



BUILDING COMMUNITIES TOGETHER



2022

— ANNUAL REPORT —



BCT 2022 HIGHLIGHTS

FINANCIAL HIGHLIGHTS



Total Assets Growth \$44.7 Million

2022 \$756.1 million
2021 \$711.4 million

Core Loan Growth

(excluding PPP Loans)

\$120.2 Million

2022 \$622.6 million Total Loans
2021 \$502.4 million Total Loans



Noninterest Bearing Deposits Growth 14.7%

2022 \$162.0 million Total
2021 \$141.3 million Total

Pre-Tax Pre-Provision Income

(excluding PPP Income)

\$9.230 Million

29.1% Increase Over 2021

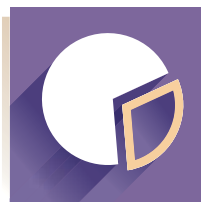


Net Interest Income Growth 17.9%

2022 \$24.273
2021 \$20,582

Efficiency Ratio 65.8%

Cost to generate one dollar
of revenue.



Many BCT Clients have operated their businesses across multiple family generations. We proudly recognize their legacies.

COVER:

Potomac Bancshares is the holding company for Bank of Charles Town.
The Communities Bank dba is used in Maryland and Virginia markets.

COMMITTED TO CLIENT AND EMPLOYEE EXPERIENCE

BCT maintained our strategy of creating positive experiences for clients and employees.



BEST BANK
BEST LOAN SERVICE
BEST FINANCIAL SERVICE/PLANNING



BEST BANK
BEST MORTGAGE



FINALIST
Community Leadership
Large Business



INAUGURAL WINNER OF THE
FHLB DEI MEMBERSHIP AWARD
for our Banking On Diversity
Minority Business Fund,
an interest-free loan program for local minority businesses.



DEAR SHAREHOLDERS,

Each year we have the distinct opportunity to reflect with you the many achievements of the past year. Once again, this reflection shows a team committed more than ever to helping our communities grow. While turmoil of the financial markets and persistent high inflation caused continued uncertainty, we remained disciplined towards soundness, profitability and growth.

We reached a new milestone in total assets by ending the year at \$756.1 million, growth of 6.3%. Even more remarkable is the loan growth of \$105.6 million, an increase of 20.4%, driven by a strong reputation for our ability to execute in a timely manner for both commercial and residential loans. Our SBA lending team ranked 3rd in our West Virginia district and 5th in Virginia (banks \$500 million to \$3.0 billion) at the end of 2022, an exciting accomplishment after receiving Preferred Lender status in October 2021. While the loan growth was impressive, we never wavered from our disciplined credit culture and finished the year with no non-performing assets. Given the current economic challenges, our credit department is constantly assessing portfolio risk from various angles.

The rapid increase in interest rates as well as Federal Reserve moves to reduce its balance sheet caused money to be in motion at the end of the year. The strategic initiatives to attract noninterest-bearing deposits resulted in 14.7% growth, which proved beneficial as rates rose in the latter half of the year. Overall, deposits grew \$36.4 million to \$665.5 million at year end. For years we have touted being a relationship-oriented bank, rewarding those that bank with us fully. We have found our clients appreciate this transparency and trustworthy approach.

We finished the year with net income of \$7.3 million, or \$1.77 per share. Net interest income grew 17.9%, largely due to loan growth. Maximizing our operating efficiency is key to profitability and we were pleased with continued improvement. Overall, we had a strong finish given the known hurdles of significantly less Paycheck Protection Program (PPP) income, a prior year reserve reversal, and challenging mortgage market.

Moving into 2023, discussions of a soft landing, deep recession, further rate increases, and “higher for longer” ensue daily. Our approach has always been to ensure our capital position remains

strong and supports our continued growth. We continue to exceed all regulatory minimums for a well-capitalized financial institution.

We are in a unique position to improve the well-being of businesses and individuals within our communities.

In so being, our clients become our best advocates. A sample of their stories is included in the following pages.

As you read their testimonials, we hope you enjoy how the BCT team lived our purpose of “Simplifying our Clients’ Financial Lives” by being in the moment, fully engaged and listening to our clients’ needs. These authentic and trustworthy conversations are a few of the ingredients of our special sauce.



We go about our daily work because it fulfills our purpose, never expecting external recognition. However, it is gratifying to know our team is acknowledged by the community with several local “Best of” awards. In addition, our innovative **Banking on Diversity Minority Loan Program** received the **Federal Home Loan Bank of Pittsburgh’s** inaugural DEI Membership Award.

Our success is completely dependent on our ability to attract, retain, and grow our team. BCT employees are handpicked for their talent, experience, and reputation for teamwork. Providing each an opportunity for growth through education and coaching for successful performance and promotions is a high priority. During 2022, we happily celebrated 41 promotions. Moreover, our company is built on a bedrock of positive relationships, internally and externally. As such, we have been pleased to find that our all-employee meeting, **Together on Purpose**, has proven invaluable in gathering employee feedback on how to effectively achieve our strategic initiatives through positive client and employee experiences.

Looking forward to 2023, we remain focused on profitable growth by investing in people, technology, and initiatives that support our ability to remain a strong community bank committed to providing meaningful and helpful financial services to our neighbors. We will do so while remaining a safe and sound, well-capitalized community bank.

We ask you join us as we express our deep gratitude and appreciation to our employees whose commitment to our core values and purpose sets BCT apart and ensures our long-term sustainability.

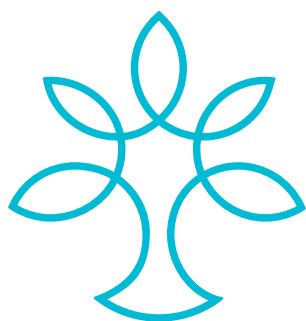
On behalf of the Board of Directors, senior management, and employees, thank you for your continued confidence and trust.

Ana P. Finner

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

Keith B. Berkeley

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



Rock Water Farm Landscapes and Hardscapes designs, builds and maintains perfect outdoor spaces. Experienced as a stonemason, and fresh out of Virginia Tech with a Landscape & Turf Management degree (2004), Todd Thomasson has established his company as one of the fastest growing property maintenance companies in Loudoun County. Leading a team of 100 technicians, Rock Water Farm Landscapes & Hardscapes have transformed residential backyards into spectacular outdoor environments, featuring stunning waterfalls, dramatic gardens and intriguing multi-level patios. Relying on quality craftsmanship and exceptional products, Rock Water Farm has earned a reputation for landscaping excellence, one property at a time. rockwaterfarm.com

ROCK WATER FARM

"BCT built a comprehensive online platform just for us. They value our time, are always responsive, and are great at getting things done."

Todd S. Thomasson
President

ROCK WATER FARM LANDSCAPES
& HARDSCAPES

ALDIE, VA



Originally from Mexico City, Roberto Gonzalez came to the United States in 1986 to learn English. In 2003, Mr. Gonzalez started investing in commercial real estate. Today, his thriving company owns 30 properties, totaling over 100 units. Mr. Gonzalez actively counsels real estate investors who are looking to establish commercial portfolios and has been involved in the sale of many of downtown Hagerstown's most prestigious buildings, including the Grand Piano Building, the Masonic Temple, the Potomac Living Center, the OFB Building and Franklin Plaza.

With an eye toward the future, Mr. Gonzalez hopes to develop a storage facility, as well as a small retail strip center.

hagerstowncommercialrealestate.com

RG REALTY

"BCT understands commercial real estate. They are flexible and creative, and know how to help make deals happen. I have total confidence in BCT, and I'm comfortable recommending them to my clients and investors."

Roberto G. Gonzalez
Owner/Broker
RG REALTY, INC.

HAGERSTOWN, MD



Founded just 14 months ago, DC Electric began operations in November 2021. In that short time span, Jon and Tonya Lough have grown their new family-owned Berkeley County business to 15 full-time electricians.

Specializing in high-end fast-track commercial interiors, base building construction, specialized medical facilities and high security SCIF spaces, DC Electric's talented team of electricians, journeymen and apprentices currently work in Maryland, the District of Columbia and Virginia. Valued clients include the Association of Alexandria Radiologists, Micron Technology and SK Hynix. dcelectricllc.net

DC ELECTRIC

"When I realized that my former employer put a glass ceiling on my career prospects, I knew it was time to break it. We approached BCT for an SBA Express Loan, started our own business, and have never looked back."

Jon C. Lough
Tonya K. Lough
Owners
DC ELECTRIC, LLC

BUNKER HILL, WV



Colorful aerosol cans whiz by on a high-speed conveyor belt filling system at a rate of 300 cans per minute. Chem-Pak's new state-of-the-art packaging equipment helps high-level customers bring their products to market. Founded by George Duane in 1966, and currently owned and operated by son Randy Duane and his son Mike, Chem-Pak is a Martinsburg-based chemical packaging manufacturer that specializes in formulation, development and packaging of high-grade aerosol and liquid compounds. Working out of a 40,000-square-foot facility, and a 35,000-square-foot warehouse, Chem-Pak's three chemists and 60-person staff serve as a value-added manufacturing partner for customers that need expertise, manufacturing guidance and packaging at the highest level. They are committed to the local area and have established an ongoing internship program with Shenandoah University. chem-pak.com

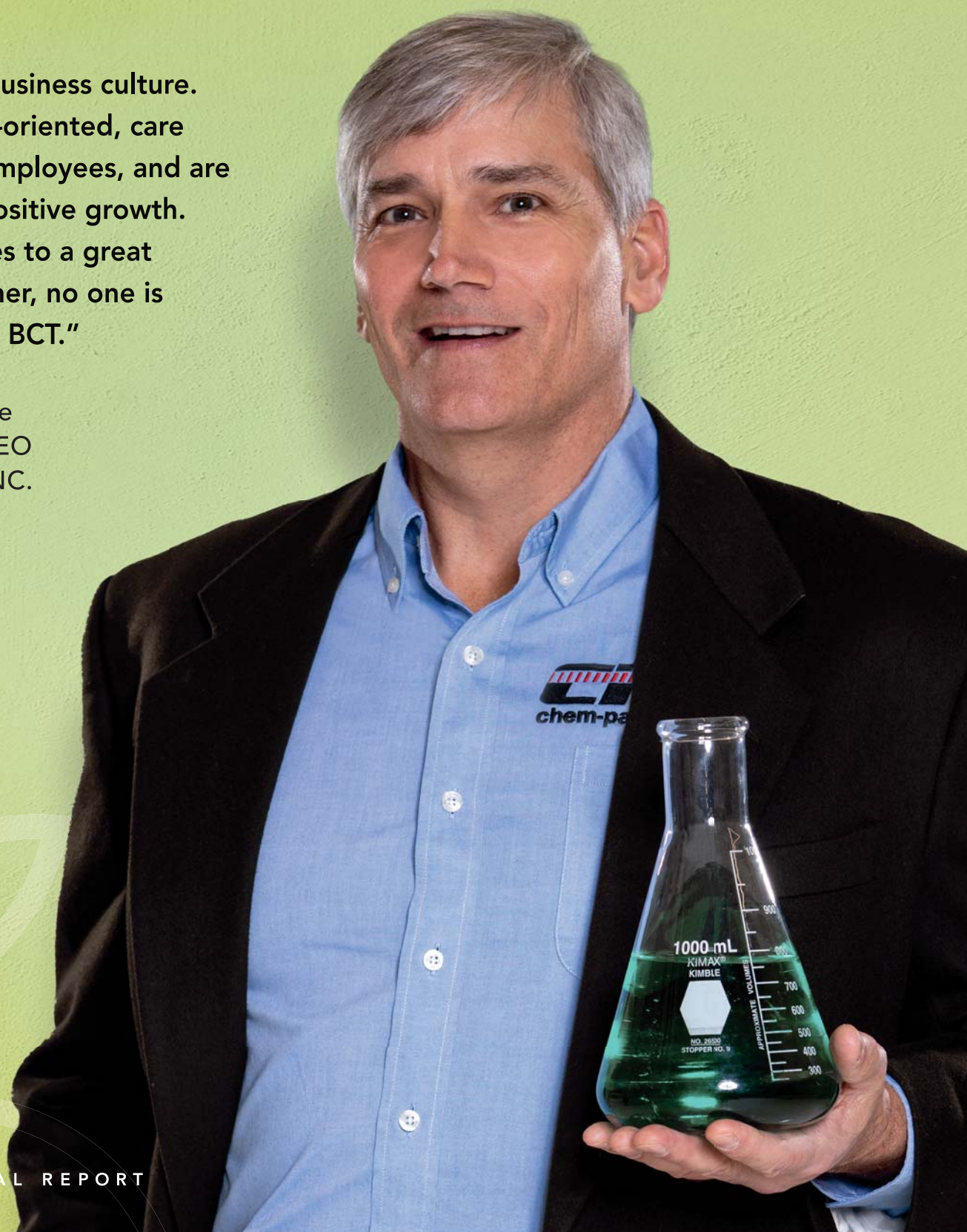


CHEM-PAK

"BCT fits our business culture. They're team-oriented, care about their employees, and are focused on positive growth. When it comes to a great banking partner, no one is stronger than BCT."

