

POTOMAC BANCSHARES, INC. REPORTS 2022 THIRD QUARTER RESULTS

CHARLES TOWN, W.Va., Nov. 1, 2022 /PRNewswire/ -- Potomac Bancshares, Inc. (the "Company") (OTC: PTBS), the one bank holding company for Bank of Charles Town (BCT), for the quarter ended September 30, 2022, earned \$2.084 million or \$0.50 per share compared to \$2.212 million or \$0.54 for the quarter ended September 30, 2021, and \$1.605 million in the second quarter of 2022 or \$0.39 per share.

The quarter ended September 30, 2021, reflects the positive impact from a \$490 thousand negative loan loss provision due to excess loan recoveries. Excluding this negative provision net of tax, earnings in the quarter ended September 30, 2021, would have been \$1.838 million or \$0.44 per share.

Net income was \$5.358 million for the first nine months of 2022 or \$1.29 per share compared to \$5.722 million or \$1.38 per share for the same period in 2021. Excluding the negative loan loss provision in 2021, net of tax earnings would have been \$5.348 million for the first nine months of 2021 or \$1.29 per share.

Selected Highlights

- Total assets were \$771.3 million as of September 30, 2022, compared to \$700.5 million as of September 30, 2021, an increase of \$70.8 million or 10.1%.
- Pre-tax pre-provision net income excluding Paycheck Protection Program loan (PPP) fees and interest income was \$6.668 million for the nine months ending September 30, 2022, compared to \$5.319 million for the nine months ending September 30, 2021, or a 25.4% increase.
- Loans were \$598.4 million as of September 30, 2022, up \$85.6 million over the \$512.8 million as of September 30, 2021, a 16.7% increase. Excluding PPP loans, loan growth was \$110.5 million or 22.7% since September 30, 2021. Loan growth excluding PPP loans in the first nine months of 2022 was \$95.7 million or 19.1% growth since December 31, 2021.
- Credit quality remains excellent with non-performing assets at 0.01% of total assets.
- Total deposits grew to \$694.1 million as of September 30, 2022, an increase of \$71.6 million or 11.5% over the September 30, 2021, total of \$622.5 million. Growth in deposits since December 31, 2021, was \$65.0 million, or 10.3%.
- The Tier 1 leverage capital ratio for BCT was 9.98% as of September 30, 2022, compared to 10.15% as of September 30, 2021. Tangible equity/ tangible assets ratio (non-regulatory measure) for the Company was 7.47% as of September 30, 2022, and 8.40% as of September 30, 2021.
- Net interest income was \$17.5 million, up 15% for the nine months ending September 30, 2022, compared to \$15.2 million in 2021. Net interest income, excluding PPP income, increased \$3.2 million, or 23.4% for the nine months ending September 30, 2022, compared to 2021.
- Net interest margin was 3.29% for the nine months ending September 30, 2022, compared to 3.13% for the same period in 2021. On a linked quarter basis, net interest margin improved to 3.49% in the current quarter compared to 3.33% for the linked quarter.
- Return on Assets (ROA) for the nine months ending September 30, 2022, was 0.98% compared to 1.13% for the same period in 2021. On a linked quarter basis ROA improved to 1.10% from 0.89%.
- Return on Equity (ROE) for the nine months ending September 30, 2022, was 12.04% compared to 13.26% for the nine months ending September 30, 2021.

"We are extremely pleased with our third quarter results driven by our team's intentional efforts on building quality relationships that grows profitable market share," stated Alice P. Frazier, President and CEO. "Our loan growth remains consistently strong with corresponding non-interest bearing deposit

growth. BCT Wealth Advisors continues to outperform expectations of growth in new relationships and fee income." Frazier continued, "We are now seeing more pressure on deposit costs. However, we will maintain our disciplined approach to deposit pricing with a strong focus on growing non-interest bearing deposits to offset rising costs."

