



FOR IMMEDIATE RELEASE

POTOMAC BANCSHARES, INC. REPORTS 2023 FOURTH QUARTER AND FULL YEAR RESULTS

CHARLES TOWN, W.Va., Feb. 1, 2024 /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, 2023, earned \$1.710 million or \$0.41 per share compared to \$1.953 million or \$0.47 per share for the quarter ended December 31, 2022, and \$1.729 million in the third quarter of 2023 or \$0.42 per share.

Net income was \$7.264 million for the full year 2023 or \$1.75 per share compared to \$7.311 million or \$1.77 per share in 2022. The full year was impacted by the pre-tax loss on sales of securities in the third and fourth quarters totaling \$428 thousand. Excluding these losses, net income for 2023 would have been \$7.596 million, or \$1.83 per share.

Net income was \$7.311 million for the full year 2022 or \$1.77 per share. Excluding the \$367 thousand pre-tax loss on sales of securities in the fourth quarter of 2022, net income for the full year 2022 would have been \$7.598 million, or \$1.83 per share.

Alice P. Frazier, CEO and President, commented, "As we conclude another successful year, it is important to thank the entire BCT team for their intentional efforts toward building new and expanding client relationships that led to our consistent financial results. Our core deposits grew a remarkable 11.2% year over year as we managed the overall increase in the cost of deposits. Despite a movement of deposits to interest bearing products, we were able to maintain our non-interest deposit balances level with the prior year. Our loan pipelines are growing as we remain prudent on our credit spectrum. It is exciting to have BCT Wealth and Investments complete a particularly strong year with a 15% increase in fee income due to new relationships and estate settlements."

Frazier continued, "We strategically expanded our commercial banking expertise by adding government contractor banking. In the fourth quarter, we hired a Director of Government Lending to build this unit and expand our government lending strategy. Looking forward, we see continued upward pressure on deposit pricing. However, we will continue to utilize our relationship pricing model which has served us well in managing the costs."

Selected Highlights

- Total assets were \$830.6 million as of Q4 2023 compared to \$756.1 million as of Q4 2022, an increase of 9.9% or \$74.5 million.
- Return on Assets (ROA) for 2023 was 0.91% compared to 0.99% in 2022.
- Return on Equity (ROE) for 2023 was 11.59% compared to 12.35% in 2022.
- Net interest income was \$26.0 million for 2023 compared to \$24.3 million in 2022, a 7.2% increase. Excluding Payroll Protection Program (PPP) income realized in 2022, net interest income increased \$2.4 million for the year or 10.4%.
- Pre-tax pre-provision net income excluding PPP fees and interest income was \$9.575 million for 2023 compared to \$9.320 million in 2022, for a 2.74% increase.
- Deposits not covered by FDIC insurance, securities, and other pledged collateral were less than 10% of total deposits as of Q4 2023.

Q4 2023 Compared to Q4 2022

- Both quarters were impacted by securities losses taken as investment portfolio restructuring for greater yield. The quarter ended December 31, 2023, was impacted by a \$154 thousand pre-tax loss on sales of securities. Excluding this loss, the earnings for the fourth quarter of 2023 would have been \$1.830 million or \$0.44 per share. The quarter ended December 31, 2022,

was also impacted by a \$367 thousand pre-tax loss on sales of securities. Excluding this loss, the earnings for the fourth quarter of 2022 would have been \$2.239 million or \$0.54 per share.