Randy P. Duane
President & CEO
CHEM-PAK, INC.

MARTINSBURG, WV



Paul McDonald's family has been banking with BCT for generations. "I remember an early visit to BCT with my grandmother as a small child. The building at the corner of Washington and George was impressive, but the vault was fascinating. A thick steel door with multiple locking cylinders protruding from the sides informed me that whatever was kept inside was extra safe." Since those early visits, BCT has been a constant in McDonald's life. While running a busy custom cabinet company in New Jersey, he relies on BCT Wealth Advisors to guide him on how to best manage what his family has built over the years. Recently, he even turned to BCT Residential Lending to finance his forever home. "I feel that same sense of financial security with BCT today that I felt as a small boy seeing the vault for the first time." royalcabinet.com

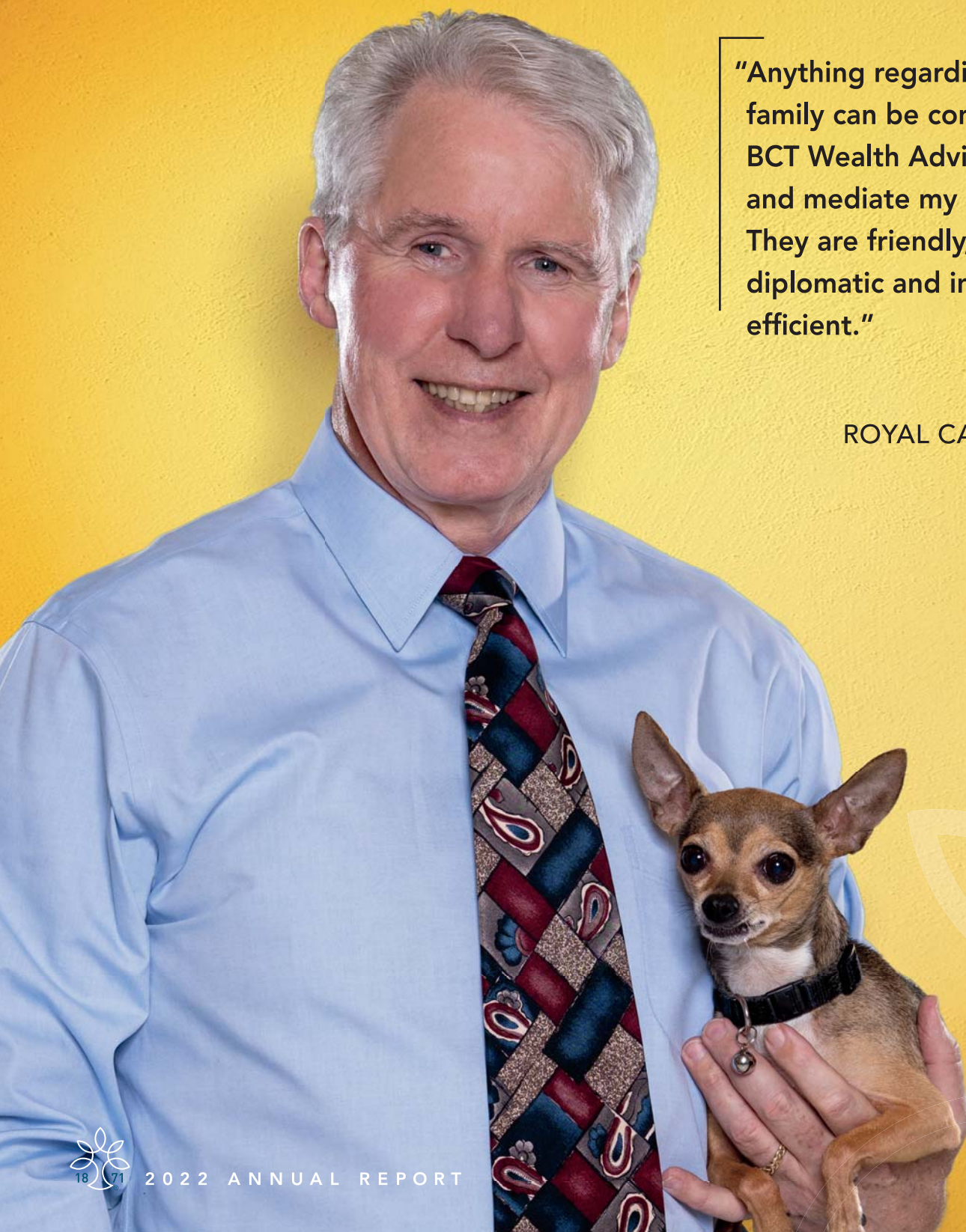


ROYAL CABINET COMPANY

"Anything regarding money and family can be complicated. I trust BCT Wealth Advisors to navigate and mediate my family's finances. They are friendly, clear thinking, diplomatic and incredibly efficient."

Paul Y. McDonald
President
ROYAL CABINET COMPANY

BOUND BROOK, NJ



For the better part of 50 years, Loudoun Therapeutic Riding (LTR), a 501(c)(3) nonprofit, has connected individuals with physical, intellectual and emotional challenges to the healing power of horses. "To partner with a horse is to share its strength and grace." As the first Professional Association of Therapeutic Horsemanship Intl. (PATH Intl.) Premier Accredited Center (PAC) in Virginia, LTR operated for decades out of Morven Park in Leesburg. In July 2021 LTR purchased an established equestrian facility in Lovettsville, VA. Amenities at LTR include an outdoor arena, an indoor arena, a barn, 17 horse stalls, a feed room and a tack room. 11 employees, 13 horses, and a support team of over 200 volunteers, help clients participate in horse-assisted programs including Youth & Adolescent Therapeutic Riding, services for Veterans (partially funded by Wounded Warriors Project), carriage driving, Hippotherapy and Silver Spurs (for seniors). ltrf.org

LOUDOUN THERAPEUTIC RIDING

"BCT helped us expedite the purchase of our new 25-acre facility. The opportunity to control our property, our home and our schedule allows us to put our participants and our horses first."

Kathryn P. Blaine
Program Director

LOUDOUN THERAPEUTIC
RIDING

LOVETTSVILLE, VA



Erica P. Rowe's energy is simply contagious. Born in Jamaica, Rowe moved to the U.S. in 1992, and brought her positive spirit along for the ride. Not surprisingly, she's turned this positivity into a business, coaching confidence & elevating brands – funded in part by the **Banking on Diversity Minority Business Fund**, an interest-free loan program. Rowe attributes her service excellence to her experience in Guest Relations at the Ritz-Carlton Hotel Company, as well as her supervisory roles at Wegmans Food Markets and Lifetime Fitness. She helps professional women, businesses and events optimize their brands. Her new company facilitates invaluable one-on-one coaching and small group coaching for dozens of clients. Additionally, Rowe works with corporate planners as an MC, moderator and facilitator. Training and consulting clients include Escape Room LoCo, Alimond Studio, Road Runner Wrecker Service and the CEO Consulting Group.

ericaprowe.com

ERICA P. ROWE

"As I developed my new business, I needed peace of mind. BCT provided it. They exceeded every expectation and consistently go above and beyond the call of duty."

Erica P. Rowe
CEO & Founder
BUSINESS BRAND
AMBASSADOR

LEESBURG, VA



Established in 1860, Minghini's General Contractors has satisfied commercial construction clients in the Eastern Panhandle and Washington, D.C. Metro area for over a century and a half. Martinsburg residents, Craig Collis and his wife, Berniece, purchased the firm back in 1988. Currently, the firm employs 15, a third of whom are family members.

Current and completed renovation projects include Harpers Ferry Middle School, the Apollo Civic Theatre, Domino's Pizza, Valley Health Urgent Care, Maaco Auto Body, the Bavarian Inn, Smiles of Virginia Family Dental Center and the Frog Hollow Rail Trail and Storm Water Facility in Martinsburg. minghinis.com



MINGHINI'S GENERAL CONTRACTORS

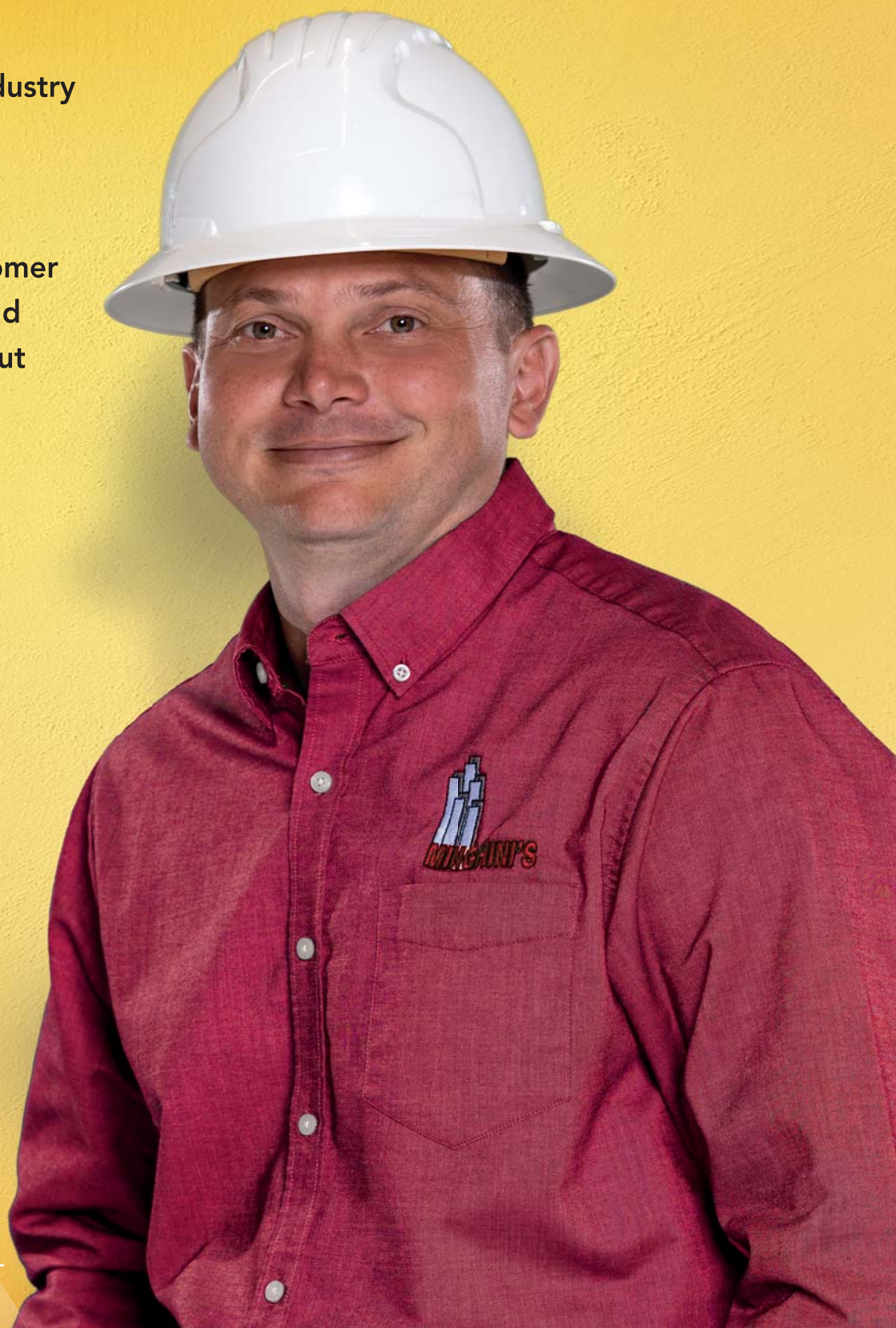
"We're in a fast-paced industry and need solutions. BCT knows who we are and they've jumped through hoops for us. Their customer service is impeccable, and they're always looking out for our best interests."

Berniece D. Collis
Owner

Morgan H. Collis
Supervisor

MINGHINI'S GENERAL
CONTRACTORS, INC.

MARTINSBURG, WV



BOARD OF DIRECTORS

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

Andrew C. Skinner
Attorney/Owner,
Skinner Law Firm

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

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

"As a neighborhood-focused community bank, simplifying the financial lives of our clients has been our core focus for over 150 years. It will continue as our compass into the next 150 years and beyond."