Q3 2022 Compared to Q3 2021

- Total loans, excluding PPP loans, increased to \$598.1 million as of September 30, 2022, compared to \$487.6 million as of September 30, 2021, a 22.7% increase. Increases in the commercial business line with a net increase of \$87.3 million, or 27.4%, and the mortgage portfolio with a net increase of \$22.6 million, or 15.7% drove the increase.
- Deposit accounts increased \$71.6 million, or 11.5% with noninterest-bearing deposit growth of \$24.5 million, or 17.3%, while interest bearing deposits were up \$47.1 million, or 9.8%.
- The Tier 1 leverage capital ratio for BCT was 9.98% as of September 30, 2022, compared to 10.15% as of September 30, 2021. The tangible equity / tangible assets ratio for the Company was 7.47% as of September 30, 2022, and 8.40% as of September 30, 2021.
- Net interest margin was 3.49% for the quarter compared to 3.06% in 2021. Excluding PPP income, net interest margin was 3.43% for the quarter compared to 2.92% in 2021.
 - Excluding PPP income, net interest income increased \$1.6 million to \$6.3 million for the quarter compared to \$4.7 million in 2021, or a 34.0% increase.
 - Total PPP interest and fees recorded in the quarter were \$115 thousand compared to \$456 thousand in 2021.
- A loan loss provision of \$225 thousand was recorded in the quarter driven by the growth in the loan portfolio. A negative loan loss provision of \$490 thousand was recorded in the quarter ended September 30, 2021.
- Non-interest income for the quarter was \$1.5 million, a decrease of \$142 thousand or 8.7% less than 2021. See Table 3 for additional details.
 - Increases in Trust and financial services, service charges on deposit accounts, interchange fees, and other operating income were offset by a reduction in secondary market income.
 - Trust and financial services increase came from investment management fees and estate settlement fees partially offset by a reduction in brokerage fees.
 - Total mortgage origination volume was down 49% for the quarter compared to 2021. Portfolio originations were down 12% and secondary market originations were down 60%. Increased mortgage interest rates and lack of housing inventory continues to pressure mortgage volumes.
- Non-interest expense increased to \$5.0 million for the quarter ending September 30, 2022, an increase of \$608 thousand or 13.7% above the quarter ending September 30, 2021. Year over year increase in salaries and benefits are the primary driver of this increase. Continued investments in growth included the hiring of additional commercial bankers in Northern Virginia in 2022 and raising the minimum hourly wage in late fourth quarter of 2021 in response to the competitive workforce environment all contributed to the increase. See Table 3 for additional details.
- The allowance for loan losses was 1.01% of total loans outstanding as of September 30, 2022, and 1.06% as of September 30, 2021. Management considers the current balance of the allowance for loan losses adequate for the inherent risks and uncertainties associated with the current environment.
- Non-performing assets as a percentage of total assets including OREO was 0.01% as of September 30, 2022, compared to 0.02% as of September 30, 2021.
- Net loan recoveries in the quarter were 0.003% compared to net loan recoveries in 2021 of 0.394%.

Linked Quarter Q3 2022 Compared to Q2 2022

- Total assets increased \$31.9 million to \$771.3 million during the quarter compared to \$739.4 million as of June 30, 2022, or 4.3%.
- Excluding PPP loans, loans increased \$28.1 million in the quarter, a 4.9% increase since June 30, 2022. Commercial loan growth of \$25.6 million, or 6.7% drove the increase in the quarter.
- Deposits increased \$31.2 million in the quarter, a 4.7% increase since June 30, 2022. Noninterest bearing deposits increased \$7.8 million, or 4.9% in the quarter, and interest-bearing deposits grew \$23.4 million during the quarter, or 4.6%.
- The Tier 1 leverage capital ratio for BCT was 9.98% as of September 30, 2022, compared to 10.18% as of June 30, 2022. Both are above the regulatory minimum for a well-capitalized bank. Tangible equity/ tangible assets ratio (non-regulatory measure) for the Company was 7.47% as of September 30, 2022, and 7.80% as of June 30, 2022. The total capital of \$57.622 million as of September 30, 2022, reflects a decrease of \$64 thousand from \$57.686 million as of June 30, 2022. The decrease in total capital during the third quarter of 2022 is primarily due to a \$1.775 million decrease in other comprehensive income due to changes in fair value of available-for-sale investment securities associated with the increase in interest rates, dividends paid of \$373 thousand, and offset by net income of \$2.084 million for the quarter.
- Net interest margin for the quarter was up 16 bps to 3.49% from 3.33% in the second quarter. Excluding the impact from PPP in the quarter, the net interest margin was 3.43% compared to 3.19% in the second quarter.
 - Significant Federal Reserve rate increases during the year has allowed earning asset yields to move higher in the securities portfolio, loans, and overnight funds, moderately offset with a 4-basis point increase in total deposit costs during the quarter.
 - Excluding PPP income, net interest income increased \$801 thousand to \$6.3 million for the quarter, compared to \$5.5 million for the quarter ending June 30, 2022.
 - Total PPP interest and fees recorded in the quarter were \$115 thousand compared to \$295 thousand in the second quarter.
- A loan loss provision of \$225 thousand was recorded in the quarter driven by the growth in the portfolio. The loan loss provision in the second quarter was \$242 thousand.
- Non-interest income was flat for the quarter. See Table 3 for additional details.
- Non-interest expense for both quarters was \$5.0 million. Increases in salaries and benefits was offset by decreases in other professional fees, furniture and equipment expenses, and other operating expenses. Increases in salaries and benefits was partly driven by a temporary increase in our summer workforce aligned around our future talent engagement efforts.
- The allowance for loan losses was 1.01% of total loans outstanding for both quarters.
- Non-performing assets as a percentage of total assets including OREO was 0.01% for both quarters.
- Net loan recoveries in the quarter were 0.003% compared to 0.033% in the second quarter.

