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Potomac Bancshares, Inc. (OTC Pink - PTBS)

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May 7, 2016

Price:	\$9.50	EPS *	2014A:	\$ 0.64	P/E	2014A:	14.8x
52 Wk. Range:	\$7.07 - \$9.90	(FY: DEC)	2015A:	\$ 0.76		2015A:	12.5x
Div/Div Yld:	\$0.24 / 2.7%		2016E:	\$ 0.80		2016E:	11.9x
Shrs/Mkt Cap:	3.3 mm / \$32 mm	Book Value:		\$ 9.63	Price/Book Value:		0.99x

* 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 \$357 million in assets as of March 31, 2016, 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."

First Quarter Results Reflected Slight Drop in Earnings But Solid Balance Sheet Growth

Potomac Bancshares reported first quarter results that were a touch below the year-ago figures, in part due to special costs associated with upgrading customers' EMV Chip Enabled Debit cards, as well as a higher provision for loan losses. Even adding those items back, though, earnings were a bit softer than we had expected, although we believe earnings will rebound in the current quarter. Moreover, it was still a good quarter from the standpoint that balance sheet growth was quite good, and asset quality continues to improve, which should help to mitigate any pressure on the loan loss provision resulting from the Company's strong loan growth. The performance of the stock has been quite good as well, and with its recent strength, the shares now have year-to-date, one-, three- and five-year returns that significantly exceed those of broader market indices such as the KBW Bank Index and the S&P 500.

Net income in 2016's first quarter was \$488,000, or \$0.15 per diluted share, versus \$559,000, or \$0.16 per diluted share, in 2015's first quarter. (We had projected the Bank would earn \$628,000, or \$0.19 per share.) Net interest income was strong, increasing 9% to \$2,963,000 in 2016's first quarter from \$2,730,000 in the year-ago quarter. Margins have been holding fairly steady, so essentially all of that increase was due to average earning asset growth. Unlike previous quarters, the provision increased from the year-ago quarter, and was \$100,000 in the first quarter of 2016, versus \$32,000 in the year-ago quarter. Noninterest income, excluding security gains, declined slightly (about 5%) to \$989,000 in the first quarter of 2016 from \$1,046,000, in the year-ago quarter, although we do expect it to pick up in the coming quarters. (Historically, the first quarter has been the weakest quarter for noninterest income.) Noninterest expense was up 9% to \$3,151,000 in 2016's first quarter, versus \$2,870,000 in the year-ago quarter. Some of that came from the previously mentioned debit card chip upgrades, as well as higher loan production costs. Annualized return on average equity was 6.10% in 2016's first quarter, versus 7.45% in the year-ago quarter, while the annualized return on average assets figures were 0.56% and 0.70%, respectively.

ASSETS: \$357 MM

HQ: CHARLES TOWN, WV

CONTACT:
ROBERT F. BARONNER, CEO
DEAN J. COGNETTI, CFO
304-725-8431

1ST QUARTER HIGHLIGHTS:

EPS: \$0.15 vs. \$0.16

NET INTEREST INCOME WAS UP 9%

MOST OF THE INCREASE IN NET INTEREST INCOME CONTINUES TO BE VOLUME BASED

NEGATIVELY AFFECTING EARNINGS WAS A HIGHER PROVISION, REFLECTING POTOMAC'S STRONG LOAN GROWTH

NONINTEREST INCOME DECLINED 5%, WHILE NONINTEREST EXPENSE GREW 9%

**BALANCE SHEET GROWTH
REMAINS GOOD**

**NEW OFFICES CONTINUE TO
CONTRIBUTE TO GROWTH**

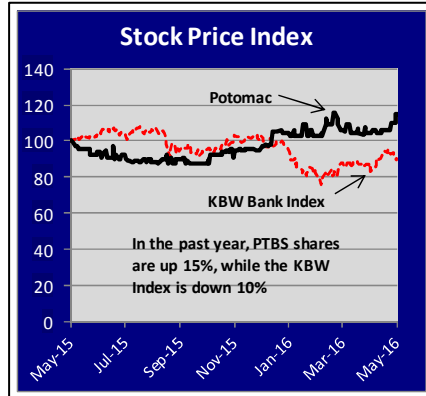
As was stated earlier, balance sheet growth has been quite encouraging. The increase in loans was particularly impressive, with gross loans growing 13% over the past year (from March 31, 2015 to March 31, 2016), while assets grew 10% and deposits increased 11%. Both the new and legacy offices contributed to the strong growth. In June, Potomac will be relocating its Middleburg office to a new location that is expected to improve visibility and profitability. Finally, we would note that the Company is in a good capital position to maintain this growth. Stockholders' equity was \$32.2 million, or 9.0% of assets, at March 31, 2016.

**POTOMAC'S STOCK HAS
OUTPERFORMED BROADER
MARKET INDICES ON A YEAR-
TO-DATE AND ONE, THREE
AND FIVE YEAR BASIS**

**WE ATTRIBUTE THE STOCK'S
STRONG PERFORMANCE TO:**

- 1) SOLID FUNDAMENTALS
- 2) THE FACT THAT THE STOCK WAS FORMERLY UNDERVALUED
- 3) MANAGEMENT INITIATIVES TO BOOST SHAREHOLDER VALUE

Recent Stock Performance Has Been Strong



Potomac Bancshares' stock price has increased significantly, particularly relative to broader market indices such as the KBW Bank Index. This can be seen graphically in the adjacent chart, which shows that over the past year, PTBS shares have appreciated 15%, while the KBW Index has actually lost 10% in value. Based on the recent strength, the stock's longer term returns also compare favorably to the KBW Bank Index, as can be seen in the table below. We attribute the improving value to several factors: 1) the Bank continues to perform well, with solid balance sheet growth, favorable asset quality trends and positive *long-term* earnings trends; 2) Potomac Bancshares had heretofore simply been

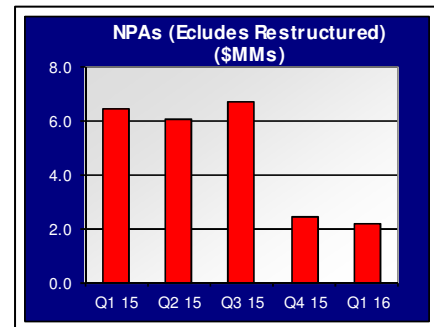
undervalued, trading at only about 80% to 85% of book value, despite having good performance metrics, and 3) management has taken an active role in trying to boost shareholder value through such strategies as buying back stock, increasing the cash dividend and improving communication with the investment community.

Relative Stock Performance			
Approximate Dates	Total Appreciation		
	PTBS	KBW Bank Index	S&P 500
Year-to-Date	10.5%	-8.4%	0.7%
One Year	15.1%	-10.0%	-1.1%
Three Year	35.7%	16.0%	27.2%
Five Year	69.6%	31.9%	53.5%

Asset Quality Remains Quite Good

Trends in asset quality remain favorable, with NPAs down from the year-ago level and year-end 2015.

As of March 31, 2016, total nonperforming assets (which we define as nonaccruing loans, over 90 day past due loans that are still accruing and OREO) were \$2.2 million, or 0.61% of assets, versus \$2.5 million, or 0.70% of assets, at year-end 2015 and \$6.5 million, or 1.98% of assets, at March 31, 2015. (Excluded from these figures are restructured loans that are accruing.) The allowance for loan losses was \$2.6 million (0.87% of gross loans) at March 31, 2016, versus \$2.7 million (1.03% of gross loans) at the year-ago date



Projections

Even though first quarter earnings were a little below projections, we are maintaining our 2016 earnings projection at \$2.7 million, or \$0.80 per diluted share. It should be noted that we are projecting a significant increase in the loan loss provision in 2016 relative to 2015, due to the Bank's rapid loan growth. These projections could vary widely depending on changing economic and credit conditions.

EPS:
2014A: \$ 0.64
2015A: \$ 0.76
2016E: \$ 0.80

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