ADVISORY BOARD

BCT'S COMMUNITY CHAMPIONS

Many of the top business and community leaders within each market serve on Advisory Boards. In addition to providing valuable introductions to local business leaders, these members help BCT understand each market's competitive landscape plus provide expertise and special knowledge that help guide our strategic planning.

Eastern Panhandle, WV Advisory Board

Mark Burkhart
Mountain View Farm

Alison A. Cox
Bowles Rice LLP

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

Justin Henry
Panhandle Homes of
Berkeley County

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

Jamila Jones-Fleet
Innovation Technology Solutions

John Lowe
Lowe Products

Amy N. Panzarella
Amy N. Panzarella, LLC

Kenny Roberts
Invariant

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

Gary Clemens
Loudoun County Circuit Court

Matthew Lowers
Wholesale Screening Solutions

Chauvon McFadden
Crimson Wealth Strategies

Susan Mitchell
Guardians of Honor, LLC

Bernard Mustafa
BE FIT Technologies

Anthony "Tony" Stafford
Ford's Fish Shack

Sonny Swann
Climatic Heating and Cooling

Katie Wilson
The Market Group

Washington County, MD Advisory Board

Heather Guessford
United Way of
Washington County

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

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

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

Kevin O'Leary
Coldwell Banker Innovations

Ted Reeder III, CPA
Tiger's Eye Benefits Consulting

John H. Roney II
Retired Banker

Jeanne Singer
Law Offices of Jeanne Singer



COMMUNITY

PACK THE 'PACK



Pack the 'Pack Campaign Raises \$56,000

In a year where inflation reached 10%, rising costs made it even more difficult for many local families and children to purchase food sufficient for their needs. As such, this year's Pack the 'Pack campaign was essential in supporting our local backpack programs with funds. Having raised \$43,000 in 2021 to purchase food, our BCT team pulled together our clients, vendors, and community and raised \$56,000 in 2022, for a two-year total of \$99,000. With these funds, our partner backpack charities were able to fill over 14,200 backpacks in two years, helping food-insecure students fill their tummies.



BCT Continues Support of Local Charities and Community Organizations with \$267,000 of Funding



The bank continues to support local community and civic organizations through direct contributions, sponsorships, and employee volunteerism. Contributions are donated to organizations who provide physical, medical, emotional, psychiatric, and spiritual support for individuals and families. Sponsorships are contributed to local organizations with a variety of support functions including economic growth and development as well as civic improvement and protection.



ARC of Loudoun Giving Thanks for our support



In addition, BCT employees volunteer as members, committee members, Directors, and event helpers. In support, BCT provides each employee with up to eight hours of paid time off to volunteer each year. Many sponsorships include some level of publicity for BCT.

The BCTCares Foundation is a 501(c)(3) organization formed in 2021 with a mission to provide direct support to food-insecure children, families, and individuals in the four primary counties served by BCT – Bank of Charles Town, also known as The Community's Bank. The Foundation supports local charity partners who are directly involved with organizations and initiatives that funnel food and supplies to local families and individuals who are food insecure. Those partners are:

Berkeley County, WV
Berkeley County Meals on Wheels
Berkeley County Backpack Program
CCAP Loaves and Fishes

Loudoun County, VA
Loudoun Hunger Relief
Loudoun Education Foundation – Backpack Program

Jefferson County, WV
Jefferson County Meals on Wheels
Jefferson County Community Ministries
CCAP Loaves and Fishes

Washington County, MD
Washington County Commission on Aging – Meals on Wheels

BCTCares Foundation, Inc.,
111 East Washington Street
Charles Town, WV
304-728-2453
EIN 87-1550562
Consult your tax adviser regarding possible tax benefits for donations.



WITH MANY THANKS TO OUR EMPLOYEES

Poonam Agarwal
Andrea Anderson
Ted Argleben
Mary Armstrong
Patricia Armstrong
Jennifer Auton
Crystal Baker
Briahna Banks
Andrew Beckwith
Paul Bice
Averi Bishop
Deborah Black
Lauren Black
Maryann Blehr
Jessica Bohrer
CJ Boswell
Ray Bromley
Scott Bronson
Drew Burris
Colleen Busey
Lou Ann Cannon
Larissa Carson
Melissa Castle
Desiree Cline
Dee Clingan
Dean Cognetti
Alec Collis
Stephen Cowen
Leslie Crabill
David Dalton
Rachel Davis

Bryan Decker
Kimberly DeSarno
Tammy Dickerson
Bonnie Donohue
Chris Dooling
Michelle Douglas
Stacy Duranko
Emma Espinosa
Negean Fereshtevadi
Kim Flagle
Shawn Fletcher
Patrick Flickinger
Ann Ford
Brooke Fox
Alice Frazier
Jasmin Garcia
Noah Garretson
Raymond Goodrich
Michelle Griffith
Jonathan Grimm
Mike Groome
Kristie Hadley
Tiffany Hall
Misty Harder
Madeline Harrison
Ashley Hensell
Caitlynn Higdon
Wanda Hill
Kim Himes
Shelly Holmes
Aaron Howell

Shantel Hypes
Maddy Ingemie
Tandy Inn
Linda Jenkins
Mandy Johnson
Ryan Kerns
Tim Lewis
Amanda Lowery
Stacey Mansell
Michael Martin
Erin McCormick
Kim McGarrah
Victoria Melby
Brent Milbourne
Tammy Miller
Beverly Mitchell
Erik Morrison
Dylan Moss
Robyn Murphy
Ariana Nieves
Carla Nilsen
Sheila Nix
Lance Nobles
Amber Owens
Erin Owens
Joshua Parham
Jesselle Pike
Nicholas Powell
Nancy Rafferty
Kayla Ramey
Anthony Ranghelli

Peggy Rankin
Nazim Amin Razak
Carol Reed
Mikayla Reiff
Michelle Richardson
Susan Riston
Vilma Roberts
Harrison Robinson
Tyler Russell
Kate Ryan
Page Saylor
Andre Schools
Kyle Schools
Steven Shaffer
Allie Shrewsbury
Holly Simon
Scott Slick
Donna Stevens
Matt Stickel
Shawn Stotler
Amber Summey
Chris Svehla
Teri Tosti
Jenny Villar-Revello
Karly Walker
Adam Ware
Navneet Warraich
Kayla Weller
Lyrna Wesley
Steven Winters
Charles Wyndham
Katelyn Yager

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



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

The annual shareholder meeting will be conducted virtually (online). The virtual shareholder meeting will be conducted on Tuesday, April 25, 2023 beginning at 10:30 a.m. Eastern Time.

To be admitted, visit
www.virtualshareholdermeeting.com/PTBS2023
Enter the control number found on your proxy card.



POTOMAC BANCSHARES, INC.

Charles Town, West Virginia

NOTICE OF REGULAR ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 25, 2023

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 25, 2023, 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 2023; 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 27, 2023, 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/PTBS2023** 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 25, 2023 - THE PROXY STATEMENT AND 2022 ANNUAL REPORT ARE AVAILABLE AT WWW.PROXYVOTE.COM.

March 15, 2023

**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 25, 2023**

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 25, 2023, 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 27, 2023, 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, 4,144,561 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 eleven directors on the Board, four of whom are nominees for election at the 2023 annual meeting. Each director (Bouweiri, Casagrande, Cogswell and Skinner) is being elected for a term of three years. The Board of Directors has currently set the number of directors at eleven.

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
<u>For a term of three years:</u>					
Kristina Bouweiri	60	2019	None	2023	President & CEO, Reston Limousine, Loudoun County, Virginia.
Norman M. Casagrande	63	2013	None	2023	Member, MAC Industries, LLC Berkeley County, West Virginia. Retired Location Manager, BMC East, LLC.
Margaret M. Cogswell	64	2003	None	2023	Chief Executive Officer, Hospice of the Panhandle, Berkeley, Hampshire, Jefferson, and Morgan Counties, West Virginia since 1987.
Andrew C. Skinner	52	2017	None	2023	Attorney/Owner, Skinner Law Firm. Jefferson County, West Virginia.

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
Dr. Keith B. Berkeley	64	2008	None	2024	Veterinarian, President of Valley Equine Associates, Jefferson County, West Virginia. Chairman of The Board, Potomac Bancshares, Inc., and Bank of Charles Town.
J. Scott Boyd	66	1999	None	2025	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.
Alice P. Frazier	58	2017	None	2024	Employed by Potomac Bancshares, Inc., and Bank of Charles Town as of July 5, 2017, as President and Chief Executive Officer.
Dr. Mitesh B. Kothari, M.D.	53	2019	None	2025	Managing Member, Capital Women's Care, Washington County, Maryland; Chairman, Bank of Charles Town Washington County, Maryland Advisory Board.
Barbara H. Pichot	75	2004	None	2025	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.
William A. White	65	2020	None	2024	Retired CFO and Corporate Secretary, First Bauxite Corporation.
Anthony P. Zelenka	69	2015	None	2024	Retired President and Chief Executive Officer of WVU Medicine – Berkeley Medical Center and Jefferson Medical Center.

Alice P. Frazier has over 32 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 of America (ICBA) where she currently serves as Chairwoman of Bank Operations and Payments Committee. She is a current board member of the Loudoun County Economic Development Authority, Loudoun County Chamber of Commerce, and WVU East Hospital System. In January 2023, Ms. Frazier was appointed as a Class A Director to the Board of Directors of the Federal Reserve Bank of Richmond. Her appointment term in this role is 2023 to 2025.

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 is currently chairperson of the Nominating Committee, Executive Committee, and Directors Loan Committee. 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. Ms. Bouweiri is a former board member of the DC Chamber of Commerce and Washington DC Economic Partnership, Inova Loudoun Hospital Foundation, Mansion on O Street, and Opportunity Scholars. She is a current board member of Northern Virginia Community College Foundation, Northern Virginia Chamber of Commerce, Loudoun CEO Cabinet, 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, and Children's Science Center. 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. Mr. Casagrande previously owned Code Plus Components, LLC, a building materials company before selling to BMC in 2017. Previously he 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 Chairperson of the Compensation Committee.

Dr. Mitesh B. Kothari is a managing member of Capital Women's Care in Hagerstown, Maryland. Capital Women's Care is one of the largest medical practices for female health services in the United States. 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, Leadership Washington County, YMCA, Habitat for Humanity, and the Airport Advisory Commission. In addition, he is Past-Chairman of the Boards of Washington County, Maryland Community Foundation, The Greater Hagerstown Committee, and HEAL of Washington County. Dr. Kothari attended the University of Maryland at College Park for his undergraduate studies and then completed his Medical Doctorate at the University of Maryland School of Medicine. After completing his residency training in Obstetrics and Gynecology at the University of Maryland Hospital in 1999, Dr. Kothari returned to his hometown of Hagerstown to open his practice.

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. 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. She is retiring from the Board of Directors in April 2023.

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 then 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 continued his military career by serving in the Army Reserves, from which he retired in June 2022. 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. He is the current Chairperson of the Trust Committee and the Trust Investment Review Committee.

William A. White has over 35 years' experience in corporate finance at various levels. Mr. White is a Certified Public Accountant (currently inactive). He was the Chief Financial Officer and Corporate Secretary of First Bauxite Corporation, an international mining and mineral processing 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 a member of the Executive Committee (Past President) of the Eastern West Virginia Community Foundation, and is a member of the Midlothian, VA Rotary. Mr. White previously served as the community and public relations director with the Hospice of the Panhandle from 2013 through 2015. He is the current Chairperson of the Audit Committee where he also holds the position of Financial Expert.

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. In addition, he previously served the Berkeley County Chamber of Commerce and Berkeley County Development Authority for multiple years. 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 199,720 shares as a group. These shares represent, in aggregate, 4.82% of the common stock of Potomac Bancshares, Inc. The information is furnished as of January 31, 2023, on which date 4,144,561 shares were outstanding.

Compensation of Directors

Name (1)	Total (\$)
Dr. Keith B. Berkeley	36,600
Kristina Bouweiri	29,750
J. Scott Boyd	30,050
Norman M. Casagrande	32,200
Margaret M. Cogswell	25,900
Alice P. Frazier	24,200
Dr. Mitesh B. Kothari, M.D.	31,100
Barbara H. Pichot	30,650
Andrew C. Skinner	30,400
William A. White	30,450
Anthony P. Zelenka	32,700

(1) Compensation of directors depends on a number of factors, such as attendance and board and committee positions. Total compensation includes board fees, committee fees, and annual stock 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 2023. 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 25, 2023.

