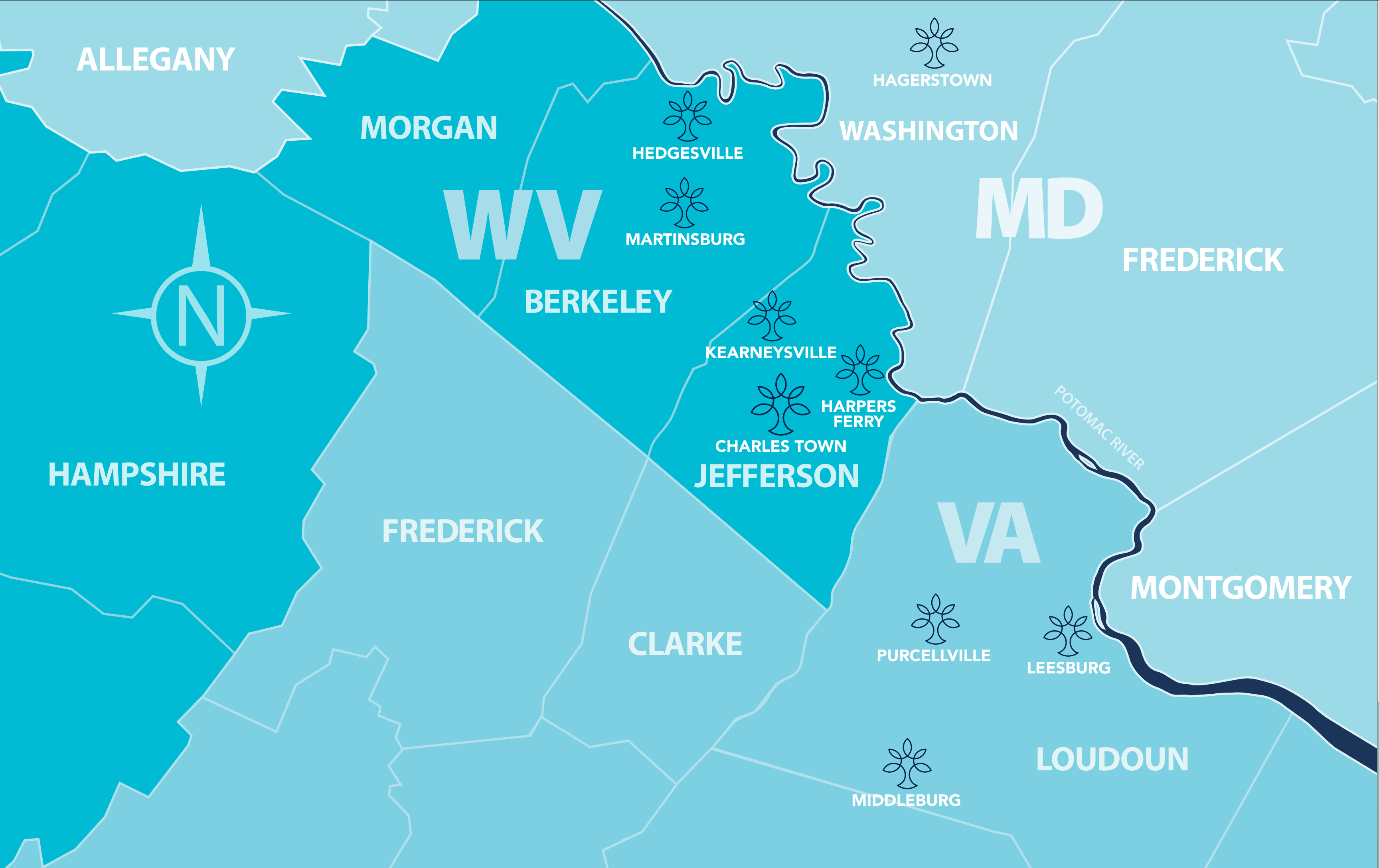
ANNUAL REPORT

2020

NEIGHBOR HELPING NEIGHBOR

POTOMAC BANCSHARES



TEAMWORK AND CUSTOMER COMMITMENT

Two Core Values that Triumphed in 2020

In the midst of a historic pandemic, BCT employees rallied to support our customers and communities with courageous service and a renewed sense of #BCTStrong. Extended Drive-Up Window hours, curbside service and appointments are just a few ways employees worked together to provide customers uninterrupted service during this challenging time. Our accelerated releases of enhanced digital services has unleashed geographic boundaries allowing us to reach customers well beyond our branch footprint.

BCT was recognized with two honors in 2020 for which we are especially proud: ***2020 Best Banks to Work For*** – American Banker and the ***Large Business Of The Year 2020*** – Martinsburg-Berkeley County Chamber of Commerce.

WEST VIRGINIA

CHARLES TOWN – Main Office
111 E. Washington Street
Charles Town, WV 25414
304-725-8431

HARPERS FERRY
1366 W. Washington Street
Harpers Ferry, WV 25425
304-535-6336

HEDGESVILLE
119 Cowardly Lion Drive
Hedgesville, WV 25427
304-754-0000

KEARNEYSVILLE
5480 Charles Town Road
Kearneysville, WV 25430
304-876-2563

MARTINSBURG
9738 Tuscarora Pike
Martinsburg, WV 25403
304-262-0089

MARYLAND

HAGERSTOWN
1101 Frederick Street
Hagerstown, MD 21740
301-739-4BCT (4228)

VIRGINIA

LEESBURG
446 Madison Trade Plaza SE
Leesburg, VA 20175
703-777-6319

Lending Office
602 S. King Street
Suite 300
Leesburg, VA 20175
703-443-4484

MIDDLEBURG
115 The Plains Road
Suite 150
Middleburg, VA 20117
540-687-6132

PURCELLVILLE
1201 Wolf Rock Drive
Suite 125
Purcellville, VA 20132
540-619-2913

DEAR FELLOW SHAREHOLDERS:

On behalf of the employees and Board of Directors of the Bank of Charles Town (BCT) and its holding company, Potomac Bancshares, Inc., it is an honor and pleasure to close out our 149th year, and to present our 2020 Annual Report. The resiliency and grit of the BCT team excelled as we did not allow historic low interest rates, economic uncertainty or a pandemic to hinder our ability to post record results for 2020. For that reason, we are compelled to begin with a genuine thank you to our employees for their many contributions to the successes we accumulated in 2020.

Over the past year, total assets grew $105.1 million to $620.9 million fostered by both strong loan and deposit growth. We saw opportunities to support our current customers and welcome new businesses that resulted in loan growth of $81.5 million to finish the year at $494.0 million. The BCT team proudly assisted 561 businesses with $55 million in Paycheck Protection Program (PPP) loans saving over 4,000 jobs.

Despite the current economic challenges, our credit metrics remain at all time lows with non-performing assets of 0.02% of total assets outstanding and a 37% reduction in troubled debt restructurings to $1.0 million at year end. We responded quickly to the CARES Act by offering deferrals of either a full payment or partial payment to borrowers in need. As of December 31, 2020, loans with a payment deferral were $20.2 million or 4.1% of the total loan portfolio.

Strategic initiatives focused on growth in non-interest bearing deposits providing $35.7 million of the $99.7 million of overall deposit growth. An opportune capital markets allowed us to raise $10 million in subordinated debt to support future growth of the balance sheet. Our regulatory capital ratios are well above the minimums for a well-capitalized financial institution.

Net income increased $572 thousand to $3.8 million or $0.92 per share for the year ended December 31, 2020. Core loan and deposit growth, aggressive decreases in deposit rates and strong expense management all contributed to our 17.9% growth in earnings despite significantly higher loan loss provisions.

Our strategic initiatives to modernize our digital banking experience, upgrade our website and move to the enhanced security of a .bank domain were fortuitous as the pandemic drove customers to mobile deposits, online banking and touchless Apple Pay. The BCT team rose to the occasion time and again this year by innovating new ways to safely serve our customers, like curbside service and virtual appointments. We will use what we have learned to continue to innovate ways to make our overall customer experience better and better.

A year that presented the BCT team with many unforeseen challenges reminded us that being committed community bankers extends far beyond mere financial transactions. This was highlighted by "BCTCares for the Hungry," where we partnered with 8 non-profit community organizations to provide contributions of over $36,000 in cash, and 6,000 pounds of food. Further, employees also volunteered to pack food into care packages and personally delivered meals to the needy.

As we look to 2021 – our 150th year – we are committed to profitable growth while maintaining a safe and sound community bank for years to come. Reflecting on the leadership of predecessor Presidents of Bank of Charles Town, we greatly appreciate the care they and the Board of Directors took to ensure our community has a locally owned bank that is resilient and endures in both good and challenging times.

The Board of Directors, senior management, and employees genuinely thank you for your continued support and loyalty.

President & CEO,
Potomac Bancshares, Inc. &
Bank of Charles Town

Chairman of the Board,
Potomac Bancshares, Inc. &
Bank of Charles Town

BOARD OF DIRECTORS

The Board of Directors welcomed *William "Bill" White, retired Chief Financial Officer and Corporate Secretary for First Bauxite to the board in October of 2020. In addition to Mr. White's extensive business experience, his involvement as President of the Eastern West Virginia Community Foundation will prove invaluable in the years to come.*

Keith B. Berkeley, D.V.M.
Chairman of the Board, Potomac Bancshares and Bank of Charles Town
Veterinarian/Owner, Valley Equine Associates

Alice P. Frazier
President & CEO, Potomac Bancshares and Bank of Charles Town

Kristina Bouweiri
President & CEO, Reston Limousine

J. Scott Boyd
Pharmacist/President, Jefferson Pharmacy
Pharmacist/President, JSB Enterprises, dba South Berkeley Pharmacy
Manager, Mountain Spring Properties

Norman M. Casagrande
Retired Location Manager, BMC East,
Member of MAC Industries

Margaret M. Cogswell
CEO, Hospice of the Panhandle

Mitesh B. Kothari, M.D.
Managing Member, Capital Women's Care

Barbara H. Pichot
Certified Public Accountant
Retired Partner, CoxHollida

Barbara L. Scott
Summit Point Raceway Associates
Retired President & CEO,BSR Training

Andrew C. Skinner
Attorney/Owner, Skinner Law Firm

C. Larry Togans
Retired Deputy Branch Chief of Human Resources, U.S. Geological Survey

William "Bill" A. White
Consultant
Retired CFO and Corporate Secretary First Bauxite

Anthony P. Zelenka
Retired President & CEO, WVU Medicine Berkeley Medical Center and Jefferson Medical Center

ADVISORY BOARD
BCT'S COMMUNITY CHAMPIONS

Many of the top business and community leaders within each market serve on Advisory Boards. These members help BCT understand each market's competitive landscapes plus provide expertise and special knowledge that helps guide our strategic planning.

Eastern Panhandle, WV, Advisory Board

John Beatty
BCT, Retired

Mark Burkhart
Mountain View Farm

Alison A. Cox
Bowles Rice

Darin L. Gilpin D.V.M.
Shenandoah Veterinary Hospital

Justin Henry
Panhandle Homes of Berkeley County

C.W. "Chip" Hensell, III
(Chair)
Hensell Realty

John Lowe
Lowe Products

Jason M. Roach
R.M. Roach & Sons

Kenny Roberts
American Petroleum Institute

Lisa Younis
Younis Orthodontics

Loudoun County, VA, Advisory Board

Kristina Bouweiri (Chair)
Reston Limousine

Paige Buscema
Eyetopia

Bob Caines
The Bob Caines Team, Re/Max

Matthew Lowers
Wholesale Screening Solutions

Chauvon McFadden
Crimson Wealth Strategies

Jeff Mitchell
Mitchell & Co.

Bernard Mustafa
BE FIT Technologies

Deep Sran, Ph.D.
Loudoun School for Advanced Studies

Anthony "Tony" Stafford
Ford's Fish Shack

Sonnie Swann
Climatic Heating and Cooling

Katie Wilson
The Market Group

Gary Clemens
Loudoun County Circuit Court

Washington County, MD, Advisory Board

Kevin O'Leary
Coldwell Banker Innovations

John H. Roney II
Retired Banker

Todd A. Harrison, D.P.M.
Foot & Ankle Specialist of the Mid-Atlantic

Ted Reeder III, CPA
Tiger's Eye Benefits Consulting

Mitesh B. Kothari, M.D.
(Chair)
Capital Women's Care

Richard Kramer, D.D.S.
Oral and Facial Surgery

Heather Guessford
United Way of Washington County

Jeanne Singer
Law Offices of Jeanne Singer

A Winchester, VA, native, Kenny Unger purchased Clearbrook Feed & Supply in 2005. In 2017, the SBA referred Kenny to BCT, and with their help, he purchased the business property. With 14 employees, Clearbrook Feed & Supply serves the local community with hay, straw, animal feed, seeds, fencing and more. Kenny supports local charities, including fairs in Berkeley, Clarke, Frederick and Jefferson Counties. With BCT's support, Kenny purchased Berryville Farm & Pet Supply, in Berryville, VA, in April of 2020.

www.clearbrookfeed.com

"What sets us apart with our customers is customer service, and that's what sets BCT apart as well. They're exactly what a community bank should be."

Kenny Unger, *Owner*

CLEARBROOK FEED & SUPPLY

CLEARBROOK, VA

INDEPENDENT FIRE COMPANY

RANSON, WV

"BCT has been supportive of our operation for as far back as I can remember. We recently purchased a new $600,000 fire engine. BCT offered the best rates and the best service of all the local banks."

Ed Smith, *President*

The Independent Fire Company was founded in Charles Town, WV, in July of 1884, and moved to Ranson, WV, in 1989. With a budget of 1 million dollars, financial support comes from state, county & city funding, community fundraising and donations, and ambulance services revenue. "Company 4" has 45 volunteer firefighters and receives 24/7 staffing support from the Jefferson County Emergency Services Agency. The firehouse is comprised of two Class A Pumpers, a 3,000 Gallon Tanker, two ALS Ambulances and Jefferson County's only heavy duty Rescue Squad. *www.independentfirecompany.net*

Dr. Shahin Rahimian started his private practice in 2006. Panhandle Gastroenterology has four employees and is located in a Medical Building in Martinsburg, WV.

With a Doctorate degree from the West Virginia School of Osteopathic Medicine, Dr. Rahimian specializes in Clinical Gastroenterology and is the only Independent Endoscopist in the Eastern Panhandle. He is affiliated with the American College of Gastroenterology and the American Society for Gastrointestinal Endoscopy.

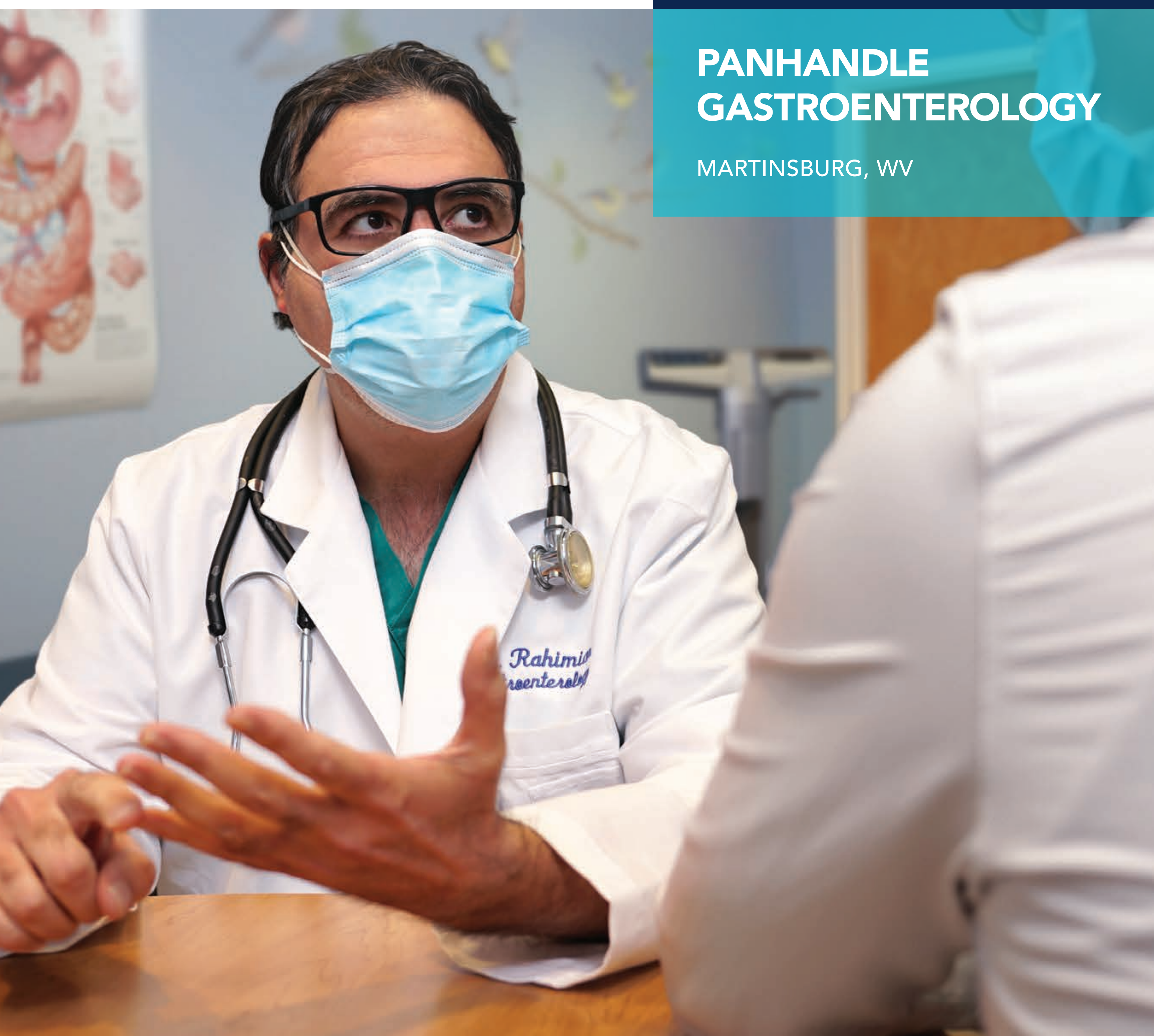
www.panhandlegastro.com

"BCT is always available, always prepared and always has the right attitude. They are easy to work with and get things done."