- Loan growth of \$28.8 million, or 4.6%, was driven primarily by commercial loan growth of \$17.0 million and mortgage loan growth of \$8.9 million.
 - Non-owner-occupied office property loans were \$44.2 million or 6.8% of the total loan portfolio as of Q4 2023. Most of the office property loans are for main street, small offices.
- Securities portfolio duration as of Q4 2023 was 4.35 compared to 4.13 as of Q4 2022.
 - Net unrealized losses in the AFS portfolio were \$8.7 million as of Q4 2023 and \$10.0 million as of Q4 2022.
- Total deposits increased \$74.2 million or 11.2%. Non-interest bearing deposits remained flat year over year, while interest bearing deposits grew \$74.6 million or 14.8%.
- The Tier 1 leverage capital ratio for BCT was 9.77% as of Q4 2023 compared to 10.08% as of Q4 2022. The tangible equity / tangible assets ratio for the Company was 8.05% as of Q4 2023 and 8.00% as of Q4 2022.
- Net interest margin was 3.29% for Q4 2023 compared to 3.63% in Q4 2022.
 - The Q4 2023 loan yield increased 45 basis points (bps) to 5.0% and total earning assets yield increased 61 bps to 4.76% compared to Q4 2022.
 - The cost of interest bearing deposits increased 128 bps to 1.91% and total interest bearing liabilities costs increased by 125 bps to 1.99% compared to Q4 2022.
- The allowance for credit losses was 1.02% of total loans outstanding as of Q4 2023 and 1.00% as Q4 2022.
 - There was no provision for credit losses recorded in the current quarter, and a \$165 thousand provision was recorded in Q4 2022. Management considers the current balance of the allowance for credit losses adequate.
- Non-performing assets as a percentage of total assets was 0.32% as of Q4 2023. There were none as of Q4 2022.
- Non-interest income for the quarter was \$1.7 million, an increase of \$243 thousand or 17.1% compared to Q4 2022. Increases are primarily in Wealth and Investments fee income and other operating income. See Table 3 for additional details.
- Non-interest expense excluding the loss on sales of AFS Securities was \$6.1 million for Q4 2023, an increase of \$926 thousand or 17.9% over Q4 2022. During Q4 2023, we had several one-time expenses totaling \$315 thousand. Excluding these one-time items, expenses increased 11.8% for the quarter compared to expenses in Q4 2022 primarily due to strategic hires and investments in training and technology to support growth. See Table 3 for additional details.
 - One-time expenses include professional fees related to core processing contract negotiations, check fraud losses, and tuition reimbursements.

Linked Quarter Q4 2023 Compared to Q3 2023

- Asset growth for the quarter was \$20.9 million reaching \$830.6 million or 2.6%.
- Loans were flat for the quarter as originations were offset by anticipated payoffs of completed project loans.
- Net unrealized losses in the AFS portfolio were \$8.7 million as of Q4 2023 and \$11.9 million as of Q3 2023.
- Deposits increased during the quarter \$18.4 million from Q3 2023 or 2.6%.
 - Growth occurred in both interest bearing deposits and noninterest bearing deposits. Interest bearing deposits increased \$16.7 million or 3%. Noninterest bearing deposits increased \$1.7 million or 1.1%.
- The Tier 1 leverage capital ratio for BCT was 9.77% compared to 9.93% as of Q3 2023. For the Company, the tangible equity / tangible assets ratio was 8.05% compared to 7.75% as of Q3 2023.

- Net interest margin for the quarter increased 6 bps to 3.29% from 3.23% in Q3 2023. For most of Q4 2023, BCT benefitted from a large deposit earning a below market rate causing the increase in margin. The deposit was repriced on January 1, 2024 to market rates.
 - The yield on loans increased 7 bps to 5.0% and total earning assets yield increased 14 bps to 4.76%.
 - The yield on the securities portfolio increased 44 bps driven by the restructuring.
 - The cost of interest bearing deposits increased 8 bps to 1.91% while the cost of interest bearing liabilities also increased 8 bps to 1.99%.
- The allowance for credit losses was 1.02% of total loans outstanding as of Q4 2023 and 1.04% as of Q3 2023.
 - Given the strong credit quality and nominal growth, there was no provision for credit losses in either quarter.
- Non-performing assets as a percentage of total assets was 0.32% for Q4 2023 and 0.33% for Q3 2023.
- Non-interest income increased during the quarter by \$29 thousand to \$1.66 million, primarily attributable to increases in Wealth and Investment income and penalties from early loan payoffs partly offset by decreases in secondary market income and service charges on deposits. See Table 3 for additional details.
- Non-interest expense excluding the loss on sales of AFS Securities was \$6.1 million for Q4 2023, an increase of \$565 thousand or 10.2% over Q3 2023. As noted above, Q4 2023 included \$315 thousand of one-time expenses previously explained. Excluding the one-time expenses, overall expenses for the quarter increased only 4.5%, primarily attributable to strategic hires, incentive accruals, and an increase in group health insurance. See Table 3 for additional details.

