019



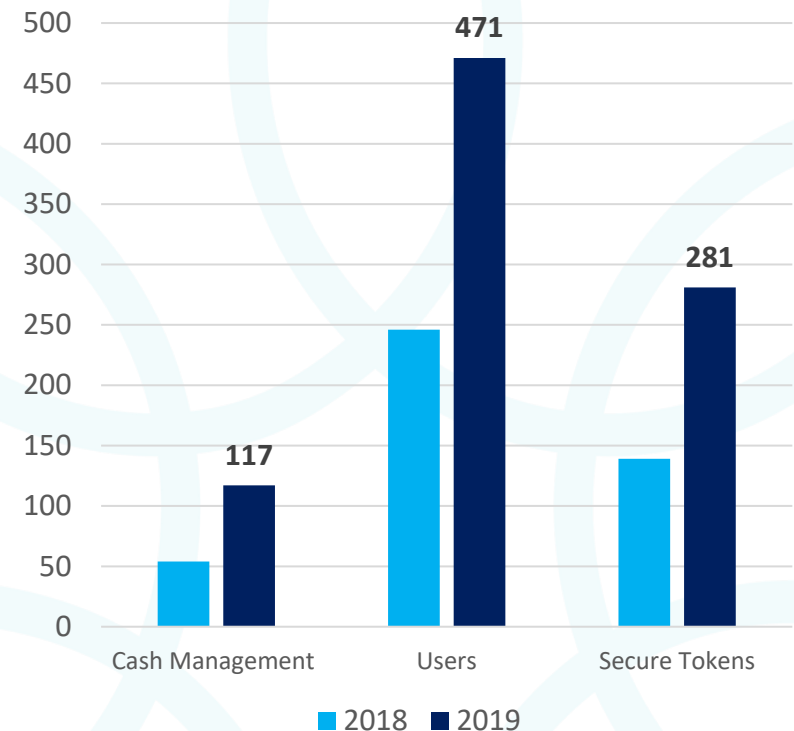
Mortgage banking fee income increased 132% to \$1.0 million  
Overall non-interest income increase of 16.9%

# Digital Banking Trends

## Online/Mobile User Trends



## Business Online Trends



Staffed a Commercial Cash Management Support Center  
to support business deposit growth and increase usage of online services



# 2019 Strategic Priorities

Provide a Differentiated Customer Experience

Extraordinary Customer Experience at every interaction (face to face, digital, phone or community) that begins with the Employee Experience

Improve Net Interest Margin

- Profitable Commercial loan, non-interest bearing deposit and fee income growth
- Continued expansion into Loudoun County

Leverage Technology for Customer Experience and Efficiency

- Full Information Technology Assessment
- Enhanced online/mobile banking services to the customers

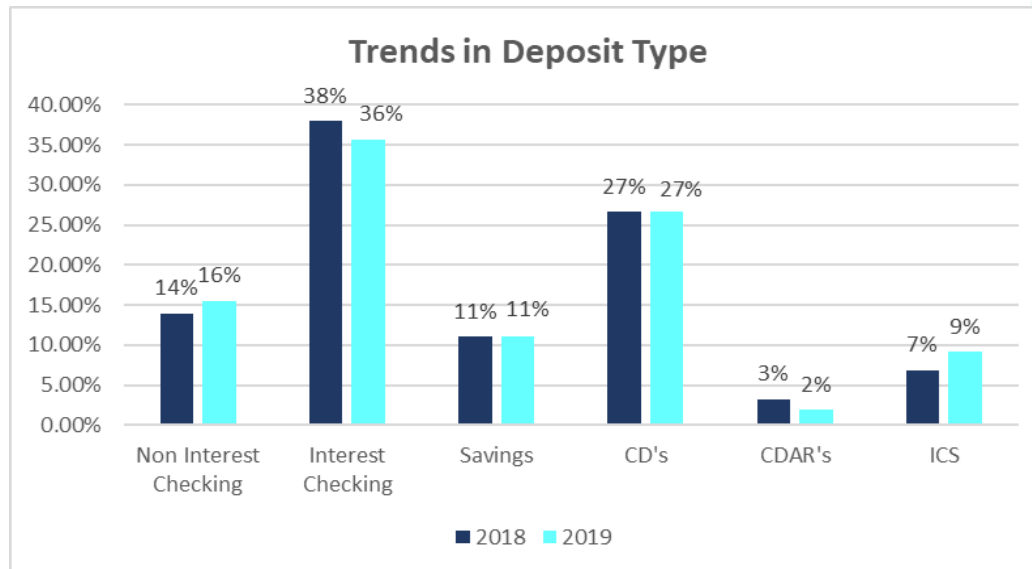
# **PRIORITY ONE:** Provide an Amazing Customer Experience