Dr. Shahin Rahimian, D.O., *Owner*

PANHANDLE GASTROENTEROLOGY

MARTINSBURG, WV



HEALING H_2O CHURCH

DULLES, VA

> "BCT is sympathetic toward our mission as an African American Church. They are as interested in us personally as they are from a business standpoint. Working with them is always a seamless and professional process."
>
> Bishop Chadwick F. Carlton

Bishop Carlton, a Washington, D.C. native, founded Healing H_2O in 2006 "to help people live on purpose." With a Doctorate of Ministry from Wesley Theological Seminary (Washington, D.C.) and a Doctorate of Theology from La Salle University (Philadelphia, PA), Bishop Carlton oversees 14 pastors and a congregation of 500, emphasizing emotional and personal healing, helping people find their way to God, and nurturing business and Christian leaders. Healing H_2O's virtual platform includes Bible Study, Men's Ministries, Women On Water, Corporate Prayer and Hooked 4 Life (Marriage Ministry). *www.healingh20.org*

Ruben Yepez came to the United States from Peru in 1992, and settled in Virginia. A professional contractor specializing in painting and remodeling, he started Tigers Painting and Remodeling 15 years ago, working closely with his brother, Rafael. A father of five, Ruben, his wife, Gissela, and their three children live in a new home financed by BCT – Residential Lending. Ruben's three brothers Jorge, Gaspar, and Rafael, plus his sister, Sara, have all followed in his footsteps and settled in Virginia.

"BCT is like a small family – very nice people, very caring, very helpful – and nothing is as important to me as family."

Ruben Yepez, *Homeowner*

FIRST-TIME HOMEBUYER

GAINESVILLE, VA

WEALTH ADVISORS CUSTOMERS

HARPERS FERRY, WV

"We have complete trust in BCT Wealth Advisors. We think of them as our advisors, and as our friends. Due to their expert advice and planning, we're in complete control of our retirement."

Diane Robinson & Bonnie Ott

When it comes to leisure time, Jefferson County residents Diane Robinson and Bonnie Ott can usually be found reading, hiking, or playing video games with their nephew. Diane, a Manager of Laboratory Sciences at Aerojet Rocketdyne in Culpepper, VA, and Bonnie, a retired Parts Manager at Frederick Motor Company, met 31 years ago and married in 2015. For more than two decades, they've relied on BCT Wealth Advisors. Now they're in a great position to take care of their retirement and support their nephew as well.

In 2014, Mani Qazi founded Lion Federal, a high-level government consulting firm based out of Vienna, VA, to provide innovative intelligence software to U.S. Government and commercial customers.

With over 30 employees, Lion Federal has been awarded numerous multi-year contracts to develop custom software and address national security needs and concerns. Customers include multiple federal agencies including the Department of Homeland Security, the Department of Labor, and the U.S. Customs and Border Protection.

www.lionfederal.com

"BCT's attitude and responsiveness helps us solve all of our banking issues, and their technology platform continues to exceed all of our expectations."

Mani Qazi, *Principal*

LION FEDERAL

VIENNA, VA

WASHINGTON COUNTY COMMISSION ON AGING

HAGERSTOWN, MD

"BCT is a hometown bank with a business touch – that always stays involved. It's comforting to know that we have a relationship with a genuine, kind, caring bank that supports local businesses."

Amy Olack, BSN, NHA, MSSL
Chief Executive Officer

Celebrating 50 years of service in 2020, this small non-profit's mission is to promote quality aging by meeting the needs, protecting the rights, and preserving the dignity of their citizens. WCCOA serves seniors, those with disabilities regardless of age, and caregivers. Funding comes from local, state and federal governments, and contributions from individuals, businesses and foundations. Programs include Nutrition and Wellness, Senior Center, Long-Term Care Services & Resources, Benefits Screening, Caregiver Supports, Education, Volunteer and Legal.

www.wccoaging.org

BCT Cares

Neighbor Helping Neighbor

2020 was a hallmark year for our **BCTCares**. In late 2019, we initiated plans for our employee volunteer programs and financial partnerships with eight community partners. Those plans were drastically changed due to the COVID-19 pandemic lockdown in March. The economic impact of the pandemic caused unexpected food insecurity for hundreds of families in our communities. As a result, **BCTCares** fully funded our entire 2020 commitment of $25,000 in April to help address the emergency need. Although volunteer opportunities were drastically reduced, many of our employees rose to the occasion by helping pack and deliver food to families and children. Throughout 2020, we continued to support our eight partners, as well as many other organizations and schools, with direct financial and volunteer support – primarily to address food insecurity that persisted throughout the year. Follow us on social media at **#BCTCares**.

BCTCARES FOR THE HUNGRY DONATIONS $36,000

85 SCHOLARSHIPS TOTALING $474,135

BCTCARES FOR THE HUNGRY Partners:

Berkeley County, West Virginia

- Berkeley County Meals on Wheels
- Berkeley County Backpack Program
- CCAP Loaves and Fishes

Jefferson County, West Virginia

- Jefferson County Meals on Wheels
- Jefferson County Community Ministries

Loudoun County, Virginia

- Loudoun Hunger Relief
- Loudoun Education Foundation – Backpack Program

Washington County, Maryland

- Washington County Commission on Aging – Meals on Wheels

Other Organizations Supported with Direct Funding and/or Employee Volunteer Hours:

- The Ampersand Pantry Project
- The ARC of Loudoun
- Boys & Girls Club
- C.W. Shipley Elementary School
- CASA of the Eastern Panhandle
- Children's Home Society of West Virginia
- Citizens Fire Company
- Eastern West Virginia Community Foundation
- Friendship Fire Company
- Habitat for Humanity
- Hospice of Southern West Virginia
- Hospice of the Panhandle
- Independent Fire Company
- Jefferson High School
- Lasting Change
- Martinsburg Public Library
- Northern Virginia Family Service
- Ryan Bartel Foundation
- Tree of Life Ministries
- Windy Hill Foundation
- WVU Foundation
- WVU Medicine Children's Hospital

WITH MANY THANKS TO OUR EMPLOYEES

Poonam Agarwal
Andrea Anderson
Diane Armstrong
Mary Armstrong
Crystal Baker
Andrew Beckwith
Deborah Black
Maryann Blehr
Jessica Bohrer
CJ Boswell
Mary Bowers
Ray Bromley
Scott Bronson
Colleen Busey
Sarah Butler
Diana Cangialosi
Lou Ann Cannon
Larissa Carson
Melissa Castle
Fiorella Cerna-Segura
Sherry Clem
Desiree Cline
Dee Clingan
Dean Cognetti
Alec Collis
Zach Costello
Steve Cowen
Leslie Crabill
David Dalton
Leah Day
Bryan Decker
Brittney Delauter
Tammy Demick
Kim DeSarno
Stacy Duranko
Terry Elliott
Emma Espinosa
Carolyn Fisher
Kim Flagle
Shawn Fletcher
Patrick Flickinger
Alice Frazier
Jasmin Garcia
Brittany Ginnaty
Raymond Goodrich
Michelle Griffith
Kristie Hadley
Tiffany Hall
Misty Harder
Trish Hardy
Maddie Harrison
Gabrielle Hill
Wanda Hill
Kim Himes
Elizabeth Hoffmaster
Shelly Holmes
Jalin Horn
Aaron Howell
Zari Hylock
Maddy Ingemie
Linda Jenkins
Mandy Johnson
Jana Jones
Ryan Kerns
Tim Lewis
Amanda Lowery
Stephanie Magnus
Michael Martin
Kim McGarrah
Joshua Medina
Daniel Mejia Mora
Vicky Melby
Brent Milbourne
Gwen Miller
Tammy Miller
Christina Mills-Morrison
Ashley Minogue
Bev Mitchell
Hannah Nguyen
Ariana Nieves
Carla Nilsen
Sheila Nix
Lance Nobles
Hannah Noel
Keith O'Brien
Amber Owens
Joshua Parham
Urvi Patel
Julia Perry-Thorne
Jesselle Pike
Juluan Plaza
Nancy Rafferty
Anthony Ranghelli
Peggy Rankin
Mikayla Reiff
Susan Riston
Vilma Roberts
Tyler Russell
Page Saylor
Steven Shaffer
Allie Shrewsbury
Scott Slick
Betsy Smith
Angie Staubs
Selene Stevens
Barbara Stevenson
Matt Stickel
Shawn Stotler
Amber Summey
Sabrina Taylor-Perotti
Tobey Twigg
Diandra Valderrama
Jenny Villar-Revello
Julie Weister
Kayla Weller
Steven Winters
Shantel Wright
Charles (Peanut) Wyndham

QUARTERLY FINANCIAL REPORTS are available online. To access a copy of these reports, visit: **mybct.bank**

For further information contact:
Dean J. Cognetti
Executive Vice President,
Chief Financial Officer &
Secretary/Treasurer,
Potomac Bancshares, Inc.

111 East Washington Street
P.O. Box 906
Charles Town, WV 25414-0906

1871®

Stock Trading Symbol – OTC: PTBS

Dividend Reinvestment & Direct Stock Purchase and Sale Plan

American Stock Transfer & Trust Company, LLC (the "Plan Administrator") has established a Dividend Reinvestment & Direct Stock Purchase and Sale Plan (the "Plan") for convenience of investors and shareholders in Potomac Bancshares, Inc. common stock. Contact American Stock Transfer directly with any questions.

STOCK TRANSFER AGENT

American Stock Transfer & Trust Company, LLC
Operations Center – 6201 15th Avenue, Brooklyn, NY 11219
718-921-8124 / 800-937-5449
www.astfinancial.com

VIRTUAL ANNUAL MEETING

In the best interests of our shareholders, employees, and community, the Annual Shareholder Meeting will be in a virtual format. To be admitted, visit www.virtualshareholdermeeting.com/PTBS2021.

The virtual annual meeting will be conducted on Tuesday, April 27, 2021 beginning at 10:30 a.m. Eastern Time.

For more details, see the enclosed information card.

POTOMAC BANCSHARES, INC.

Charles Town, West Virginia

NOTICE OF REGULAR ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 27, 2021

To the Shareholders:

The Regular Annual Meeting of Shareholders of Potomac Bancshares, Inc. (“Potomac”) will be held in a **virtual** meeting format only at 10:30 a.m., on April 27, 2021, for the purposes of considering and voting upon proposals:

1. To elect a class of directors for a term of three years;
2. To ratify the appointment by the Board of Directors of Yount, Hyde & Barbour, P.C., as independent registered public accountants for the year 2021; and

To approve any other business that may properly be brought before the meeting or any adjournment thereof.

Only those shareholders of record at the close of business on February 26, 2021, shall be entitled to notice of the meeting and to vote at the meeting.

To be admitted to the **virtual** Annual Meeting, visit www.virtualshareholdermeeting.com/PTBS2021 and enter the control number found on your proxy card.

By Order of the Board of Directors

Alice P. Frazier
President and Chief Executive Officer

PLEASE SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN A VIRTUAL FORMAT. IF YOU DO ATTEND THE MEETING, YOU HAVE THE OPTION TO REVOKE YOUR PROXY BEFORE IT IS VOTED.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 27, 2021 - THE PROXY STATEMENT AND 2020 ANNUAL REPORT ARE AVAILABLE AT WWW.PROXYVOTE.COM.

March 15, 2021

POTOMAC BANCSHARES, INC.
111 EAST WASHINGTON STREET
P.O. BOX 906
CHARLES TOWN, WEST VIRGINIA 25414-0906
(304) 725-8431

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS – APRIL 27, 2021

Potomac Bancshares, Inc. is furnishing this statement in connection with its solicitation of proxies for use at the annual meeting of shareholders of Potomac Bancshares, Inc. to be held on April 27, 2021, at the time and for the purposes set forth in the accompanying notice of regular annual meeting of shareholders.

Solicitation of Proxies

Potomac's management, at the direction of Potomac's Board of Directors, is making this proxy solicitation. These proxies enable shareholders to vote on all matters scheduled to come before the meeting. If the enclosed proxy is signed and returned, it will be voted as directed; or if not directed, the proxy will be voted "FOR" all the various proposals to be submitted to the vote of shareholders described in the enclosed notice of regular annual meeting and this proxy statement. A shareholder executing the proxy may revoke it at any time before it is voted by:

- notifying Potomac in person,
- giving written notice to Potomac of the revocation of the proxy,
- submitting to Potomac a subsequently dated proxy, or
- attending the meeting and withdrawing the proxy before it is voted at the meeting.

Potomac will pay the expenses of this proxy solicitation. In addition to this solicitation by mail, officers and regular employees of Potomac and Bank of Charles Town may, to a limited extent, solicit proxies personally or by telephone or telegraph, although no person will be engaged specifically for that purpose.

Eligibility of Stock for Voting Purposes

Under Potomac's bylaws, the Board of Directors has fixed February 26, 2021, as the record date for determining the shareholders entitled to notice of, and to vote at, the meeting or any adjournment thereof. Only shareholders of record at the close of business on that date are entitled to notice of and to vote at the annual meeting or any adjournment thereof. The presence, in person, or by properly executed proxy, of the holders of a majority of the outstanding shares of the company's common stock entitled to vote at the annual meeting is necessary to constitute a quorum at the annual meeting. Abstentions will be counted as shares present for purposes of determining the presence of a quorum. Any shares held in street name that are not voted ("broker non-votes") in the election of directors will not be included in determining the number of votes.

As of the record date for the annual meeting, 4,133,811 shares of the capital stock of Potomac were outstanding and entitled to vote. As of the record date, Potomac had a total of approximately 1,200 shareholders.

PURPOSES OF MEETING

1. ELECTION OF DIRECTORS

General

Potomac's articles of incorporation currently provide for a classified Board of Directors. There are three classes with each being elected for a three-year term. There are presently 13 directors on the Board, four of whom are nominees for election at the 2021 annual meeting. Each director (Berkeley, Frazier, White and Zelenka) is being elected for a term of three years. Barbara L. Scott is retiring from the Board of Directors. The Board of Directors has set the number of directors after the meeting at twelve.

Directors are elected by a plurality of the shares voted. As required by West Virginia law, each share is entitled to one vote per nominee, unless a shareholder requests cumulative voting for directors at least 48 hours before the meeting. If a shareholder properly requests cumulative voting for directors, then each shareholder will have the right to vote the number of shares owned by that shareholder for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of shares owned shall equal, or to distribute them on the same principle among as many candidates as the shareholder sees fit. If any shares are voted cumulatively for the election of directors, the proxies, unless otherwise directed, shall have full discretion and authority to cumulate their votes and vote for less than all such nominees. For all other purposes, each share is entitled to one vote. Because director nominees must receive a plurality of the votes cast at the meeting, a vote withheld will not affect the outcome of the election.

The Board of Directors has a nominating committee tasked with identifying potential Board of Director members. The nominating committee makes nominations based upon its belief that candidates for director should have certain minimum qualifications, including:

- Directors should be of the highest ethical character.
- Directors should have excellent personal and professional reputations in the company's market area.
- Directors should be accomplished in their professions or careers.
- Directors should be able to read and understand financial statements and either have knowledge of, or the ability and willingness to learn, financial institution law.
- Directors should have relevant experience and expertise to evaluate financial data and provide direction and advice to the Chief Executive Officer and the ability to exercise sound business judgment.
- Directors must be willing and able to expend the time to attend meetings of the Board of Directors of the company and the bank and to serve on Board committees.
- The Board of Directors will consider whether a nominee is independent. In addition, directors should avoid the appearance of any conflict and should be independent of any particular constituency and be able to serve all shareholders of the company.

- Directors must be acceptable to the company's and the bank's regulatory agencies, including the Federal Reserve Board, the Federal Deposit Insurance Corporation and the West Virginia Division of Financial Institutions and must not be under any legal disability which prevents them from serving on the Board of Directors or participating in the affairs of a financial institution.

- Directors must own or acquire sufficient capital stock to satisfy the requirements of federal law, state law and the bylaws of Potomac.

The nominating committee reserves the right to modify these minimum qualifications from time to time, except where the qualifications are required by the laws relating to financial institutions.