Alice P. Frazier
President and Chief Executive Officer

Charles Town, West Virginia
March 15, 2023

Intentionally Left Blank



INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Potomac Bancshares, Inc. and its subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, 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).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

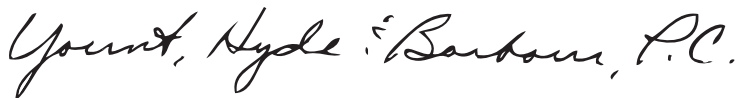
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the general business information, letter to stockholders, notice of annual meeting, and proxy statement but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



Winchester, Virginia
March 15, 2023

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021
(\$ in thousands, except per share data)

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and due from banks	\$ 3 679	\$ 2 802
Interest-bearing deposits in other financial institutions	8 680	86 214
Investment Securities:		
Available-for-sale, at fair value	88 519	82 030
Equity securities, at fair value	224	254
Loans held for sale	--	528
Loans, net of allowance for loan losses of \$6,202 in 2022 and \$5,504 in 2021	616 382	511 474
Premises and equipment, net	6 446	6 840
Accrued interest receivable	1 703	1 507
Bank owned life insurance	13 244	12 939
Federal Home Loan Bank of Pittsburgh stock	1 310	691
Other assets	<u>15 863</u>	<u>6 109</u>
 Total Assets	 <u><u>\$756 050</u></u>	 <u><u>\$711 388</u></u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Noninterest-bearing	\$161 972	\$141 265
Interest-bearing	<u>503 497</u>	<u>487 821</u>
Total Deposits	665 469	629 086
Short term borrowings	15 902	7 050
Subordinated debt, net of unamortized issuance costs	9 839	9 785
Accrued interest payable	363	283
Other liabilities	<u>4 017</u>	<u>4 414</u>
Total Liabilities	<u><u>\$695 590</u></u>	<u><u>\$650 618</u></u>
 STOCKHOLDERS' EQUITY		
Common stock, \$1 per share par value; 10,000,000 shares authorized; 4,493,251 issued and outstanding at December 31, 2022 and 4,482,501 issued and outstanding at December 31, 2021	\$ 4 493	\$ 4 483
Surplus	14 547	14 358
Undivided profits	53 647	47 785
Accumulated other comprehensive loss, net	<u>(8 733)</u>	<u>(2 362)</u>
	\$ 63 954	\$ 64 264
Less cost of shares acquired for the treasury, 348,690 shares in 2022 and 2021	<u>(3 494)</u>	<u>(3 494)</u>
Total Stockholders' Equity	<u><u>\$ 60 460</u></u>	<u><u>\$ 60 770</u></u>
 Total Liabilities and Stockholders' Equity	 <u><u>\$756 050</u></u>	 <u><u>\$711 388</u></u>

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2022 and 2021
(\$ in thousands, except per share data)

	<u>2022</u>	<u>2021</u>
Interest and Dividend Income		
Interest and fees on loans	\$24 649	\$21 466
Interest on securities available for sale – taxable	1 628	1 249
Interest on securities available for sale – nontaxable	78	68
Other interest and dividends	709	222
Total Interest and Dividend Income	<u>27 064</u>	<u>23 005</u>
Interest expense		
Interest on deposits	2 187	1 857
Interest on short term borrowings	50	15
Interest on subordinated debt	554	551
Total Interest Expense	<u>2 791</u>	<u>2 423</u>
Net Interest Income	24 273	20 582
Provision for Loan Losses	<u>632</u>	<u>(490)</u>
Net Interest Income after Provision for Loan Losses	<u>23 641</u>	<u>21 072</u>
Noninterest Income		
Trust and financial services	1 506	1 422
Service charges on deposit accounts	1 031	882
Secondary market income	627	1 636
(Loss) gain sales of securities available for sale	(367)	8
Interchange fees	1 991	1 906
Earnings on bank owned life insurance	305	265
Other operating income	623	709
Total Noninterest Income	<u>5 716</u>	<u>6 828</u>
Noninterest Expense		
Salaries and employee benefits	11 249	9 981
Net occupancy expense of premises	1 078	1 067
Furniture and equipment expenses	1 345	1 363
Accounting, audit and compliance	312	321
Advertising and public relations	296	238
Computer services and online banking	1 248	1 034
FDIC assessment	199	169
Other professional fees	383	214
Trust professional services	311	273
Director & committee fees	299	240
Legal fees	75	126
Printing, stationery and supplies	270	235
Communications	352	356
Foreclosed property expense	11	23
ATM and check card expenses	866	796
Other operating expenses	1 673	1 685
Total Noninterest Expenses	<u>19 967</u>	<u>18 121</u>
Income before Income Tax Expense	9 390	9 779
Income Tax Expense	<u>2 079</u>	<u>2 209</u>
Net Income	<u>\$ 7 311</u>	<u>\$ 7 570</u>
Earnings Per Common Share, Basic and Diluted	<u>\$ 1.77</u>	<u>\$ 1.83</u>

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2022 and 2021
(\$ in thousands)

	<u>2022</u>	<u>2021</u>
Net Income	<u>\$ 7 311</u>	<u>\$ 7 570</u>
Other comprehensive loss:		
Unrealized holding loss on securities, net of tax of \$2,295 and \$474, respectively	(6 885)	(1 423)
Reclassification adjustment for losses (gains) included in net income, net of tax of \$92 and \$2, respectively	275	(6)
Net pension and other postretirement actuarial gain arising during the period net of tax of \$46 and \$287, respectively	139	860
Amortization of net actuarial loss included in net periodic benefit cost net of tax of \$34 and \$79, respectively	<u>100</u>	<u>238</u>
Other comprehensive loss, net of tax	<u>(6 371)</u>	<u>(331)</u>
Comprehensive income	<u><u>\$ 940</u></u>	<u><u>\$ 7 239</u></u>

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2022 and 2021
(\$ in thousands, except per share data)

	Common Stock	Surplus	Undivided Profits	Treasury Stock	Accumulated Other Comprehensive Loss, net	Total
Balances, December 31, 2020	\$4 483	\$14 358	\$41 496	\$ (3 494)	\$ (2 031)	\$ 54 812
Net Income	--	--	7 570	--	--	7 570
Other comprehensive loss	--	--	--	--	(331)	(331)
Cash dividends (\$0.31 per share)	--	--	(1 281)	--	--	(1 281)
Balances, December 31, 2021	<u>\$4 483</u>	<u>\$14 358</u>	<u>\$47 785</u>	<u>\$ (3 494)</u>	<u>\$ (2 362)</u>	<u>\$ 60 770</u>
Net Income	--	--	7 311	--	--	7 311
Other comprehensive loss	--	--	--	--	(6 371)	(6 371)
Issuance of common stock	10	189	--	--	--	199
Cash dividends (\$0.35 per share)	--	--	(1 449)	--	--	(1 449)
Balances, December 31, 2022	<u>\$4 493</u>	<u>\$14 547</u>	<u>\$53 647</u>	<u>\$ (3 494)</u>	<u>\$ (8 733)</u>	<u>\$ 60 460</u>

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021
(\$ in thousands)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 7 311	\$ 7 570
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (recovery of) loan losses	632	(490)
Depreciation and amortization	934	981
Loss (gain) on disposals of premises and equipment	5	(12)
Deferred tax benefit	(329)	(177)
Premium amortization on securities, net	165	258
Loss (gain) on sale of securities available for sale, net	367	(8)
Fair value adjustment on equity securities	30	(34)
Decrease in loans held for sale	528	2 185
Earnings on bank owned life insurance	(305)	(265)
Amortization of debt issuance costs	54	51
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(196)	361
Decrease in other assets	388	336
Increase (decrease) in accrued interest payable	80	(42)
(Decrease) increase in other liabilities	(420)	2
Net cash provided by operating activities	<u>\$ 9 244</u>	<u>\$ 10 716</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity of certificates of deposits in other financial institutions	\$ 250	\$ 2 250
Purchase of certificates of deposits from other financial institutions	--	(500)
Proceeds from sale of securities available for sale	--	515
Proceeds from maturities and principal repayments of securities available for sale	9 060	24 902
Proceeds from call of securities available for sale	150	4 250
Purchases of securities available for sale	(32 713)	(50 865)
Purchases of equity securities	--	(60)
Net increase in loans	(105 540)	(22 404)
Purchases of premises and equipment	(224)	(170)
Proceeds from bank owned life insurance	--	147
Purchase of bank owned life insurance	--	(5 000)
Purchase of FHLB stock, net	(619)	(19)
Net cash used in investing activities	<u>\$(129 636)</u>	<u>\$(46 954)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in noninterest-bearing deposits	\$ 20 707	\$ 35 591
Net increase in interest-bearing deposits	15 676	44 953
Net proceeds of short-term borrowings	8 852	4 057
Proceeds from issuance of common stock, net of issuance costs	199	--
Cash dividends	(1 449)	(1 281)
Net cash provided by financing activities	<u>\$ 43 985</u>	<u>\$ 83 320</u>
(Decrease) increase in cash and cash equivalents	\$ (76 407)	\$ 47 082
CASH AND CASH EQUIVALENTS		
Beginning	88 021	40 939
Ending	<u>\$ 11 614</u>	<u>\$ 88 021</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	\$ 2 657	\$ 2 414
Income taxes	<u>\$ 2 238</u>	<u>\$ 2 303</u>
SUPPLEMENTAL DISCLOSURES OF NON-CASH		
INVESTING AND FINANCING ACTIVITIES		
Unrealized loss on securities available for sale	<u>\$ (8 813)</u>	<u>\$ (1 905)</u>
Change in benefit obligations and plan assets for pension and other postretirement benefits	<u>\$ 319</u>	<u>\$ 1 464</u>
Unsettled sales of securities available for sale	<u>\$ 7 669</u>	<u>\$ --</u>
Liabilities assumed to acquire right of use assets under operating leases	<u>\$ 36</u>	<u>\$ --</u>

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 our customers' 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,
- Leesburg, Virginia, Loan Production office and
- Fredericksburg, 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.

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

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.

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.

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

Loans (Continued)

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.

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.

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

Allowance for Loan Losses (Continued)

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 creditworthiness 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 creditworthiness 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 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.

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

Allowance for Loan Losses (Continued)

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.

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

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

In 2020 and 2021, the company participated in providing loans to borrowers under the Paycheck Protection Program (PPP). As of December 31, 2022, the company had 1 PPP loan with an outstanding balance totaling \$2 thousand. As of December 31, 2021, the company had 254 PPP loans with outstanding balances totaling \$14.6 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 have been amortized over the loans' contractual lives and recognized as interest income. 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 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.

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

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, 2022, there were no loans held for sale. As of December 31, 2021, there were \$528 thousand 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 thirty-nine 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 noninterest expense in the consolidated statements of income.

There was no foreclosed residential real estate as of December 31, 2022 and December 31, 2021 as a result of obtaining physical possession of the property. As of December 31, 2022, and December 31, 2021, 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.

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.

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

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, 2022 and 2021. 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 \$745 thousand and \$995 thousand as of December 31, 2022 and December 31, 2021, respectively, are not included in cash and cash equivalents. These balances typically have maturities greater than 90 days.

BCT Wealth Advisors and BCT Investments

Securities and other property held by BCT Wealth Advisors and BCT Investments 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 \$296 thousand and \$238 thousand in 2022 and 2021, respectively.

Treasury Stock

Common shares repurchased are recorded as treasury stock at cost.

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

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

The company accounts for its leasing arrangements in accordance with ASC 842 “Leases”. Refer to “Note 6. Leases” for further discussion of 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.

Recent Accounting Pronouncements

During June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The ASU, as amended, requires an entity to measure expected credit losses for financial assets carried at amortized cost based on historical experience, current conditions, and reasonable and supportable forecasts. Among other things, the ASU also amended the impairment model for available for sale securities and addressed purchased financial assets with deterioration. The company adopted ASU 2016-13 as of January 1, 2023 in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. The adjustment recorded at adoption was a \$452,000 reduction to shareholders’ equity as compared to December 31, 2022, and consisted of adjustments to the allowance for credit losses on loans, as well as an adjustment to the company’s reserve for unfunded loan commitments. Subsequent to adoption, the company will record adjustments to its allowance for credit losses and reserves for unfunded commitments through the provision for credit losses in the consolidated statements of income.

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

Recent Accounting Pronouncements (Continued)

The company is utilizing a third-party model to tabulate its estimate of current expected credit losses, using a cash flow model. In accordance with ASC 326, the company has segmented its loan portfolio based on similar risk characteristics which included Call Report codes and certain concentrations. The company primarily utilizes default rates and loan charge offs to develop its quantitative estimate of current expected credit losses. To further adjust the allowance for credit losses for expected losses not already included within the quantitative component of the calculation, the company may consider the following qualitative adjustment factors: current and forecasted economic and business conditions, the volume and severity of past due and adversely classified assets, concentrations of credit, the company's credit policies, and other factors, as deemed necessary. The company's CECL implementation process was overseen by Finance and facilitated by a working group consisting of Finance, Credit, and Information Technology. This included an assessment of data availability, data collection, consideration and analysis of multiple loss estimation methodologies, and an assessment of relevant qualitative factors. During 2022, the company calculated its current expected credit losses model in parallel to its incurred loss model in order to further refine the methodology and model. In addition, the company engaged a third-party to perform a comprehensive model validation.

