2023 ANNUAL REPORT

FOCUSED ON OUR FUTURE

POTOMAC BANCSHARES

1871

2023 Financial Highlights

$830.7 Million
Total Assets
2022 $756.1 Million
2021 $711.4 Million

$651.4 Million
Core Loans
2022 $622.6 Million
2021 $502.4 Million

$739.7 Million
Total Deposits
2022 $665.5 Million
2021 $629.1 Million

$161.6 Million
Noninterest Bearing Deposits
2022 $162.0 Million
2021 $141.3 Million

$9.6 Million
Pre-Tax Pre-Provision Income
2022 $9.3 Million
2021 $7.2 Million

$26.0 Million
Net Interest Income
2022 $24.3 Million
2021 $20.6 Million

0.91 %
Return On Assets
2022 0.99 %
2021 1.12 %

11.59 %
Return On Equity
2022 12.35 %
2021 13.18 %

Note: 2022 and 2021 Pre-Tax Pre-Provision Income and Core Loans exclude PPP loans.

Committed to Amazing Client and Employee Experiences

We remain committed to making the BCT journey a positive experience, both for clients and employees. In 2023, we published the *Amazing Client Experience (ACE) Playbook* that outlines what an amazing experience looks like and how each employee can make it happen. It is our belief the recognitions we received in 2023 (below) are indicative of the ACE experience.

Dear Shareholders,

We are pleased to present to you the annual report for Potomac Bancshares, Inc. and Bank of Charles Town (BCT) for the year 2023. This past year has been filled with opportunities to refine and execute our strategies, resulting in continued growth. Our team demonstrated resilience and steadfast commitment to our shareholders, clients, and communities by focusing on our vision of being a high performing presence in all markets we serve, becoming the clear bank of choice for businesses and members of the community.

Financial Performance:
Despite the challenges presented by a dynamic economic landscape and inverted yield curve, we reached a new milestone with assets ending the year at $830.7 million, 9.9% growth over the prior year. Some key highlights include:

- **Loan and Deposit Growth:** In a year of continued uncertainty, we remained steadfast to building long-term client relationships with businesses and consumers who value authentic, trustworthy service. Year-over-year, our loans and deposits grew 4.6% and 11.2%, respectively.
- **Asset Quality:** Our commitment to maintain strong asset quality has been unwavering. We continued to prioritize a prudent credit culture, resulting in a low level of non-performing assets of 0.32% at year-end and a healthy loan portfolio.
- **Liquidity:** Events in 2023 demonstrated the importance of on-balance sheet liquidity, access to liquidity sources, and a loyal core deposit base. Borrowing available to BCT was $276 million at year end.
- **Capital Adequacy:** We continue to preserve a solid capital position, well above regulatory requirements. This provides a strong foundation for future growth and the ability to capitalize on strategic opportunities.
- **Profitability:** We successfully navigated the inverted yield curve's impact on deposit pricing. Intentional initiatives such as a relationship pricing model for deposits facilitated not only growing deposits but lessened the impact on interest expense. Our return on assets and return on equity were 0.91% and 11.59%, respectively.

Strategic Initiatives:
Our success in 2023 can further be attributed to our strategic initiatives aimed at enhancing client experiences, driving operational efficiencies, and fostering innovation. Some key initiatives include:

- **Business Banking:** In late 2022, our business development efforts turned to focus on acquiring operating companies with lines of credit and deposits. This strategy rewarded us in 2023 with new business client relationships opening lines of credit plus strong non-interest deposit growth. We are proud of the SBA division for their industry recognition for 504 Lending, ranking 3rd in the VA/DC/WV region among bank peers.
- **Digital Investments:** We have accelerated our digital transformation efforts to meet the evolving needs of our clients. Leveraging these investments to expand both commercial and consumer capabilities assisted with deposit growth during the year as well as creating numerous operational efficiencies.
- **Risk Management:** In a rapidly changing environment, effective risk management is paramount. We have strengthened our risk management framework, incorporating monitoring tools and quarterly protocols to proactively identify and mitigate risks.

Looking Ahead:
As we look to the future, we are optimistic about opportunities that lie ahead. Delivering products and services that meet the needs of the markets we serve helps us prioritize our strategies. A few of those strategies include:

- **Government Contractor Lending:** We tactically expanded our commercial banking expertise by adding a specialty for government contractor lending. In the fourth quarter, we hired a Director of Government Lending to build this unit and expand our government lending strategy.
- **Expand Market Share:** Each of our markets enjoy continued strong growth, affording us many prospective clients to introduce to our positive BCT client experience. In addition, we continued focusing on deepening relationships with our existing client base.

- **Digital Innovation:** The digital landscape continues to evolve rapidly and we are committed to staying at the forefront of innovation. We will invest in new technologies to enhance our digital capabilities and improve operational efficiency.

We want to express our sincere gratitude to Barbara Pichot for her nineteen years of committed service as a member of the Board of both Potomac Bancshares and BCT. Ms. Pichot served with excellence, leading by example with great commitment and sense of duty by providing solid management advice regarding financial performance, operational matters, local markets, and overall guidance for the team. As we said farewell to Ms. Pichot, we welcomed Michael Huber to our Board of Directors. Mr. Huber brings business acumen, strategic and innovative thinking, as well as deep market knowledge of Virginia.