The process of identifying and evaluating nominees is as follows: In the case of incumbent directors whose terms are set to expire, the committee considers the directors' overall service to the company during their term, including such factors as the number of meetings attended, the level of participation, quality of performance and any transactions between such directors of the company and the bank. The Board also reviews the payment history of loans, if any, made to such directors of the bank to ensure that the directors are not chronically delinquent and in default. The committee considers whether any transactions between the directors and the bank have been criticized by any banking regulatory agency or the bank's external auditors and whether corrective action, if required, has been taken and was sufficient. The nominating committee also confirms that such directors remain eligible to serve on the Board of Directors of a financial institution under federal and state law. For new director candidates, the committee uses its network of contacts in the company's market area to compile a list of potential candidates. The committee then meets to discuss each candidate and whether he or she meets the criteria set forth above. The committee then discusses each candidate's qualifications and chooses a candidate by majority vote.

The committee will consider director candidates recommended by shareholders, provided that the recommendations are received at least 120 days before the next annual meeting of shareholders. In addition, the procedures set forth below are to be followed by shareholders submitting nominations. The committee does not intend to alter the way it evaluates candidates, regardless of whether the candidate was recommended or nominated by a shareholder.

Potomac's bylaws provide that nominations for election to the Board of Directors, other than those made by or on behalf of Potomac's existing management, must be made by a shareholder in writing delivered or mailed to the President not less than 14 days nor more than 50 days prior to the meeting called for the election of directors; provided, however, that if less than 21 days' notice of the meeting is given to shareholders, the nominations must be mailed or delivered to the President not later than the close of business on the 7th day following the day on which the notice of meeting was mailed. The notice of nomination must contain the following information, to the extent known:

- name and address of nominee(s);

- principal occupation of nominee(s);

- total shares to be voted for each nominee;

- name and address of notifying shareholder;

- number of shares owned by notifying shareholder; and

- consent of such nominee(s) to being named in the proxy statement as a nominee and to serving as such a director, if elected.

Nominations not made in accordance with these requirements may be disregarded by the chairperson of the meeting and in such case the votes cast for each such nominee will likewise be disregarded.

Management Nominees to the Board of Potomac

Nominees	Age	Served As Director of Potomac Since	Family Relationship With Other Nominees	Year in Which Term Expires	Principal Occupation or Employment Last Five Years
For a term of three years:					
Dr. Keith B. Berkeley	62	2008	None	2021	Veterinarian, President of Valley Equine Associates, Jefferson County, West Virginia. Chairman of The Board, Potomac Bancshares, Inc., and Bank of Charles Town.
Alice P. Frazier	56	2017	None	2021	Employed by Potomac Bancshares, Inc., and Bank of Charles Town as of July 5, 2017 as President and Chief Executive Officer.
William A. White	63	2020	None	2021	Retired CFO and Corporate Secretary, First Bauxite Corporation.
Anthony P. Zelenka	67	2015	None	2021	Retired President and Chief Executive Officer of WVU Medicine – Berkeley Medical Center and Jefferson Medical Center.

The Board of Directors recommends that shareholders vote "For" all the nominees listed above.

Directors Continuing to Serve Unexpired Terms

Nominees	Age	Served As Director of Potomac Since	Family Relationship With Other Nominees	Year in Which Term Expires	Principal Occupation or Employment Last Five Years
Kristina Bouweiri	58	2019	None	2023	President & CEO, Reston Limousine, Loudoun County, Virginia.
J. Scott Boyd	64	1999	None	2022	Pharmacist, owner Jefferson Pharmacy, Inc., Jefferson County, West Virginia since 1982; Pharmacist, owner JSB Enterprises, Inc. dba South Berkeley Pharmacy, Berkeley County, West Virginia since 2006; Manager, Mountain Spring Properties, LLC.
Norman M. Casagrande	61	2013	None	2023	Member, MAC Industries, LLC Berkeley County, West Virginia. Retired Location Manager, BMC East, LLC.
Margaret M. Cogswell	62	2003	None	2023	Chief Executive Officer, Hospice of the Panhandle, Berkeley, Hampshire, Jefferson, and Morgan Counties, West Virginia since 1987.
Dr. Mitesh B. Kothari, M.D.	51	2019	None	2022	Partner, Capital Women's Care, Washington County, Maryland; Chairman, Bank of Charles Town Washington County, Maryland Advisory Board.
Barbara H. Pichot	73	2004	None	2022	Certified Public Accountant (retired), retired partner CoxHollida LLP, a public accounting firm in Berkeley County, West Virginia, 1981 to 2006; past President, Hospice of the Panhandle; past Chair, Board of Governors, Shepherd University.
Andrew C. Skinner	50	2017	None	2023	Attorney/Owner, Skinner Law Firm. Jefferson County, West Virginia.
C. Larry Togans	74	2004	None	2022	Retired Deputy Branch Chief of Human Resources, U. S. Geological Survey employed 1973 to 2001.

Director retiring at the end of her term:

Barbara L. Scott	72	2012	None	2021	Retired from Summit Point Raceway Associates, Inc. and BSR, Inc.; CEO of Summit Point Raceway Associates, Inc. and BSR, Inc., 2009 to 2018; former Managing Member of Summit Point Automotive Research Center, LLC.

Alice P. Frazier has 30 years of banking experience. She was the Executive Vice President and Chief Operating Officer of Cardinal Financial Corporation prior to being hired as President and CEO of Potomac Bancshares and Bank of Charles Town. Before joining Cardinal, she was Senior Vice President and Area Executive for BB&T in the Loudoun County, VA market. Ms. Frazier began her banking career at Middleburg Financial Corporation in 1991 serving as Chief Financial Officer and later Chief Operating Officer. Prior to her banking career, she worked in public accounting with a national and a regional firm. Ms. Frazier is a graduate of Radford University and Stonier Graduate School of Banking. She is a past Chair of the Virginia Association of Community Banks. Ms. Frazier has served as chair of various committees and as at large director with the Independent

Community Bankers America (ICBA). In March 2019, Ms. Frazier was elected Secretary of the ICBA, and as of March 2021 is serving as a Board of Director. She is a current board member of two non- profit organizations: the Loudoun County Economic Development Authority and WVU Hospital.

Dr. Keith B. Berkeley is the Chairman of the Board of Directors of Potomac and the Bank and has served on the Board of Directors since July 2008. He has been a veterinarian and business owner in the Eastern Panhandle of West Virginia for 20 plus years. Dr. Berkeley earned his Doctor of Veterinary Medicine from the Tuskegee Institute. Dr. Berkeley was elected to the Board for his business experience and his knowledge of Potomac's and Bank of Charles Town's market areas by virtue of his relationship with the community through his veterinary practice and as a successful businessman. In addition, Dr. Berkeley has attended the FDIC/West Virginia Community Bankers Directors College to further his own knowledge of the banking industry and his responsibilities as a Director.

Kristina Bouweiri serves as CEO and President of Reston Limousine, the premier chauffeured transportation provider in the Washington, DC Metro area and eighth largest in the nation. The company is headquartered in Sterling, Virginia and she is a long-time resident of Leesburg, Virginia. Ms. Bouweiri is a former board member of the DC Chamber of Commerce and Washington DC Economic Partnership. She is a current board member of Northern Virginia Community College Foundation, Inova Loudoun Hospital Foundation, Loudoun CEO Cabinet, Mansion on O Street and Enterprising Woman magazine. Ms. Bouweiri also serves as trustee of the Loudoun Education Foundation. Bouweiri founded the networking luncheon Sterling Women and co-founded the annual Virginia Women's Business Conference, two programs that have helped hundreds of women entrepreneurs and executives achieve their professional goals. She also is an advisory board member of the Dean's Council of the George Mason School of Business, Children's Science Center, and Eat Din Din. In addition, Bouweiri has numerous awards and recognitions including Washington Business Journal's Power 100 and Top Women-Owned Businesses in Washington, DC, George Mason University School of Business Outstanding Leadership Award, DC Chamber of Commerce Business Leader of the Year, and International Women's Entrepreneurial Challenge Award. Ms. Bouweiri holds a Bachelor of Arts degree in International Affairs from George Washington University.

J. Scott Boyd is a pharmacist and owner of one pharmacy in both Berkeley and Jefferson Counties. Mr. Boyd is a graduate of the West Virginia University School of Pharmacy. Mr. Boyd was chosen for his experience as a business owner and his knowledge of the market areas of Potomac and Bank of Charles Town in both Berkeley and Jefferson Counties. He has 30 plus years of business experience as well as his contacts with an array of persons from the communities the bank serves. Mr. Boyd has attended the FDIC/West Virginia Community Bankers Directors College.

Norman M. Casagrande is retired from his position as location manager for BMC East, LLC. He is also a member in MAC Industries, LLC in Spring Mills, West Virginia. BMC East is a building materials supplier and manufacturer. Mr. Casagrande is originally from the Pittsburgh, PA area and earned a Business/Economics degree from Washington and Jefferson College in Washington, PA. He previously owned a building materials company and was employed with 84 Lumber for eight years. Mr. Casagrande's manufacturing background and experience in the housing industry is an important asset for the board as much of the bank's portfolio is invested in residential real estate. Mr. Casagrande has attended the FDIC/West Virginia Community Bankers Directors College.

Margaret M. Cogswell is Chief Executive Officer of Hospice of the Panhandle. She has an Associate of Science degree in Nursing from Shepherd College. Ms. Cogswell brings a unique perspective of someone that has been involved in non-profit organizations most of her adult life and as a result, has several contacts within the company's and the bank's market area in Jefferson and Berkeley Counties, West Virginia. Her duties as CEO include management of a multi-million-dollar budget. Ms. Cogswell is and has been involved with the non-profit community and her management experience is a valuable asset to the Board of Directors. She has attended the FDIC/West Virginia Community Bankers Directors College to further her knowledge of the banking industry and her responsibilities as a Director. In addition, she serves as Chairwoman of the Personnel Committee.

Dr. Mitesh B. Kothari, M.D. is a partner of Capital Women's Care, one of the largest medical practices for female health services in Hagerstown and Washington County, Maryland. This premier group is located at the Trilogy Professional Center in Hagerstown, Maryland. Dr. Kothari also serves as Chairman of BCT's Washington County, Maryland, Advisory Board, where he was a member since 2014. Additionally, Dr. Kothari serves and has served on many community and non-profit Boards, including Meritus Medical Center Foundation, Community Foundation of Washington County, Leadership Washington County, YMCA, and the Greater Hagerstown Committee. After completing his residency training in Obstetrics and Gynecology at the University of Maryland Hospital, Dr. Kothari returned to Hagerstown to open his practice. Dr. Kothari completed his graduate and undergraduate studies at the University of Maryland.

Barbara H. Pichot is a Certified Public Accountant (retired), and retired partner with CoxHollida LLP. Ms. Pichot has over 25 years of experience in public accounting and as the controller of a concrete manufacturing facility. She is a graduate of Shepherd College with a degree in accounting and was elected to the Board for her financial and accounting expertise. She currently serves as the company's Audit Committee financial expert. Ms. Pichot adds her knowledge of accounting and audit procedures and her business acumen to the board. She has attended the FDIC/West Virginia Community Bankers Directors College to further her knowledge of the banking industry and her responsibilities as a Director.

Andrew C. Skinner is an attorney/owner at Skinner Law Firm in Charles Town, WV. Mr. Skinner has a bachelor's degree in economics from the College of William and Mary. Mr. Skinner served in the Army for four years. After coming off active duty, he obtained his law degree from the University of Texas School of Law. Mr. Skinner continues his military career by serving in the Army Reserves. He also founded Leadership Jefferson, a program of the Jefferson County Chamber of Commerce. Mr. Skinner brings broad legal expertise to the board and has strong ties in the community.

C. Larry Togans is retired from the U. S. Geological Survey in Reston, VA where he served as the Deputy Branch Chief of Human Resources and Management Support. In his position, Mr. Togans served as special advisor to the Senior Executive Staff (SES) who manages more than 5000 geoscientists and technical support staff members. Mr. Togans received his Bachelor's degree from Shepherd College. Mr. Togans provides expertise in the human resources field and he has served as Board member in several positions including serving on the Shepherd University Foundation and Jefferson County Board of Education. Mr. Togans has taken the time to advance his knowledge of banking and directorship by attending the FDIC/West Virginia Community Bankers Directors College.

William A. White has 34 years' experience in corporate finance at various levels. Mr. White is a Certified Public Accountant (currently inactive) since 1982. He was the Chief Financial Officer and Corporate Secretary of First Bauxite Corporation, a privately held company, from 2015 until 2019. Mr. White also served in several positions with U.S. Silica Company from 1991 until 2012, ending his tenure as the CFO and VP of Finance. Prior to this, he served in various financial positions at Union Carbide from 1985 until 1991. Mr. White is a graduate of Marshall University with a BBA in Business Administration – Accounting. He is currently volunteering as the President of the Eastern West Virginia Community Foundation, board member and investment committee member of University Healthcare, and board member of the Martinsburg Sunrise Rotary. Mr. White previously served as the community and public relations director with the Hospice of the Panhandle.

Anthony P. Zelenka is the retired President and Chief Executive Officer of WVU Medicine – Berkeley Medical Center and Jefferson Medical Center, a position he held from 2015 to 2020. Mr. Zelenka previously held the title of President and Chief Operating Officer from 2008 until 2015. A graduate of Marietta College in Ohio, he holds a certificate from the Executive Program in Healthcare Financial Management and a Master of Health Administration from The Ohio State University. Mr. Zelenka's business acumen and knowledge of an evolving healthcare industry is a real asset to the company.

Ownership of Securities by Nominees, Directors and Officers

All nominees, directors and principal officers have beneficial ownership of 183,390 shares as a group. These shares represent, in aggregate, 4.44% of the common stock of Potomac Bancshares, Inc. The information is furnished as of January 31, 2021, on which date 4,133,811 shares were outstanding.

Compensation of Directors

Directors of Potomac were not compensated for their services as directors during 2020, other than for committee meetings attended and $900 for the strategic planning session. Directors of the bank were compensated at the rate of $900 for each regular Board meeting attended in 2020. The Chairperson of the Board was paid $500 per board meeting in addition to director and committee fees. Directors were compensated $220 for each committee meeting attended through April 2020 and were compensated $250 for each committee meeting attended from May through December 2020. The Audit Committee member who is deemed the financial expert was compensated $330 for each Audit Committee meeting attended through April 2020 and was compensated $350 for each Audit Committee meeting attended from May through December 2020. The Chairperson of the Salary and Personnel Committee received $330 per meeting attended through April 2020 and was compensated $350 for each Salary and Personnel Committee meeting attended from May through December 2020. Directors who are operating officers of the bank are not compensated for committee meetings attended. All directors received 50 shares of Potomac Stock for the first quarter of 2020 as additional compensation. In addition, the Chairperson of the Board of Directors received $5,000 in Potomac Bancshares stock and all other Directors received $3,500 in Potomac Bancshares stock as a retainer.

Certain Transactions with Directors, Officers and Their Associates

Potomac and the bank have had, and expect to have in the future, transactions in the ordinary course of business with directors, officers, principal shareholders, and their associates. All these transactions remain on substantially the same terms, including interest rates, collateral, and repayment terms on the extension of credit, as those prevailing at the same time for comparable transactions with unaffiliated persons, and in the opinion of management of Potomac and the bank, did not involve more than the normal risk of collectability or present other unfavorable features.

Potomac does not have a formal policy on related party transactions, although these transactions are subject to compliance with federal and state corporate and banking laws. As stated in the previous paragraph, transactions with directors are on the same terms and require the same documentation as those transactions with unaffiliated persons. These transactions are voted on by the Board of Directors with the particular director absent for the discussion and voting. The transactions and voting are recorded in the minutes. These transactions are designated so the information is accessible as needed for reporting purposes.

2. RATIFICATION OF SELECTION OF AUDITORS

The Audit Committee of the Board of Directors has selected the firm of Yount, Hyde & Barbour, P.C. to serve as independent auditors for Potomac for the calendar year 2021. If the shareholders do not ratify the appointment of Yount, Hyde & Barbour, P.C., the committee will consider the appointment of other auditors. Potomac is advised that no member of this accounting firm has any direct or indirect material interest in Potomac, or any of its subsidiaries.

A representative of Yount, Hyde & Barbour, P.C., will be present at the annual meeting to respond to appropriate questions and to make a statement if he or she so desires. The enclosed proxy will be voted "FOR" the ratification of the selection of Yount, Hyde & Barbour, P.C., unless otherwise directed. The affirmative vote of a majority of the shares of Potomac's common stock represented at the annual meeting of shareholders is required to ratify the appointment of Yount, Hyde & Barbour, P.C. Because a majority of the votes cast will be sufficient for the ratification of the appointment of Yount, Hyde & Barbour, P. C., neither broker non-votes nor abstentions will affect the outcome of the proposal. Any shares held in street name that are not voted ("broker non-votes") will not be included in determining the number of votes cast.

The Audit Committee and the Board of Directors unanimously recommend that shareholders vote "For" such ratification.

OTHER MATTERS

If any of the nominees for election as directors should be unable to serve as a director by reason of death or other unexpected occurrence, a proxy will be voted for a substitute nominee or nominees designated by the Board of Potomac unless the Board of Directors adopts a resolution pursuant to the bylaws reducing the number of directors.

The Board of Directors is unaware of any other matters to be considered at the meeting, but if any other matters properly come before the meeting, persons named in the proxy will vote such proxy in accordance with their judgment on such matters.