- Begins with an Amazing Employee Experience
  - Employee survey completed by an independent third party
- 2019 Customer Experience Survey requests implemented:
  - Ability to view all items within a deposit through Online Banking
  - Ebill added to BillPay
  - More tips and FAQs available for Online and Mobile Banking
  - Monthly mortgage statements versus coupon books
  - Commercial loan billing statements mailed earlier



## PRIORITY TWO: Manage Net Interest Margin By Increasing Non-Interest Bearing Deposits

- **Increase Non-Interest Bearing Deposits**



Cost of Funds  
83 bps

- **Continue Loudoun County Expansion**

- April 2019 opening of Leesburg, VA branch (3<sup>rd</sup> branch and LPO in Loudoun)
- Total deposits in Loudoun increased 700% to \$63.4 million at year end.

## **PRIORITY THREE:** Leverage Technology for Customer Experience and Efficiency

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- Hired Chief Technology Officer to drive technology projects
- Renegotiated core banking contract with significant savings over next five years
- Completed Online Banking and Mobile Banking selection for 4Q 2020 conversion
  - Highly requested by BCT Customers
  - Leading edge technology with enhanced functionality
  - Positive enhancements for both commercial and consumer customers

# 2020 Focus and Initiatives

# 2020 Strategic Priorities

Provide a Differentiated Customer Experience

Amazing Customer Experience at every interaction (face to face, digital, phone or community) that begins with the Employee Experience

Improve Overall Profitability

- Profitable Commercial loan, non-interest bearing deposit and fee income growth
- Continued expansion into Loudoun County

Leverage Technology for Customer Experience and Efficiency

- Digital Banking Strategy - enhanced Online/Mobile Banking services to the customers; update website
- Apple Pay and Enhanced Debit Card features
- Partnership with a Fintech to develop enterprise reporting

# COVID-19 Impact and First Quarter Results

# COVID-19 Priorities: Protect our Employees Support our Clients and Communities

## Employees Provide a safe environment

- Implement a work-from-home strategy for those whose jobs can be performed remotely, 50% capability to remote
- Alternative schedules and geographic relocation for retail and operations teams whose job is performed onsite
- Commitment to full compensation through pandemic
- Drive thru and by appointment only in lobbies
- Effective use of video teleconferencing company wide

## Clients Meet the needs of our customers

- Full payment deferrals for 90 days for consumer and mortgage loans with maturities extended
- Interest only or payment deferrals for commercial loans with maturities extended
- Waive early withdrawal penalties on CD and overdrafts
- Paycheck Protection Program
- Mobile and Online Banking training via call center

## Communities Neighbors helping Neighbors

- BCTCares for The Hungry provided \$25,000 in charitable support for meals on wheels, backpack and food bank programs
- Webpages designed to provide information on governmental programs and support
- Educational podcasts and radio events



