

Potomac Bancshares, Inc. (OTC Pink - PTBS)

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November 8, 2019

Price:	\$13.88	EPS *	2018A:	\$ 0.94	P/E	2018A:	14.8x
52 Wk. Range:	\$13.70 - \$14.95	(FY: DEC)	2019E:	\$ 0.78		2019E:	17.8x
Div/Div Yld:	\$0.28 /2.0%		2020E:	\$0.85		2020E:	16.3x
Shrs/Mkt Cap:	4.1 mm / \$57 mm	Book Value:		\$12.49	Price/Book Value:		1.11x

* Diluted.

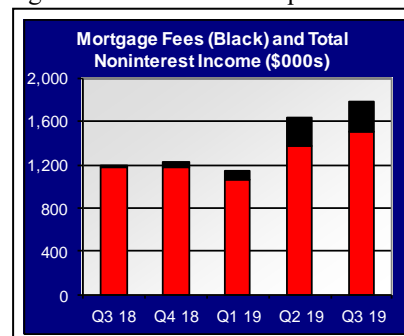
Background

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 \$505 million in assets as of September 30, 2019, 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."

Third Quarter Earnings Grew 12% and Exceeded Estimates

For the third quarter of 2019, Potomac Bancshares, Inc. reported strong results, with a double-digit increase in earnings and earnings per share that were \$0.03 above our projections. The increase in aggregate earnings was due to solid growth (14%) in total revenues, which more than offset higher expenses (many of which were expansion related). Balance sheet growth was also good, especially in loans, and the Company's asset quality continued to improve, with nonperforming assets up slightly from the year-ago date but down significantly from June 30, 2019. Due to the strong third quarter results, we have raised our 2019 earnings projections. On the nonfinancial side of things, we were pleased that the Bank was named by *American Banker* magazine as one of the "Best Banks to Work For" in 2019, which recognizes U.S. banks with outstanding employee satisfaction.

In terms of specifics, Potomac had net income of \$917,000, or \$0.22 per diluted share, versus \$817,000, or \$0.23 per diluted share, in the year-ago quarter. (Although EPS declined relative to the year-ago quarter, that was due to the higher shares outstanding from 2018's fourth quarter stock offering.) Net interest income was up 10% to \$4,098,000 in 2019's third quarter from \$3,739,000 in the year-ago quarter, due mainly to a 10% increase in average earning assets, with the net interest margin remaining steady at 3.35%. Noninterest income, benefiting in particular from a rising level of mortgage related income (seen by the black bar in the adjacent chart), increased 27% to \$1,510,000 in 2019's third quarter from \$1,185,000 in the year-ago quarter, and it was up 10% on a linked quarter basis. In addition to strength in mortgage banking, other noteworthy areas of growth within noninterest income were in service charges on deposits, interchange fees and financial services. Noninterest expense, which was impacted by office and other



ASSETS: \$505 MM

HQ: CHARLES TOWN, WV

CONTACT:
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DEAN J. COGNETTI, CFO

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3RD QUARTER HIGHLIGHTS:

EPS WERE \$0.03 AHEAD OF PROJECTIONS

EPS: \$0.22 vs. \$0.23 (EPS REFLECTS ADDITIONAL SHARES OUTSTANDING)

THE BANK WAS NAMED ONE OF THE "BEST BANKS TO WORK FOR" BY AMERICAN BANKER

NET INTEREST INCOME GREW 10%

AVERAGE EARNING ASSETS INCREASED 10%

NONINTEREST INCOME WAS UP 27%

expansion related costs, increased 12% to \$4,341,000 in the third quarter of 2019 from \$3,885,000 in the year-ago quarter (mostly due to expansion efforts). We would also note that the earnings growth was achieved despite an increase in the provision for loan losses to \$90,000 in 2019's third quarter, versus no provision in the year-ago quarter.