In March 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The amendments in this ASU should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. The standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The company is currently assessing the impact that ASU 2022-02 will have on its consolidated financial statements.

Note 2. Securities

There were no securities held to maturity as of December 31, 2022 and 2021.

The amortized cost and fair value of securities available for sale (in thousands) as of December 31, 2022 and 2021 are as follows:

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Obligations of U.S. Government sponsored agencies	\$ 4 136	\$ - -	\$ (405)	\$ 3 731
U.S. Treasuries	23 985	- -	(1 495)	22 490
Mortgage-backed	57 353	63	(6 777)	50 639
State and municipal obligations	4 638	26	(426)	4 238
Corporate securities	8 100	- -	(679)	7 421
	<u>\$98 212</u>	<u>\$89</u>	<u>\$(9 782)</u>	<u>\$88 519</u>

Note 2. Securities (Continued)

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Obligations of U.S. Government sponsored agencies	\$ 6 220	\$ 3	\$ (78)	\$ 6 145
U.S. Treasuries	18 150	1	(202)	17 949
Mortgage-backed	47 761	266	(1 011)	47 016
State and municipal obligations	3 679	94	(13)	3 760
Corporate securities	7 100	96	(36)	7 160
	<u>\$82 910</u>	<u>\$460</u>	<u>\$(1 340)</u>	<u>\$82 030</u>

The company held equity securities with readily determinable fair values which totaled \$224 thousand at December 31, 2022 and \$254 thousand at December 31, 2021 which are presented separately on the consolidated balance sheet. The fair value adjustment recorded through earnings in other operating income totaled \$(30) thousand and \$34 thousand for the twelve months ended December 31, 2022 and December 31, 2021, respectively.

The amortized cost and fair value of the securities available for sale as of December 31, 2022 (in thousands), by contractual maturity, are shown below:

	Amortized Cost	Fair Value
Due in one year or less	\$ 6	\$ 6
Due after one year through five years	28 467	26 530
Due after five years through ten years	10 556	9 598
Due after ten years	59 183	52 385
	<u>\$98 212</u>	<u>\$88 519</u>

Consistent with the company's accounting policy, gross losses of \$367 thousand were recorded on the trade date for the securities available for sale that were sold on the final business day of the year in 2022. These transactions were the only sales during the year. Proceeds received from those sales in 2023 were approximately \$7.7 million. The tax benefit applicable to these losses amounted to \$92 thousand. Proceeds of the sales of securities during 2021 were \$515 thousand. Gross gains of \$8 thousand were realized on those sales. The tax expense applicable to these realized gains 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 were ninety-nine securities in the consolidated portfolio in an unrealized loss position at December 31, 2022. There were forty-five security accounts in the consolidated portfolio in an unrealized loss position at December 31, 2021. 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, 2022 and 2021 and no impairment has been recognized.

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, 2022 and 2021 (in thousands).

	December 31, 2022					
	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	\$ --	\$ --	\$ 3 731	\$ (405)	\$ 3 731	\$ (405)
U.S. Treasuries	11 401	(523)	11 089	(972)	22 490	(1 495)
Mortgage-backed	13 069	(525)	30 578	(6 252)	43 647	(6 777)
State and municipal obligations	1 982	(227)	1 098	(199)	3 080	(426)
Corporate securities	4 088	(362)	3 084	(317)	7 172	(679)
	<u>\$ 30 540</u>	<u>\$(1 637)</u>	<u>\$ 49 580</u>	<u>\$(8 145)</u>	<u>\$80 120</u>	<u>\$(9 782)</u>

	December 31, 2021					
	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	\$ 2 957	\$ (43)	\$ 1 182	\$ (35)	\$ 4 139	\$ (78)
U.S. Treasuries	15 873	(202)	--	--	15 873	(202)
Mortgage-backed	25 960	(566)	12 218	(445)	38 178	(1 011)
State and municipal obligations	527	(2)	240	(11)	767	(13)
Corporate securities	2 364	(36)	--	--	2 364	(36)
	<u>\$ 47 681</u>	<u>\$(849)</u>	<u>\$ 13 640</u>	<u>\$(491)</u>	<u>\$61 321</u>	<u>\$(1 340)</u>

The company's investment in Federal Home Loan Bank (FHLB) stock totaled \$1.3 million and \$691 thousand at December 31, 2022 and 2021, respectively. 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, 2022 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 \$5.42 million and \$14.9 million at December 31, 2022 and 2021, respectively, were pledged to secure securities sold under agreement to repurchase, and for other purposes as required or permitted by law.

Note 3. Loans and Related Party Transactions

The amortized cost of the company's loan portfolio by segment, and further segmented by loan class, was comprised of the following balances as of the dates indicated:

	December 31	
	2022	2021
	(in thousands)	
Commercial – non real estate		
Commercial and industrial (1)	\$ 29 511	\$ 31 410
Commercial real estate		
Owner occupied	105 148	104 746
Non-owner occupied	194 827	132 179
Construction		
Residential	11 348	11 939
Commercial	22 196	16 410
Real Estate		
Farmland	5 874	4 172
Residential		
Revolving open end	15 491	11 709
1 to 4 family – first liens	199 699	164 056
1 to 4 family – junior liens	4 149	2 600
5 or more family	21 659	20 958
Consumer loans	4 703	4 994
All other loans	7 979	11 805
Total loans (2)	<u>\$622 584</u>	<u>\$516 978</u>
Less: allowance for loan losses	<u>6 202</u>	<u>5 504</u>
Total loans, net	<u><u>\$616 382</u></u>	<u><u>\$511 474</u></u>

(1) Includes 1 PPP loan totaling \$2 thousand and 254 PPP loans totaling \$14.6 million at December 31, 2022 and 2021, respectively.

(2) Includes net deferred loan fees of \$0.9 million and \$1.3 million at December 31, 2022 and 2021, respectively.

Loans to directors and executive officers of the company or to their associates at December 31, 2022 and 2021 totaled \$1.9 million and \$2.4 million, respectively. The 2021 balance now includes the addition of a new executive officer in 2022. In management's opinion, such loans were made on substantially the same terms as those prevailing for comparable transactions with similar risks. During 2022, total principal additions were \$15 thousand and total principal payments were \$534 thousand.

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. At December 31, 2022, the FHLB lien is securing \$11.7 million in outstanding short term advances, and letters of credit in the amount of \$65 million to secure public funds.

Note 4. Allowance for Loan Losses

Allowance for Loan Losses – By Segment
December 31, 2022
(in thousands)

	Farmland	Commercial	Commercial Real Estate	Construction	Consumer	Residential	All Other	Unallocated	Total
Allowance for loan losses:									
Beginning balance	\$ 53	\$ 155	\$ 2 938	\$ 292	\$ 73	\$ 1 700	\$ 96	\$ 197	\$ 5 504
Charge-offs	--	(6)	--	--	(1)	--	(85)	--	(92)
Recoveries	--	4	18	26	13	49	48	--	158
Provision (Recovery)	--	117	193	43	(27)	480	23	(197)	632
Ending balance	<u>\$ 53</u>	<u>\$ 270</u>	<u>\$ 3 149</u>	<u>\$ 361</u>	<u>\$ 58</u>	<u>\$ 2 229</u>	<u>\$ 82</u>	<u>\$ --</u>	<u>\$ 6 202</u>
Individually evaluated for impairment	\$ --	\$ --	\$ --	\$ --	\$ 7	\$ 10	\$ --	\$ --	\$ 17
Collectively evaluated for impairment	53	270	3 149	361	51	2 219	82	--	6 185
	<u>\$ 53</u>	<u>\$ 270</u>	<u>\$ 3 149</u>	<u>\$ 361</u>	<u>\$ 58</u>	<u>\$ 2 229</u>	<u>\$ 82</u>	<u>\$ --</u>	<u>\$ 6 202</u>
Loans:									
Ending balance	<u>\$5 874</u>	<u>\$29 511</u>	<u>\$299 975</u>	<u>\$33 544</u>	<u>\$4 703</u>	<u>\$240 998</u>	<u>\$7 979</u>	<u>\$ --</u>	<u>\$622 584</u>
Ending balance:									
Individually evaluated for impairment	\$ --	\$ --	\$ --	\$ --	\$ 7	\$ 564	\$ --	\$ --	\$ 571
Collectively evaluated for impairment	5 874	29 511	299 975	33 544	4 696	240 434	7 979	--	622 013
Total	<u>\$5 874</u>	<u>\$29 511</u>	<u>\$299 975</u>	<u>\$33 544</u>	<u>\$4 703</u>	<u>\$240 998</u>	<u>\$7 979</u>	<u>\$ --</u>	<u>\$622 584</u>

Allowance for Loan Losses – By Segment
December 31, 2021
(in thousands)

	Farmland	Commercial	Commercial Real Estate	Construction	Consumer	Residential	All Other	Unallocated	Total
Allowance for loan losses:									
Beginning balance	\$ 63	\$ 485	\$ 2 150	\$ 356	\$ 87	\$ 1 989	\$ 79	\$176	\$ 5 385
Charge-offs	--	--	--	--	(15)	--	(68)	--	(83)
Recoveries	--	323	18	160	1	131	59	--	692
Provision (Recovery)	(10)	(653)	770	(224)	--	(420)	26	21	(490)
Ending balance	<u>\$ 53</u>	<u>\$ 155</u>	<u>\$ 2 938</u>	<u>\$ 292</u>	<u>\$ 73</u>	<u>\$ 1 700</u>	<u>\$ 96</u>	<u>\$197</u>	<u>\$ 5 504</u>
Individually evaluated for impairment	\$ --	\$ --	\$ --	\$ --	\$ 10	\$ 15	\$ --	\$ --	\$ 25
Collectively evaluated for impairment	53	155	2 938	292	63	1 685	96	197	5 479
	<u>\$ 53</u>	<u>\$ 155</u>	<u>\$ 2 938</u>	<u>\$ 292</u>	<u>\$ 73</u>	<u>\$ 1 700</u>	<u>\$ 96</u>	<u>\$197</u>	<u>\$ 5 504</u>
Loans:									
Ending balance	<u>\$4 172</u>	<u>\$31 410</u>	<u>\$236 925</u>	<u>\$28 349</u>	<u>\$4 994</u>	<u>\$199 323</u>	<u>\$11 805</u>	<u>\$ --</u>	<u>\$516 978</u>
Ending balance:									
Individually evaluated for impairment	\$ --	\$ --	\$ --	\$ 1	\$ 10	\$ 792	\$ --	\$ --	\$ 803
Collectively evaluated for impairment	4 172	31 410	236 925	28 348	4 984	198 531	11 805	--	516 175
Total	<u>\$4 172</u>	<u>\$31 410</u>	<u>\$236 925</u>	<u>\$28 349</u>	<u>\$4 994</u>	<u>\$199 323</u>	<u>\$11 805</u>	<u>\$ --</u>	<u>\$516 978</u>

Note 4. Allowance for Loan Losses (Continued)

Credit Quality Information – By Class
December 31, 2022
(in thousands)

<u>Internal Risk Rating Grades</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Sub- Standard</u>	<u>Doubtful</u>	<u>Loss</u>
Commercial – non real estate					
Commercial and industrial	\$ 28 032	\$ 1 122	\$ 357	\$ --	\$ --
Commercial real estate					
Owner occupied	101 363	652	3 133	--	--
Non-owner occupied	186 877	7 950	--	--	--
Construction					
Residential	11 348	--	--	--	--
Commercial	22 054	142	--	--	--
Real estate					
Farmland	5 874	--	--	--	--
Consumer	N/A	N/A	N/A	N/A	N/A
Residential					
Revolving open end	N/A	--	--	N/A	N/A
1-4 family – first liens	N/A	--	--	N/A	N/A
1-4 family – junior liens	N/A	--	--	N/A	N/A
5 or more family	N/A	--	--	N/A	N/A
All Other	N/A	2 197	--	N/A	N/A
Totals	<u>\$355 548</u>	<u>\$12 063</u>	<u>\$ 3 490</u>	<u>\$ --</u>	<u>\$ --</u>

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, 2022
(in thousands)

<u>Non Risk Rated Loans</u>	<u>Performing</u>	<u>Nonperforming</u>
Consumer	\$ 4 703	\$ --
Residential		
Revolving open end	15 491	--
1-4 family – first liens	199 699	--
1-4 Family – junior liens	4 149	--
5 or more family	21 659	--
All other	5 782	--
Totals	<u>\$251 483</u>	<u>\$ --</u>

Note 4. Allowance for Loan Losses (Continued)

Credit Quality Information – By Class
December 31, 2021
(in thousands)

<u>Internal Risk Rating Grades</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Sub- Standard</u>	<u>Doubtful</u>	<u>Loss</u>
Commercial – non real estate					
Commercial and industrial	\$ 29 495	\$ 1 915	\$ --	\$ --	\$ --
Commercial real estate					
Owner occupied	100 558	1 109	3 079	--	--
Non-owner occupied	115 541	15 304	1 334	--	--
Construction					
Residential	11 939	--	--	--	--
Commercial	11 119	151	5 140	--	--
Real estate					
Farmland	2 936	1 236	--	--	--
Consumer	N/A	N/A	N/A	N/A	N/A
Residential					
Revolving open end	N/A	--	--	N/A	N/A
1-4 family – first liens	N/A	--	--	N/A	N/A
1-4 family – junior liens	N/A	123	--	N/A	N/A
5 or more family	N/A	--	--	N/A	N/A
All Other	N/A	2 315	--	N/A	N/A
Totals	<u>\$271 588</u>	<u>\$22 153</u>	<u>\$9 553</u>	<u>\$ --</u>	<u>\$ --</u>

Credit Quality Information – By Class
December 31, 2021
(in thousands)

<u>Non Risk Rated Loans</u>	<u>Performing</u>	<u>Nonperforming</u>
Consumer	\$ 4 994	\$ --
Residential		
Revolving open end	11 709	--
1-4 family – first liens	163 960	96
1-4 Family – junior liens	2 477	--
5 or more family	20 958	--
All other	9 490	--
Totals	<u>\$213 588</u>	<u>\$ 96</u>

Note 4. Allowance for Loan Losses (Continued)

At December 31, 2022, there were no impaired loans which had no related allowance.