# Payment Protection Program Loans

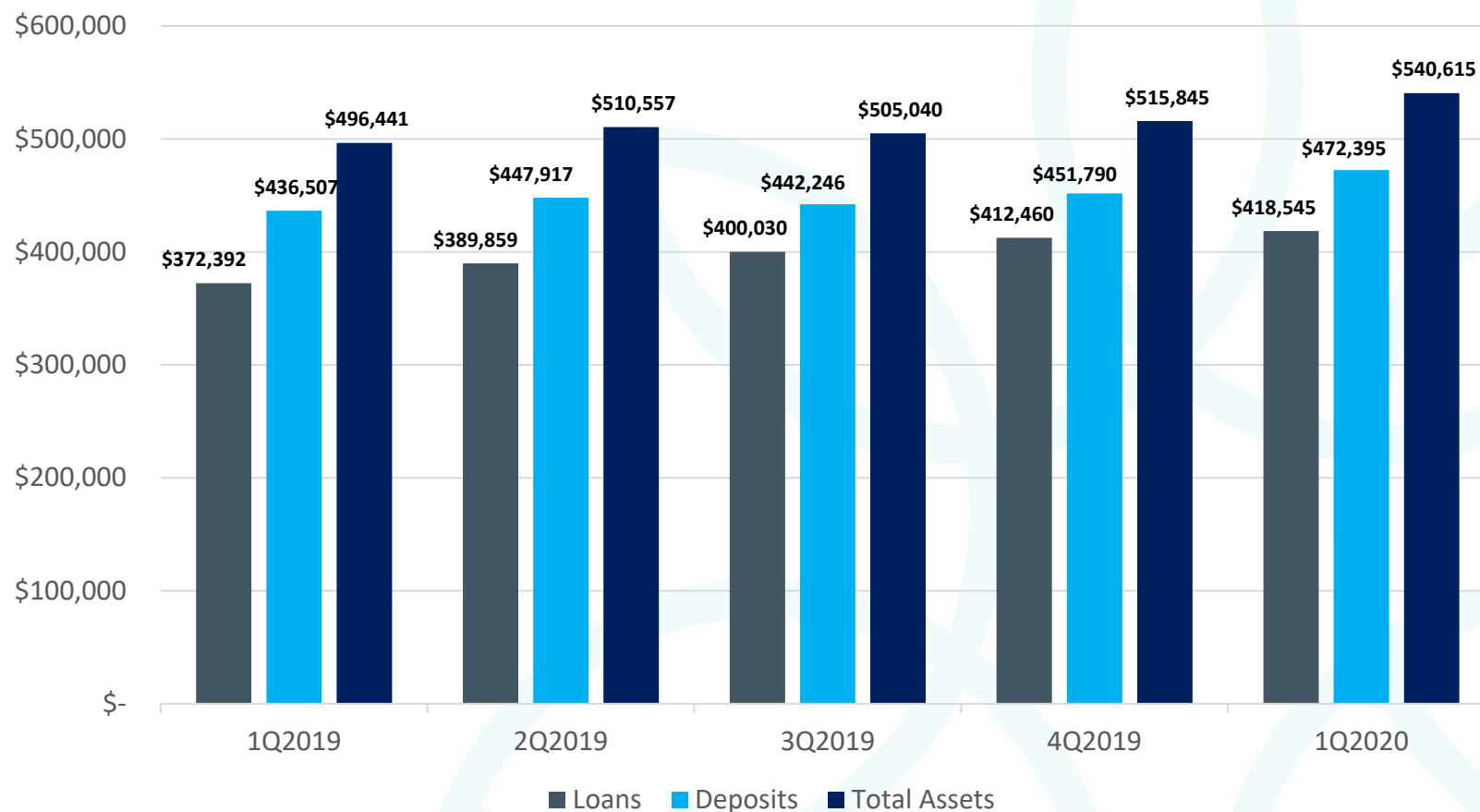
**4,064  
Jobs**

**Round One - \$349 Billion  
CARES ACT Stimulus**

<b>Loan Size</b>	<b># of Loans</b>	<b>Aggregate Total of Loans</b>	<b>Average Size of Loans</b>
<\$350,000	240	\$15,395,866	\$64,149
\$350,001-\$1,000,000	23	\$12,175, 592	\$529,374
>\$1,000,000	7	\$12,736,500	\$1,819,500
<b>Total</b>	<b>270</b>	<b>\$40,307,960</b>	<b>\$149,289</b>

Side Benefit: Implemented Online Loan Application Portal

# First Quarter 2020 Balance Sheet Growth('000s)



# First Quarter 2020 Net Income

<i>(Unaudited - dollars in thousands, except per share)</i>			
	3/31/2019	12/31/2019	3/31/2020
<b>Income Statement &amp; Profitability Ratios</b>			
Interest and Dividend Income	\$ 4,774	\$ 5,193	\$ 5,220
Interest Expense	858	989	976
Net Interest Income	\$ 3,916	\$ 4,204	\$ 4,244
Provision For Loan Losses	142	132	466
Non-Interest Income	1,058	1,531	1,288
Non-Interest Expense	4,037	4,508	4,164
Income Before Income Tax Expense	\$ 795	\$ 1,095	\$ 902
Income Tax Expense	176	236	183
Net Income	\$ 619	\$ 859	\$ 719
Return On Average Equity	5.03%	6.54%	5.51%
Return On Average Assets	0.52%	0.66%	0.56%
Net Interest Margin **	3.39%	3.37%	3.40%
<b>Shareholders' Value (per share)</b>			
Earnings Per Share, Basic	\$ 0.15	\$ 0.21	\$ 0.17
Earnings Per Share, Diluted	\$ 0.15	\$ 0.21	\$ 0.17
Cash Dividends Declared (per share)	\$ 0.07	\$ 0.07	\$ 0.07
Book Value At Period End (per share)	\$ 12.12	\$ 12.56	\$ 12.77
End of period number of shares outstanding	4,133,811	4,133,811	4,133,811
** The net interest margin presented is for the bank.			