Thank you, shareholders, for your continued trust and support. Your confidence in Potomac Bancshares, Inc. is what drives us to achieve excellence every day. We also want to extend our appreciation to our dedicated BCT colleagues whose hard work and dedication have been instrumental to our success.

As we move forward into 2024, we are excited about the opportunities that lie ahead. We remain committed to delivering long-term value to our shareholders, clients, and communities.

Warm regards,

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

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

Focus On Our Future

A FIRM FOUNDATION FOR A STRONG FUTURE

As we stand on our foundation of 153 years of trust, service, and success, our vision for BCT is a solid, high-performing presence in the tri-state region of West Virginia, Maryland, and Virginia, becoming the clear bank of choice for businesses and members of the community.

BCT fosters a positive culture, an environment with a team-centric focus to consistently add value and provide highly personalized service to our clients. Our culture organically attracts people who want to be part of the BCT team, whether as an employee, community advocate, advisory board member, bank board member, or client. Our intentional focus on a positive experience for our BCT team leads to an amazing client experience which, in turn, builds stronger communities and provides positive shareholder returns.

We believe we're in a unique position to improve the well-being of businesses and individuals in our communities, and we delight in the opportunity to do so.

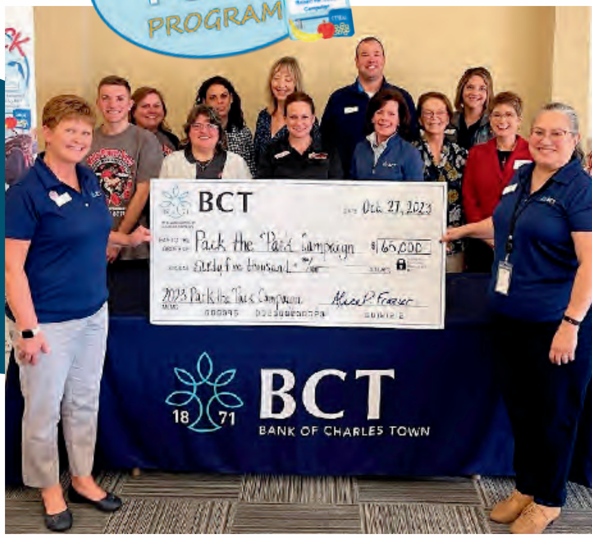
CORE TENANTS FOR OUR FUTURE

To be a high-performing presence and the clear bank of choice, we will pursue the following tenants that are critical to our future success:

- **LEADERSHIP—Planting flags of success** is a result of instilling a commitment to excellence that unifies our leaders around our Vision and strategic objectives.
- **TEAM—Working together in harmony** occurs when employees demonstrate a dedication to achievement, initiative, and responsibility and are rewarded with opportunities for advancement.
- **FOSTER RELATIONSHIPS—Enhancing client experiences** occurs when we are "in-the-moment" and "of-the-moment" with clients, resulting in a reputation of trustworthiness and authenticity.
- **DIGITAL PLATFORMS—Driving the development of new innovations** delivers a positive digital experience for clients and team members alike. Our digital presence is an extension of our physical presence in providing personalized and helpful service.
- **CREATIVE THINKING—Pushing the envelope of client value** puts ideas to work through client-first thinking. Team members are encouraged to offer ideas that improve client service and experiences.
- **COMMUNITY—Building a legacy of caring** is a result of BCT encouraging team members to volunteer with local community organizations. We also utilize the BCTCares Foundation to organize and fund initiatives in support of fighting food insecurity in our local communities.

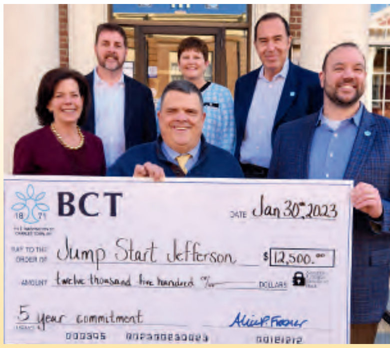
Community Focus

*We live our founding principle, **Neighbors Helping Neighbors,** supporting and growing our communities through our time, talents, and support.*



COMMUNITY FOCUS is one of our core values that resonates with the spirit of BCT. We rally around our neighbors to cheer them on when discouraged, lift them up when struggling, celebrate their successes when they win, and provide strategic financial support. We enjoy being involved with our communities.

EMPLOYEES VOLUNTEERED OVER	EMPLOYEES VOLUNTEERED OVER	ORGANIZATIONS SUPPORTED
1,167 HOURS	134 DAYS	35+ ORGS



BCTCARES FOUNDATION FACILITATES OVER $500,000 IN DONATIONS SINCE INCEPTION

In 2019, BCTCares Foundation, Inc. was founded as a philanthropic arm of BCT because employees wanted to address the growing food insecurity among children and families in our local communities. Since its inception, BCTCares has raised and distributed over $500,000 to local charities whose focus is on fighting food insecurity for school children, families, and individuals who cannot leave their homes to purchase food.