SHAREHOLDER COMMUNICATIONS WITH THE BOARD

Any shareholder desiring to contact the Board of Directors or any individual director serving on the Board may do so by written communication mailed to: Board of Directors, Attention: (name of director(s), as applicable), c/o Corporate Secretary Dean Cognetti, Potomac Bancshares, Inc., P.O. Box 906, Charles Town, West Virginia 25414. Any proper communication so received will be processed by the Corporate Secretary as agent for the Board. Unless, in the judgment of the Corporate Secretary, the matter is not intended or appropriate for the Board (and subject to any applicable regulatory requirements), the Corporate Secretary will prepare a summary of the communication for prompt delivery to each member of the Board or, as appropriate, to the member(s) of the Board named in the communication. Any director may request the Corporate Secretary to produce for his or her review the original of the shareholder communication.

MEETING LOCATION, TIME, AND DATE

The Regular Annual Meeting of Shareholders will be held in a **virtual** meeting format only, at 10:30 a.m. on April 27, 2021.

Alice P. Frazier
President and Chief Executive Officer

Charles Town, West Virginia
March 15, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Potomac Bancshares, Inc.
Charles Town, West Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Potomac Bancshares, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Potomac Bancshares, Inc. and its subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 15, 2021

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2020 and 2019
($ in thousands, except per share data)

	2020	2019
ASSETS		
Cash and due from banks	$ 1 988	$ 2 994
Interest-bearing deposits in other financial institutions	41 696	29 512
Investment Securities:		
Available-for-sale, at fair value	62 987	50 471
Equity securities, at fair value	220	133
Loans held for sale	2 713	2 034
Loans, net of allowance for loan losses of $5,385 in 2020 and $3,716 in 2019	488 580	408 744
Premises and equipment, net	7 328	7 897
Other real estate owned, net of valuation allowance of $51 in 2019	- -	53
Accrued interest receivable	1 868	1 178
Bank owned life insurance	7 821	7 641
Federal Home Loan Bank of Pittsburgh stock	672	727
Other assets	5 039	4 402
Total Assets	$620 912	$515 786
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Noninterest-bearing	$105 674	$ 70 023
Interest-bearing	442 868	379 857
Total Deposits	548 542	449 880
Short term borrowings	2 993	3 910
Long term borrowings	- -	5 000
Subordinated debt, net of unamortized issuance costs	9 734	- -
Accrued interest payable	325	337
Other liabilities	4 506	4 737
Total Liabilities	$566 100	$463 864
STOCKHOLDERS' EQUITY		
Common stock, $1 per share par value; 10,000,000 shares authorized; 4,482,501 issued and outstanding at December 31, 2020 and at December 31, 2019	$ 4 483	$ 4 483
Surplus	14 358	14 358
Undivided profits	41 496	38 869
Accumulated other comprehensive loss, net	(2 031)	(2 294)
	$ 58 306	$ 55 416
Less cost of shares acquired for the treasury, 348,690 shares in 2020 and 2019	(3 494)	(3 494)
Total Stockholders' Equity	$ 54 812	$ 51 922
Total Liabilities and Stockholders' Equity	$620 912	$515 786

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2020 and 2019
($ in thousands, except per share data)

	2020	2019
Interest and Dividend Income		
Interest and fees on loans	$19 771	$17 830
Interest on securities available for sale – taxable	1 187	1 153
Interest on securities available for sale – nontaxable	50	44
Other interest and dividends	333	1 048
Total Interest and Dividend Income	21 341	20 075
Interest expense		
Interest on deposits	3 204	3 655
Interest on short term borrowings	14	13
Interest on long term borrowings	118	115
Interest on subordinated debt	164	- -
Total Interest Expense	3 500	3 783
Net Interest Income	17 841	16 292
Provision for Loan Losses	1 441	474
Net Interest Income after Provision for Loan Losses	16 400	15 818
Noninterest Income		
Trust and financial services	1 170	1 334
Service charges on deposit accounts	880	1 173
Secondary market income	1 364	1 050
Interchange fees	1 495	1 384
Earnings on bank owned life insurance	180	184
Gain (loss) on sales of securities available for sale	17	(7)
Other operating income	647	347
Total Noninterest Income	5 753	5 465
Noninterest Expense		
Salaries and employee benefits	9 600	9 070
Net occupancy expense of premises	1 019	1 136
Furniture and equipment expenses	1 449	1 628
Loss on sales of other real estate	- -	7
Accounting, audit and compliance	296	302
Advertising and public relations	156	367
Computer services and online banking	826	733
FDIC assessment	118	67
Other professional fees	265	271
Trust investing outsource	214	208
Director & committee fees	259	251
Legal fees	84	205
Printing, stationery and supplies	269	235
Communications	349	325
Foreclosed property expense	12	36
Write down of other real estate owned	15	10
ATM and check card expenses	716	825
Other operating expenses	1 665	1 493
Total Noninterest Expenses	17 312	17 169
Income before Income Tax Expense	4 841	4 114
Income Tax Expense	1 056	901
Net Income	$ 3 785	$ 3 213
Earnings Per Common Share, Basic and Diluted	$ 0.92	$ .78

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2020 and 2019
($ in thousands)

	2020	2019
Net Income	$3 785	$3 213
Other comprehensive income:		
Unrealized holding gain on securities, net of tax of $120 and $202, respectively	360	605
Reclassification adjustment for (gains) losses included in net income, net of tax of $5 and $2, respectively	(12)	5
Net pension and other postretirement loss arising during the period net of tax of $102 and $151, respectively	(308)	(455)
Amortization of net actuarial loss included in net periodic benefit cost net of tax of $74 and $63, respectively	223	188
Other comprehensive income, net of tax	263	343
Comprehensive income	$4 048	$3 556

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2020 and 2019
($ in thousands, except per share data)

	Common Stock	Surplus	Undivided Profits	Treasury Stock	Accumulated Other Comprehensive Loss, net	Total
Balances, December 31, 2018	$4 483	$14 358	$36 814	$ (3 494)	$ (2 637)	$49 524
Net Income	- -	- -	3 213	- -	- -	3 213
Other comprehensive income	- -	- -	- -	- -	343	343
Cash dividends ($.28 per share)	- -	- -	(1 158)	- -	- -	(1 158)
Balances, December 31, 2019	$4 483	$14 358	$38 869	$ (3 494)	$ (2 294)	$51 922
Net Income	- -	- -	3 785	- -	- -	3 785
Other comprehensive income	- -	- -	- -	- -	263	263
Cash dividends ($.28 per share)	- -	- -	(1 158)	- -	- -	(1 158)
Balances, December 31, 2020	$4 483	$14 358	$41 496	$ (3 494)	$ (2 031)	$54 812

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019
($ in thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3 785	$ 3 213
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1 441	474
Depreciation and amortization	1 039	999
Loss on disposals of premises and equipment	1	- -
Deferred tax benefit	(693)	(39)
Premium amortization (discount accretion) on securities, net	106	(24)
Write down of other real estate owned	15	10
Loss on sales of other real estate owned	- -	7
(Gain) loss on sale of securities available for sale, net	(17)	7
Fair value adjustment on equity securities	13	(1)
Increase in loans held for sale	(679)	(1 711)
Earnings on bank owned life insurance	(180)	(184)
Amortization of debt issuance costs	16	- -
Changes in assets and liabilities:		
Increase in accrued interest receivable	(690)	(125)
Increase in other assets	(328)	(646)
Decrease in accrued interest payable	(12)	(18)
Decrease in other liabilities	(350)	(78)
Net cash provided by operating activities	$ 3 467	$ 1 884
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity of certificates of deposits in other financial institutions	$ 1 250	$ 2 747
Proceeds from call of certificates of deposits in other financial institutions	250	250
Purchase of certificates of deposits from other financial institutions	- -	(245)
Proceeds from sale of securities available for sale	872	2 986
Proceeds from maturities and principal repayments of securities available for sale	17 846	8 870
Proceeds from call of securities available for sale	185	15 045
Purchases of securities available for sale	(31 045)	(28 078)
Purchases of equity securities	(100)	- -
Net increase in loans	(81 277)	(48 530)
Purchases of premises and equipment	(168)	(812)
Redemption (Purchase) of FHLB stock, net	55	(82)
Proceeds from sale of other real estate owned	38	100
Net cash used in investing activities	$ (92 094)	$(47 749)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in noninterest-bearing deposits	$ 35 651	$ 11 574
Net increase in interest-bearing deposits	63 011	14 179
Net (repayment) proceeds of short-term borrowings	(917)	623
Net repayment of long-term borrowings	(5 000)	(516)
Issuance of subordinated debt, net of issuance costs	9 718	- -
Cash dividends	(1 158)	(1 158)
Net cash provided by financing activities	$101 305	$ 24 702
Increase (decrease) in cash and cash equivalents	$ 12 678	$(21 163)
CASH AND CASH EQUIVALENTS		
Beginning	28 261	49 424
Ending	$ 40 939	$ 28 261
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 3 496	$ 3 801
Income taxes	$ 2 037	$ 813
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain on securities available for sale	$ 463	$ 814
Change in benefit obligations and plan assets for pension and other postretirement benefits	$ (113)	$ (355)
Lease liabilities arising from right-of-use assets	$ 6	$ 2 718

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Banking Activities and Significant Accounting Policies

Potomac Bancshares, Inc., and Subsidiary (collectively the company), through Bank of Charles Town, (the bank) a wholly owned subsidiary of Potomac Bancshares, Inc., grants commercial, financial, agricultural, residential and consumer loans to customers, primarily in Jefferson, Berkeley and Morgan Counties of West Virginia; Clarke, Frederick, Loudoun, and Fairfax Counties of Virginia; and Washington and Frederick Counties of Maryland. The loan portfolio, while having a higher concentration of real estate loans, is diversified among a large number of borrowers and loans generally are collateralized by assets of the customers. The loans are expected to be repaid from cash flows from business operations, customers' recurring income, or proceeds from the sale of selected assets of the borrowers.

Bank of Charles Town is a West Virginia state-chartered bank that formed and opened for business in 1871. The Federal Deposit Insurance Company insures the customer's deposits up to $250 thousand and is the primary regulator for the bank. The main office is in Charles Town, West Virginia at 111 East Washington Street, with additional branch and loan production offices in:

- Harpers Ferry, West Virginia,
- Kearneysville, West Virginia,
- Martinsburg, West Virginia,
- Hedgesville, West Virginia,
- Hagerstown, Maryland,
- Middleburg, Virginia,
- Purcellville, Virginia,
- Leesburg, Virginia and
- Leesburg, Virginia, Loan Production office

The company also offers deposit products to the same primary market area as loans. These products include noninterest-bearing and interest-bearing checking accounts, savings accounts, and certificates of deposit in various terms. The company also offers through BCT Wealth Advisors and BCT Investments; financial planning, trust and investment management products.

The accounting and reporting policies of the company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The following is a summary of the more significant policies.

Principles of Consolidation

The consolidated financial statements of Potomac Bancshares, Inc. and its wholly-owned subsidiary, Bank of Charles Town, include the accounts of both companies. All material intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the post retirement benefit obligations.

COVID-19 Pandemic

Beginning in March 2020 and through the end of the year, the novel coronavirus ("COVID-19") had a significant impact on our communities, customers, and operations. COVID-19 continues to have a significant impact in 2021, however, the duration and extent of its effects over the longer term are dependent

COVID-19 Pandemic (Continued)

on future developments and cannot be reasonably estimated at this time. Risks arising from the pandemic may impact the future earnings, cash flows and financial condition of the company. These risks, which are inherently uncertain, primarily include: the financial impact of the pandemic on our customers, the ability of those customers to fulfill their financial obligations to the company, potential operational disruptions, the company's ability to generate demand for its products and services, and adverse changes in the valuation of collateral or other assets which may result in impairment charges. Accordingly, estimates used in the preparation of our financial statements may be subject to significant adjustments in future periods due to the unprecedented and evolving nature of the pandemic. The greater the duration and severity of the pandemic, the more likely that estimates will be materially impacted by its effects.

In response to the pandemic, the company has implemented protocols and processes to execute its business continuity plans and help protect its employees and support its clients.

We continue to service our clients and meet our clients' financial needs by offering assistance to clients affected by the COVID-19 pandemic and providing access to credit and the important financial services on which our clients rely. We are also participating in the programs created by the Coronavirus Aid, Relief and Economic Security (CARES Act) and lending programs for businesses, such as the Paycheck Protection Program (PPP) as well as other measures.

Interest-Bearing Deposits in Financial Institutions

Interest-bearing deposits in financial institutions are primarily overnight deposits held at the Federal Reserve and certificates of deposits with other financial institutions. These funds are carried at cost.

Securities

Investments in debt securities with readily determinable fair values are classified as either held to maturity, available for sale, or trading, based on management's intent. Currently all debt securities of the company are classified as available for sale. Available for sale securities are carried at estimated fair value with the corresponding unrealized gains and losses excluded from earnings and reported in other comprehensive income. Gains or losses are recognized in earnings on the trade date using the amortized cost of the specific security sold. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (1) the company intends to sell the security or (2) it is more-likely-than-not that the company will be required to sell the security before recovery of its amortized cost basis. If, however, the company does not intend to sell the security and it is not more-likely-than-not that it will be required to sell the security before recovery, the company must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost basis of the security exceeds the present value of the cash flows expected to be collected from the security. If there is credit loss, the loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income.

Management regularly reviews each investment security for other-than-temporary impairment based on criteria that includes the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, the best estimate of the present value of cash flows expected to be collected from debt securities, its intention with regard to holding the security to maturity and the likelihood that the company would be required to sell the security before recovery.

Equity securities with readily determinable fair values are carried at fair value, with changes in fair value reported in net income. FHLB stock is classified as restricted and carried at cost and is periodically evaluated for impairment based on the ultimate recovery of par value. The entirety of any impairment on the equity securities is recognized in earnings.

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

Loans

The company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is comprised of loans secured by real estate. The ability of the company's debtors to honor their contracts is dependent upon customers' recurring income or income derived from collateral securing the loan, real estate and general economic conditions of the company's market area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off, generally, are reported at their recorded investment, which is the outstanding unpaid principal balance adjusted for the allowance for loan losses and any deferred fees or costs on the originated loan. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Loans are placed on nonaccrual status when bank management determines that it is no longer prudent for a loan to continue to accrue interest. Generally, it is the policy of this bank to stop accruing interest when principal or interest is greater than 90 days past due based upon the loan's contractual terms, unless the loan is well secured and in the process of collection. Furthermore, should the bank become aware of events which have occurred or are expected to occur which causes doubt as to the full collectability of principal or interest in the future, even though the loan is currently less than 90 days past due, the loan should be considered for nonaccrual status.

In order to justify the continuation of the accrual of interest on a loan which is greater than 90 days past due, the loan must be well secured and in the process of collection. In order to determine whether the loan is well secured, an appraisal of the collateral may be obtained establishing a value at least equal to principal and accrued interest for all loans greater than $250,000. For all loans greater than 90 days past due which fall below this threshold, the bank may complete its own appraisal or valuation of the collateral as long as its methodology is documented and consistently applied. For a loan to be considered in the process of collection, there must be corrective action contemplated by the borrower, such as payment of all past due amounts, or the bank must be ready to pursue the liquidation of the underlying collateral, generally within a reasonable period.

All interest accrued but not collected for all classes of loans that are placed on nonaccrual or charged-off is reversed against interest income. If the ultimate repayment of principal, in whole or in part, is not expected, any payment received on a loan on which the accrual of interest has been suspended is applied to reduce principal to the extent necessary to restore the expectation of ultimate collectability. At such time as full collection of the remaining recorded balance is expected, interest payments are recorded as interest income on a cash basis until such time the loan can be restored to accrual status in accordance with regulatory guidelines. Loans of all classes are returned to accrual status when all payments contractually due are brought current and future payments are reasonably assured.

For all classes of loans, approval of the President or Chief Lending Officer is required for all loans greater than 90 days past due which are not placed on nonaccrual status and for restoration of nonaccrual loans to accrual status.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the probable losses inherent in our loan portfolio. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the collectability of a loan balance is no longer present. Subsequent recoveries, if any, are credited to the allowance.

The allowance is based on two basic principles of accounting: (1) losses are accrued when they are probable of occurring and are capable of estimation and (2) losses are accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

The allowance for loan losses is evaluated on a regular basis, monthly by management, and is based upon management's ongoing review of the collectability of the loans in light of historical experience, the economic environment, concentration and growth trends, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. Management monitors the loan portfolio on a continual basis with procedures that allow for problem loans and potential problem loans to be highlighted and watched. Written reports are prepared regularly for all commercial loans graded below a certain level for management review and are reviewed with certain Board members on a periodic basis.

Based on experience, these loan policies and the bank's grading and review system, management believes the loan loss allowance is adequate. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

During these evaluations, particular risk characteristics associated with a segment of the loan portfolio are also considered. These characteristics are detailed below:

- Loans secured by farmland, commercial real estate, and commercial loans not secured by real estate carry risks associated with the successful operation of a business or farm and the repayment of these loans may depend on the profitability and cash flows of the business or farm. Additional risk relates to the value of collateral other than real estate where depreciation occurs, and the appraisal is less precise.
- Real estate secured construction loans carry risks that a project will not be completed as scheduled and budgeted and that the value of the collateral may, at any point, be less than the principal amount of the loan. Additional risks may occur if the general contractor, who may not be the loan customer, is unable to finish the project as planned due to financial pressures unrelated to the project.
- Consumer and all other loans carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral, such as automobiles, which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. These loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness, or personal bankruptcy.
- Residential real estate loans carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral.