# Strong Liquidity Position as of March 31, 2020

## Liquidity Options

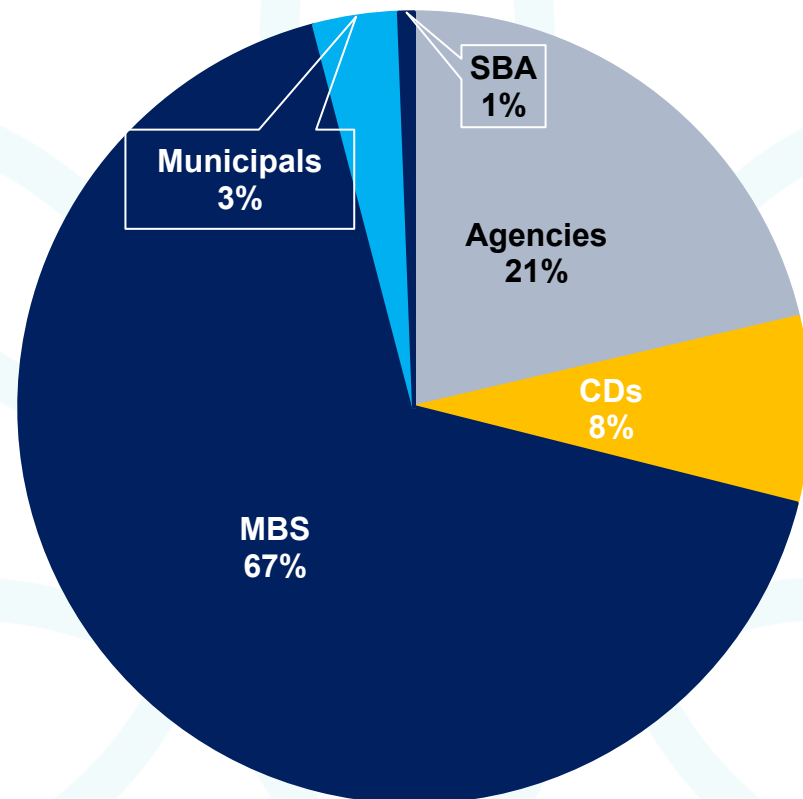
- Loan growth funded by core deposits
- 1Q Core deposit growth \$20.6 million
- Cash of \$42 million
- \$199 million of unused borrowing capacity
  - Federal Reserve \$15 million
  - FHLB \$174 million
  - Correspondent Bank LOC \$10 million
- \$25 million of unpledged securities