BCTCares Foundation is a 501(c)(3) organization, EIN 87-1550562. Consult your tax adviser regarding possible tax benefits for donations.

FIGHTING FOOD INSECURITY

$100,000 Distributed to Nonprofits

In 2023, BCTCares Foundation distributed **$100,000** to local nonprofits who help fight food insecurity for children and families. Funds were a combination of **$65,000** raised donations through the annual Pack the 'Pack campaign.

2023 Board of Directors

EXPERIENCED. MULTI-SECTOR. INDEPENDENT.

The Board of Directors is comprised of local community leaders at the forefront of their industries and professions. Members represent all markets within which BCT serves. With a strong commitment to remaining independent, the Board provides oversight and corporate governance of the Bank and holding company.

Director Retiring in 2023: Barbara H. Pichot

Ms. Pichot served on the Board of Directors for 19 years with honor and distinction, providing important perspectives on topics influencing BCT's governance and strategy.

Board of Directors

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

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

3 Kristina Bouweiri
President & CEO, Reston Limousine

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

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

6 Margaret M. Cogswell
Retired CEO, Hospice of the Panhandle

7 Michael Huber
Founder and CEO of Belfort Furniture and Stone Tower Winery

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

9 Andrew C. Skinner
Attorney/Owner, Skinner Law Firm

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

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

Advisory Board
BCT Community Champions

Eastern Panhandle, WV Advisory Board

Mark Burkhart
Mountain View Farm

Morgan Collis
Minghini's General Contractors

Alison A. Cox
Bowles Rice LLP

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

Sandy Hamilton
(Retired)
Berkeley County Development Authority
Loudoun

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

Stacey Metcalfe
Westmoreland Davis Foundation/Morven Park

Susan Mitchell
Guardians of Honor, LLC

Bernard Mustafa
BE FIT Technologies

Anthony "Tony" Stafford
Ford's Fish Shack

Sonny Swann
Climatic Heating and Cooling

Danny Vargas
VARCom Solutions

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

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POTOMAC BANCSHARES, INC.

Charles Town, West Virginia

NOTICE OF REGULAR ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 23, 2024

To the Shareholders:

The Regular Annual Meeting of Shareholders of Potomac Bancshares, Inc. ("Potomac") will be held in person at Bank of Charles Town Main Office, 111 E. Washington Street, Charles Town, West Virginia at 4:00 p.m., on April 23, 2024, for the purposes of considering and voting upon proposals:

1. To elect a class of directors for a term of three years and one director for a term of one year;
2. To ratify the appointment by the Board of Directors of Yount, Hyde & Barbour, P.C., as independent registered public accountants for the year 2024; and

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

Only those shareholders of record at the close of business on February 26, 2024, shall be entitled to notice of the meeting and to vote at the meeting.

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 PERSON. 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 23, 2024 - THE PROXY STATEMENT AND 2023 ANNUAL REPORT ARE AVAILABLE AT WWW.PROXYVOTE.COM.

March 15, 2024

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 23, 2024

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 23, 2024, at the time and for the purposes set forth in the accompanying notice of regular annual meeting of shareholders.

Solicitation of Proxies

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

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

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

Eligibility of Stock for Voting Purposes

Under Potomac's bylaws, the Board of Directors has fixed February 26, 2024, 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, five of whom are nominees for election at the 2024 annual meeting. Four directors (Berkeley, Frazier, White and Zelenka) is being elected for a term of three years and one director (Huber) is being elected for a term of one year. 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
For a term of three years:					
Dr. Keith B. Berkeley	65	2008	None	2024	Retired Veterinarian, Prior President of Valley Equine Associates, Jefferson County, West Virginia. Chairman of The Board, Potomac Bancshares, Inc., and Bank of Charles Town.
Alice P. Frazier	59	2017	None	2024	Employed by Potomac Bancshares, Inc., and Bank of Charles Town as of July 5, 2017, as President and Chief Executive Officer.
William A. White	66	2020	None	2024	Retired CFO and Corporate Secretary, First Bauxite Corporation.
Anthony P. Zelenka	70	2015	None	2024	Retired President and Chief Executive Officer of WVU Medicine – Berkeley Medical Center and Jefferson Medical Center.
For a term of one year:					
Michael Huber	66	2023	None	2025	Founder & CEO Belfort Furniture, Inc. and Founder of Stone Tower Winery.

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

Directors Continuing to Serve Unexpired Terms

Nominees	Age	Served As Director of Potomac Since	Family Relationship With Other Nominees	Year in Which Term Expires	Principal Occupation or Employment Last Five Years
Kristina Bouweiri	61	2019	None	2026	President & CEO, Reston Limousine, Loudoun County, Virginia.
J. Scott Boyd	67	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.
Norman M. Casagrande	64	2013	None	2026	Member, MAC Industries, LLC Berkeley County, West Virginia. Retired Location Manager, BMC East, LLC.
Margaret M. Cogswell	65	2003	None	2026	Retired Chief Executive Officer, Hospice of the Panhandle, Berkeley, Hampshire, Jefferson, and Morgan Counties, West Virginia.
Dr. Mitesh B. Kothari, M.D.	54	2019	None	2025	Managing Member, Capital Women's Care, Washington County, Maryland; Chairman, Bank of Charles Town Washington County, Maryland Advisory Board.
Andrew C. Skinner	53	2017	None	2026	Attorney/Owner, Skinner Law Firm. Jefferson County, West Virginia.