The primary tool used in managing and controlling problem loans is a watch list report. The report is a listing of all commercial loans that are considered problem loans. The report is controlled by Credit Administration. Consumer and residential mortgage loans deemed significant may be included at management's discretion. It is a primary responsibility of the loan officer to manage the credit risk within their loan portfolio. As such, they should be proactive rather than reactive when considering adding a loan to the watch list report. Occurrence of any of the following criteria is a basis for adding a loan to the watch list report.

- Loans classified as special mention, substandard, doubtful or loss by bank examiners, external loan review, loan officer or the bank's credit administration department personnel based upon financial trends of the business.
- Loans on nonaccrual status.
- Loans more than 60 days delinquent.
- Loans renewed or extended more than three times with little or no principal curtailment.
- Loans judgmentally selected by executive management due to unexpected changes or events which could have a potentially adverse effect on the borrower's ability to repay.

The allowance consists of specific and general components. The specific component may relate to loans that are classified as doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for environmental factors such as economic, concentration and growth trends. The bank uses a thirty-six-month rolling average to determine the historical loss allocations in the allowance for loan losses.

Characteristics of the bank's risk classification grades are as follows:

- Pass – Pass rated loans are to persons or business entities with an acceptable financial condition, appropriate collateral margins, appropriate cash flow to service the existing loan, and an appropriate leverage ratio. Borrower has paid all obligations as agreed and it is expected that this type of payment history will continue. Acceptable personal guarantors support the loan as needed.
- Special Mention – Are assets that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the institution's credit position at some future date.
- Substandard – The bank is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.
- Doubtful – Loans classified Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.
- Loss – Loans classified in this category are considered uncollectable and of such little value that their continuation as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. Any time a credit is placed in this category, it will be in non-accrual status.

A loan is generally considered impaired when, in the judgment of management, based on current information and events, it is probable that the company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. If an impaired loan is on nonaccrual status, any payments received will generally be applied first to principal. If an impaired loan is not on nonaccrual status, generally any payments received will be applied to principal and interest using our standard procedures.

Large groups of smaller balance homogeneous loans (consumer and residential mortgage loans) are collectively evaluated for impairment. Accordingly, the company does not necessarily separately identify individual consumer and residential loans for impairment disclosures unless these loans are related to a borrower with commercial or other real estate loans that are classified or are the subject of a troubled debt restructuring.

Allowance for Loan Losses (Continued)

In connection with the evaluation of the collectability of all classes of loans which are greater than 90 days past due as to principal or interest for nonaccrual status, any amounts not deemed well secured or otherwise collectible shall be recommended for charge-off at that time. Additionally, charge-off consideration shall be given to loans evaluated in connection with the bank's loan review policy and procedures and loans identified for repossession or foreclosure or meet the criteria for classification as an in-substance foreclosure. In any event, it shall be the policy of the bank to charge-off amounts deemed uncollectable in the periods when identified. All charge-off amounts are approved by the President subject to Board ratification.

Paycheck Protection Program

The company is participating in the Paycheck Protection Program (PPP), which is a loan program that originated from the CARES Act and was subsequently expanded by the Paycheck Protection Program and Health Care Enhancement Act. The PPP is designed to provide U.S. small businesses with cash-flow assistance through loans fully guaranteed by the Small Business Administration (SBA). If the borrower meets certain criteria and uses the proceeds towards certain eligible expenses, the borrower's obligation to repay the loan can be forgiven up to the full principal amount of the loan and any accrued interest. Upon borrower forgiveness, the SBA pays the company for the principal and accrued interest owed on the loan. If the full principal of the loan is not forgiven, the loan will operate according to the loan terms with the 100 percent SBA guaranty remaining. As of December 31, 2020, the company had 466 PPP loans with outstanding balances totaling $46.6 million. As compensation for originating the loans, the company received lender processing fees from the SBA, which were capitalized, along with the loan origination costs, and are being amortized over the loans' contractual lives and recognized as interest income. Upon forgiveness of a loan and repayment by the SBA, any unrecognized net capitalized fees and costs related to the loan will be recognized as interest income in that period. The discussion above on the allowance for loan losses does not include PPP loans as they are fully guaranteed by the SBA.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. All home equity, lot, real estate, and commercial loans that are processed for a renewal, modification or refinance are reviewed to determine if it qualifies as a TDR. All loans that are not dependent on the sale of collateral or operation of collateral for repayment, the impairment will be based on a discounted future cash flow method. All loans with similar characteristics, such as mortgage and retail, will be measured as one homogenous group. If the repayment of the loan is solely based on the sale of collateral, the impairment will be based on the discounted value of the collateral. If repayment is based on operation of the collateral, the impairment will be based on fair value without discount. At times when a loan has previously been modified in a troubled debt restructuring, the company and the borrower may subsequently enter into another restructuring agreement. The facts and circumstances of each subsequent restructuring of a TDR are then evaluated to determine the appropriate accounting. Under certain circumstances we may no longer account for the subsequently restructured loan as a TDR if at the time of the subsequent restructuring the borrower is not experiencing financial difficulties, and under the terms of the subsequent restructuring agreement, no concession has been granted by us to the borrower. To meet these conditions for removing the TDR designation, the subsequent restructuring agreement must specify market terms, including a contractual interest rate not less than a market interest rate for new debt with similar credit risk characteristics and

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

Troubled Debt Restructurings (Continued)

other terms no less favorable to the company than those it would offer for such new debt. If at the time of the subsequent restructuring the loan meets the conditions discussed above and no prior principal was forgiven or partial charge-off taken, the loan is no longer disclosed as a TDR or individually evaluated for impairment.

The company has implemented consumer and commercial loan modification programs to provide its borrowers relief from the economic impacts of the COVID-19 pandemic. In accordance with the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the company has elected to not apply TDR classification to any COVID-19 related loan modifications that were performed after March 1, 2020 to borrowers who were current as of December 31, 2019. Accordingly, these restructurings are not classified as TDRs. In addition, for loans modified in response to the COVID-19 pandemic that do not meet the above criteria (e.g., current payment status at December 31, 2019), the company is applying the guidance included in an interagency statement issued by the bank regulatory agencies. This guidance states that loan modifications performed in light of the COVID-19 pandemic, including loan payment deferrals that are up to six months in duration, that were granted to borrowers who were current as of the implementation date of a loan modification program or modifications granted under government mandated modification programs, are not TDRs. For loan modifications that include a payment deferral and are not TDRs, the borrowers' past due status has not been impacted during the deferral period. The company has continued to accrue interest during the deferral period.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or market value determined in the aggregate. As of December 31, 2020, there were $2.7 million of loans held for sale. As of December 31, 2019, there were $2.0 million of loans held for sale.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method. Estimated useful lives range from five to forty years for premises and improvements and three to seven years for furniture and equipment.

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are recorded at the fair value net of estimated selling costs at the date of foreclosure, establishing a new cost basis. The value of real estate collateral is determined based on an internal evaluation, appraisal outside of the company, or a comparative market analysis. Revenue and expenses from operations and changes in the valuation allowance are included in foreclosed property expense and write down of other real estate owned, respectively.

There was no foreclosed residential real estate as of December 31, 2020 and December 31, 2019 as a result of obtaining physical possession of the property. As of December 31, 2020, and December 31, 2019, there were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

Bank-Owned Life Insurance

The company owns insurance on the lives of a certain group of key employees. The cash surrender value of these policies is included as an asset on the consolidated balance sheets, and any increase in cash surrender value is recorded as noninterest income in the consolidated statements of income. In the event of the death of an insured individual under these policies, the company would receive a death benefit, with the excess of the proceeds over the recorded cash surrender value recorded as other noninterest income.

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

Employee Benefit Plans

Summaries of company employee benefit plans are given below:

- The noncontributory, defined benefit pension plan covering employees meeting certain age and service requirements was frozen at October 31, 2009, the end of the plan year. No additional participants may enter the plan, and there will be no further increase in benefits due to increases in salaries and years of service.
- A postretirement life insurance plan covers certain current retirees who met certain requirements. This plan is not available for future retirees.
- A health care plan covers certain retirees who met certain eligibility requirements. This plan is not available for future retirees.
- A contributory health care plan is available to current full time employees.
- A 401(k)-retirement savings plan is available to all employees meeting certain age requirements. Under this plan, the employer may make a discretionary matching contribution each plan year and may also make other discretionary contributions to the plan.

Earnings Per Common Share

Basic earnings per common share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance.

Income Taxes

Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary difference between the book and tax basis of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. There were no unrecognized tax benefits recorded as of December 31, 2020 and 2019. Interest and penalties, if any, associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statements of income.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits in financial institutions, securities purchased under agreements to resell and federal funds sold. Generally, securities purchased under agreements to resell and federal funds sold are purchased and sold for one-day periods. Certificates of deposits in other financial institutions of $2.7 million and $4.2 million as of December 31, 2020 and December 31, 2019, respectively, are not included in cash and cash equivalents. These balances typically have maturities greater than 90 days.

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

BCT Wealth Advisors and BCT Investments

Securities and other property held by BCT Wealth Management in a fiduciary or agency capacity are not assets of the company and are not included in the accompanying consolidated financial statements.

Advertising and Public Relations

The company follows the policy of charging the costs of advertising and public relations to expense as incurred. These amounts were $156 thousand and $367 thousand in 2020 and 2019, respectively.

Treasury Stock

Common shares repurchased are recorded as treasury stock at cost.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities and changes in pension and postretirement benefit obligations, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income, and are presented in the consolidated statements of comprehensive income.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 16. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the company—presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Leases

On January 1, 2019, the company adopted ASU 2016-02 “Leases (Topic 842)” and all subsequent amendments thereto. Adoption of the leasing standard resulted in the recognition of right-of-use assets and lease liabilities of $2.1 million. Refer to “Note 6. Leases” for further discussion of the standard’s adoption and the company’s accounting for its lease agreements.

Reclassifications

Certain reclassifications have been made to the prior period amounts to conform to the current year presentation. None were of a material nature and had no impact on prior year net income or stockholders’ equity.

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The FASB has issued multiple updates to ASU 2016-13 as codified in Topic 326, including ASU's 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, and 2020-03. These ASU's have provided for various minor technical corrections and improvements to the codification as well as other transition matters. Smaller reporting companies who file with the U.S. Securities and Exchange Commission (SEC) and all other entities who do not file with the SEC are required to apply the guidance for fiscal years, and interim periods within those years, beginning after December 15, 2022. The company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements. The company has investigated data available, consulted industry experts, and assessed informational needs.

Note 2. Securities

There were no securities held to maturity as of December 31, 2020 and 2019.

The amortized cost and fair value of securities available for sale (in thousands) as of December 31, 2020 and 2019 are as follows:

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Obligations of U.S. Government sponsored agencies	$13 278	$ 160	$ (8)	$13 430
Mortgage-backed	39 846	808	(54)	40 600
State and municipal obligations	2 988	110	- -	3 098
Corporate securities	5 850	33	(24)	5 859
	$61 962	$1 111	$(86)	$62 987

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Obligations of U.S. Government sponsored agencies	$13 438	$ 97	$(13)	$13 522
Mortgage-backed	35 042	520	(63)	35 499
State and municipal obligations	1 429	21	- -	1 450
	$49 909	$ 638	$(76)	$50 471

Note 2. Securities (Continued)

The company held equity securities with an aggregate fair value of $220 thousand at December 31, 2020 and $133 thousand at December 31, 2019 which are presented separately on the consolidated balance sheet. The fair value adjustment recorded through earnings in other operating income totaled <$13> thousand and $1 thousand for the twelve months ended December 31, 2020 and December 31, 2019, respectively.

The amortized cost and fair value of the securities available for sale as of December 31, 2020 (in thousands), by contractual maturity, are shown below.

	Amortized Cost	Fair Value
Due in one year or less	$ 9 346	$ 9 457
Due after one year through five years	4 395	4 452
Due after five years through ten years	6 814	6 831
Due after ten years	41 407	42 247
	$61 962	$62 987

Proceeds of sales of securities during 2020 were $872 thousand. Gross gains of $17 thousand were realized on those sales. The tax expense applicable to these gains amounted to $5 thousand. Proceeds of the sales of securities during 2019 were $3.0 million. Gross losses of $7 thousand were realized on those sales. The tax benefit applicable to these realized losses amounted to $2 thousand.

The primary purpose of the investment portfolio is to generate income and meet liquidity needs of the company through readily saleable financial instruments. The portfolio is made up primarily of fixed rate bonds and mortgage-backed securities, whose prices move inversely with rates. At the end of any accounting period, the investment portfolio has unrealized gains and losses. The company monitors the portfolio, which is subject to liquidity needs, market rate changes and credit risk changes, to see if adjustments are needed. The primary concern in a loss situation is the credit quality of the issuer behind the instrument. The primary cause of impairments is the decline in the prices of the debt and mortgage-backed securities when rates rise. There are sixteen securities in the consolidated portfolio in an unrealized loss position at December 31, 2020. There were ten security accounts in the consolidated portfolio in an unrealized loss position at December 31, 2019. The primary cause of the temporary impairments in the company’s investments in debt and mortgage-backed securities was fluctuations in interest rates. Because the company intends to hold these investments in debt and mortgage-backed securities to maturity and it is more likely than not that the company will not be required to sell these investments before a recovery of the unrealized loss, the company does not consider these investments to be other-than-temporarily impaired at December 31, 2020 and 2019 and no impairment has been recognized.

US Government sponsored agencies include the Federal National Mortgage Association and the Federal Home Loan Mortgage Company debt and mortgage-backed securities with a fair value of $44.7 million and $40.5 million as of December 31, 2020 and December 31, 2019, respectively.

Note 2. Securities (Continued)

The following table summarizes the fair value and gross unrealized losses for securities aggregated by investment category and length of time that individual securities have been in a continuous gross unrealized loss position as of December 31, 2020 and 2019 (in thousands).

	December 31, 2020					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of U.S. Government sponsored agencies	$ - -	$ - -	$281	$ (8)	$ 281	$ (8)
Mortgage-backed	10 368	(54)	- -	- -	10 368	(54)
Corporate securities	2 875	(24)	- -	- -	2 875	(24)
	$13 243	$(78)	$281	$ (8)	$13 524	$(86)

	December 31, 2019					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of U.S. Government sponsored agencies	$ - -	$ - -	$2 448	$(13)	$ 2 448	$(13)
Mortgage-backed	10 751	(63)	- -	- -	10 751	(63)
	$10 751	$(63)	$2 448	$(13)	$13 199	$(76)

The company's investment in Federal Home Loan Bank (FHLB) stock totaled $672 thousand at December 31, 2020. FHLB stock is generally viewed as a long-term investment and as a restricted investment security, which is carried at cost, because there is no market for the stock, other than the FHLB or member institutions. Therefore, when evaluating FHLB stock for impairment, its value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The company does not consider this investment to be other-than-temporarily impaired at December 31, 2020 and no impairment has been recognized. FHLB stock is shown as a separate line item on the consolidated balance sheet and is not a part of the available for sale securities portfolio.

Securities with a carrying value of $5.1 million and $23.7 million at December 31, 2020 and 2019, respectively were pledged to secure public funds, securities sold under agreement to repurchase, other borrowings, and for other purposes as required or permitted by law.

Note 3. Loans and Related Party Transactions

The loan portfolio, stated at face amount is composed of the following:

	December 31	
	2020	2019
	(in thousands)	
Commercial – non real estate		
Commercial and industrial (1)	$ 63 471	$ 20 371
Commercial real estate		
Owner occupied	68 198	57 305
Non-owner occupied	93 055	80 664
Construction		
Residential	6 528	4 982
Commercial	23 598	19 166
Real Estate		
Farmland	4 710	4 872
Residential		
Revolving open end	10 415	13 280
1 to 4 family – first liens	182 105	170 123
1 to 4 family – junior liens	2 815	3 223
5 or more family	23 497	21 110
Consumer loans	6 355	7 732
All other loans	9 218	9 632
Total loans (2)	$493 965	$412 460
Less: allowance for loan losses	5 385	3 716
	$488 580	$408 744

(1) Includes 466 PPP loans with a December 31, 2020 balance of $46.6 million.

(2) Includes net deferred loan fees of $1.1 million and $145 thousand, respectively.

Loans to directors and executive officers of the company or to their associates at December 31, 2020 and 2019 totaled $3.1 million and $4.5 million, respectively. In management's opinion, such loans were made on substantially the same terms as those prevailing for comparable transactions with similar risks. During 2020, total principal additions were $0.3 million and total principal payments were $1.7 million.

The FHLB of Pittsburgh has a blanket lien on all commercial – non real estate, commercial real estate, farmland, residential, and agricultural production (included in all other loans above) loans except those loans specifically pledged to the Federal Reserve and removed from the FHLB lien. Currently, the FHLB lien is securing letters of credit issued on behalf of customers of the company in the amount of $52.0 million.