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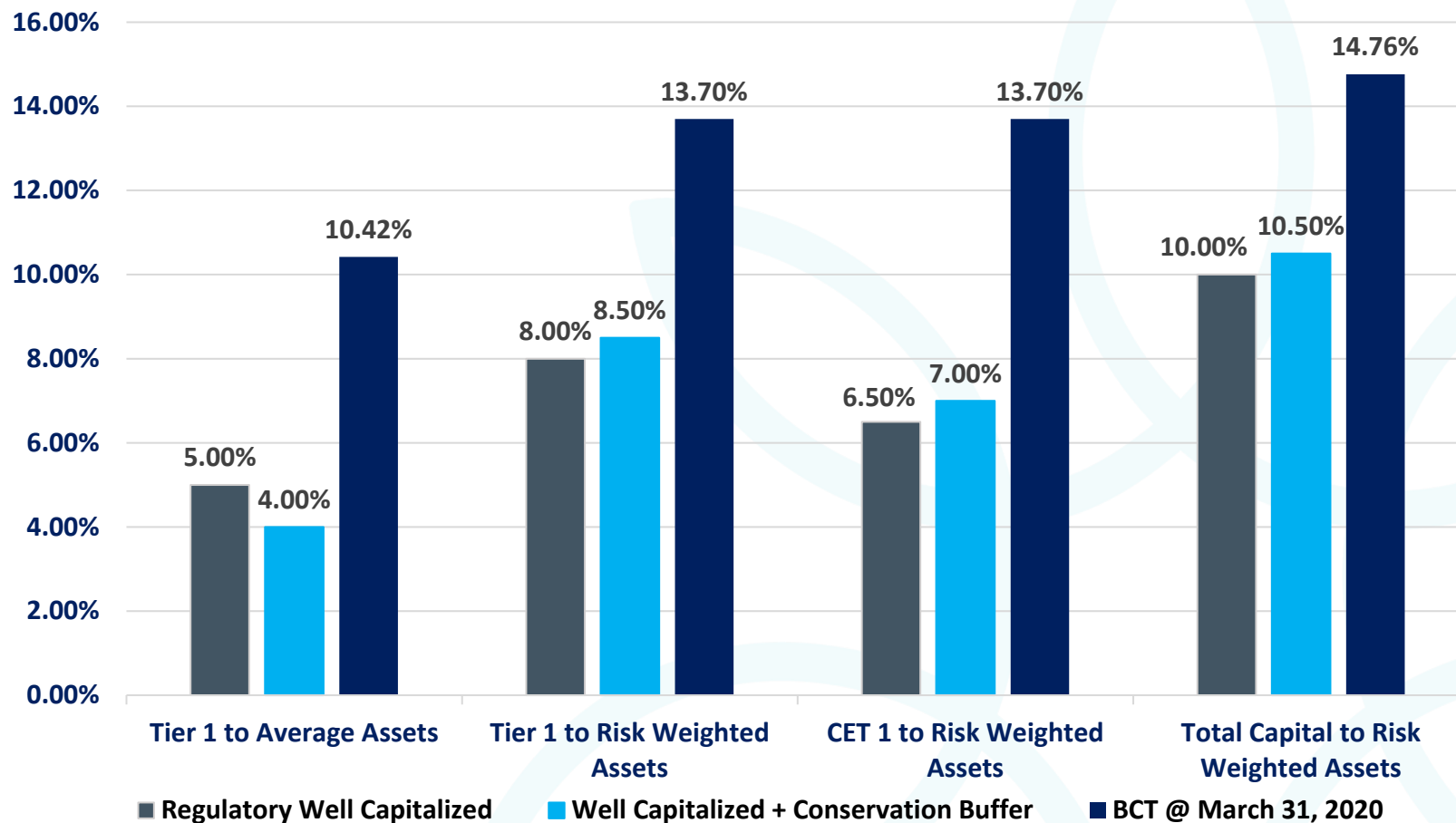
## Investment Portfolio

- \$53 million of market value

## Investment Portfolio



# Strong Capital Position as of March 31, 2020



Note: Capital ratios calculated for bank subsidiary only

# Going Forward: Interest Rate Risk Position

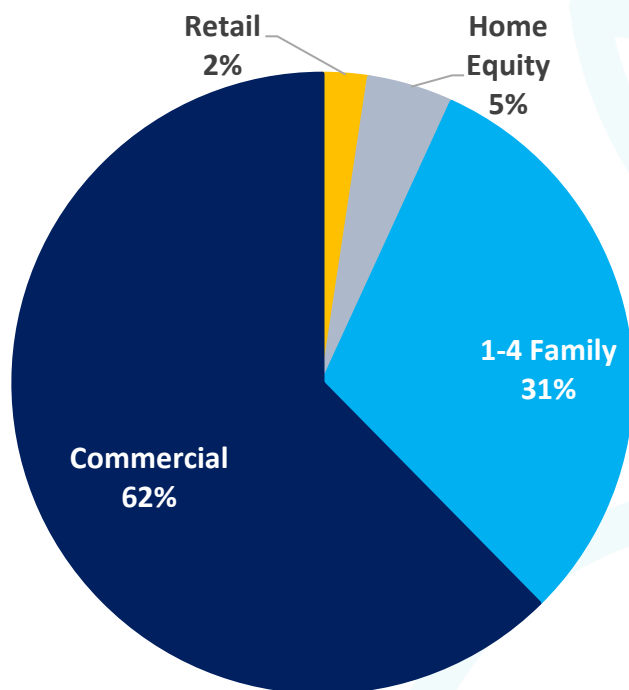
## Net Interest Income Sensitivity As of January 31, 2020