Alice P. Frazier has over 33 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 serves as the chair of the Bank Operations Committee and as at large director with the Independent Community Bankers of America (ICBA) where she currently serves as Vice Chairman. She is a current board member of the Loudoun County Economic Development Authority, 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 is a retired 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 the retired 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 included 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. Ms. Cogswell is on the Board of WVU East Hospital System. 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.

Michael Huber is the Founder and CEO of Belfort Furniture, Inc., a "National Home Furniture Retailer" signifying Belfort as a Top 100 furniture store in the United States where it delivers up to 5,000 pieces of furniture a week to over 200 homes a day. Belfort is family-owned and was founded in 1987. It is headquartered in Loudoun County, Virginia where it has been voted Best Furniture Store for 28 years by the *Loudoun Times-Mirror's* annual Best of Loudoun readers' poll. Additionally, Huber founded the stylish Stone Tower Winery, also located in Loudoun County. Founded in 2009, the winery cultivates its vineyard to produce craft wines of exceptional quality. Stone Tower is one of the most visited wineries in the region and a sought-after wedding venue. It was listed as an INC 5000 Fastest Growing Company in 2018 and 2019. He currently serves on the Route 28 Commission Advisory Board formed to strategically address transportation issues in one of the most important business corridors surrounding Dulles International Airport, Fairfax County and Loudoun County, Virginia. Past service has included a number of business and philanthropic efforts including being a member of the Loudoun CEO Cabinet and a Board member of the Oatlands Historic House & Gardens in Loudoun County, Virginia. Huber earned an AAS in Business Management from Northern Virginia Community College. Mr. Huber brings business acumen, strategic and innovative thinking, as well as deep market knowledge of Virginia. Mr. Huber is being elected to fill the term of Barbara H. Pichot, who has retired.

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.

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 234,975 shares as a group. These shares represent, in aggregate, 5.7% of the common stock of Potomac Bancshares, Inc. The information is furnished as of January 31, 2024, on which date 4,144,561 shares were outstanding.

Compensation of Directors

Name (1)	Total ($)
Dr. Keith B. Berkeley	39,900
Kristina Bouweiri	30,800
J. Scott Boyd	33,650
Norman M. Casagrande	38,200
Margaret M. Cogswell	29,800
Alice P. Frazier	24,200
Michael Huber	17,158
Dr. Mitesh B. Kothari, M.D.	31,700
Andrew C. Skinner	32,600
William A. White	32,400
Anthony P. Zelenka	33,700

(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 2024. 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 at the Bank of Charles Town Main Office, 111 E. Washington Street, Charles Town, WV, at 4:00 p.m. on April 23, 2024.

Alice P. Frazier
President and Chief Executive Officer

Charles Town, West Virginia
March 15, 2024

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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, 2023 and 2022, 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, 2023 and 2022, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses in 2023 due to the adoption of Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments.* Our opinion is not modified with respect to this matter.

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.

Yount, Hyde & Barbour, P.C.

Richmond, Virginia
March 15, 2024

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022
($ in thousands, except per share data)

	2023	2022
ASSETS		
Cash and due from banks	$ 3 521	$ 3 679
Interest-bearing deposits in other financial institutions	65 181	8 680
Investment Securities:		
Available-for-sale, at fair value	83 929	88 519
Equity securities, at fair value	198	224
Loans held for sale	678	- -
Loans, net of allowance for credit losses of $6,673 in 2023 and $6,202 in 2022	644 687	616 382
Premises and equipment, net	5 965	6 446
Accrued interest receivable	2 003	1 703
Bank owned life insurance	13 566	13 244
Federal Home Loan Bank of Pittsburgh stock	1 571	1 310
Other assets	9 415	15 863
Total Assets	$830 714	$756 050
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Noninterest-bearing	$161 622	$161 972
Interest-bearing	578 058	503 497
Total Deposits	739 680	665 469
Short term borrowings	2 839	15 902
Long term borrowings	6 000	- -
Subordinated debt, net of unamortized issuance costs	9 897	9 839
Accrued interest payable	763	363
Other liabilities	4 661	4 017
Total Liabilities	$763 840	$695 590
STOCKHOLDERS' EQUITY		
Common stock, $1 per share par value; 10,000,000 shares authorized; 4,493,251 issued and outstanding at December 31, 2023 and on December 31, 2022	$ 4 493	$ 4 493
Surplus	14 547	14 547
Undivided profits	58 884	53 647
Accumulated other comprehensive loss, net	(7 556)	(8 733)
	$ 70 368	$ 63 954
Less cost of shares acquired for the treasury, 348,690 shares in 2023 and 2022	(3 494)	(3 494)
Total Stockholders' Equity	$ 66 874	$ 60 460
Total Liabilities and Stockholders' Equity	$830 714	$756 050

