

Potomac Bancshares, Inc. (OTC Pink - PTBS)

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Price:	\$9.70	EPS *	2018A:	\$ 0.94	P/E	2018A:	10.3x
52 Wk. Range:	\$8.01 - \$14.30	(FY: DEC)	2019A:	\$ 0.78		2019A:	12.4x
Div/Div Yld:	\$0.28 /2.9%		2020E:	\$ 0.80		2020E:	12.1x
Shrs/Mkt Cap:	4.1 mm / \$40 mm	Book Value:		\$12.77	Price/Book Value:		0.76x

* Diluted.

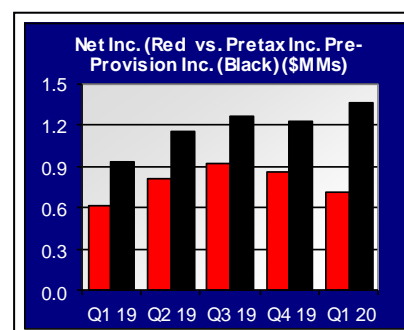
Background

Founded in 1871, Potomac Bancshares, Inc. (the “Company”) is a Charles Town, West Virginia bank holding company for the Bank of Charles Town. With approximately \$541 million in assets as of March 31, 2020, the Company conducts operations through its main office and branch office facilities in Jefferson and Berkeley Counties (WV), Washington County (MD) and Loudoun County (VA). The Bank provides various banking products and services for individuals, businesses, and local governments. Deposit products include noninterest-bearing and interest-bearing checking accounts, savings accounts, certificates of deposits, money market accounts, and individual retirement accounts. The Bank also offers loan products comprising commercial, financial, and agricultural loans; mortgage loans on real estate properties; secondary market and adjustable rate mortgage loans; equipment loans and construction financing products; and retail loan products consisting of home equity lines of credit. In addition, the Bank provides financial management, investment, trust, and brokerage services, as well as online banking services. The Company’s shares are quoted on the OTC Pink Sheet marketplace under the symbol “PTBS.”

Net Income Was Up 16%, While “Core” Income Increased 46%

While Potomac Bancshares, Inc. reported solid financial results in the first quarter of 2020, the other noteworthy aspect of the quarter was its response to COVID-19. The Company has been actively processing Paycheck Protection Program (“PPP”) applications, deferring loan payments and waiving many of the fees and penalties that are normally charged. It has also made cash contributions to local charities to provide relief to affected families. In some ways, it was a quarter in which the word “community” in community bank was particularly apropos. In terms of the financial results, the Company’s profitability ratios improved, reflecting the strong earnings growth, balance sheet growth was excellent (especially in loans), and asset quality improved, with nonperforming assets dropping to the lowest level in recent history. The most obvious financial impact of the COVID-19 crisis was in the provision, which more than doubled to reflect the heightened economic uncertainty and the Bank’s strong loan growth. But even with that increase, earnings were still strong. The bottom line was that the Company performed quite well in the first quarter despite the COVID-19 crisis, and it is continuing to emphasize initiatives that provide relief to its customers and employees.

For the first quarter of 2020, Potomac Bancshares reported net income of \$719,000, or \$0.17 per diluted share, versus \$619,000, or \$0.15 per diluted share, in the year-ago quarter. As was alluded to above, the provision for loan losses increased to \$466,000 in 2020’s first quarter, from \$142,000 in the year-ago quarter, and as can be seen in the adjacent chart, pretax income before the provision was up an impressive 46%. Net interest income grew 8% to \$4,244,000 in the first quarter of 2020 from \$3,916,000 in the year-ago quarter, with the growth mainly due to higher average earning assets (up 9%), as margins



ASSETS: \$541 MM

HQ: CHARLES TOWN, WV

CONTACT:
ALICE FRAZIER, CEO
DEAN J. COGNETTI, CFO

304-725-8431

1ST QUARTER HIGHLIGHTS:

THE PROVISION FOR LOAN LOSSES MORE THAN DOUBLED, IN RESPONSE TO THE COVID-19 CRISIS AND GROWTH IN LOANS

EPS: \$0.17 vs. \$0.15

MARGINS WERE RELATIVELY FLAT, WHILE AVERAGE EARNING ASSETS GREW 9%

NET INTEREST INCOME WAS UP 8%

MORTGAGE ORIGINATIONS DOUBLED FROM THE YEAR-AGO QUARTER

NONINTEREST INCOME GREW 22%

NONINTEREST EXPENSE DECLINED ON A LINKED QUARTER BASIS

FROM 3/31/19 TO 3/31/20:

**NET LOANS GREW 11%
DEPOSITS WERE UP 8%
TOTAL ASSETS GREW 9%**

EQUITY/ASSETS: 10.4%

POTOMAC PROCESSED \$40.3 MILLION IN FUNDING THROUGH THE PPP

\$25,000 DONATION MADE TO CHARITABLE AND PHILANTHROPIC ORGANIZATIONS

NPAs/ASSETS: 0.18%, COMPARED TO 0.51% FOR THE COMPANY'S PEER GROUP MEDIAN

RESERVES/NPAs: 4.28x vs. 0.72x FOR THE PEER GROUP MEDIAN

RESERVES/LOANS: 1.00%, WHICH WAS IN LINE WITH THE PEER MEDIAN

**EPS:
2018A: \$ 0.94
2019A: \$ 0.78
2020E: \$ 0.80**

were flat compared to the year-ago quarter (we expect margins to decline due to the 150 basis point drop in interest rates). The lower rates, however, did stimulate mortgage loan production, which bodes well for future mortgage banking income (the mortgage lending team originated \$22 million in mortgages during the quarter, up from \$11 million in the year-ago quarter). Total noninterest income was up 22% to \$1,288,000 in 2020's first quarter from \$1,058,000 in the year-ago quarter. Expense containment was also evident, as noninterest expense only grew 3% to \$4,164,000 in 2020's first quarter from \$4,037,000 in the year-ago quarter, and it declined 8% on a linked quarter basis.

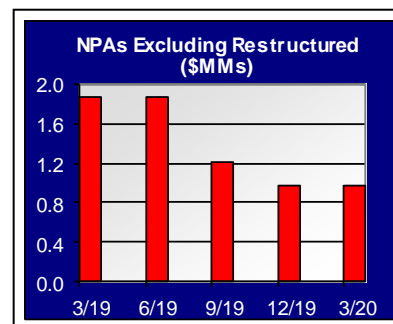
Net loans led balance sheet growth over the past year, increasing 11% to \$414 million at March 31, 2020 from \$373 million at March 31, 2019. Total assets and deposits also had solid growth of 9% and 8%, respectively. Sequential growth was also strong, with loans growing 6%, deposits up 18% and total assets increasing 19% from December 31, 2019 on an annualized basis. Finally, the Company's capital position remains healthy, with shareholders' equity of \$53 million, or 9.8% of total assets, at March 31, 2020, and it had a leverage ratio of 10.4%, a tier 1 capital ratio of 13.7% and a total capital ratio of 14.8% at the end of 2020's first quarter.

Potomac Bancshares, Inc. and COVID-19

As earlier mentioned, it is difficult to know what the full impact of COVID-19 will be on Potomac, though it is likely that there will be higher delinquencies, pressure on earnings and higher charge-offs, as will be the case for nearly all banks. Encouragingly, the Company entered into the crisis with strong fundamentals. From an operations standpoint, the Company is currently providing service to its customers through drive-throughs and lobby service is by appointment only. It has also created a financial relief programs for customers and has been actively participating in processing PPP applications. To date, it has processed 270 such loans totaling approximately \$40.3 million. Moreover, at the end of April, the Company announced it would donate \$25,000 to several local charitable and philanthropic organizations through its BCTCares For the Hungry initiative in order to provide immediate support for local families during the crisis.

Asset Quality Continued to Improve, NPAs Down 48% from March 31, 2019

Potomac's level of delinquencies continued to decrease at March 31, 2020. Specifically, NPAs (which include nonaccruing loans, over 90 day past due loans that are still accruing and OREO) totaled \$973,000, or \$0.18% of total assets, at March 31, 2020, down slightly from \$980,000, or 0.19% of total assets, at December 31, 2019, and down 48% from \$1,866,000, or 0.38% total assets, at the year-ago date. Moreover, the NPAs/assets ratio of 0.18% was much better than 0.51% for the Company's peer group median, as was Potomac's ratio of reserves/NPAs (4.28x for Potomac versus 0.72x for the peer median). The allowance for loan losses totaled \$4.2 million, or 1.00% of gross loans, at March 31, 2019, which was up 22% from \$3.4 million, or 0.91% of gross loans at the year-ago date.



Projections

Projections remain challenging to accurately estimate. The provision for loan losses is likely to be higher than normal, though the fees that are likely to result from the PPP originations could offset part of this impact. We are tentatively projecting 2020 earnings of \$3.3 million, or \$0.80 per diluted share. As stated previously, actual earnings could vary substantially from these projections given the uncertainties of the COVID-19 crisis.

ADDITIONAL INFORMATION UPON REQUEST

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