Note 4. Allowance for Loan Losses

Allowance for Loan Losses – By Segment
December 31, 2020
(in thousands)

	Farmland	Commercial	Commercial Real Estate	Construction	Consumer	Residential	All Other	Unallocated	Total
Allowance for loan losses:									
Beginning balance	$ 33	$ 664	$ 1 078	$ 188	$ 104	$ 1 480	$ 66	$103	$ 3 716
Charge-offs	- -	(3)	(3)	- -	(70)	- -	- -	- -	(76)
Recoveries	- -	14	19	160	53	58	- -	- -	304
Provision (Recovery)	30	(190)	1 056	8	- -	451	13	73	1 441
Ending balance	$ 63	$ 485	$ 2 150	$ 356	$ 87	$ 1 989	$ 79	$176	$ 5 385
Individually evaluated for impairment	$ - -	$ - -	$ - -	$ - -	$ 4	$ 18	$ - -	$ - -	$ 22
Collectively evaluated for impairment	63	485	2 150	356	83	1 971	79	176	5 363
	$ 63	$ 485	$ 2 150	$ 356	$ 87	$ 1 989	$ 79	$176	$ 5 385
Loans:									
Ending balance	$4 710	$63 471	$161 253	$30 126	$6 355	$218 832	$9 218	$ - -	$493 965
Ending balance:									
Individually evaluated for impairment	$ - -	$ - -	$ - -	$ 13	$ 4	$ 987	$ - -	$ - -	$ 1 004
Collectively evaluated for impairment	4 710	63 471	161 253	30 113	6 351	217 845	9 218	- -	492 961
Total	$4 710	$63 471	$161 253	$30 126	$6 355	$218 832	$9 218	$ - -	$493 965

Allowance for Loan Losses – By Segment
December 31, 2019
(in thousands)

	Farmland	Commercial	Commercial Real Estate	Construction	Consumer	Residential	All Other	Unallocated	Total
Allowance for loan losses:									
Beginning balance	$ 34	$ 622	$ 832	$ 161	$ 116	$ 1 334	$ 59	$111	$ 3 269
Charge-offs	- -	(231)	- -	(36)	(142)	(1)	- -	- -	(410)
Recoveries	- -	23	55	160	84	61	- -	- -	383
Provision (Recovery)	(1)	250	191	(97)	46	86	7	(8)	474
Ending balance	$ 33	$ 664	$ 1 078	$ 188	$ 104	$ 1 480	$ 66	$103	$ 3 716
Individually evaluated for impairment	$ - -	$ - -	$ 3	$ - -	$ 8	$ 26	$ - -	$ - -	$ 37
Collectively evaluated for impairment	33	664	1 075	188	96	1 454	66	103	3 679
	$ 33	$ 664	$ 1 078	$ 188	$ 104	$ 1 480	$ 66	$103	$ 3 716
Loans:									
Ending balance	$4 872	$20 371	$137 969	$24 148	$7 732	$207 736	$9 632	$ - -	$412 460
Ending balance:									
Individually evaluated for impairment	$ - -	$ - -	$ 106	$ 35	$ 8	$ 2 244	$ - -	$ - -	$ 2 393
Collectively evaluated for impairment	4 872	20 371	137 863	24 113	7 724	205 492	9 632	- -	410 067
Total	$4 872	$20 371	$137 969	$24 148	$7 732	$207 736	$9 632	$ - -	$412 460

Note 4. Allowance for Loan Losses (Continued)

Credit Quality Information – By Class
December 31, 2020
(in thousands)

Internal Risk Rating Grades	Pass	Special(1) Mention	Sub-Standard	Doubtful	Loss
Commercial – non real estate					
Commercial and industrial	$ 61 734	$ 1 737	$ - -	$ - -	$ - -
Commercial real estate					
Owner occupied	61 443	6 755	- -	- -	- -
Non-owner occupied	73 743	17 945	1 367	- -	- -
Construction					
Residential	6 528	- -	- -	- -	- -
Commercial	22 460	794	344	- -	- -
Real estate					
Farmland	3 268	1 442	- -	- -	- -
Consumer	N/A	N/A	N/A	N/A	N/A
Residential					
Revolving open end	N/A	338	- -	N/A	N/A
1-4 family – first liens	N/A	220	- -	N/A	N/A
1-4 family – junior liens	N/A	126	- -	N/A	N/A
5 or more family	N/A	- -	- -	N/A	N/A
All Other	N/A	2 429	- -	N/A	N/A
Totals	$229 176	$31 786	$1 711	$ - -	$ - -

(1) Includes $20.2 million of loan deferrals under the CARES Act.

As a matter of practice, we do not necessarily risk rate consumer or residential mortgage loans. Generally, these loans listed in the risk rating table above are associated with commercial loans that have been risk rated as per our policy. When a loan is designated as a loss, the loss portion is charged off, and if applicable, the remaining balance classified as substandard. Loans identified in the table below as nonperforming are in nonaccrual status.

Credit Quality Information – By Class
December 31, 2020
(in thousands)

Non Risk Rated Loans	Performing	Nonperforming
Consumer	$ 6 355	$ - -
Residential		
Revolving open end	10 077	- -
1-4 family – first liens	181 731	154
1-4 Family – junior liens	2 689	- -
5 or more family	23 497	- -
All other	6 789	- -
Totals	$231 138	$154

Note 4. Allowance for Loan Losses (Continued)

Credit Quality Information – By Class
December 31, 2019
(in thousands)

Internal Risk Rating Grades	Pass	Special Mention	Sub-Standard	Doubtful	Loss
Commercial – non real estate					
Commercial and industrial	$ 19 097	$ 1 274	$ - -	$ - -	$ - -
Commercial real estate					
Owner occupied	51 021	6 178	106	- -	- -
Non-owner occupied	79 899	765	- -	- -	- -
Construction					
Residential	4 982	- -	- -	- -	- -
Commercial	18 378	788	- -	- -	- -
Real estate					
Farmland	4 872	- -	- -	- -	- -
Consumer	N/A	N/A	N/A	N/A	N/A
Residential					
Revolving open end	N/A	642	- -	N/A	N/A
1-4 family – first liens	N/A	933	387	N/A	N/A
1-4 family – junior liens	N/A	143	- -	N/A	N/A
5 or more family	N/A	414	- -	N/A	N/A
All Other	N/A	2 539	- -	N/A	N/A
Totals	$178 249	$13 676	$ 493	$ - -	$ - -

Credit Quality Information – By Class
December 31, 2019
(in thousands)

Non Risk Rated Loans	Performing	Nonperforming
Consumer	$ 7 732	$ - -
Residential		
Revolving open end	12 638	- -
1-4 family – first liens	167 851	952
1-4 Family – junior liens	3 080	- -
5 or more family	20 696	- -
All other	7 093	- -
Totals	$219 090	$952

Note 4. Allowance for Loan Losses (Continued)

Impaired Loans – By Class
December 31, 2020
(in thousands)

With no related allowance:

	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial – non real estate					
Commercial and industrial	$ - -	$ - -	$ - -	$ - -	$- -
Commercial real estate					
Owner occupied	- -	- -	- -	- -	- -
Non-owner occupied	- -	- -	- -	- -	- -
Construction					
Residential	- -	- -	- -	- -	- -
Commercial	13	13	- -	21	2
Real estate					
Farmland	- -	- -	- -	- -	- -
Residential					
Revolving open end	- -	- -	- -	- -	- -
1 to 4 family – first liens	- -	- -	- -	- -	- -
1 to 4 family – junior liens	- -	- -	- -	- -	- -
5 or more family	- -	- -	- -	- -	- -
Consumer	- -	- -	- -	- -	- -
All other	- -	- -	- -	- -	- -
	$ 13	$ 13	$ - -	$ 21	$ 2

Note 4. Allowance for Loan Losses (Continued)

Impaired Loans – By Class
December 31, 2020
(in thousands)

With an allowance recorded:

	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial – non real estate					
Commercial and industrial	$ - -	$ - -	$ - -	$ - -	$ - -
Commercial real estate					
Owner occupied	- -	- -	- -	- -	- -
Non-owner occupied	- -	- -	- -	- -	- -
Construction					
Residential	- -	- -	- -	- -	- -
Commercial	- -	- -	- -	- -	- -
Real estate					
Farmland	- -	- -	- -	- -	- -
Residential					
Revolving open end	- -	- -	- -	- -	- -
1 to 4 family – first liens	870	846	14	858	42
1 to 4 family – junior liens	170	141	4	150	10
5 or more family	- -	- -	- -	- -	- -
Consumer	4	4	4	4	- -
All other	- -	- -	- -	- -	- -
	$1 044	$ 991	$22	$1 012	$52

	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Totals:					
Commercial – non real estate	$ - -	$ - -	$ - -	$ - -	$ - -
Commercial real estate	- -	- -	- -	- -	- -
Construction	13	13	- -	21	2
Real estate – farmland	- -	- -	- -	- -	- -
Residential	1 040	987	18	1 008	52
Consumer	4	4	4	4	- -
All other	- -	- -	- -	- -	- -
	$1 057	$1 004	$22	$1 033	$54

Note 4. Allowance for Loan Losses (Continued)

Impaired Loans – By Class
December 31, 2019
(in thousands)

With no related allowance:

	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial – non real estate					
Commercial and industrial	$ - -	$ - -	$- -	$ - -	$- -
Commercial real estate					
Owner occupied	- -	- -	- -	- -	- -
Non-owner occupied	- -	- -	- -	- -	- -
Construction					
Residential	- -	- -	- -	- -	- -
Commercial	- -	- -	- -	- -	- -
Real estate					
Farmland	- -	- -	- -	- -	- -
Residential					
Revolving open end	- -	- -	- -	- -	- -
1 to 4 family – first liens	685	685	- -	685	- -
1 to 4 family – junior liens	- -	- -	- -	- -	- -
5 or more family	- -	- -	- -	- -	- -
Consumer	- -	- -	- -	- -	- -
All other	- -	- -	- -	- -	- -
	$685	$685	$- -	$685	$- -

Note 4. Allowance for Loan Losses (Continued)

Impaired Loans – By Class
December 31, 2019
(in thousands)

With an allowance recorded:

	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial – non real estate					
Commercial and industrial	$ - -	$ - -	$ - -	$ - -	$ - -
Commercial real estate					
Owner occupied	112	106	3	111	7
Non-owner occupied	- -	- -	- -	- -	- -
Construction					
Residential	- -	- -	- -	- -	- -
Commercial	36	35	- -	44	4
Real estate					
Farmland	- -	- -	- -	- -	- -
Residential					
Revolving open end	- -	- -	- -	- -	- -
1 to 4 family – first liens	1 376	1 341	21	1 374	88
1 to 4 family – junior liens	247	218	5	231	16
5 or more family	- -	- -	- -	- -	- -
Consumer	8	8	8	9	- -
All other	- -	- -	- -	- -	- -
	$1 779	$1 708	$37	$1 769	$115

	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Totals:					
Commercial – non real estate	$ - -	$ - -	$ - -	$ - -	$ - -
Commercial real estate	112	106	3	111	7
Construction	36	35	- -	44	4
Real estate – farmland	- -	- -	- -	- -	- -
Residential	2 308	2 244	26	2 290	104
Consumer	8	8	8	9	- -
All other	- -	- -	- -	- -	- -
	$2 464	$2 393	$37	$2 454	$115

No additional funds are committed to be advanced on impaired loans, as of December 31, 2020 and 2019.

Note 4. Allowance for Loan Losses (Continued)

Modifications

During the years ended December 31, 2020 and 2019, the company modified no loans that required classification as troubled debt restructurings. As of December 31, 2020, and 2019 there were $1.0 million and $1.6 million of troubled debt restructurings, respectively.

Loan Deferrals

We have provided borrowers with relief from the economic impacts of COVID-19 through payment deferral and forbearance programs. A significant portion of deferrals expired in the third quarter of 2020, reflecting a decline in customer requests for assistance.

As of December 31, 2020, loans on payment deferral totaled $20.2 million. These loans were composed of the following:

	Number Of Loans	Outstanding Balance ($ in thousands)
Commercial – non real estate		
Commercial and industrial	1	$ 1 563
Commercial real estate		
Owner occupied	2	2 382
Non owner occupied	11	15 513
Construction		
Residential	- -	- -
Commercial	1	159
Real Estate		
Farmland	- -	- -
Residential		
Revolving open end 1 to 4 family	- -	- -
1 to 4 family – first liens	4	603
1 to 4 family – junior liens	- -	- -
5 or more family	- -	- -
Consumer	1	7
All Other	- -	- -
Totals	20	$20 227

Note 4. Allowance for Loan Losses (Continued)

Nonaccrual and Past Due Loans – By Class
December 31, 2020
(in thousands)

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing	Non-Accrual
Commercial – non real estate								
Commercial and industrial	$ - -	$ - -	$ - -	$ - -	$ 63 471	$ 63 471	$ - -	$ - -
Commercial real estate								
Owner occupied	- -	- -	- -	- -	68 198	68 198	- -	- -
Non owner occupied	- -	- -	- -	- -	93 055	93 055	- -	- -
Construction								
Residential	- -	- -	- -	- -	6 528	6 528	- -	- -
Commercial	5	- -	- -	5	23 593	23 598	- -	- -
Real estate								
Farmland	- -	- -	- -	- -	4 710	4 710	- -	- -
Residential								
Revolving open end	- -	- -	- -	- -	10 415	10 415	- -	- -
1 to 4 family – first liens	462	21	- -	483	181 622	182 105	- -	154
1 to 4 family – junior liens	6	- -	- -	6	2 809	2 815	- -	- -
5 or more family	- -	- -	- -	- -	23 497	23 497	- -	- -
Consumer	38	- -	- -	38	6 317	6 355	- -	- -
All other	- -	- -	- -	- -	9 218	9 218	- -	- -
Totals	$511	$ 21	$ - -	$532	$493 433	$493 965	$ - -	$154
Percentage to Total Loans	0.10%	0.01%	0.00%	0.11%	99.89%		0.00%	0.03%

Included in the 30 or more days past due loans are certain non-accrual loans in the amount of $111 thousand. The remaining non-accrual loans of $43 thousand are in current status.

Note 4. Allowance for Loan Losses (Continued)

Nonaccrual and Past Due Loans – By Class
December 31, 2019
(in thousands)

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing	Non-Accrual
Commercial – non real estate								
Commercial and industrial	$ - -	$ - -	$ - -	$ - -	$ 20 371	$ 20 371	$ - -	$ - -
Commercial real estate								
Owner occupied	- -	- -	- -	- -	57 305	57 305	- -	- -
Non owner occupied	- -	- -	- -	- -	80 664	80 664	- -	- -
Construction								
Residential	- -	- -	- -	- -	4 982	4 982	- -	- -
Commercial	38	498	- -	536	18 630	19 166	- -	- -
Real estate								
Farmland	- -	- -	- -	- -	4 872	4 872	- -	- -
Residential								
Revolving open end	- -	- -	- -	- -	13 280	13 280	- -	- -
1 to 4 family – first liens	401	201	1 090	1 692	168 431	170 123	387	952
1 to 4 family – junior liens	- -	- -	- -	- -	3 223	3 223	- -	- -
5 or more family	- -	- -	- -	- -	21 110	21 110	- -	- -
Consumer	10	- -	- -	10	7 722	7 732	- -	- -
All other	- -	- -	- -	- -	9 632	9 632	- -	- -
Totals	$ 449	$ 699	$1 090	$2 238	$410 222	$412 460	$387	$952
Percentage to Total Loans	0.11%	0.17%	0.26%	0.54%	99.46%		0.09%	0.23%

Included in the 30 or more days past due loans are certain non-accrual loans in the amount of $904 thousand. The remaining non-accrual loans of $48 thousand are in current status.

The past due policy of the bank is to report all classes of loans past due in the following categories:

- 30 to 59 days past due (principal or interest)
- 60 to 89 days past due (principal or interest)
- 90 days or more past due (principal or interest)
- Nonaccrual status.

Note 4. Allowance for Loan Losses (Continued)

The following table summarizes non-performing assets at December 31, 2020 and 2019:

	2020	2019
	(in thousands)	
Nonperforming assets		
Nonaccrual loans (1)	$ 154	$ 952
Other Real Estate Owned	- -	53
Total nonperforming assets	$ 154	$1 005
Performing troubled debt restructures (2)	$1 000	$1 502
Loans past due 90 days accruing interest	$ - -	$ 387

(1) Currently there are no restructurings in non-performing assets at December 31, 2020. There were two restructurings in non-performing assets with a balance of $92 thousand at December 31, 2019.

(2) Within this amount are two restructuring with a balance totaling $10 thousand, 30 or more days past due at December 31, 2020. There was one restructuring with a balance of $13 thousand at December 31, 2019, 30 or more days past due.

The interest income that would have been earned if the loans classified as nonaccrual had performed in accordance with the original terms was approximately $12 thousand and $60 thousand in 2020 and 2019, respectively.

Note 5. Premises and Equipment, Net

Premises and equipment consist of the following:

	December 31	
	2020	2019
	(in thousands)	
Premises and improvements	$10 559	$10 574
Furniture and equipment	4 883	4 986
	$15 442	$15 560
Less accumulated depreciation	8 114	7 663
	$ 7 328	$ 7 897

Depreciation included in noninterest expense for 2020 and 2019 was $736 thousand and $685 thousand, respectively.