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2023 and 2022
($ in thousands, except per share data)

	2023	2022
Interest and Dividend Income		
Interest and fees on loans	$31 145	$24 649
Interest on securities available for sale – taxable	2 162	1 628
Interest on securities available for sale – nontaxable	114	78
Other interest and dividends	2 162	709
Total Interest and Dividend Income	35 583	27 064
Interest expense		
Interest on deposits	8 676	2 187
Interest on short term borrowings	84	50
Interest on long term borrowings	250	- -
Interest on subordinated debt	557	554
Total Interest Expense	9 567	2 791
Net Interest Income	26 016	24 273
Provision for credit losses - loans	163	632
Provision for credit losses - off-balance sheet credit exposures	59	- -
Provision for Credit Losses	222	632
Net Interest Income after Provision for Credit Losses	25 794	23 641
Noninterest Income		
Wealth and investments	1 740	1 506
Service charges on deposit accounts	1 015	1 031
Secondary market income	678	627
Loss on sales of securities available for sale	(428)	(367)
Interchange fees	2 028	1 991
Earnings on bank owned life insurance	322	305
Other operating income	595	623
Total Noninterest Income	5 950	5 716
Noninterest Expense		
Salaries and employee benefits	12 362	11 249
Net occupancy expense of premises	1 030	1 078
Furniture and equipment expenses	1 393	1 345
Accounting, audit and compliance	254	312
Advertising and public relations	396	296
Computer services and online banking	1 450	1 248
FDIC assessment	361	199
Other professional fees	518	383
Trust professional services	359	311
Director & committee fees	353	299
Legal fees	155	75
Printing, stationery and supplies	255	270
Communications	384	352
ATM and check card expenses	1 003	866
Other operating expenses	2 118	1 684
Total Noninterest Expenses	22 391	19 967
Income before Income Tax Expense	9 353	9 390
Income Tax Expense	2 089	2 079
Net Income	$ 7 264	$ 7 311
Earnings Per Common Share, Basic and Diluted	$ 1.75	$ 1.77

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2023 and 2022
($ in thousands)

	2023	2022
Net Income	$ 7 264	$ 7 311
Other comprehensive income (loss):		
Unrealized holding gain (loss) on securities, net of tax of $141 and $(2,295), respectively	424	(6 885)
Reclassification adjustment for losses included in net income, net of tax of $107 and $92, respectively	321	275
Net pension and other postretirement actuarial gain arising during the period net of tax of $111 and $46, respectively	346	139
Amortization of net actuarial loss included in net periodic benefit cost net of tax of $32 and $34, respectively	86	100
Other comprehensive income (loss), net of tax	1 177	(6 371)
Comprehensive income	$ 8 441	$ 940

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2023 and 2022
($ in thousands, except per share data)

	Common Stock	Surplus	Undivided Profits	Treasury Stock	Accumulated Other Comprehensive Loss, net	Total
Balances, December 31, 2021	$4 483	$ 14 358	$47 785	$ (3 494)	$ (2 362)	$ 60 770
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	$4 493	$ 14 547	$ 53 647	$ (3 494)	$ (8 733)	$ 60 460
Cumulative change in accounting principle (Note 4)	- -	- -	(452)	- -	- -	(452)
Net Income	- -	- -	7 264	- -	- -	7 264
Other comprehensive income	- -	- -	- -	- -	1 177	1 177
Cash dividends ($0.38 per share)	- -	- -	(1 575)	- -	- -	(1 575)
Balances, December 31, 2023	$4 493	$ 14 547	$ 58 884	$ (3 494)	$ (7 556)	$ 66 874

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 and 2022
($ in thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7 264	$ 7 311
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	222	632
Depreciation and amortization	917	934
Loss on disposals of premises and equipment	- -	5
Deferred tax benefit	(139)	(329)
Premium amortization on securities, net	63	165
Loss on sale of securities available for sale, net	428	367
Fair value adjustment on equity securities	26	30
(Increase) decrease in loans held for sale	(678)	528
Earnings on bank owned life insurance	(322)	(305)
Amortization of debt issuance costs	58	54
Changes in assets and liabilities:		
Increase in accrued interest receivable	(300)	(196)
Decrease in other assets	7 172	388
Increase in accrued interest payable	400	80
Increase (decrease) in other liabilities	259	(420)
Net cash provided by operating activities	$ 15 370	$ 9 244
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity of certificates of deposits in other financial institutions	$ - -	$ 250
Proceeds from sale of securities available for sale	11 586	- -
Proceeds from maturities and principal repayments of securities available for sale	5 302	9 060
Proceeds from call of securities available for sale	- -	150
Purchases of securities available for sale	(11 796)	(32 713)
Net increase in loans	(28 826)	(105 540)
Investment in equity security	(500)	- -
Purchases of premises and equipment	(105)	(224)
Purchase of FHLB stock, net	(261)	(619)
Net cash used in investing activities	$ (24 600)	$ (129 636)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in noninterest-bearing deposits	$ (350)	$ 20 707
Net increase in interest-bearing deposits	74 561	15 676
Net (repayment) proceeds of short-term borrowings	(13 063)	8 852
Net proceeds from long term borrowings	6 000	- -
Proceeds from issuance of common stock, net of issuance costs	- -	199
Cash dividends	(1 575)	(1 449)
Net cash provided by financing activities	$ 65 573	$ 43 985
Increase (decrease) in cash and cash equivalents	$ 56 343	$ (76 407)
CASH AND CASH EQUIVALENTS		
Beginning	11 614	88 021
Ending	$ 67 957	$ 11 614
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 9 103	$ 2 657
Income taxes	$ 2 410	$ 2 238
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain (loss) on securities available for sale	$ 993	$ (8 813)
Change in benefit obligations and plan assets for pension and other postretirement benefits	$ 575	$ 319
Unsettled sales of securities available for sale	$ - -	$ 7 669
Liabilities assumed to acquire right of use assets under operating leases	$ 55	$ 36
Cumulative change in accounting principle	$ (452)	$ - -