Dividend Announcement

At our January Board meeting, Potomac Bancshares, Inc. Board of Directors declared a quarterly dividend of \$0.10 per share. The dividend is for all shareholders of record on February 2, 2024, and will be paid on February 9, 2024.

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 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 loans, commercial real estate loans, agricultural loans, and government contractor 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 2023, American Banker selected BCT as a "Top 200 Community Bank," an annual listing of the best performing banks in the United States with assets under \$2 billion. BCT was voted a "Best of the Best" winner in the 2023 *Journal-News* Readers' Choice Awards in four categories: Bank, Mortgage Company, Loan Services, and Financial Planning. In 2023, 2021, 2020, and 2019 the Bank was named a "Best Bank To Work For" by *American Banker*.

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

		Twelve Months Ended	
		December 31, 2023	December 31, 2022
(Unaudited - dollars in thousands, except per share data)			
Earnings Performance			
Interest and dividend income		\$35,583	\$27,064
Interest expense		9,567	2,791
Net interest income		26,016	24,273
Provision for credit losses		222	632
Non-interest income		6,299	6,083
Non-interest expense		22,740	20,334
Income Before Income Tax Expense		9,353	9,390
Income tax expense		2,089	2,079
Net Income		\$7,264	\$7,311
Return on average equity		11.59 %	12.35 %
Return on average assets		0.91 %	0.99 %
Net interest margin		3.34 %	3.38 %
		December 31, 2023	December 31, 2022
Balance Sheet Highlights			
Total assets		\$830,555	\$756,050
Investment securities		84,127	88,743
Loans held for sale		678	-
Loans, net of allowance for credit losses of \$6,673 in 2023 and \$6,202 in 2022		644,687	616,382
Deposits		739,680	665,469
Long term FHLB borrowings		6,000	-
Subordinated debt, net of issuance costs		9,897	9,839
Shareholders' equity		\$66,874	\$60,460
		December 31, 2023	December 31, 2022
Shareholders' Value (per share)			
Earnings per share, basic		\$1.75	\$1.77
Earnings per share, diluted		1.75	1.77
Cash dividends declared (per share)		0.38	0.35
Book value at period end (per share)		\$16.14	\$14.59
End of period number of shares outstanding		4,144,561	4,144,561
		December 31, 2023	December 31, 2022
Safety and Soundness			
Tier 1 capital ratio (leverage ratio)*		9.77 %	10.08 %
Tangible Equity/Tangible Assets		8.05 %	8.00 %
Non-performing assets as a percentage of total assets including OREO		0.32 %	0.00 %
Allowance for credit losses as a percentage of period end loans		1.02 %	1.00 %
Ratio of net charge offs (recoveries) during the period to average loans outstanding during the period		0.008 %	-0.011 %

* 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.

** Includes \$428 thousand pre tax loss on sales of securities in 2023 and \$367 thousand pre tax loss in 2022.

CONSOLIDATED FINANCIAL HIGHLIGHTS
POTOMAC BANCSHARES, INC.