Paycheck Protection Program (PPP) Update

- BCT participated in Round 1 and Round 2 of the PPP loan programs and, as of September 30, 2022, outstanding balances net of fees were \$301 thousand. Remaining net fees totals \$22 thousand.

Dividend Announcement

At our October Board meeting, Potomac Bancshares, Inc. Board of Directors declared a \$0.09 per share dividend payable to shareholders of record as of November 2, 2022, for payment on November 9, 2022.



About the Company

Founded in 1871, BCT-Bank of Charles Town, also known as The Community's Bank, is a wholly owned subsidiary of Potomac Bancshares, Inc. (OTC:PTBS). The Company conducts operations through its main office, an additional eight branch offices, and two loan production offices. BCT's offices are in Jefferson and Berkeley Counties (WV), Washington County (MD), and Loudoun and Stafford Counties (VA). The Bank provides various banking products and services including free access to over 55,000 ATMs through the All point® network plus online and mobile banking for individuals, businesses, and local governments. The Bank also offers commercial lines and term loans, residential and commercial construction, commercial real estate loans and agricultural loans. The Residential Lending division offers secondary market and portfolio mortgage loans, one-time close construction to perm loans, as well as home equity loans and lines of credit. For over 65 years, BCT Wealth Advisors has provided financial management, investment, trust, and estate services to its clients. In 2021, 2020 and 2019, the Bank was named a "Best Bank To Work For" by American Banker. In 2018, Forbes named BCT a "Best In State Bank" for Maryland.

The Company's shares are quoted on the OTC Pink Sheet marketplace under the symbol "PTBS." For more information about Potomac Bancshares, Inc., and the Bank, please visit our website at www.mybct.bank.

Forward Looking Statements

Certain statements made in this press release may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include projections, predictions, expectations, or beliefs about events or results or otherwise are not statements of historical facts, such as statements about the Company's growth strategy and deployment of capital. Although the Company believes that its expectations with respect to such forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual results, performance, or achievements of the Company will not differ materially from those expressed or implied by such forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events or otherwise, except as required by applicable law.

**CONSOLIDATED FINANCIAL HIGHLIGHTS
POTOMAC BANCSHARES, INC.**
TABLE 1
(Unaudited - dollars in thousands, except per share data)

	Nine Months Ended	
	September 30, 2022	September 30, 2021
Earnings Performance		
Interest and dividend income	\$19,275	\$17,033
Interest expense	1,804	1,836
Net interest income	17,471	15,197
Provision for loan losses	467	(490)
Non-interest income	4,664	4,912
Non-interest expense	14,781	13,191
Income Before Income Tax Expense	6,887	7,408
Income tax expense	1,529	1,686
Net Income	<u>\$5,358</u>	<u>\$5,722</u>
Return on average equity	12.04 %	13.26 %
Return on average assets	0.98 %	1.13 %
Net interest margin	3.29 %	3.13 %
Balance Sheet Highlights		
Total assets	\$771,313	\$700,508
Investment securities	96,779	82,649
Loans held for sale	255	3,191
Loans, net of allowance of \$6,025 in 2022 and \$5,449 in 2021	592,374	507,377
Deposits	694,060	622,503
Subordinated debt, net of issuance costs	9,826	9,772
Shareholders' equity	\$57,622	\$58,822
Shareholders' Value (per share)		
Earnings per share, basic	\$1.29	\$1.38
Earnings per share, diluted	1.29	1.38
Cash dividends declared (per share)	0.26	0.23
Book value at period end (per share)	\$13.90	\$14.23
End of period number of shares outstanding	4,144,561	4,133,811
Safety and Soundness		
Tier 1 capital ratio (leverage ratio)*	9.98 %	10.15 %
Tangible Equity/Tangible Assets	7.47 %	8.40 %
Non-performing assets as a percentage of total assets including OREO	0.01 %	0.02 %
Allowance for loan losses as a percentage of period end loans	1.01 %	1.06 %
Ratio of net recoveries annualized during the period to average loans outstanding during the period	-0.013 %	-0.146 %

* The capital ratio presented is for Bank of Charles Town. When computing capital ratios, the net of unrealized holding gains (losses) on securities available for sale and the unfunded liability for pension and other post-retirement benefits, all computed net of tax, are added back to these shareholders' equity figures.