For the nine months ended September 30, 2019, Potomac had net income of \$2,354,000, or \$0.57 per diluted share, compared to \$2,724,000, or \$0.80 per diluted share, in the year-ago period. Net interest income grew 11%, noninterest income increased 13% and noninterest expense was up 17% from the first nine months of 2018. As was the case with the quarterly results, the earnings growth was achieved despite an increase in the provision to \$342,000 year-to-date in 2019 from \$144,000 in the year-ago period. Balance sheet growth was solid and was led by loans. From September 30, 2018 to September 30, 2019, assets and deposits grew 6%, while net loans were up 11%. The Company is well capitalized, with shareholders' equity of \$51.6 million, or 10.23% of total assets, at September 30, 2019, and all of the Bank's regulatory capital ratios comfortably exceed "well capitalized" status.

NINE MONTHS HIGHLIGHTS:

EPS: \$0.57 vs. \$0.80

NET INTEREST INCOME GREW 11%

NET LOANS GREW 11%

POTOMAC (BANK OF CHARLES TOWN) HAS INCREASED ITS DEPOSIT SHARE OVER THE LONG TERM IN EACH OF ITS MARKETS

THE ABILITY TO GROW MARKET SHARE HAS POSITIVE IMPLICATIONS FOR A BANK'S FRANCHISE VALUE

Potomac Continues to Build Market Share in Each of Its Markets

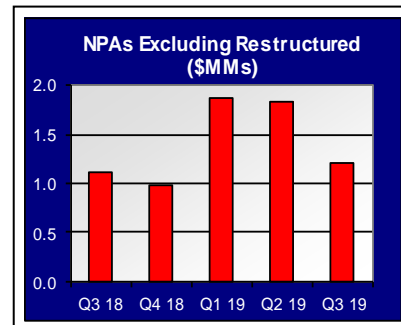
We have mentioned in previous reports that Potomac operates in attractive, growing markets, and it continues to build deposit market share in each of its markets. As can be seen from the table below, in Jefferson County (WV), where Potomac (Bank of Charles Town) has its largest base of deposits, the Bank grew its deposit share from 28.0% to 32.8% in the past five years, while in Berkeley County (WV), the deposit market share increased from 4.3% to 5.9%. In Washington County (MD), market share increased from 0.2% to 0.9% from 2014 to 2019, and in Loudoun County (VA), where the Bank did not have deposits until 2015, market share grew from 0.03% in 2015 to 0.92% in 2019. The higher market shares are particularly significant given the competitive environment within these markets. Because deposits provide for opportunities for additional fee income and tend to be one of the less expensive sources of funding for loans, the ability of a bank to grow its deposit market share has positive implications for earnings, particularly over the long-term.

Market (County)	Deposits (\$MM)		Market Share (%)	
	6/30/14	6/30/19	6/30/14	6/30/19
Jefferson (WV)	208.0	280.5	28.00	32.75
Berkeley (WV)	49.2	81.3	4.29	5.92
Washington (MD)	4.0	20.2	0.20	0.86
Loudoun (VA)*	1.5	64.1	0.03	0.92

* No deposits in 2014, as of 6/2015

Nonperforming Assets Decreased 34% on a Linked Quarter Basis

As can be seen from the adjacent chart, the Company's level of nonperforming assets declined for the second quarter-end at September 30, 2019, and dropped substantially from June 30, 2019. NPAs (which include nonaccruing loans, over 90 day past due loans that are still accruing and OREO) totaled \$1.2 million, or 0.24% of total assets, at September 30, 2019, versus \$1.8 million, or 0.36% of total assets, at June 30, 2019, and \$1.1 million, or 0.24% of total assets, at September 30, 2018. The allowance for loan losses was \$3.6 million, or 0.90% of gross loans, at September 30, 2019, which was up 16% from \$3.1 million, or 0.86% of gross loans at the year-ago date.



NPAs/ASSETS: 0.24%, DOWN FROM 0.36% AT 6/30/19

RESERVES/LOANS: 0.90%

Projections Increased

Due to the strength of the most recent quarter, we are increasing our 2019 earnings projections to \$3.2 million, or \$0.78 per diluted share, up from our previous estimates of \$3.1 million, or \$0.74 per diluted share. For the year 2020, we are estimating earnings of \$3.5 million, or \$0.85 per diluted share. These projections could vary widely depending on changing economic conditions.

EPS:
2018A: \$ 0.94
2019E: \$ 0.78
2020E: \$ 0.85

ADDITIONAL INFORMATION UPON REQUEST

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