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POTOMAC BANCSHARES, INC. REPORTS 2021 FOURTH QUARTER AND FULL YEAR RESULTS

CHARLES TOWN, W.Va., Feb. 4, 2022 /PRNewswire/ -- Potomac Bancshares, Inc. (the "Company") (OTC: PTBS), the one bank holding company for Bank of Charles Town (BCT), for the quarter ended December 31, 2021, earned \$1.848 million or \$0.45 per share compared to \$1.142 million or \$0.28 per share for the quarter ended December 31, 2020, and \$2.212 million in the third quarter of 2021 or \$0.54 per share.

Net income was \$7.570 million for the full year 2021 or \$1.83 per share compared to \$3.785 million or \$0.92 per share in 2020. The year was positively impacted by a \$490 thousand negative loan loss provision in the third quarter. Loan recoveries were realized during the third quarter from previously charged off loans which occurred several years ago causing the allowance for loan losses to be higher than deemed necessary. Excluding this negative provision, net of tax, full year earnings in 2021 would have been \$7.196 million, or \$1.74 per share.

Selected Highlights

- Total assets were \$710.1 million as of December 31, 2021, an increase of \$89.4 million or 14.4% over December 31, 2020.
- Investment securities increased to \$82.3 million, a \$19.1 million increase in 2021.
- Loans increased \$23.0 million in 2021, to \$517.0 million, a 4.7% increase. Excluding Paycheck Protection Program loans (PPP), loan growth was \$55.0 million or 12.3% for 2021.
- Total deposits grew to \$629.1 million, an increase of \$80.5 million, a 14.7% increase over 2020.
- Return on Assets (ROA) in 2021 was 1.12% compared to 0.64% in 2020. ROA for the quarter was 0.95% up from last year's quarterly ROA of 0.72%.
- Return on Equity (ROE) for 2021 was 13.18% compared to 7.04% for 2020. ROE for the fourth quarter of 2021 was 11.26% compared to 8.29% in the fourth quarter of 2020.

"The BCT team exceeded expectations in all areas of the organization during 2021, our 150th anniversary year, which is reflected in record earnings to our shareholders," stated Alice P. Frazier, President and CEO. "With earnings doubling over 2020, key strategic initiatives are having material results. Our customers' amazing support and trust have allowed us to expand relationships during these previous two difficult years of the COVID-19 pandemic." Frazier continued, "The growth in our earnings has come about from what we feel will be good long-term relationships in loans, deposits, and our wealth business. We are extremely proud of the accomplishments of our BCT team and from the guidance of our board of directors."

In addition to the financial results presented, the following strategic investments occurred during the quarter:

- As of October 2021, BCT is approved as a Small Business Administration (SBA) Preferred Lender, the first for a West Virginia chartered bank.
- BCT is a founding investor in BankTech Ventures, LP ("BTV" or the "Fund"), a newly launched venture capital fund with the mission to support community banks through investment and education around banking technology.
- BCT named *American Banker* "Best Bank to Work For" for the third consecutive year.
- Appointed Paul W. Bice as Executive Vice President and Regional President. Mr. Bice will lead BCT's continued growth within Northern Virginia for commercial lending and related banking services.