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 the 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 was 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 offers investment management, trust and estate services, and comprehensive financial planning through BCT Wealth Advisors. The company also offers brokerage, investment, and insurance products through BCT Investments.

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 credit losses and the post-retirement benefit obligations.

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

Adoption of New Accounting Standard

The company adopted the current expected credit loss model ("CECL") under Accounting Standards Update ("ASU") 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" on January 1, 2023. 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 of $358,000 as well as an adjustment to the company's reserve for unfunded loan commitments in the amount of $245,000, net of tax of $151,000. Subsequent to adoption, the company records adjustments to its allowance for credit losses and reserves for unfunded commitments through the provision for credit losses in the consolidated statements of income. 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 credit deterioration.

In addition, CECL made changes to the accounting for available for sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities if management does not intend to sell and does not believe that it is more likely than not that they will be required to sell. The company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the company did not have any other-than-temporary impaired investment securities. Therefore, upon adoption of ASC 326, the company determined that an allowance for credit losses on available for sale securities was not required.

The company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the company believes the collection of interest is doubtful. The company has concluded that this policy results in the timely reversal of uncollectible interest.

On January 1, 2023, the company adopted ASU 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 standards (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings (TDRs) by creditors that have adopted the CECL model and enhance the disclosure requirements for certain loan refinancings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying TDR recognition and measurement guidance, creditors will determine whether a modification results in a new loan or continuation of existing loan. Additionally, ASU 2022-02 requires an entity to disclose current period gross write-offs by year of origination for financing receivables within the scope of Subtopic 326-20, Financial Instruments – Credit Losses – Measured at Amortized Cost. ASU 2022-02 did not have a material impact on the company's consolidated financial statements.

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.

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

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.

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.

Allowance for Credit Losses – Securities

The Company evaluates its available-for-sale debt securities portfolio for expected credit losses as of the valuation date under ASC 326. For available-for-sale debt securities in an unrealized loss position, the company first assesses whether it intends to sell, or if it is more likely than not that it would be required to sell, the security before recovery of its amortized cost basis. If either criterion is met, the security's amortized cost basis is written down to fair value through income during the current period. For available-for-sale debt securities that do not meet the previously mentioned criteria, the company evaluates whether the decline in fair value has resulted from credit losses or other driving factors such as changes in market interest rates. If the company's assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, an allowance for credit losses (ACL) is recorded for the credit loss (which represents the difference between the expected cash flows and amortized cost basis), limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income.

Available-for-sale debt securities are placed on nonaccrual status when we no longer expect to receive all contractual amounts due, which is generally at 90 days past due. Accrued interest receivable is reversed against interest income when a security is placed on nonaccrual status. Accordingly, the company does not recognize an allowance for credit loss against accrued interest receivable. This approach is consistent with the company's nonaccrual policy implemented for its loan portfolio.

The company does not maintain a held-to-maturity investment securities portfolio.

Accrued interest receivable on available-for-sale securities totaled $313 thousand at December 31, 2023, and was excluded from the estimate of credit losses.

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 credit losses and any deferred fees or costs on the originated loan.

Loans (Continued)

Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

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

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

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

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

Accrued interest receivable on loans totaled $1.7 million at December 31, 2023, and was reported in accrued interest receivable and is excluded from the estimate of credit losses.

Allowance for Credit Losses - Loans and Unfunded Commitments

The allowance for credit losses represents an estimate of the expected credit losses in the company's held for investment loan portfolio as of a valuation date. Accounting Standards Codification ("ASC") 326 replaced the incurred loss allowance model that recognizes losses when it becomes probable that a credit loss will be incurred, with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. The ACL is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the held for investment loan portfolio. Loans, or portions thereof, are charged off against the allowance for credit losses when they are deemed uncollectible. Expected recoveries are recorded to the extent they do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

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

Allowance for Credit Losses - Loans and Unfunded Commitments (Continued)

The company is utilizing a third-party model to tabulate its estimate of current expected credit losses, using a probability of default/loss given default driven 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 adoption of CECL did not result in a significant change to any other credit risk management and monitoring processes, including identification of past due or delinquent borrowers, nonaccrual practices or charge-off policy.