Quarterly Financial Data

Three Months Ended

TABLE 2

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

	<u>12/31/2023</u>	<u>9/30/2023</u>	<u>6/30/2023</u>	<u>3/31/2023</u>	<u>12/31/2022</u>
Earnings Performance					
Interest and dividend income	\$9,827	\$9,176	\$8,548	\$8,032	\$7,789
Interest expense	3,034	2,752	2,272	1,509	987
Net interest income	6,793	6,424	6,276	6,523	6,802
Provision for credit losses	-	-	191	31	165
Non-interest income	1,662	1,633	1,667	1,337	1,419
Non-interest expense	6,266 **	5,821 ***	5,467	5,186	5,553 ****
Income Before Income Tax Expense	2,189	2,236	2,285	2,643	2,503
Income tax expense	479	507	502	601	550
Net Income	<u>\$1,710</u>	<u>\$1,729</u>	<u>\$1,783</u>	<u>\$2,042</u>	<u>\$1,953</u>
Return on average equity	11.21 %	11.86 %	11.41 %	13.52 %	14.74 %
Return on average assets	0.85 %	0.93 %	0.91 %	1.09 %	1.13 %
Net interest margin	3.29 %	3.23 %	3.28 %	3.57 %	3.63 %
Balance Sheet Highlights					
Total assets	\$830,555	\$809,607	\$794,015	\$792,332	\$756,050
Investment securities	84,127	82,575	85,350	88,605	88,743
Loans held for sale	678	2,159	2,086	292	-
Loans, net of allowance for credit losses	644,687	643,921	638,381	620,436	616,382
Deposits	739,680	721,253	706,660	704,717	665,469
Long term FHLB borrowings	6,000	6,000	6,000	6,000	-
Short term overnight borrowings	-	-	-	-	11,720
Subordinated debt, net of issuance costs	9,897	9,882	9,868	9,854	9,839
Shareholders' equity	66,874	\$62,770	\$62,441	\$62,416	\$60,460
Shareholders' Value (per share)					
Earnings per share, basic	\$0.41	\$0.42	\$0.43	\$0.49	\$0.47
Earnings per share, diluted	0.41	0.42	0.43	0.49	0.47
Cash dividends declared (per share)	0.10	0.10	0.09	0.09	0.09
Book value at period end (per share)	\$16.14	\$15.15	\$15.07	\$15.06	\$14.59
End of period number of shares outstanding	4,144,561	4,144,561	4,144,561	4,144,561	4,144,561
Safety and Soundness					
Tier 1 capital ratio (leverage ratio)*	9.77 %	9.93 %	10.04 %	10.25 %	10.08 %
Tangible Equity/Tangible Assets	8.05 %	7.75 %	7.86 %	7.88 %	8.00 %
Non-performing assets as a percentage of total assets including OREO	0.32 %	0.33 %	0.33 %	0.00 %	0.00 %
Allowance for credit losses as a percentage of period end loans	1.02 %	1.04 %	1.05 %	1.05 %	1.00 %
Ratio of net charge offs (recoveries) annualized during the period to average loans outstanding during the period	0.008 %	0.004 %	-0.011 %	-0.009 %	-0.008 %

* 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.

** Includes \$154 thousand pre tax loss on sale of securities.

*** Includes \$274 thousand pre tax loss on sale of securities.

**** Includes \$367 thousand pre tax loss on sale of securities.

CONSOLIDATED FINANCIAL HIGHLIGHTS
POTOMAC BANCSHARES, INC.