Q4 2021 Compared to Q4 2020

- Excluding PPP loans, total loan growth was \$55.0 million or 12.3% in 2021. Loan growth was centered in the commercial business line with net growth of \$67.2 million or 24.8%. The SBA lending initiative contributed \$11.2 million to the commercial loan growth during the year.
- Deposit accounts increased by \$80.5 million or 14.7% to \$629.1 million as of December 31, 2021, compared to \$548.5 million as of December 31, 2020. Noninterest-bearing deposits increased \$35.6 million, or 33.7% during 2021 to end the year at \$141.3 million. The increase is primarily attributable to new business development and stimulus funds, and to a lesser extent PPP deposits.
- Net interest margin was 3.13% for the quarter ending December 31, 2021, compared to 3.07% for the quarter ending December 31, 2020. Net interest income increased \$684 thousand to \$5.4 million for the quarter ending December 31, 2021, compared to the quarter ending December 31, 2020. Total PPP interest and fees recorded in the quarter ending December 31, 2021, were \$467 thousand compared to \$488 thousand in the quarter ending December 31, 2020. Excluding the impact from PPP in both quarters, the net interest margin would have been down approximately 6 basis points (bps). A continued high level of liquidity during the quarter, along with reductions in both security and loan yields (excluding PPP loans), were partly mitigated by a reduction in deposit costs during the quarter. The cost of total deposits decreased 17 bps to 0.28% during the quarter ending December 31, 2021, compared to the same period in 2020 of 0.45%. The loan yield (excluding PPP income) was 18 bps lower at 4.07% for the quarter ending December 31, 2021, compared to 4.25% for the same period in 2020.
- A loan loss provision was not recorded in the fourth quarter of 2021 compared to \$150 thousand in the fourth quarter of 2020.
- Non-interest income for the quarter was \$1.9 million, a 22.0% increase or \$346 thousand over the fourth quarter of 2020. Although secondary market originations slowed in the quarter, trust and financial services was up \$102 thousand, or 33% attributable to a strong market, new relationships, and estate settlements. Robust growth in debit card transactions grew interchange fees to \$495 thousand, \$91 thousand over the fourth quarter of 2020. Other operating income was up due to nonrecurring other loan recoveries of \$204 thousand, proceeds of \$52 thousand from Boli death proceeds, an increase in Boli income from additional Boli purchases earlier in the year, and an increase in penalty from early payoffs on loans. See Table 3 for additional details.
- Non-interest expense was \$4.9 million for the quarter ending December 31, 2021, an increase of \$266 thousand, or 5.7% over the same period in 2020. Increases in salaries and benefits primarily drove the increase partly offset by decreases in furniture and equip costs, and other operating expenses. Year over year increase in salaries and benefits are related to incentive accruals due to record achievements, additions to staff for new initiatives and growth and mortgage commissions. Other operating expense is down in 2021 primarily due to one-time expenses associated with the \$142 thousand prepayment penalty on the early payoff of a FHLB Advance realized in 2020. See Table 3 for additional details.
- The allowance for loan losses was 1.06% of total loans outstanding as of December 31, 2021, and 1.09% as of December 31, 2020. Excluding PPP loans, the allowance for loan losses was 1.10% as of December 31, 2021, compared to 1.20% as of December 31, 2020. Management believes the current balance of the allowance for loan losses is 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 December 31, 2021, compared to 0.02% as of December 31, 2020.
- Net loan recoveries for the fourth quarter of 2021 were 0.043% compared to net loan recoveries in the same period in 2020 of 0.015%.

- The Tier 1 leverage capital ratio for BCT was 10.18% as of December 31, 2021, compared to 10.23% as of December 31, 2020. The subordinated debt raised in the third quarter of 2020 and continued increases in earnings have supported the 14.4% growth in assets over the past year.