The allowances for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit losses model using the same methodology as the loan portfolio, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in other liabilities on the company's consolidated balance sheet.

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.

Based on experience, these loan policies and the bank's grading and review system, management believes the ACL 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.

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

Allowance for Credit Losses - Loans and Unfunded Commitments (Continued)

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. The 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.

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. The 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.

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.

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

Loans Individually Evaluated for Credit Losses

Loans that do not share risk characteristics are evaluated on an individual basis. The company designates individually evaluated loans on nonaccrual status as collateral dependent loans, as well as other loans that management of the company designates as having higher risk and loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral dependent loans, the allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required. The ACL may be zero if the fair value of the collateral at the measurement date exceeds amortized cost basis of the financial asset.

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, 2023, there were $678 thousand of loans held for sale. As of December 31, 2022, there were no 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, 2023 and December 31, 2022 as a result of obtaining physical possession of the property. As of December 31, 2023, and December 31, 2022, there were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

Bank-Owned Life Insurance

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

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

Employee Benefit Plans

Summaries of company employee benefit plans are given below:

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

Earnings Per Common Share

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

Income Taxes

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

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. There were no unrecognized tax benefits recorded as of December 31, 2023 and 2022. 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 as of December 31, 2023 and December 31, 2022 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 in a fiduciary or agency capacity as well as investment and insurance products sold through BCT Investments, 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 $396 thousand and $296 thousand in 2023 and 2022, respectively.

Treasury Stock

Common shares repurchased are recorded as treasury stock at cost.

Comprehensive Income

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

Fair Value of Financial Instruments

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

Transfers of Financial Assets

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

Leases

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.

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

Recent Accounting Pronouncements

In March 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-02, “Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method”. These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. The ASU is effective for public business entities for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted for all entities in any interim period. The company does not expect the adoption of ASU 2023-02 to have a material impact on its consolidated financial statements.

In December 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures.” The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity’s applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The company does not expect the adoption of ASU 2023-09 to have a material impact on its consolidated financial statements.

Note 2. Securities

There were no securities held to maturity as of December 31, 2023 and 2022.

The amortized cost and fair value of securities available for sale (in thousands) as of December 31, 2023 and 2022 are as follows:

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Obligations of U.S. Government sponsored agencies	$ 4 082	$ - -	$ (284)	$ 3 798
U.S. Treasuries	13 921	- -	(692)	13 229
Mortgage-backed	61 909	242	(6 552)	55 599
State and municipal obligations	4 617	71	(361)	4 327
Corporate securities	8 100	- -	(1 124)	6 976
	$92 629	$313	$(9 013)	$83 929

Note 2. Securities (Continued)

	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
	$98 212	$ 89	$(9 782)	$88 519

As a result of the adoption of ASC 326, no allowance for credit losses was recognized as of December 31, 2023 related to the company's investment portfolio.

The company held equity securities with readily determinable fair values which totaled $198 thousand at December 31, 2023 and $224 thousand at December 31, 2022 which are presented separately on the consolidated balance sheet. The fair value adjustment recorded through earnings in other operating income totaled $(26) thousand and $(30) thousand for the twelve months ended December 31, 2023 and December 31, 2022, respectively.

The amortized cost and fair value of the securities available for sale as of December 31, 2023 (in thousands), by contractual maturity, are shown below:

	Amortized Cost	Fair Value
Due in one year or less	$ 1 941	$ 1 940
Due after one year through five years	16 763	15 726
Due after five years through ten years	10 184	8 880
Due after ten years	63 741	57 383
	$92 629	$83 929

Proceeds of the sales of securities during 2023 were $11.6 million. Gross losses of $428 thousand were realized on those sales. The tax benefit applicable to these realized losses amounted to $107 thousand. Consistent with the company's accounting policy, gross losses of $367 thousand were recorded on the trade date for the securities sold on the final business day of the year in 2022. These transactions were the only sales during 2022. Proceeds received from those sales in 2023 were $7.7 million. The tax benefit applicable to these losses amounted to $92 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-four securities in the consolidated portfolio in an unrealized loss position at December 31, 2023. There were ninety-nine security accounts in the consolidated portfolio in an unrealized loss position at December 31, 2022. 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 at December 31, 2023 concluded that a credit loss did not exist in its securities portfolio at December 31, 2023 and 2022, and no impairment loss 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, 2023 and 2022 (in thousands).

	December 31, 2023					
	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	$ --	$ --	$ 3 798	$ (284)	$ 3 798	$ (284)
U.S. Treasuries	1 937	--	11 292	(692)	13 229	(692)
Mortgage-backed	1 798	(20)	37 966	(6 532)	39 764	(6 552)
State and municipal obligations	--	--	3 124	(361)	3 124	(361)
Corporate securities	--	--	6 726	(1 124)	6 726	(1 124)
	$ 3 735	$ (20)	$ 62 906	$(8 993)	$66 641	$(9 013)

	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)
	$ 30 540	$(1 637)	$ 49 580	$(8 145)	$80 120	$(9 782)

The company's investment in Federal Home Loan Bank (FHLB) stock totaled $1.6 million and $1.3 million at December 31, 2023 and 2022, 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 impaired at December 31, 2023 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 $34.4 million and $5.4 million at December 31, 2023 and 2022, respectively, were pledged to secure public funds, securities sold under agreement to repurchase, and securities held at the Federal Reserve, and other purposes as required or permitted by law. The increase in 2023 is due to maintaining collateral at the Federal Reserve in the event of future borrowing needs.