Note 6. Leases

On January 1, 2019, the company adopted ASU No. 2016-02 *"Leases (Topic 842)"* and all subsequent ASUs that modified Topic 842. The company elected the prospective application approach provided by ASU 2018-11 and did not adjust prior periods for ASC 842. The company also elected certain practical expedients within the standard and consistent with such elections did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases, and did not reassess any initial direct costs for existing leases. As stated in the company's 2019 annual report, the implementation of the new standard resulted in recognition of a right-of-use asset and lease liability of $2.1 million at the date of adoption, which is related to the company's lease of premises and equipment used in operations. The right-of-use asset and lease liability are included in other assets and other liabilities, respectively, in the consolidated balance sheets.

Note 6. Leases (Continued)

Lease liabilities represent the company's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the company's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the company's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor. The company's long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following tables present information about the company's leases (in thousands):

	December 31, 2020	December 31, 2019
Lease liabilities	$ 2 136	$ 2 437
Right-of-use assets, net	$ 2 107	$ 2 404
Weighted average remaining lease term	6.75 years	7.66 years
Weighted average discount rate	3.15%	3.14%

	For the Year Ended	
	December 31, 2020	December 31, 2019
Lease cost (in thousands)		
Operating lease cost	$ 374	$ 385
Variable lease cost	25	8
Short-term lease cost	- -	- -
Total lease cost	$ 399	$ 393
Cash paid for amounts included in the measurement of lease liabilities	$ 350	$ 352

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities is as follows:

Years ending December 31,	Lease Payments Due (in thousands)
2021	$ 358
2022	363
2023	356
2024	342
2025	332
Thereafter	633
Total undiscounted cash flows	$ 2 384
Discount	(248)
Lease liabilities	$ 2 136

Note 7. Deposits

The aggregate amount of time deposits with a balance of $250,000 or more was $40.9 million and $47.4 million at December 31, 2020 and 2019, respectively. At December 31, 2020, there were no depositors whose aggregate deposits were greater than 5% of total deposits. At December 31, 2019, the company had one depositor whose aggregate deposits were approximately 6.8% of total deposits.

At December 31, 2020, the scheduled maturities of all time deposits (in thousands) are as follows:

2021	$ 59 390
2022	19 225
2023	10 679
2024	11 985
2025	12 829
	$114 108

There were no brokered deposits at December 31, 2020 and $2.0 million at December 31, 2019. Also included in total deposits were reciprocal deposits of $55.1 million and $49.5 million as of December 31, 2020 and 2019, respectively.

Deposits of the company's directors, executive officers and associates totaled $6.2 million at December 31, 2020 and totaled $4.2 million at December 31, 2019.

Note 8. Borrowings

Short-term borrowings may, at any time, consist of securities sold under agreements to repurchase, FHLB open repo plus advances, and federal funds purchased. Securities sold under agreement to repurchase totaled $3.0 million and $1.9 million as of December 31, 2020 and 2019, respectively. FHLB open repo plus advances totaled $2 million as of December 31, 2019 and there were no FHLB open repo plus advances as of December 31, 2020.

The table below presents selected information on these short-term borrowings (in thousands):

	December 31	
	2020	2019
Balance outstanding at year end	$2 993	$3 910
Maximum balance at any month-end during the year	$8 917	$3 910
Average balance for the year	$2 544	$1 952
Weighted average rate for the year	0.58%	0.70%
Weighted average rate at year end	0.33%	1.24%

There were no long-term FHLB advances outstanding at December 31, 2020. At December 31, 2019 the company had one non-amortizing $5.0 million Federal Home Loan Bank advance. The advance had an interest rate of 2.22% and a maturity date of March 28, 2022. This advance was paid off in 2020. The prepayment penalty was $142 thousand.

Noncore funding capabilities, including borrowing, provide additional liquidity. The subsidiary bank maintains a federal funds line with two financial institutions and is a member of the Federal Home Loan Bank of Pittsburgh. The subsidiary bank also has a credit line with the Federal Reserve discount window. At December 31, 2020, the subsidiary bank had total credit available through these institutions of $192.0 million.

Note 9. Employee Benefit Plans

The company's defined benefit pension plan, covering full-time employees over 21 years of age upon completion of one year of service, was frozen as of October 31, 2009, the end of the plan year. Benefits will be based on average compensation for the five consecutive full calendar years of service which produces the highest average as of October 31, 2009. No additional participants may enter the plan, and there will be no further increases in benefits due to increases in salaries and years of service.

Note 9. Employee Benefit Plans (Continued)

The company sponsors an unfunded postretirement life insurance plan covering certain retirees with 25 years of service who are over the age of 60 and an unfunded health care plan for certain retirees that met certain eligibility requirements. These plans are not available to future retirees.

The company sponsors a 401(k)-retirement savings plan available to all employees meeting certain age requirements. Employees become eligible to participate in the plan upon reaching age 21. Employees can make a salary deferral election authorizing the company to withhold up to the amount allowed by law each calendar year. The company may make a discretionary matching contribution each plan year. The company may also make other discretionary contributions to the plan. The company made 401(k) matching contributions of $493 thousand and $388 thousand in 2020 and 2019, respectively.

The company has entered into contracts with two retirees where the company has agreed to pay the beneficiary of one participant $50,000 and the beneficiary of another participant $25,000 at the death of the participants. These postretirement benefits were accrued for as of December 31, 2020 and 2019. While these liabilities are unfunded, life insurance has been obtained by the company to help offset these payments.

Obligations and funded status:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
	(in thousands)		(in thousands)	
Change in benefit obligation:				
Benefit obligation, beginning	$ 9 982	$8 727	$ 279	$ 276
Interest cost	315	370	8	11
Actuarial loss (gain)	726	1 451	(26)	15
Benefits paid	(580)	(566)	(19)	(23)
Benefit obligation, ending	$10 443	$9 982	$ 242	$ 279
Change in plan assets:				
Fair value of plan assets, beginning	$ 9 901	$8 904	$ - -	$ - -
Actual return on plan assets	773	1 416	- -	- -
Employer contributions	280	147	19	23
Benefits paid	(580)	(566)	(19)	(23)
Fair value of plan assets, ending	$10 374	$9 901	$ - -	$ - -
Funded status at end of year	$ (69)	$ (81)	$(242)	$(279)
Accounts recognized on consolidated balance sheet as:				
Accrued benefit cost	$ (69)	$ (81)	$(242)	$(279)
Amounts recognized in accumulated other comprehensive loss consists of:				
Net actuarial loss (gain)	$ 3 756	$3 617	$ (23)	$ 3
Deferred tax (asset) liability	(938)	(903)	6	(1)
	$ 2 818	$2 714	$ (17)	$ 2

The accumulated benefit obligation for the defined benefit pension plan was $10.4 million and $10.0 million at December 31, 2020 and 2019, respectively.

Note 9. Employee Benefit Plans (Continued)

Components of net periodic benefit (income) cost and other amounts recognized in accumulated other comprehensive loss:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
	(in thousands)		(in thousands)	
Components of net periodic benefit cost (income):				
Interest cost	$ 315	$ 370	$ 8	$11
Expected return on plan assets	(484)	(556)	- -	- -
Amortization of actuarial loss	297	251	- -	- -
Net periodic benefit cost	$ 128	$ 65	$ 8	$11
Other changes in plan assets and benefit obligations recognized as other comprehensive loss (income):				
Net actuarial loss (gain)	$ 436	$ 591	$(26)	$15
Deferred tax	(35)	(84)	7	(4)
Amortization of actuarial loss	(297)	(251)	- -	- -
Total recognized as other comprehensive loss (income)	$ 104	$ 256	$(19)	$11

The estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year approximates $317 thousand.

Assumptions

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
Weighted-average assumptions used to determine net periodic benefit cost:				
Discount rate	3.25%	4.38%	3.00%	4.20%
Expected return on plan assets	5.01%	6.43%	- -	- -
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	2.54%	3.25%	2.20%	3.00%
Expected return on plan assets	4.56%	5.01%	- -	- -

Note 9. Employee Benefit Plans (Continued)

Long-Term Rate of Return

The plan sponsor selects the expected long-term rate-of-return-on-assets assumption in consultation with their actuary. This rate is intended to reflect the average rate of earnings expected to be earned on the funds invested or to be invested to provide plan benefits. Historical performance is reviewed, especially with respect to real rates of return (net of inflation), for the major asset classes held or anticipated to be held by the trust, and for the trust itself. Undue weight is not given to recent experience that may not continue over the measurement period, with higher significance placed on current forecasts of future long-term economic conditions.

Because assets are held in a qualified trust, anticipated returns are not reduced for taxes. Further, solely for this purpose, the plan is assumed to continue in force and not terminate during the period during which assets are invested. However, consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses (both investment and non-investment) typically paid from plan assets (to the extent such expenses are not explicitly estimated within periodic cost).

The fair value (in thousands) of the company's pension assets as of December 31, 2020 and 2019, respectively, are as follows:

		Fair Value Measurement at December 31, 2020		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash & cash equivalents	$ 482	$ 482	$ - -	$- -
Equity securities				
U.S. companies	5 488	5 488	- -	- -
International companies	840	840	- -	- -
U. S. Treasury securities	1 092	- -	1 092	- -
U. S. Government Agencies	344	- -	344	- -
U. S. Corporate bonds	2 128	- -	2 128	- -
Total	$10 374	$6 810	$3 564	$- -

		Fair Value Measurement at December 31, 2019		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash & cash equivalents	$ 201	$ 201	$ - -	$- -
Equity securities				
U.S. companies	4 888	4 888	- -	- -
International companies	909	909	- -	- -
U. S. Treasury securities	1 308	- -	1 308	- -
U. S. Government Agencies	432	- -	432	- -
U. S. Corporate bonds	2 152	- -	2 152	- -
International Corporate bonds	11	- -	11	- -
Total	$ 9 901	$5 998	$3 903	$- -

Note 9. Employee Benefit Plans (Continued)

Asset Allocation

The pension plan's asset allocations at December 31, 2020 and 2019 by asset category are as follows:

	Plan Assets at December 31	
	2020	2019
Asset Category		
Equities	61%	59%
Fixed income/cash	39%	41%
Total	100%	100%

The trust fund is diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 50% equities, 50% fixed income and cash, with a range of 40% to 60%. The trust fund allocation is reviewed on a monthly basis and rebalanced to within the acceptable ranges as needed. The investment manager selects investment fund managers with demonstrated experience and expertise and funds with demonstrated historical performance for the implementation of the plan's investment strategy. The investment manager will consider both actively and passively managed investment strategies and will allocate funds across the asset classes to develop an efficient investment structure.

It is the responsibility of the trustee to administer the investments of the trust within reasonable costs, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the trust.

There was no company common stock included in the equity securities of the pension plan at December 31, 2020 and 2019.

Cash Flow

The company currently expects to make no contributions to its pension plan in 2021 and $25 thousand to its postretirement plan in 2021.

The following benefit payments (in thousands) are expected to be paid:

	Pension Benefits	Other Postretirement Benefits
2021	$ 593	$25
2022	594	24
2023	586	23
2024	597	22
2025	592	21
Thereafter	2 858	83

Note 10. Weighted Average Number of Shares Outstanding and Earnings Per Common Share

The following shows the weighted average number of shares used in computing earnings per share. There were no potentially dilutive shares outstanding for 2020 and 2019.

	2020		2019	
	Average Shares (in thousands)	Per Share Amount	Average Shares (in thousands)	Per Share Amount
Basic earnings per common share	4 134	$.92	4 134	$ .78
Effect of dilutive securities:	- -		- -	
Diluted earnings per common share	4 134	$.92	4 134	$ .78

Note 11. Income Taxes

The company files income tax returns in the U. S. Federal jurisdiction and the states of West Virginia and Maryland. With few exceptions, the company is no longer subject to U. S. Federal, state, and local income tax examinations by tax authorities for years prior to 2017.

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Net deferred tax assets (in thousands) consist of the following components as of December 31, 2020 and 2019:

	2020	2019
Deferred tax assets:		
Reserve for loan losses	$1 017	$ 508
Defined benefit pension plan	18	41
Other postretirement benefits	77	83
Nonaccrual interest	95	96
Net loan origination fees	270	35
OREO valuation allowance	- -	13
OREO built in gain	- -	2
Lease liability	528	595
Paid time off (PTO) accrual	25	25
Employee stock incentive	- -	7
Other	10	- -
	$2 040	$1 405
Deferred tax liabilities:		
Depreciation	$ 270	$ 277
Intangibles	2	3
Equity securities	1	4
Securities Available for sale	256	140
Right of use asset	521	587
Other	- -	9
	$1 050	$1 020
Net deferred tax assets	$ 990	$ 385

Note 11. Income Taxes (Continued)

The provision for income taxes charged to operations for the years ended December 31, 2020 and 2019 consists of the following (in thousands):

	2020	2019
Current tax expense	$1 749	$940
Deferred tax benefit	(693)	(39)
	$1 056	$901

The income tax provision differs from the amount of income tax determined by applying the federal income tax rate to pretax income for the years ended December 31, 2020 and 2019 due to the following (in thousands):

	2020	2019
Computed "expected" tax expense	$1 017	$ 864
Increase (decrease) in income taxes resulting from:		
Tax exempt income	(96)	(97)
State income tax expense, net of federal benefit	120	115
Other	15	19
	$1 056	$ 901

The realization of deferred income tax assets is assessed, and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. "More likely than not" is defined as greater than a 50% chance. Management considers all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance is needed. Management's assessment is primarily dependent on historical taxable income and projections of future taxable income, which are directly related to the company's core earnings capacity and its prospects to generate core earnings in the future. Projections of core earnings and taxable income are inherently subject to uncertainty and estimates that may change given the uncertain economic outlook, banking industry conditions and other factors. Based upon an analysis of available evidence, management has determined that it is "more likely than not" that the company's deferred income tax assets as of December 31, 2020 will be fully realized and therefore no valuation allowance to the company's deferred income tax assets was recorded. However, the company can give no assurance that in the future its deferred income tax assets will not be impaired because such determination is based on projections of future earnings and the possible effect of certain transactions, which are subject to uncertainty and based on estimates that may change due to changing economic conditions and other factors. Due to the uncertainty of estimates and projections, it is possible that the company will be required to record adjustments to the valuation allowance in future reporting periods.

Note 12. Commitments and Contingent Liabilities

In the normal course of business, there are outstanding various commitments and contingent liabilities which are not reflected in the accompanying financial statements. The company does not anticipate losses as a result of these transactions. See Note 15 with respect to financial instruments with off-balance-sheet risk.

Prior to March 2020 the company was required to maintain a reserve against its deposits in accordance with Regulation D of the Federal Reserve Act. For the final bi-weekly reporting period which included December 31, 2019, this requirement was met by the amount of vault cash. Effective March 26, 2020 the Federal Reserve Board reduced the reserve against deposits requirement ratios to zero.

In the normal course of business, the company may be involved in various legal proceedings. Based on the information presently available, management believes that the ultimate outcome in such proceedings, in the aggregate, will not have a material adverse effect on the business or the financial condition or results of operations of the company.

Note 13. Retained Earnings

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the bank to the company. The approval of the State Banking Commissioner is required if the total of all dividends declared in any calendar year exceeds the bank's net profits for that year combined with its retained net profits for the preceding two calendar years.

At January 1, 2021 the bank had available $5.4 million for the payment of dividends.

In addition, dividends paid by the bank to the company would be prohibited if the effect thereof would cause the bank's capital to be reduced below applicable minimum capital requirements.

Note 14. Accumulated Other Comprehensive Income (Loss)

The balances in accumulated other comprehensive (loss) are shown in the following table (in thousands):

	Net Unrealized Gains (Losses) on Securities	Adjustments Related to Pension and Other Post Retirement Benefits	Accumulated Other Comprehensive Loss, net
Balance at December 31, 2018	$(188)	$(2 449)	$(2 637)
Net unrealized holding gains on securities, net of tax of $204	610	- -	610
Change in benefit obligation and plan assets for pension and other postretirement benefits, net of tax of $88	- -	(267)	(267)
Balance at December 31, 2019	422	(2 716)	(2 294)
Net unrealized holding gains on securities, net of tax of $115	348	- -	348
Change in benefit obligation and plan assets for pension and other postretirement benefits, net of tax of $28	- -	(85)	(85)
Balance at December 31, 2020	$ 770	$(2 801)	$(2 031)

The following table presents information on amounts reclassified out of accumulated other comprehensive loss, by category during the years ended December 31, 2020 and 2019 (in thousands):

	2020	2019	Affected Line Item on the Consolidated Statements of Income
Available for sale securities			
Realized gain (loss) on securities available for sale, net	$ 17	$ (7)	Gains (Losses) on sales of securities available for sale
Tax effect	5	(2)	Income tax expense
Net of tax	$ 12	$ (5)	Net of tax
Pension and other postretirement benefits			
Amortization of net actuarial loss (1)	$(297)	$(251)	Other operating expenses
Tax effect	(74)	(63)	Income tax expense
Net of tax	$(223)	$(188)	Net of tax
Total reclassifications for the period	$(211)	$(193)	Net of tax

(1) This accumulated other comprehensive loss component is included in the computation of net pension benefit cost (see Note 9 Employee Benefit Plans for additional details).