Linked Quarter Q4 2021 Compared to Q3 2021

- Total assets were up \$9.6 million over the quarter ending September 30, 2021, to \$710.1, or a 1.4% increase.
- Excluding PPP loans, loans increased \$14.8 million, a 3.0% increase. Deposits increased \$6.6 million in the quarter ending December 31, 2021, or a 1.1% increase. Low inventory levels are impacting the volume of new home purchases and therefore contributing to part of the slowing in growing of residential loans.
- Net interest margin for the quarter ending December 31, 2021, was 3.13% compared to 3.06% in the quarter ending September 30, 2021. Both quarters were positively impacted from PPP interest and PPP fee acceleration due to forgiveness. PPP fees and interest recognized in the quarter ending December 31, 2021, were \$467 thousand compared to \$456 thousand realized during the quarter ending September 30, 2021. Excluding the impact from PPP in both quarters, the net interest margin would have been up 2 bps. The 2 bps improvement was due to a continued decrease in total deposit costs of 1 bp, a flat loan yield on a linked quarter basis partly offset with a 7 bps decrease in securities yields during the quarter.
- A loan loss provision was not recorded in the quarter ending December 31, 2021, compared to a \$490 thousand negative loan loss provision in the quarter ending September 30, 2021.
- Non-interest income increased to \$1.9 million for the three months ending December 31, 2021, up \$279 thousand or 17.0% compared to \$1.6 million for the three months ending September 30, 2021. Increases in trust and financial services and other operating income offset the decline in secondary market mortgage income for the quarter. Trust and financial services were up \$76 thousand, or 23% attributable to a strong market, new relationships, and estate settlements. Other operating income for the three months ended December 31, 2021, compared to the three months ended September 30, 2021, was up due to other loan recoveries, proceeds from Boli death proceeds, increase in Boli income from additional Boli purchases late in the third quarter, and an increase in penalty from early payoffs on loans. See Table 3 for additional details.
- Non-interest expense for the quarter was \$4.9 million, an increase of \$493 thousand compared to the three months ending September 30, 2021. Increases in salaries and benefits, other professional fees, and other operating expenses primarily drove the increase. Additional incentive accruals of \$290 thousand recognizing business unit achievements and record results for the year drove much of the increase in salaries and benefits. Other professional fees are up, supporting initiatives. See Table 3 for additional details.
- The allowance for loan losses was 1.06% of total loans outstanding as of December 31, 2021, and September 30, 2021. Excluding PPP loans, the allowance to loans was 1.10% as of December 31, 2021, and 1.12% as of September 30, 2021.
- Non-performing assets as a percentage of total assets including OREO was 0.01% for December 31, 2021, and 0.02% for September 30, 2021.
- Net loan recoveries for the quarter were 0.043% compared to net loan recoveries in the third quarter of 0.394%.
- The Tier 1 leverage capital ratio for BCT improved to 10.18% as of December 31, 2021, from 10.15% as of September 30, 2021. Both are above the regulatory minimum for a well-capitalized bank.



Paycheck Protection Program (PPP) Update

- BCT participated in Round 1 and Round 2 of the PPP loan program and, as of December 31, 2021, outstanding balances net of fees were \$14.6 million. Remaining net fees to be recognized totals \$656 thousand.

Dividend Announcement

At our January Board meeting, Potomac Bancshares, Inc. Board of Directors declared a \$0.08 per share dividend payable to shareholders of record as of February 3, 2022, for payment on February 10, 2022.

About the Company

Founded in 1871 and celebrating its 150th anniversary year, 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 Allpoint® 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 60 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.

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**CONSOLIDATED FINANCIAL HIGHLIGHTS
POTOMAC BANCSHARES, INC.**

TABLE 1

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

	Twelve Months Ended	
	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Earnings Performance		
Interest and dividend income	\$23,005	\$21,341
Interest expense	2,423	3,500
Net interest income	20,582	17,841
Provision for loan losses	(490)	1,441
Non-interest income	6,828	5,753
Non-interest expense	18,121	17,312
Income Before Income Tax Expense	9,779	4,841
Income tax expense	2,209	1,056
Net Income	\$7,570	\$3,785
Return on average equity	13.18%	7.04%
Return on average assets	1.12%	0.64%
Net interest margin	3.13%	3.14%
	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Balance Sheet Highlights		
Total assets	\$710,054	\$620,683
Investment securities	82,344	63,207
Loans held for sale	528	2,713
Loans, net of allowance of \$5,504 in 2021 and \$5,385 in 2020	511,474	488,580
Deposits	629,086	548,542
Subordinated debt, net of issuance costs	9,785	9,734
Shareholders' equity	\$60,770	\$54,812
	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Shareholders' Value (per share)		
Earnings per share, basic	\$1.83	\$0.92
Earnings per share, diluted	1.83	0.92
Cash dividends declared (per share)	0.31	0.28
Book value at period end (per share)	\$14.70	\$13.26
End of period number of shares outstanding	4,133,811	4,133,811
	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Safety and Soundness		
Tier 1 capital ratio (leverage ratio)*	10.18%	10.23%
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	1.06%	1.09%
Ratio of net recoveries during the period to average loans outstanding during the period	-0.120%	-0.050%

* The capital ratios presented are 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