	Year 1	Year 2
Up 200BP	-0.70%	4.70%
Base		-1.90%
Down100BP	0.60%	-4.60%

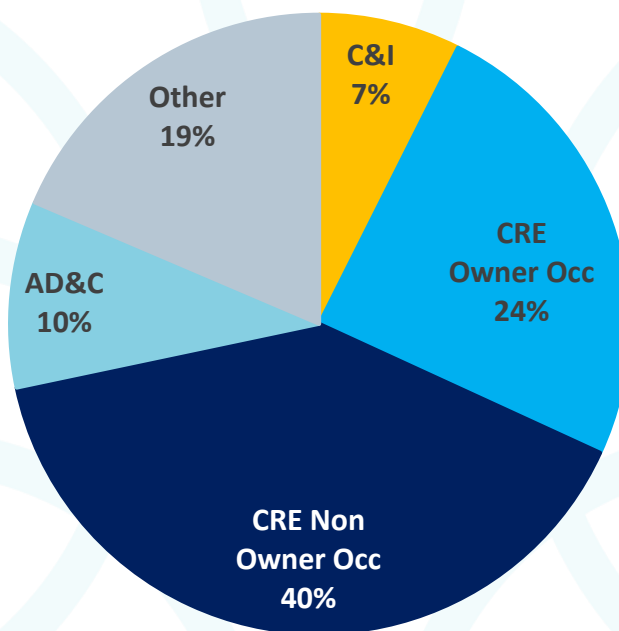
- Net Interest Income Sensitivity reflects recent 150 Basis Points decrease by Federal Reserve
- 39% of all loans have interest rate floors
  - 68% of loans at floor currently
- Reduced rates on high yield deposit account to protect net interest margin
- Strong core deposit growth allowed for extension in investment and loan portfolio

# Diversified Loan Portfolio – March 31, 2020

## Overall Loan Portfolio



## Commercial Loan Portfolio



Commercial Loan Portfolio = \$260 million

# Balance Sheet: Providing Relief to our Customers

- Commercial loan modifications have stabilized
  - Quickly addressed high-risk segments
  - Case by case modification strategy
- Consumer modifications have slowed
  - Streamlined modification process
- Daily monitoring

## Loans with Modifications as of April 20, 2020

Type of Loan	Outstanding Loan Balance	% of Portfolio Type
Consumer, Residential Mortgage and Home Equities	\$10,933,340	6.97%
C&I, Commercial Real Estate	\$45,363,610	17.45%

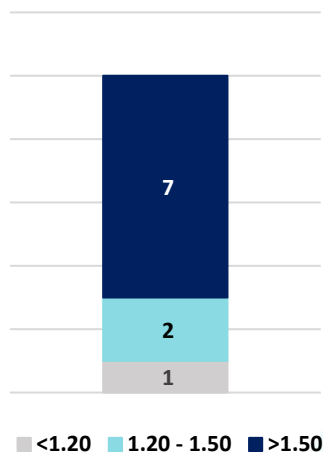
Commercial Loan Modifications by Industry	% of Commercial Loans Outstanding
Restaurants	2.04%
Residential Investment	1.24%
Medical/Dentist	1.15%
Education	0.62%
Church	0.31%
Hotel	5.29%
Non-Owner Occ Retail	3.23%
Non-Owner Occ Office	2.24%
Agriculture/Equestrian	0.56%
Miscellaneous	0.78%



# Hotel Lending Exposure

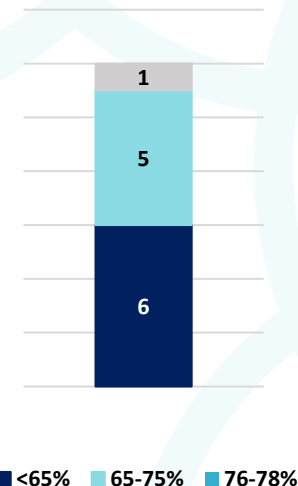
- Twelve hotels with flags of Hilton, Marriott, Choice, Wyndham and Intercontinental. Only one independent hotel.
- Ten stabilized properties before COVID-19. Two properties in early stage construction which has been halted.
- Hotel concentration capped at 60% of capital in June 2019.