Impaired Loans – By Class
December 31, 2022
(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	585	564	10	578	26
1 to 4 family – junior liens	--	--	--	--	--
5 or more family	--	--	--	--	--
Consumer	7	7	7	9	--
All other	--	--	--	--	--
	<u>\$ 592</u>	<u>\$ 571</u>	<u>\$ 17</u>	<u>\$ 587</u>	<u>\$ 26</u>
Totals:					
Commercial – non real estate	\$ --	\$ --	\$ --	\$ --	\$ --
Commercial real estate	--	--	--	--	--
Construction	--	--	--	--	--
Real estate – farmland	--	--	--	--	--
Residential	585	564	10	578	26
Consumer	7	7	7	9	--
All other	--	--	--	--	--
	<u>\$ 592</u>	<u>\$ 571</u>	<u>\$ 17</u>	<u>\$ 587</u>	<u>\$ 26</u>

Note 4. Allowance for Loan Losses (Continued)

Impaired Loans – By Class
December 31, 2021
(in thousands)

With no related allowance:

	<u>Unpaid Principal</u>	<u>Recorded Investment</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
Commercial – non real estate					
Commercial and industrial	\$ --	\$ --	\$ --	\$ --	\$ --
Commercial real estate					
Owner occupied	--	--	--	--	--
Non-owner occupied	--	--	--	--	--
Construction					
Residential	1	1	--	3	--
Commercial	--	--	--	--	--
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	--	--	--	--	--
	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ --</u>	<u>\$ 3</u>	<u>\$ --</u>

Note 4. Allowance for Loan Losses (Continued)

Impaired Loans – By Class
December 31, 2021
(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	690	667	12	681	30
1 to 4 family – junior liens	154	125	3	128	8
5 or more family	--	--	--	--	--
Consumer	10	10	10	5	--
All other	--	--	--	--	--
	<u>\$ 854</u>	<u>\$ 802</u>	<u>\$ 25</u>	<u>\$ 814</u>	<u>\$ 38</u>
Totals:					
Commercial – non real estate	\$ --	\$ --	\$ --	\$ --	\$ --
Commercial real estate	--	--	--	--	--
Construction	1	1	--	3	--
Real estate –farmland	--	--	--	--	--
Residential	844	792	15	809	38
Consumer	10	10	10	5	--
All other	--	--	--	--	--
	<u>\$ 855</u>	<u>\$ 803</u>	<u>\$ 25</u>	<u>\$ 817</u>	<u>\$ 38</u>

No additional funds were committed to be advanced on impaired loans, as of December 31, 2022 and 2021.

Modifications

During the years ended December 31, 2022 and 2021, the company modified no loans that required classification as troubled debt restructurings. As of December 31, 2022, and 2021 there were \$0.6 million and \$0.8 million of troubled debt restructurings, respectively.

Note 4. Allowance for Loan Losses (Continued)

Nonaccrual and Past Due Loans – By Class
December 31, 2022
(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	\$ 59	\$ -	\$ -	\$ 59	\$ 29 452	\$ 29 511	\$ -	\$ -
Commercial real estate								
Owner occupied	144	-	-	144	105 004	105 148	-	-
Non owner occupied	-	-	-	-	194 827	194 827	-	-
Construction								
Residential	-	-	-	-	11 348	11 348	-	-
Commercial	-	-	-	-	22 196	22 196	-	-
Real estate								
Farmland	-	-	-	-	5 874	5 874	-	-
Residential								
Revolving open end	-	-	-	-	15 491	15 491	-	-
1 to 4 family – first liens	243	-	-	243	199 456	199 699	-	-
1 to 4 family – junior liens	-	-	-	-	4 149	4 149	-	-
5 or more family	-	-	-	-	21 659	21 659	-	-
Consumer	5	-	-	5	4 698	4 703	-	-
All other	-	-	-	-	7 979	7 979	-	-
Totals	<u>\$451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$451</u>	<u>\$622 133</u>	<u>\$622 584</u>	<u>\$ -</u>	<u>\$ -</u>
Percentage to Total Loans	<u>0.07%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.07%</u>	<u>99.93%</u>		<u>0.00%</u>	<u>0.00%</u>

Note 4. Allowance for Loan Losses (Continued)

Nonaccrual and Past Due Loans – By Class
December 31, 2021
(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	\$ --	\$ --	\$ --	\$ --	\$ 31 410	\$ 31 410	\$ --	\$ --
Commercial real estate								
Owner occupied	47	--	--	47	104 699	104 746	--	--
Non owner occupied	--	--	--	--	132 179	132 179	--	--
Construction								
Residential	--	--	--	--	11 939	11 939	--	--
Commercial	--	--	--	--	16 410	16 410	--	--
Real estate								
Farmland	--	--	--	--	4 172	4 172	--	--
Residential								
Revolving open end	--	--	--	--	11 709	11 709	--	--
1 to 4 family – first liens	512	169	--	681	163 375	164 056	--	96
1 to 4 family – junior liens	--	--	--	--	2 600	2 600	--	--
5 or more family	--	--	--	--	20 958	20 958	--	--
Consumer	5	--	--	5	4 989	4 994	--	--
All other	--	--	--	--	11 805	11 805	--	--
Totals	<u>\$ 564</u>	<u>\$ 169</u>	<u>\$ --</u>	<u>\$ 733</u>	<u>\$516 245</u>	<u>\$516 978</u>	<u>\$ --</u>	<u>\$ 96</u>
Percentage to Total Loans	<u>0.11%</u>	<u>0.03%</u>	<u>0.00%</u>	<u>0.14%</u>	<u>99.86%</u>		<u>0.00%</u>	<u>0.02%</u>

The non-accrual loans of \$96 thousand were in current status at December 31, 2021.

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
	(in thousands)	
Nonperforming assets		
Nonaccrual loans (1)	\$ - -	\$ 96
Other Real Estate Owned	<u>- -</u>	<u>- -</u>
Total nonperforming assets	<u>\$ - -</u>	<u>\$ 96</u>
Performing troubled debt restructures (2)	<u>\$ 564</u>	<u>\$ 793</u>
Loans past due 90 days accruing interest	<u>\$ - -</u>	<u>\$ - -</u>

(1) There were no troubled debt restructurings in non-performing assets at December 31, 2021.

(2) Within this amount is one restructuring with a balance totaling \$170 thousand, 30 or more days past due at December 31, 2022. Within this amount is one restructuring with a balance totaling \$74 thousand, 30 or more days past due at December 31, 2021.

The interest income that would have been earned if the loans classified as nonaccrual had performed in accordance with the original terms was approximately \$8 thousand in 2021.

Note 5. Premises and Equipment, Net

Premises and equipment consist of the following:

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
	(in thousands)	
Premises and improvements	\$10 572	\$10 538
Furniture and equipment	<u>5 038</u>	<u>5 013</u>
	\$15 610	\$15 551
Less accumulated depreciation	<u>9 164</u>	<u>8 711</u>
	<u>\$ 6 446</u>	<u>\$ 6 840</u>

Depreciation included in noninterest expense for 2022 and 2021 was \$613 thousand and \$670 thousand, respectively.

Note 6. Leases

The company leases certain office properties and equipment used in its operations in the normal course of business. Leases greater than 12 months in duration are recorded in the consolidated balance sheet at the lease commencement date and are classified as either operating or finance leases based on the company's assessment of the arrangements in accordance with ASC 842.

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 all 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 certain 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 right-of-use assets and lease liabilities are included in other assets and other liabilities, respectively, in the consolidated balance sheets.

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

	December 31, 2022	December 31, 2021
Lease liabilities	\$ 1 565	\$ 1 841
Right-of-use assets, net	\$ 1 512	\$ 1 796
Weighted average remaining lease term	4.93 years	5.85 years
Weighted average discount rate	3.19%	3.16%

	For the Year Ended	
	December 31, 2022	December 31, 2021
Lease cost (in thousands)		
Operating lease cost	\$375	\$374
Variable lease cost	23	26
Short-term lease cost	5	5
Total lease cost	<u>\$403</u>	<u>\$405</u>

Cash paid for amounts included in the measurement of lease liabilities (in thousands):	\$367	\$358
--	-------	-------

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)
2023	\$ 368
2024	355
2025	340
2026	266
2027	226
Thereafter	141
Total undiscounted cash flows	<u>\$1 696</u>
Discount	<u>(131)</u>
Lease liabilities	<u>\$1 565</u>

Note 7. Deposits

The aggregate amount of time deposits with a balance of \$250,000 or more was \$40.1 million and \$36.2 million at December 31, 2022 and 2021, respectively. At December 31, 2022 and December 31, 2021, there were no depositors whose aggregate deposits were greater than 5% of total deposits.

At December 31, 2022, the scheduled maturities of all time deposits (in thousands) are as follows:

2023	\$ 47 653
2024	36 178
2025	11 797
2026	8 344
2027	4 973
	<u>\$108 945</u>

There were no brokered deposits at December 31, 2022 and December 31, 2021. Also included in total deposits were reciprocal deposits of \$48.3 million and \$51.6 million as of December 31, 2022 and 2021, respectively.

Deposits of the company's directors, executive officers and associates totaled \$5.4 million at December 31, 2022 and totaled \$5.8 million at December 31, 2021.

Note 8. Borrowings

Short-term borrowings may, at any time, consist of securities sold under agreements to repurchase, overnight borrowings, and federal funds purchased. Securities sold under agreement to repurchase totaled \$4.2 million and \$7.1 million as of December 31, 2022 and 2021, respectively.

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

	December 31	
	2022	2021
Balance outstanding at year end	\$ 15 902	\$ 7 050
Maximum balance at any month-end during the year	\$ 15 902	\$ 7 050
Average balance for the year	\$ 7 733	\$ 4 379
Weighted average rate for the year	0.65%	0.33%
Weighted average rate at year end	2.61%	0.35%

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, 2022, the subsidiary bank had total credit available through these institutions of \$280 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.

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.

Note 9. Employee Benefit Plans (Continued)

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 18. 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 \$255 thousand and \$327 thousand in 2022 and 2021, 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, 2022 and 2021. While these liabilities are unfunded, life insurance has been obtained by the company to help offset these payments.

The following tables summarize the changes in the obligations, plan assets, and funded statuses of the company's pension and other post retirement plans as of and for the years ended December 31, 2022 and 2021.