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

	Three Months Ended				
	<u>12/31/2021</u>	<u>9/30/2021</u>	<u>6/30/2021</u>	<u>3/31/2021</u>	<u>12/31/2020</u>
Earnings Performance					
Interest and dividend income	\$5,972	\$5,790	\$5,650	\$5,593	\$5,484
Interest expense	587	598	602	636	783
Net interest income	5,385	5,192	5,048	4,957	4,701
Provision for loan losses	-	(490)	-	-	150
Non-interest income	1,916	1,637	1,677	1,598	1,570
Non-interest expense	4,930	4,437	4,488	4,266	4,664
Income Before Income Tax Expense	2,371	2,882	2,237	2,289	1,457
Income tax expense	523	670	505	511	315
Net Income	\$1,848	\$2,212	\$1,732	\$1,778	\$1,142
Return on average equity	11.26%	13.21%	12.28%	12.97%	8.29%
Return on average assets	0.95%	1.10%	1.04%	1.12%	0.72%
Net interest margin	3.13%	3.06%	3.12%	3.22%	3.07%
	<u>12/31/2021</u>	<u>9/30/2021</u>	<u>6/30/2021</u>	<u>3/31/2021</u>	<u>12/31/2020</u>
Balance Sheet Highlights					
Total assets	\$710,054	\$700,508	\$671,994	\$661,376	\$620,683
Investment securities	82,344	82,649	80,823	70,819	63,207
Loans held for sale	528	3,191	1,592	3,441	2,713
Loans, net of allowance	511,474	507,377	510,727	494,407	488,580
Deposits	629,086	622,503	597,572	588,510	548,542
Subordinated debt, net of issuance costs	9,785	9,772	9,759	9,747	9,734
Shareholders' equity	\$60,770	\$58,822	\$56,887	\$55,545	\$54,812
	<u>12/31/2021</u>	<u>9/30/2021</u>	<u>6/30/2021</u>	<u>3/31/2021</u>	<u>12/31/2020</u>
Shareholders' Value (per share)					
Earnings per share, basic	\$0.45	\$0.54	\$0.42	\$0.43	\$0.28
Earnings per share, diluted	0.45	0.54	0.42	0.43	0.28
Cash dividends declared (per share)	0.08	0.08	0.08	0.07	0.07
Book value at period end (per share)	\$14.70	\$14.23	\$13.76	\$13.44	\$13.26
End of period number of shares outstanding	4,133,811	4,133,811	4,133,811	4,133,811	4,133,811
	<u>12/31/2021</u>	<u>9/30/2021</u>	<u>6/30/2021</u>	<u>3/31/2021</u>	<u>12/31/2020</u>
Safety and Soundness					
Tier 1 capital ratio (leverage ratio)*	10.18%	10.15%	10.20%	10.31%	10.23%
Non-performing assets as a percentage of total assets including OREO	0.01%	0.02%	0.02%	0.02%	0.02%
Allowance for loan losses as a percentage of period end loans	1.06%	1.06%	1.05%	1.08%	1.09%
Ratio of net recoveries annualized during the period to average loans outstanding during the period	-0.043%	-0.394%	-0.015%	-0.020%	-0.015%

* The capital ratios presented are 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

TABLE 3

	Three Months Ended				
<i>(Unaudited- dollars in thousands)</i>	<u>12/31/2021</u>	<u>9/30/2021</u>	<u>6/30/2021</u>	<u>3/31/2021</u>	<u>12/31/2020</u>
Noninterest Income:					
Trust and financial services	\$412	\$336	\$333	\$341	\$310
Service charges on deposit accounts	248	238	205	191	233
Secondary market income	290	416	496	434	419
Interchange fees	495	489	493	429	404
Other operating income	<u>471</u>	<u>158</u>	<u>150</u>	<u>203</u>	<u>204</u>
Total Noninterest Income	\$1,916	\$1,637	\$1,677	\$1,598	\$1,570
Noninterest Expenses:					
Salaries and employee benefits	\$2,880	\$2,516	\$2,414	\$2,285	\$2,470
Net occupancy expense of premises	250	252	287	278	258
Furniture and equipment expenses	339	292	357	375	401
Advertising and public relations	68	58	57	56	43
Computer services and communications	351	405	319	314	322
Other professional services	249	211	236	238	255
Foreclosed property expense	-	-	-	-	-
ATM and check card expenses	228	197	199	172	195
Other operating expenses	<u>565</u>	<u>506</u>	<u>619</u>	<u>548</u>	<u>720</u>
Total Noninterest Expenses	\$4,930	\$4,437	\$4,488	\$4,266	\$4,664