Debt Service Coverage Ratio

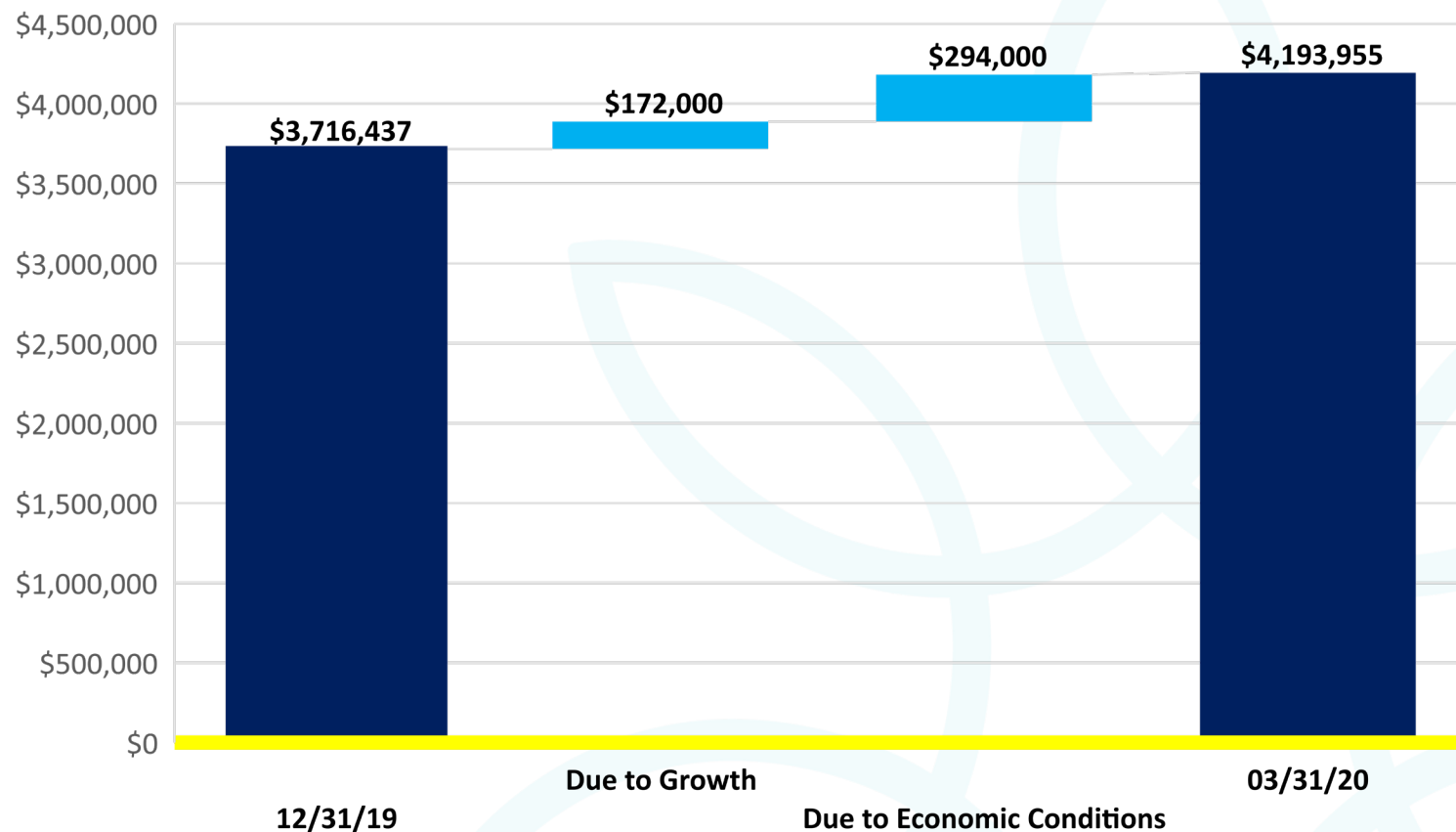


- ✓ Conservative underwriting
- ✓ DSCR prior to COVID-19
- ✓ Experienced operators
- ✓ Strong guarantors
- ✓ Located on major highways