**CONSOLIDATED FINANCIAL HIGHLIGHTS
POTOMAC BANCSHARES, INC.
Quarterly Financial Data**
TABLE 2

Three Months Ended

(Unaudited - dollars in thousands, except per share data)

	<u>9/30/2022</u>	<u>6/30/2022</u>	<u>3/31/2022</u>	<u>12/31/2021</u>	<u>9/30/2021</u>
Earnings Performance					
Interest and dividend income	\$7,123	\$6,421	\$5,731	\$5,972	\$5,790
Interest expense	663	582	559	587	598
Net interest income	6,460	5,839	5,172	5,385	5,192
Provision for loan losses	225	242	-	-	(490)
Non-interest income	1,495	1,494	1,675	1,916	1,637
Non-interest expense	5,045	5,038	4,698	4,930	4,437
Income Before Income Tax Expense	2,685	2,053	2,149	2,371	2,882
Income tax expense	601	448	480	523	670
Net Income	<u>\$2,084</u>	<u>\$1,605</u>	<u>\$1,669</u>	<u>\$1,848</u>	<u>\$2,212</u>
Return on average equity	13.97 %	11.00 %	11.14 %	11.26 %	13.21 %
Return on average assets	1.10 %	0.89 %	0.95 %	0.95 %	1.10 %
Net interest margin	3.49 %	3.33 %	3.04 %	3.13 %	3.06 %
Balance Sheet Highlights					
Total assets	\$771,313	\$739,411	\$719,227	\$711,388	\$700,508
Investment securities	96,779	83,077	88,351	82,284	82,649
Loans held for sale	255	-	457	528	3,191
Loans, net of allowance	592,374	566,423	518,151	511,474	507,377
Deposits	694,060	662,892	635,582	629,086	622,503
Subordinated debt, net of issuance costs	9,826	9,812	9,799	9,785	9,772
Shareholders' equity	\$57,622	\$57,686	\$59,249	\$60,770	\$58,822
Shareholders' Value (per share)					
Earnings per share, basic	\$0.50	\$0.39	\$0.40	\$0.45	\$0.54
Earnings per share, diluted	0.50	0.39	0.40	0.45	0.54
Cash dividends declared (per share)	0.09	0.09	0.08	0.08	0.08
Book value at period end (per share)	\$13.90	\$13.92	\$14.30	\$14.70	\$14.23
End of period number of shares outstanding	4,144,561	4,144,561	4,144,561	4,133,811	4,133,811
Safety and Soundness					
Tier 1 capital ratio (leverage ratio)*	9.98 %	10.18 %	10.24 %	10.18 %	10.15 %
Tangible Equity/Tangible Assets	7.47 %	7.80 %	8.24 %	8.54 %	8.40 %
Non-performing assets as a percentage of total assets including OREO	0.01 %	0.01 %	0.01 %	0.01 %	0.02 %
Allowance for loan losses as a percentage of period end loans	1.01 %	1.01 %	1.05 %	1.06 %	1.06 %
Ratio of net recoveries annualized during the period to average loans outstanding during the period	-0.003 %	-0.033 %	-0.002 %	-0.043 %	-0.394 %

* The capital ratio presented is for Bank of Charles Town. When computing capital ratios, the net of unrealized holding gains (losses) on securities available for sale and the unfunded liability for pension and other post-retirement benefits, all computed net of tax, are added back to these shareholders' equity figures.



CONSOLIDATED FINANCIAL HIGHLIGHTS
POTOMAC BANCSHARES, INC.
Noninterest Income & Noninterest Expense
Three Months Ended

TABLE 3
(Unaudited - dollars in thousands)

	<u>9/30/2022</u>	<u>6/30/2022</u>	<u>3/31/2022</u>	<u>12/31/2021</u>	<u>9/30/2021</u>
Noninterest Income:					
Trust and financial services	\$370	\$379	\$413	\$412	\$336
Service charges on deposit accounts	267	253	243	248	238
Secondary market income	180	134	221	290	416
Interchange fees	504	517	459	495	489
Other operating income	174	211	339	471	158
Total Noninterest Income	<u>\$1,495</u>	<u>\$1,494</u>	<u>\$1,675</u>	<u>\$1,916</u>	<u>\$1,637</u>
Noninterest Expenses:					
Salaries and employee benefits	\$2,921	\$2,815	\$2,628	\$2,880	\$2,516
Net occupancy expense of premises	246	251	321	250	252
Furniture and equipment expenses	324	356	323	339	292
Advertising and public relations	84	75	61	68	58
Computer services and communications	401	390	352	351	405
Other professional services	217	269	283	249	211
Foreclosed property expense	-	-	-	-	-
ATM and check card expenses	225	214	205	228	197
Other operating expenses	627	668	525	565	506
Total Noninterest Expenses	<u>\$5,045</u>	<u>\$5,038</u>	<u>\$4,698</u>	<u>\$4,930</u>	<u>\$4,437</u>

CONTACT: Alice P. Frazier, President & CEO, Potomac Bancshares, Inc. & BCT, 304-728-2431; Dean Cognetti, EVP & CFO, Potomac Bancshares, Inc. & BCT, 304-728-2434