	Pension Benefits		Other Postretirement Benefits	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Change in benefit obligation:				
Benefit obligation, beginning	\$ 9 829	\$10 443	\$ 137	\$ 242
Interest cost	274	258	3	5
Actuarial gain	(1 933)	(294)	(1)	(94)
Benefits paid	(584)	(578)	(17)	(16)
Benefit obligation, ending	<u>\$ 7 586</u>	<u>\$ 9 829</u>	<u>\$ 122</u>	<u>\$ 137</u>
Change in plan assets:				
Fair value of plan assets, beginning	\$11 015	\$10 374	\$ --	\$ --
Actual return on plan assets	(1 264)	1 219	--	--
Employer contributions	--	--	17	16
Benefits paid	(584)	(578)	(17)	(16)
Fair value of plan assets, ending	<u>\$ 9 167</u>	<u>\$11 015</u>	<u>\$ --</u>	<u>\$ --</u>
Funded status at end of year	\$ 1 581	\$ 1 186	\$(122)	\$(137)
Accounts recognized on consolidated balance sheet as:				
Accrued benefit asset (cost)	<u>\$ 1 581</u>	<u>\$ 1 186</u>	<u>\$(122)</u>	<u>\$(137)</u>
Amounts recognized in accumulated other comprehensive loss consists of:				
Net actuarial loss (gain)	\$ 2 054	\$ 2 386	\$(104)	\$(117)
Deferred tax (asset) liability	(513)	(596)	27	30
	<u>\$ 1 541</u>	<u>\$ 1 790</u>	<u>\$ (77)</u>	<u>\$ (87)</u>

The accumulated benefit obligation for the defined benefit pension plan was \$7.6 million and \$9.8 million at December 31, 2022 and 2021, 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	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	(in thousands)		(in thousands)	
Components of net periodic benefit (income) cost:				
Interest cost	\$ 274	\$ 258	\$ 3	\$ 5
Expected return on plan assets	(485)	(460)	- -	- -
Amortization of actuarial loss (gain)	148	317	(14)	- -
Net periodic benefit (income) cost	<u>\$ (63)</u>	<u>\$ 115</u>	<u>\$ (11)</u>	<u>\$ 5</u>
Other changes in plan assets and benefit obligations recognized as other comprehensive (income) loss:				
Net actuarial (gain) loss	\$(184)	\$ (1 053)	\$ (1)	\$(94)
Deferred tax	83	342	(3)	24
Amortization of actuarial (loss) gain	<u>(148)</u>	<u>(317)</u>	<u>14</u>	<u>- -</u>
Total recognized as other comprehensive (income) loss	<u>\$(249)</u>	<u>\$ (1 028)</u>	<u>\$ 10</u>	<u>\$(70)</u>

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 \$132 thousand. The estimated net gain for the other postretirement plan that will be accreted from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year approximates \$15 thousand.

Assumptions

	Pension Benefits		Other Postretirement Benefits	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Weighted-average assumptions used to determine net periodic benefit cost:				
Discount rate	2.88%	2.54%	2.60%	2.20%
Expected return on plan assets	4.53%	4.56%	- -	- -
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	5.17%	2.88%	5.70%	2.60%
Expected return on plan assets	5.82%	4.53%	- -	- -

Discount Rate

The discount rates reflect the then current rates available on long-term high-quality fixed-income debt instruments and are reset annually on the measurement date. To determine the discount rates, the company reviews, along with its independent actuary, specific yield curves to match the timing and amounts of expected benefit payments.

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

Note 9. Employee Benefit Plans (Continued)

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, 2022 and 2021, respectively, are as follows:

Asset Category	Total	Fair Value Measurement at December 31, 2022		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash & cash equivalents	\$ 123	\$ 123	\$ - -	\$ - -
Equity securities				
U.S. companies	4 786	4 786	- -	- -
International companies	716	716	- -	- -
U. S. Treasury securities	1 266	- -	1 266	- -
U. S. Government Agencies	229	- -	229	- -
Corporate bonds				
U.S. companies	1 522	- -	1 522	- -
International companies	525	- -	525	- -
Total	<u>\$ 9 167</u>	<u>\$5 625</u>	<u>\$3 542</u>	<u>\$- -</u>

Asset Category	Total	Fair Value Measurement at December 31, 2021		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash & cash equivalents	\$ 236	\$ 236	\$ - -	\$ - -
Equity securities				
U.S. companies	5 892	5 892	- -	- -
International companies	884	884	- -	- -
U. S. Treasury securities	1 479	- -	1 479	- -
U. S. Government Agencies	266	- -	266	- -
Corporate bonds				
U.S. companies	1 799	- -	1 799	- -
International companies	459	- -	459	- -
Total	<u>\$11 015</u>	<u>\$7 012</u>	<u>\$4 003</u>	<u>\$- -</u>

Note 9. Employee Benefit Plans (Continued)

Asset Allocation

The pension plan's asset allocations at December 31, 2022 and 2021 by asset category are as follows:

Asset Category	Plan Assets at December 31	
	2022	2021
Equities	60%	62%
Fixed income/cash	40%	38%
Total	<u>100%</u>	<u>100%</u>

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.

There was no company common stock included in the equity securities of the pension plan at December 31, 2022 and 2021.

Cash Flow

The company currently expects to make no contributions to its pension plan in 2023 and \$16 thousand to its postretirement plan in 2023.

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

	Pension Benefits	Other Postretirement Benefits
2023	\$ 601	\$16
2024	610	16
2025	608	15
2026	602	14
2027	590	13
Thereafter	2 801	53

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 2022 and 2021.

	2022		2021	
	Average Shares	Per Share Amount	Average Shares	Per Share Amount
	(in thousands)		(in thousands)	
Basic earnings				
per common share	4 142	<u>\$1.77</u>	4 134	<u>\$ 1.83</u>
Effect of dilutive securities:	<u>- -</u>		<u>- -</u>	
Diluted earnings				
per common share	<u>4 142</u>	<u>\$1.77</u>	<u>4 134</u>	<u>\$ 1.83</u>

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 2019.

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, 2022 and 2021:

	2022	2021
Deferred tax assets:		
Reserve for loan losses	\$1 539	\$1 187
Other postretirement benefits	54	50
Net loan origination fees	229	312
Lease liability	388	457
Paid time off (PTO) accrual	26	24
Employee stock incentive	69	44
Securities available for sale	<u>2 423</u>	<u>220</u>
	<u>\$4 728</u>	<u>\$2 294</u>
Deferred tax liabilities:		
Depreciation	\$ 234	\$ 271
Intangibles	- -	1
Equity securities	1	9
Right of use asset	375	446
Defined benefit pension plan	<u>388</u>	<u>290</u>
	<u>\$ 998</u>	<u>\$1 017</u>
Net deferred tax assets	<u>\$3 730</u>	<u>\$1 277</u>

Note 11. Income Taxes (Continued)

The provision for income taxes charged to operations for the years ended December 31, 2022 and 2021 consists of the following (in thousands):

	<u>2022</u>	<u>2021</u>
Current tax expense	\$2 408	\$2 386
Deferred tax benefit	<u>(329)</u>	<u>(177)</u>
	<u>\$2 079</u>	<u>\$2 209</u>

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, 2022 and 2021 due to the following (in thousands):

	<u>2022</u>	<u>2021</u>
Computed “expected” tax expense	\$1 972	\$2 054
Increase (decrease) in income taxes resulting from:		
Tax exempt income	(128)	(121)
State income tax expense, net of federal benefit	225	269
Other	<u>10</u>	<u>7</u>
	<u>\$2 079</u>	<u>\$2 209</u>

In addition to the income taxes discussed above, the company is also subject to taxes on a base other than income in Pennsylvania and Virginia and accrues those taxes annually as a component of other noninterest expenses.

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. 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, 2023, the bank had available \$14.0 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, 2020	\$ 770	\$(2 801)	\$(2 031)
Net unrealized holding losses on securities, net of tax of \$476	(1 429)	- -	(1 429)
Change in benefit obligation and plan assets for pension and other postretirement benefits, net of tax of \$366	- -	1 098	1 098
Balance at December 31, 2021	<u>(659)</u>	<u>(1 703)</u>	<u>(2 362)</u>
Net unrealized holding losses on securities, net of tax of \$2,203	(6 610)	- -	(6 610)
Change in benefit obligation and plan assets for pension and other postretirement benefits, net of tax of \$80	- -	239	239
Balance at December 31, 2022	<u><u>\$(7 269)</u></u>	<u><u>\$(1 464)</u></u>	<u><u>\$(8 733)</u></u>

The following table presents information on amounts reclassified out of accumulated other comprehensive loss, by category during the years ended December 31, 2022 and 2021 (in thousands):

	2022	2021	Affected Line Item on the Consolidated Statements of Income
Available for sale securities			
Realized (losses) gains on securities available for sale, net	\$(367)	\$ 8	(Losses) gains on sales of securities available for sale
Tax effect	(92)	2	Income tax expense
Net of tax	<u><u>\$(275)</u></u>	<u><u>\$ 6</u></u>	Net of tax
Pension and other postretirement benefits			
Amortization of net actuarial loss (1)	\$(148)	\$(317)	Other operating expenses
Tax effect	(37)	(79)	Income tax expense
Net of tax	<u><u>\$(111)</u></u>	<u><u>\$(238)</u></u>	Net of tax
Total reclassifications for the period	<u><u>\$(386)</u></u>	<u><u>\$(232)</u></u>	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, 2022 and 2021 (in thousands) is as follows:

	<u>2022</u>	<u>2021</u>
Financial instruments whose amounts represent credit risk:		
Commitments to extend credit	\$88 824	\$ 110 300
Standby letters of credit	363	575

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 creditworthiness 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.

Note 16. Fair Value Measurements (Continued)

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, 2022 and 2021 were estimated using an exit price notion.

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

	Carrying Value	Fair Value Measurements at December 31, 2022 Using			Balance
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets					
Cash and cash equivalents	\$ 11 614	\$ 11 614	\$ --	\$ --	\$ 11 614
Certificates of deposits in other financial institutions	745	--	691	--	691
Securities available for sale	88 519	--	88 519	--	88 519
Equity securities	224	--	224	--	224
Loans, net	616 382	--	--	584 875	584 875
FHLB Stock	1 310	--	1 310	--	1 310
BOLI	13 244	--	13 244	--	13 244
Accrued interest receivable	1 703	--	1 703	--	1 703
Liabilities					
Deposits	\$665 469	\$ --	\$664 520	\$ --	\$664 520
Short term borrowings	15 902	--	15 902	--	15 902
Subordinated debt, net of issuance costs	9 839	--	9 459	--	9 459
Accrued interest payable	363	--	363	--	363

Note 16. Fair Value Measurements (Continued)

	Carrying Value	Fair Value Measurements at December 31, 2021 Using			Balance
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets					
Cash and cash equivalents	\$ 88 021	\$ 88 021	\$ --	\$ --	\$ 88 021
Certificates of deposits in other financial institutions	995	--	1 018	--	1 018
Securities available for sale	82 030	--	82 030	--	82 030
Equity securities	254	--	254	--	254
Loans held for sale	528	--	528	--	528
Loans, net	511 474	--	--	512 595	512 595
FHLB Stock	691	--	691	--	691
BOLI	12 939	--	12 939	--	12 939
Accrued interest receivable	1 507	--	1 507	--	1 507
Liabilities					
Deposits	\$629 086	\$ --	\$630 484	\$ --	\$630 484
Short term borrowings	7 050	--	7 050	--	7 050
Subordinated debt, net of issuance costs	9 785	--	10 406	--	10 406
Accrued interest payable	283	--	283	--	283

Assets Measured at Fair Value on a Recurring Basis

The following table describes (in thousands) 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 with readily determinable fair values 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 (Level 2). 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 3).

Note 16. Fair Value Measurements (Continued)

Description	Balance as of December 31 2022	Fair Value Measurements at December 31, 2022 Using		
		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	\$ 3 731	\$ - -	\$ 3 731	\$ - -
U.S. Treasuries	22 490	- -	22 490	- -
Mortgage-backed	50 639	- -	50 639	- -
State and municipal securities	4 238	- -	4 238	- -
Corporate securities	7 421	- -	7 421	- -
Total available for sale securities	88 519	- -	88 519	- -
Equity securities	224	- -	224	- -
Total securities	\$88 743	\$ - -	\$88 743	\$ - -
Description	Balance as of December 31 2021	Fair Value Measurements at December 31, 2021 Using		
		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	\$ 6 145	\$ - -	\$ 6 145	\$ - -
U.S. Treasuries	17 949	- -	17 949	- -
Mortgage-backed	47 016	- -	47 016	- -
State and municipal securities	3 760	- -	3 760	- -
Corporate securities	7 160	- -	7 160	- -
Total available for sale securities	82 030	- -	82 030	- -
Equity securities	254	- -	254	- -
Total securities	\$82 284	\$ - -	\$82 284	\$ - -

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. The company held no OREO at December 31, 2022 and 2021.

Loans held for sale: Loans held for sale are carried at cost which approximates estimated fair value. At December 31, 2022, there were no loans held for sale. 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, 2021. 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, 2022 and 2021.