Loan To Value

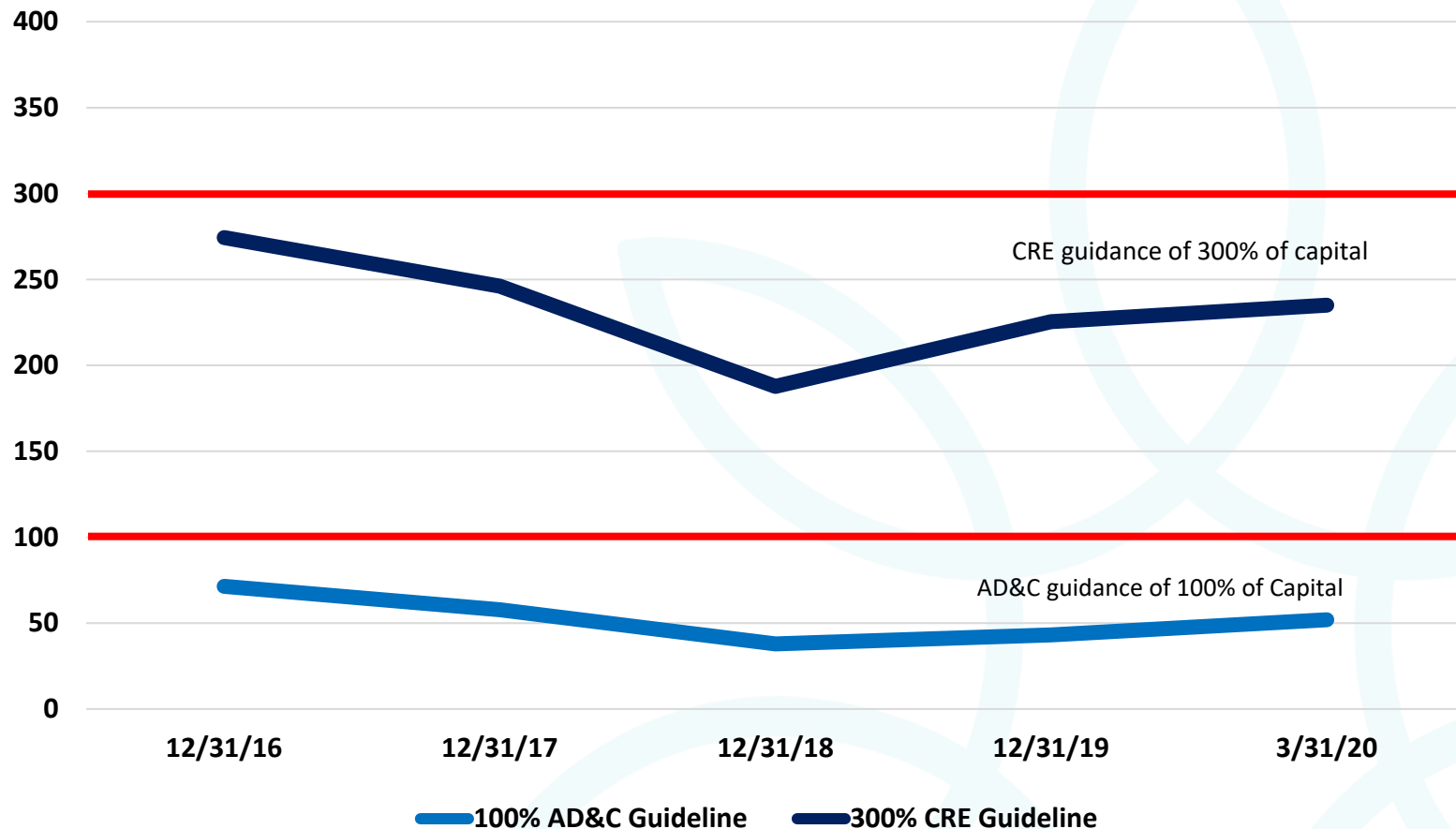


# Allowance for Loan Losses (ALLL)



- Prudent and conservative build to ALLL for growth
- Qualitative Economic factors increased due to high unemployment and significant uncertainty around duration and impact of COVID-19

# Managing CRE Concentrations



Commercial Real Estate Concentrations are managed within guidance and regular in depth monitoring

# Q & A