Noninterest Income & Noninterest Expense
Three Months Ended

TABLE 3

(Unaudited - dollars in thousands)

	<u>12/31/2023</u>	<u>9/30/2023</u>	<u>6/30/2023</u>	<u>3/31/2023</u>	<u>12/31/2022</u>
Noninterest Income:					
Wealth and Investments	\$471	\$453	\$425	\$390	\$344
Service charges on deposit accounts	254	266	266	230	268
Secondary market income	140	223	232	82	92
Interchange fees	506	515	523	484	511
Other operating income	291	176	221	151	204
Total Noninterest Income	<u>\$1,662</u>	<u>\$1,633</u>	<u>\$1,667</u>	<u>\$1,337</u>	<u>\$1,419</u>
Noninterest Expenses:					
Salaries and employee benefits	3,348	\$3,083	\$3,061	\$2,863	\$2,823
Net occupancy expense of premises	256	261	254	259	260
Furniture and equipment expenses	341	349	369	334	342
Advertising and public relations	92	105	133	66	76
Computer services and communications	485	486	454	409	457
Other professional services	410	329	258	289	312
ATM and check card expenses	258	243	275	227	222
Loss on sale of AFS securities	154	274	-	-	367
Other operating expenses	922	691	663	739	694
Total Noninterest Expenses	<u>\$6,266</u>	<u>\$5,821</u>	<u>\$5,467</u>	<u>\$5,186</u>	<u>\$5,553</u>

CONSOLIDATED FINANCIAL HIGHLIGHTS
POTOMAC BANCSHARES, INC.
AVERAGE BALANCE SHEET, INTEREST AND RATES

TABLE 4

(Unaudited - dollars in thousands)

	Three Months Ended 12/31/2023			Three Months Ended 9/30/2023			Three Months Ended 12/31/2022		
	Average Balance	Interest Income/ Expense	Average Yields/Rate (annualized)	Average Balance	Interest Income/ Expense	Average Yields/Rate (annualized)	Average Balance	Interest Income/ Expense	Average Yields/Rate (annualized)
ASSETS:									
Interest Earning Assets:									
Loans:									
Loans held for sale	\$ 1,327	\$ 22	6.58 %	\$ 1,856	\$ 30	6.41 %	\$ 550	\$ 8	5.77 %
Portfolio loans (1)	650,485	8,205	5.00 %	648,910	8,063	4.93 %	611,564	7,012	4.55 %
Available for sale securities (2)	93,172	638	2.72 %	94,677	545	2.28 %	106,843	566	2.10 %
Federal Reserve	71,448	920	5.11 %	40,476	498	4.88 %	23,237	179	3.06 %
Other interest earning assets	2,438	42	6.83 %	2,311	40	6.87 %	1,886	24	5.05 %
Total Interest Earning Assets	818,870	\$ 9,827	4.76 %	788,230	\$ 9,176	4.62 %	744,080	\$ 7,789	4.15 %
Other Assets	16,866			17,485			15,945		
Total Assets	\$ 835,736			\$ 805,715			\$ 760,025		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities:									
Interest-bearing Deposits	\$ 585,485	\$ 2,819	1.91 %	\$ 550,424	\$ 2,535	1.83 %	\$ 517,256	\$ 824	0.63 %
Federal Funds and repurchase agreements	3,791	8	0.84 %	5,232	10	0.76 %	3,893	6	0.61 %
Subordinated debt	9,887	139	5.58 %	9,873	139	5.59 %	9,831	139	5.61 %
FHLB advances	6,000	68	4.50 %	6,011	68	4.49 %	1,650	18	4.33 %
Total Interest-Bearing Liabilities	605,163	\$ 3,034	1.99 %	571,540	\$ 2,752	1.91 %	532,630	\$ 987	0.74 %
Non-interest-bearing deposits and other liabilities	166,910			171,033			169,068		
Total Liabilities	772,073			742,573			701,698		
Stockholders' Equity	63,663			63,142			58,327		
Total Liabilities and Stockholders' Equity	\$ 835,736			\$ 805,715			\$ 760,025		
Interest Rate Spread			2.77 %			2.71 %			3.41 %
Net Interest Income		\$ 6,793		\$ 6,424			\$ 6,802		
Net Interest Margin			3.29 %			3.23 %			3.63 %

(1) Total loan interest income includes amortization of deferred loan fees, net of deferred loan costs.

(2) Average balances exclude unrealized gains/losses.