Note 15. Financial Instruments With Off-Balance-Sheet Risk

The company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. Those financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The company's exposure to credit loss in the event of nonperformance by the borrowers for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the contract or notional amount of the company's exposure to off-balance-sheet risk as of December 31, 2020 and 2019 (in thousands) is as follows:

	2020	2019
Financial instruments whose amounts represent credit risk:		
Commitments to extend credit	$57 717	$61 690
Standby letters of credit	6 444	6 149

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but typically is cash or real estate.

Unfunded commitments under commercial lines of credit are commitments for possible future extensions of credit to existing customers. The majority of the lines of credit are collateralized and usually contain a specified maturity date.

Standby letters of credit are conditional commitments issued by the company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The company generally holds collateral supporting those commitments if deemed necessary.

Note 16. Fair Value Measurements

Determination of Fair Value

The company determines the fair values of its financial instruments based on the fair value hierarchy established by ASC Topic 820, which also clarifies that the fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market and in an orderly transaction between market participants on the measurement date.

The fair value measurements and disclosures topic specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the company's market assumptions.

Fair Value Hierarchy

In accordance with this guidance, the company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value.

Level 1—Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2—Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3—Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying amounts and estimated fair values of the company's financial instruments are presented in the following tables (in thousands). Fair values for December 31, 2020 and 2019 were estimated using an exit price notion.

Note 16. Fair Value Measurements (Continued)

The carrying amounts and estimated fair values of the company's financial instruments are as follows (in thousands):

		Fair Value Measurements at December 31, 2020 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Assets					
Cash and cash equivalents	$ 40 939	$40 939	$ - -	$ - -	$ 40 939
Certificates of deposits in other financial institutions	2 745	- -	2 810	- -	2 810
Securities available for sale	62 987	- -	62 987	- -	62 987
Equity securities	220	- -	220	- -	220
Loans held for sale	2 713	- -	2 713	- -	2 713
Loans, net	488 580	- -	- -	484 139	484 139
FHLB Stock	672	- -	672	- -	672
BOLI	7 821	- -	7 821	- -	7 821
Accrued interest receivable	1 868	- -	1 868	- -	1 868
Liabilities					
Deposits	$548 542	$ - -	$550 263	$ - -	$550 263
Short term borrowings	2 993	- -	2 993	- -	2 993
Subordinated debt, net of issuance costs	9 734	- -	9 839	- -	9 839
Accrued interest payable	325	- -	325	- -	325

		Fair Value Measurements at December 31, 2019 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Assets					
Cash and cash equivalents	$ 28 261	$28 261	$ - -	$ - -	$ 28 261
Certificates of deposits in other financial institutions	4 245	- -	4 310	- -	4 310
Securities available for sale	50 471	- -	50 471	- -	50 471
Equity securities	133	- -	133	- -	133
Loans held for sale	2 034	- -	2 034	- -	2 034
Loans, net	408 744	- -	- -	404 654	404 654
FHLB Stock	727	- -	727	- -	727
BOLI	7 641	- -	7 641	- -	7 641
Accrued interest receivable	1 178	- -	1 178	- -	1 178
Liabilities					
Deposits	$449 880	$ - -	$450 883	$ - -	$450 883
Short term borrowings	3 910	- -	3 910	- -	3 910
Long term borrowings	5 000	- -	5 042	- -	5 042
Accrued interest payable	337	- -	337	- -	337

Note 16. Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis

The following table describes the valuation techniques used by the company to measure certain assets recorded at fair value on a recurring basis in the financial statements.

Securities

Securities available for sale and equity securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

		Fair Value Measurements at December 31, 2020 Using		
Description	Balance as of December 31 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
U.S. Government sponsored agency securities	$13 430	$- -	$13 430	$ - -
Mortgage-backed	40 600	- -	40 600	- -
State and municipal securities	3 098	- -	3 098	- -
Corporate securities	5 859	- -	5 859	- -
Total available for sale securities	62 987	- -	62 987	- -
Equity securities	220	- -	220	- -
Total securities	$63 207	$- -	$63 207	$ - -

		Fair Value Measurements at December 31, 2019 Using		
Description	Balance as of December 31 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
U.S. Government sponsored agency securities	$13 522	$- -	$13 522	$ - -
Mortgage-backed	35 499	- -	35 499	- -
State and municipal securities	1 450	- -	1 450	- -
Total available for sale securities	50 471	- -	50 471	- -
Equity securities	133	- -	133	- -
Total securities	$50 604	$- -	$50 604	$ - -

Note 16. Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis in accordance with generally accepted accounting principles.

The following describes the valuation techniques used by the company to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Impaired Loans: ASC 820 applies to loans measured for impairment at an observable market price (if available), present value of expected future cash flows discounted at the loan's effective interest rate, or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral. Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts according to the contractual terms of the loan agreement will not be collected when due. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by a licensed appraiser outside of the company using observable market data. In certain instances, an internal independent collateral valuation may be performed to determine value. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the consolidated statements of income. The carrying values of all impaired loans are considered to be Level 3.

Other Real Estate Owned: Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of ASC 820.

Real estate acquired through foreclosure is transferred to other real estate owned (OREO). The measurement of loss associated with OREO is based on the fair value of the collateral less anticipated selling costs compared to the unpaid loan balance. The value of real estate collateral is determined based on an internal evaluation, appraisal outside of the company, or comparative market analysis. Any fair value adjustments are recorded in the period incurred and expensed against current earnings. The carrying values of all OREO are considered to be Level 3.

Loans held for sale: Loans held for sale are carried at cost which approximates estimated fair value. At December 31, 2020, these loans consisted of one-to-four family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, the company records fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale at December 31, 2020. Gains and losses on the sale of loans are recorded within "Secondary Market Income" on the Consolidated Statements of Income.

Note 16. Fair Value Measurements (Continued)

The following table summarizes the company's assets that were measured at fair value (in thousands) on a nonrecurring basis as of December 31, 2020 and 2019.

		Carrying Value at December 31, 2020		
Description	Balance as of December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Input (Level 3)
Assets				
Impaired Loans with a valuation allowance	$969	$- -	$- -	$969

		Carrying Value at December 31, 2019		
Description	Balance as of December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Input (Level 3)
Assets				
Impaired Loans with a valuation allowance	$1 671	$- -	$- -	$1 671
OREO	53	- -	- -	53

	Quantitative information about Level 3 Fair Value Measurement for December 31, 2020			
	Fair Value (000s)	Valuation Technique(s)	Unobservable Input	Weighted Average (1)
Asset				
Impaired loans with a valuation allowance	$969	Appraisal and income or market valuation	Market discount	2.22%

	Quantitative information about Level 3 Fair Value Measurement for December 31, 2019			
	Fair Value (000s)	Valuation Technique(s)	Unobservable Input	Weighted Average
Asset				
Impaired loans with a valuation allowance	$1 671	Appraisal and income or market valuation	Market discount	2.20%
OREO	$ 53	Appraisal and income or market valuation	Market discount	49.30%

(1) Weighted based on the relative fair values of the instruments.

Note 17. Regulatory Matters

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. As part of these requirements, the Common Equity Tier 1 Capital (CET1) ratio is calculated and utilized in the assessment of capital for banking institutions. Under Basel III capital guidelines, Bank of Charles Town is required to maintain minimum total capital, CET1 capital, Tier 1 capital, and Tier 1 capital leverage ratios of 8.0%, 4.5%, 6.0%, and 4.0%, respectively. Failure to meet minimum capital requirements can initiate certain mandatory, possibly additional discretionary, actions by regulators. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. The most recent notification from the bank's primary federal regulator categorized the bank as well-capitalized. There are no conditions or events since that notification that management believes have changed the bank's category. The bank had a capital conservation buffer of 8.63% as of December 31, 2020. The bank decided not to opt in to the Community Bank Leverage Ratio (CBLR) regulatory framework.

The implementation of a capital conservation buffer began on January 1, 2016 and was phased in over a four-year period until it reached 2.5% on January 1, 2019. Including the fully phased-in buffer at December 31, 2019, the minimum total capital, CET1 capital, and Tier 1 capital ratios were 10.5%, 7.0%, and 8.5%, respectively. There is no capital conservation buffer for the Tier 1 Leverage ratio.

The bank's actual capital amounts and ratios are presented in the table.

	Actual		Minimum Required – Including Basel III Phase-In Schedule		Required To Be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2020:						
Total capital (to risk-weighted assets):						
Bank of Charles Town	$69 809	16 63%	$44 066	10.50%	$41 968	10.00%
CET 1 capital (to risk-weighted assets):						
Bank of Charles Town	$64 561	15.38%	$29 377	7.00%	$27 279	6.50%
Tier 1 capital (to risk-weighted assets):						
Bank of Charles Town	$64 561	15.38%	$35 673	8.50%	$33 574	8.00%
Tier 1 Leverage (to average assets):						
Bank of Charles Town	$64 561	10.23%	$25 241	4.00%	$31 552	5.00%

	Actual		Minimum Required – Including Basel III Phase-In Schedule		Required To Be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2019:						
Total capital (to risk-weighted assets):						
Bank of Charles Town	$57 746	14.83%	$40 878	10.50%	$38 931	10.00%
CET 1 capital (to risk-weighted assets):						
Bank of Charles Town	$54 030	13.88%	$27 252	7.00%	$25 305	6.50%
Tier 1 capital (to risk-weighted assets):						
Bank of Charles Town	$54 030	13.88%	$33 092	8.50%	$31 145	8.00%
Tier 1 Leverage (to average assets):						
Bank of Charles Town	$54 030	10.48%	$20 617	4.00%	$25 771	5.00%

Note 18. Subordinated Debt

The company completed a private placement of $10.0 million of fixed to floating subordinated notes on September 14, 2020. Subject to limited exceptions permitting earlier redemption, the notes may be redeemed on or after September 15, 2025. Unless redeemed earlier, the notes will mature on September 15, 2030. The notes bear a fixed rate of 5.00% to but excluding September 15, 2025 and will bear a floating rate equal to SOFR plus 487.4 basis points thereafter. The notes are carried at their principal amount, less unamortized issuance costs.

Note 19. Revenue

All of the company's revenue from contracts with customers that is within the scope of ASC 606, "Revenue from Contracts with Customers" is reported within noninterest income. The recognition of certain sources of noninterest income (e.g. gains on securities transactions, bank owned life insurance income, etc.) and all interest income is governed by other areas of U.S. GAAP. Significant revenue streams within the scope of ASC 606 are discussed in the following paragraphs.

Service Charges on Deposit Accounts

The majority of the company's noninterest income is derived from short term contracts associated with services provided for deposit accounts and other ancillary services. These revenue streams are principally comprised of overdrawn account charges, account maintenance charges, and ATM fees. The company's performance obligations on revenue generated from deposit accounts and other services are generally satisfied immediately, when the transaction occurs, or by month-end. Typically, the duration of a contract does not extend beyond the services performed. Due to the short duration of most customer contracts which generate these sources of noninterest income, no significant judgments must be made in the determination of the amount and timing of revenue recognized.

Trust and Financial Services

Trust and financial services income are primarily comprised of fees earned from the management and administration of trusts and other customer assets. The company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end. Optional services such as real estate sales and tax return preparation services are also available to existing trust and asset management customers. The company's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered. Brokerage fees are earned when a financial instrument trade is completed. The revenue amount depends on the number of shares purchased or sold. Revenue from these services is recognized monthly.

Interchange fees

The company earns interchange fees from debit and credit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Secondary market income

Secondary market income is comprised of gains on sales of loans (out of scope) and fees received for residential real estate loans that are initiated by the bank and closed by other financial institutions. The company's performance obligation on these transactions is generally satisfied when the loan closes. The resulting fees are recognized and collected in the month the loan is closed by the other financial institution.

Note 19. Revenue (Continued)

Noninterest income disaggregated by major source, for the years ended December 31, 2020 and 2019, consisted of the following:

	Years Ended December 31,	
Noninterest income (in thousands):	2020	2019
Trust and financial services:		
Trust asset management fees (1)	$ 1 051	$ 1 103
Brokerage fees (1)	119	231
Service charges on deposit accounts:		
Overdraft & return check charges (1)	690	958
Charges - use of foreign ATMS (1)	91	129
Other service charges (1)	99	86
Secondary market income		
Wholesale/broker fee income (1)	113	73
Gain on sales of loans in the secondary market	1 251	977
Interchange fees (1)	1 495	1 384
Earnings on bank owned life insurance	180	184
Gain (Loss) on sales of securities available for sale	17	(7)
Other operating income (2)	647	347
Total noninterest income	$ 5 753	$ 5 465

(1) Income within the scope of Topic 606.

(2) For 2020, includes other income within the scope of Topic 606 amounting to $422 thousand. For 2019, includes other income within the scope of Topic 606 amounting to $302 thousand.

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the company satisfies its performance obligation and revenue is recognized. The company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2020, and December 31, 2019, the company did not have any significant contract balances.

Note 20. Parent Company Only Financial Statements

POTOMAC BANCSHARES, INC.
(Parent Company Only)
Balance Sheets
December 31, 2020 and 2019
(in thousands)

	2020	2019
ASSETS		
Cash	$ 1 853	$ 21
Investment in subsidiary	62 530	51 736
Equity securities, at fair value	220	133
Other assets	90	37
Total Assets	$64 693	$51 927
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Subordinated debt, net of unamortized issuance costs	$ 9 734	$ - -
Other liabilities	147	5
Total Liabilities	$ 9 881	$ 5
STOCKHOLDERS' EQUITY		
Common stock	$ 4 483	$ 4 483
Surplus	14 358	14 358
Undivided profits	41 496	38 869
Accumulated other comprehensive loss, net	(2 031)	(2 294)
	$58 306	$55 416
Less cost of shares acquired for the treasury	(3 494)	(3 494)
Total Stockholders' Equity	$54 812	$51 922
Total Liabilities and Stockholders' Equity	$64 693	$51 927

Note 20. Parent Company Only Financial Statements (Continued)

POTOMAC BANCSHARES, INC.
(Parent Company Only)
Statements of Income
Years Ended December 31, 2020 and 2019
(in thousands)

	2020	2019
Interest Expense		
Interest on subordinated debt	$ 164	$ - -
Total Interest Expense	164	- -
Other Income		
Dividends from subsidiary	993	963
Other income	4	1
Total Other Income	997	964
Noninterest Expense		
Public relations & new business development	- -	7
Transfer agent expense	35	34
Director and committee fees	27	19
Legal fees	4	15
Other professional fees	32	35
Postage	10	8
Proxy solicitation	22	10
Printing, stationery and supplies	25	28
Other taxes	6	6
Other expense	13	(2)
Total Noninterest Expense	174	160
Income before Income Tax Benefit and Equity in Undistributed Income of Subsidiary	659	804
Income Tax Benefit	(70)	(32)
Income before Equity in Undistributed Income of Subsidiary	729	836
Equity in Undistributed Income of Subsidiary	3 056	2 377
Net Income	$3 785	$3 213

Note 20. Parent Company Only Financial Statements (Continued)

POTOMAC BANCSHARES, INC.
(Parent Company Only)
Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(in thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3 785	$ 3 213
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of Subsidiary	(3 056)	(2 377)
Amortization of debt issuance costs	16	- -
Fair value adjustment on equity securities	13	(1)
Increase in other assets	(53)	(2)
Increase in other liabilities	142	2
Net cash provided by operating activities	$ 847	$ 835
CASH FLOWS FROM INVESTING ACTIVITIES		
Additional investment in subsidiary	$ (7 475)	$ - -
Purchase of equity securities	(100)	- -
Net cash used in investing activities	$ (7 575)	$ - -
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of subordinated debt, net of issuance costs	$ 9 718	$ - -
Cash dividends	(1 158)	(1 158)
Net cash provided by (used in) financing activities	$ 8 560	$ (1 158)
Increase (decrease) in cash and cash equivalents	$ 1 832	$ (323)
CASH AND CASH EQUIVALENTS		
Beginning	$ 21	$ 344
Ending	$ 1 853	$ 21

Note 21. Subsequent Events

In preparing these financial statements, the company has evaluated events and transactions for potential recognition or disclosure through March 15, 2021, the date the financial statements were available to be issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including estimates inherent in the process of preparing financial statements, and (2) non recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. In the opinion of management, all subsequent events requiring recognition or disclosure have been included in the consolidated annual statements.

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111 East Washington Street

Charles Town, WV 25414

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IMPORTANT NOTICE
SHAREHOLDER MEETING
VIRTUAL FORMAT

Dear Shareholders,

This year's Shareholder Meeting is scheduled for April 27, 2021 at 10:30 AM. We have decided it is in the best interests of our shareholders, our employees, and the community to hold the Annual Shareholder Meeting in a virtual format.

To be admitted to the virtual Annual Meeting, visit **www.virtualshareholdermeeting.com/PTBS2021** and enter the control number found on your proxy card.

We highly encourage you to VOTE BY PROXY prior to the Shareholder Meeting. The meeting and its decisions will be valid with a quorum of votes by PROXY. You will find a PROXY CARD included in the 2020 Annual Report packet. When voting by PROXY, attendance in person is not necessary. The proxy statement and Annual Report are available on our Investor Relations webpage https://ir.mybct.bank/corporate-overview/corporate-profile

Additionally, Carla Nilsen, Executive Assistant, is also available to answer any questions. Her contact information is: (Email) cnilsen@mybct.bank and (Phone) 304-728-2453.

Thank you,

Alice P. Frazier
President & CEO