<u>Description</u>	<u>Balance as of December 31, 2022</u>	<u>Carrying Value at December 31, 2022</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Input (Level 2)</u>	<u>Significant Unobservable Input (Level 3)</u>
Assets				
Impaired Loans with a valuation allowance	\$554	\$ -	\$ -	\$554

<u>Description</u>	<u>Balance as of December 31, 2021</u>	<u>Carrying Value at December 31, 2021</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Input (Level 2)</u>	<u>Significant Unobservable Input (Level 3)</u>
Assets				
Impaired Loans with a valuation allowance	\$778	\$ -	\$ -	\$778

<u>Quantitative information about Level 3 Fair Value Measurement for December 31, 2022</u>				
<u>Asset</u>	<u>Fair</u>			
	<u>Value (000s)</u>	<u>Valuation Technique(s)</u>	<u>Unobservable Input</u>	<u>Weighted Average (1)</u>
Impaired loans with a valuation allowance	\$554	Discounted cash flows	Market discount	2.98%

<u>Quantitative information about Level 3 Fair Value Measurement for December 31, 2021</u>				
<u>Asset</u>	<u>Fair</u>			
	<u>Value (000s)</u>	<u>Valuation Technique(s)</u>	<u>Unobservable Input</u>	<u>Weighted Average (1)</u>
Impaired loans with a valuation allowance	\$778	Discounted cash flows	Market discount	3.11%

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

Note 17. Regulatory Matters

The bank is subject to regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. 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 5.62% as of December 31, 2022. Management believes that as of December 31, 2022 and 2021, the bank met all capital adequacy requirements to which it was subject.

Note 17. Regulatory Matters (Continued)

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

			Minimum Required – Including Capital Conservation Buffer (1)		Required To Be Considered Well Capitalized	
Actual						
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(in thousands)						
As of December 31, 2022:						
Total capital (to risk-weighted assets):						
Bank of Charles Town	\$84 741	13.62%	\$65 349	10.50%	\$62 237	10.00%
CET 1 capital (to risk-weighted assets):						
Bank of Charles Town	\$78 539	12.62%	\$43 566	7.00%	\$40 454	6.50%
Tier 1 capital (to risk-weighted assets):						
Bank of Charles Town	\$78 539	12.62%	\$52 902	8.50%	\$49 790	8.00%
Tier 1 Leverage (to average assets):						
Bank of Charles Town	\$78 539	10.08%	\$31 166	4.00%	\$38 957	5.00%
			Minimum Required – Including Capital Conservation Buffer (1)		Required To Be Considered Well Capitalized	
Actual						
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(in thousands)						
As of December 31, 2021:						
Total capital (to risk-weighted assets):						
Bank of Charles Town	\$77 610	15.54%	\$52 436	10.50%	\$49 939	10.00%
CET 1 capital (to risk-weighted assets):						
Bank of Charles Town	\$72 106	14.44%	\$34 958	7.00%	\$32 460	6.50%
Tier 1 capital (to risk-weighted assets):						
Bank of Charles Town	\$72 106	14.44%	\$42 449	8.50%	\$39 951	8.00%
Tier 1 Leverage (to average assets):						
Bank of Charles Town	\$72 106	10.18%	\$28 335	4.00%	\$35 419	5.00%

- (1) The capital conservation buffer is intended to absorb losses during periods of financial and economic stress. Failure to maintain the minimum ratios, inclusive of the buffer, will result in restrictions on capital distributions and other payments. This buffer was 2.5% for all periods presented and is applicable for all ratios with the exception of the tier 1 leverage ratio.

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.

Note 19. Revenue (Continued)

Secondary market income

Secondary market income is comprised of gains on sales of loans in the secondary market (out of scope) and wholesale/broker fee income 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. Gains on the sale of loans in the secondary market are recognized in the month the fees are received. Likewise, wholesale/broker fee income is recognized in the month the fees are received.

Noninterest income disaggregated by major source, for the years ended December 31, 2022 and 2021, consisted of the following:

	Years Ended December 31,	
	2022	2021
Noninterest income (in thousands):		
Trust and financial services:		
Trust asset management fees (1)	\$ 1 457	\$ 1 327
Brokerage fees (1)	49	95
Service charges on deposit accounts:		
Overdraft & return check charges (1)	799	649
Charges - use of foreign ATMs (1)	116	119
Other service charges (1)	116	114
Secondary market income		
Wholesale/broker fee income (1)	32	148
Gain on sales of loans in the secondary market	595	1 488
(Loss) gain on sales of securities available for sale	(367)	8
Interchange fees (1)	1 991	1 906
Earnings on bank owned life insurance	305	265
Other operating income (2)	623	709
Total noninterest income	<u>\$ 5 716</u>	<u>\$ 6 828</u>

(1) Income within the scope of Topic 606.

(2) For 2022, includes other income within the scope of Topic 606 amounting to \$534 thousand. For 2021, includes other income within the scope of Topic 606 amounting to \$316 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, 2022, and December 31, 2021, 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, 2022 and 2021
(in thousands)

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash	\$ 153	\$ 483
Investment in subsidiary	69 806	69 744
Equity securities, at fair value	224	254
Other assets	<u>263</u>	<u>222</u>
Total Assets	<u>\$70 446</u>	<u>\$70 703</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Subordinated debt, net of unamortized issuance costs	\$ 9 839	\$ 9 785
Other liabilities	<u>147</u>	<u>148</u>
Total Liabilities	<u>\$ 9 986</u>	<u>\$ 9 933</u>
STOCKHOLDERS' EQUITY		
Common stock	\$ 4 493	\$ 4 483
Surplus	14 547	14 358
Undivided profits	53 647	47 785
Accumulated other comprehensive loss, net	<u>(8 733)</u>	<u>(2 362)</u>
	\$63 954	\$64 264
Less cost of shares acquired for the treasury	<u>(3 494)</u>	<u>(3 494)</u>
Total Stockholders' Equity	<u>\$60 460</u>	<u>\$60 770</u>
Total Liabilities and Stockholders' Equity	<u>\$70 446</u>	<u>\$70 703</u>

Note 20. Parent Company Only Financial Statements (Continued)

POTOMAC BANCSHARES, INC.
(Parent Company Only)
Statements of Income
Years Ended December 31, 2022 and 2021
(in thousands)

	<u>2022</u>	<u>2021</u>
Interest Expense		
Interest on subordinated debt	\$ 554	\$ 551
Total Interest Expense	<u>554</u>	<u>551</u>
Other Income		
Dividends from subsidiary	1 449	541
Other income	<u>1</u>	<u>42</u>
Total Other Income	<u>1 450</u>	<u>583</u>
Noninterest Expense		
Transfer agent expense	40	36
Director and committee fees	20	15
Legal fees	8	11
Other professional fees	43	33
Postage	10	9
Proxy solicitation	19	18
Printing, stationery and supplies	23	17
Other	<u>7</u>	<u>5</u>
Total Noninterest Expense	<u>170</u>	<u>144</u>
Income (loss) before Income Tax Benefit and Equity in Undistributed Income of Subsidiary	726	(112)
Income Tax Benefit	<u>(152)</u>	<u>(137)</u>
Income before Equity in Undistributed Income of Subsidiary	878	25
Equity in Undistributed Income of Subsidiary	<u>6 433</u>	<u>7 545</u>
Net Income	<u>\$7 311</u>	<u>\$7 570</u>

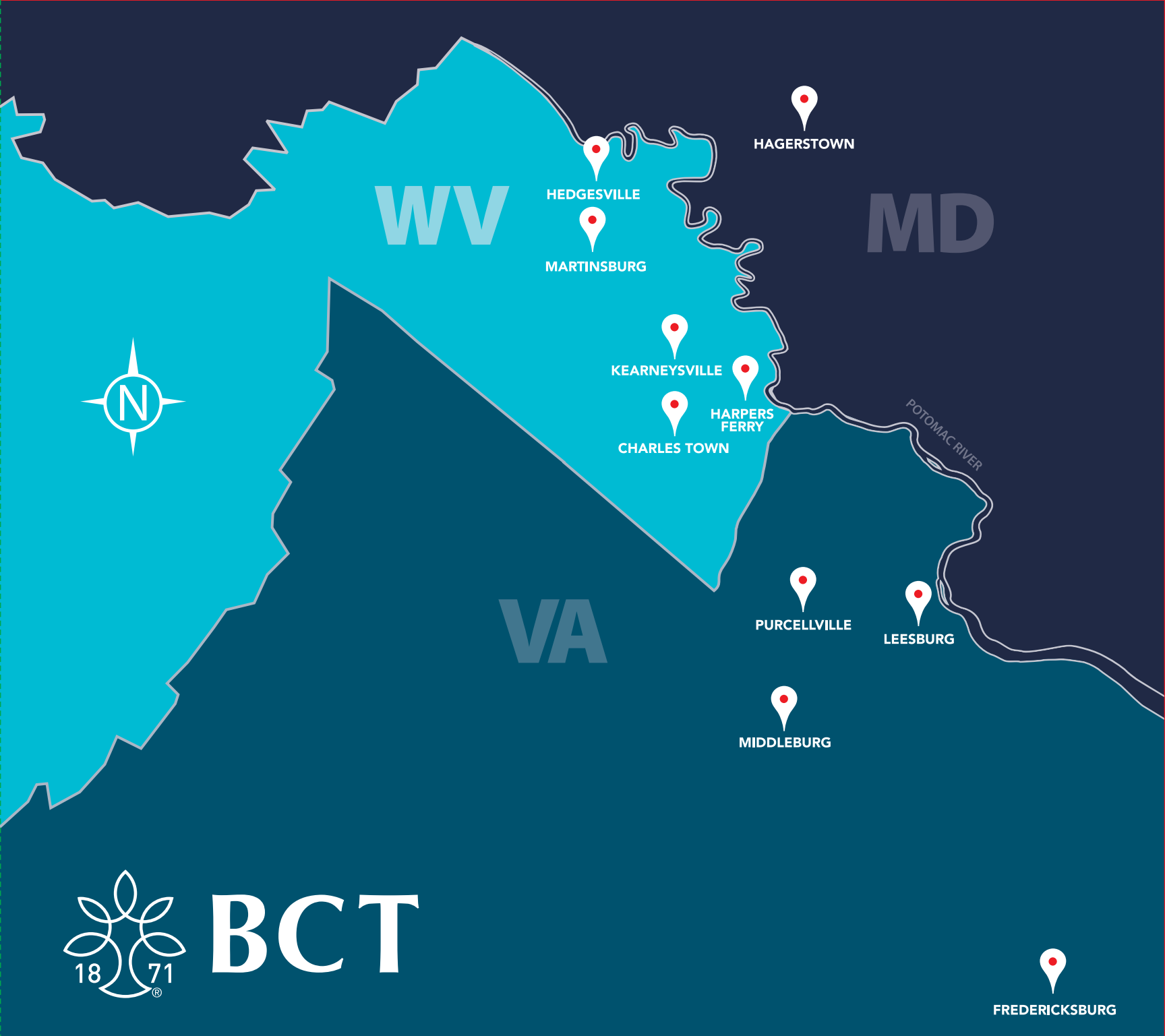
Note 20. Parent Company Only Financial Statements (Continued)

POTOMAC BANCSHARES, INC.
(Parent Company Only)
Statements of Cash Flows
Years Ended December 31, 2022 and 2021
(in thousands)

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 7 311	\$ 7 570
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in undistributed income of Subsidiary	(6 433)	(7 545)
Amortization of debt issuance costs	54	51
Fair value adjustment on equity securities	30	(34)
Increase in other assets	(41)	(72)
(Decrease) increase in other liabilities	<u>(1)</u>	<u>1</u>
Net cash provided by (used in) operating activities	<u>\$ 920</u>	<u>\$ (29)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additional investment in subsidiary	\$ --	\$ --
Purchase of equity securities	<u>--</u>	<u>(60)</u>
Net cash used in investing activities	<u>\$ --</u>	<u>\$ (60)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock, net of issuance costs	\$ 199	\$ --
Cash dividends	<u>(1 449)</u>	<u>(1 281)</u>
Net cash used in financing activities	<u>\$(1 250)</u>	<u>\$(1 281)</u>
Decrease in cash and cash Equivalents	\$ (330)	\$(1 370)
CASH AND CASH EQUIVALENTS		
Beginning	<u>\$ 483</u>	<u>\$ 1 853</u>
Ending	<u>\$ 153</u>	<u>\$ 483</u>

Note 21. Subsequent Events

In preparing these financial statements, the company has evaluated events and transactions for potential recognition or disclosure through March 15, 2023, 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.



BCT



FREDERICKSBURG

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

FREDERICKSBURG
Loan Production Office
1125 Emancipation Highway
Suite 400
Fredericksburg, VA 22401
540-361-2612

LEESBURG

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





111 East Washington Street

Charles Town, WV 25414

OTC: PTBS