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	
	2023	2022
	(in thousands)	
Commercial – non real estate		
Commercial and industrial	$ 34 548	$ 29 511
Commercial real estate		
Owner occupied	118 181	105 148
Non-owner occupied	192 796	194 827
Construction		
Residential	6 447	11 348
Commercial	21 206	22 196
Real Estate		
Farmland	7 019	5 874
Residential		
Revolving open end	19 050	15 491
1 to 4 family – first liens	213 601	199 699
1 to 4 family – junior liens	5 647	4 149
5 or more family	21 052	21 659
Consumer loans	3 689	4 703
All other loans	8 124	7 979
Total loans (1)	$651 360	$622 584
Less: allowance for credit losses	6 673	6 202
Total loans, net	$644 687	$616 382

(1) Includes net deferred loan fees of $0.9 million and $0.9 million at December 31, 2023 and 2022.

Loans to directors and executive officers of the company or to their associates at December 31, 2023 and 2022 totaled $1.8 million and $1.9 million, respectively. In management's opinion, such loans were made on substantially the same terms as those prevailing for comparable transactions with similar risks. During 2023, total principal additions were $154 thousand and total principal payments were $261 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, 2023, the FHLB lien is securing $6.0 million in outstanding long term advances, and letters of credit in the amount of $122 million to secure public funds. 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 Credit Losses

The following table provides an analysis of the allowance for credit losses for 2023 as follows:

Allowance for Credit Losses – By Segment
December 31, 2023
(in thousands)

	Farmland	Commercial	Commercial Real Estate	Construction	Consumer	Residential	All Other	Unallocated	Total
Allowance for credit losses:									
Beginning balance, prior to Adoption of ASC 326	$ 53	$ 270	$ 3 149	$ 361	$ 58	$ 2 229	$ 82	$ - -	$ 6 202
Impact of adopting ASC326	14	367	111	44	(9)	(280)	111	- -	358
Charge-offs	- -	(89)	- -	- -	(155)	(21)	--	- -	(265)
Recoveries	- -	6	18	15	118	58	--	- -	215
Provision (recovery)	7	252	(57)	(75)	27	125	(116)	- -	163
Ending balance	$ 74	$ 806	$ 3 221	$ 345	$ 39	$ 2 111	$ 77	$ - -	$ 6 673
Loans:									
Ending balance	$7 019	$34 548	$310 977	$27 653	$3 689	$259 350	$8 124	$ - -	$651 360

The following table provides an analysis of the allowance for loan losses for 2022 as follows:

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	$ 53	$ 270	$ 3 149	$ 361	$ 58	$ 2 229	$ 82	$ - -	$ 6 202
Individually evaluated for impairment	$ - -	$ - -	$ - -	$ - -	$ 7	$ 10	$ - -	$ - -	$ 17
Collectively evaluated for impairment	53	270	3 149	361	51	2 219	82	- -	6 185
	$ 53	$ 270	$ 3 149	$ 361	$ 58	$ 2 229	$ 82	$ - -	$ 6 202
Loans:									
Ending balance	$5 874	$29 511	$299 975	$33 544	$4 703	$240 998	$7 979	$ - -	$622 584
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	$5 874	$29 511	$299 975	$33 544	$4 703	$240 998	$7 979	$ - -	$622 584

Note 4. Allowance for Credit Losses (Continued)

Credit Quality Information – By Class
December 31, 2023
(in thousands)

The following table presents the amortized cost basis of loans by origination year and grade quality indicator:

	2023	2022	2021	2020	2019	Prior	Revolving	Total
Farmland								
Pass	$ 1,283	$ 3,479	$ 62	$ - -	$ - -	$ 1,984	$ 211	$ 7,019
Special Mention	- -	- -	- -	- -	- -	- -	- -	- -
Substandard	- -	- -	- -	- -	- -	- -	- -	- -
Doubtful	- -	- -	- -	- -	-	- -	- -	- -
Total Farmland	$ 1,283	$ 3,479	$ 62	$ -	$ -	$ 1,984	$ 211	$ 7,019
Commercial and industrial								
Pass	$ 6,358	$ 7,638	$ 5,147	$ 1,152	$ 991	$ 667	$ 8,516	$ 30,469
Special Mention	- -	235	63	23	- -	620	2,020	2,961
Substandard	- -	347	108	- -	164	- -	499	1,118
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -
Total Commercial and industrial	$ 6,358	$ 8,220	$ 5,318	$ 1,175	$ 1,155	$ 1,287	$ 11,035	$ 34,548
Commercial Real Estate								
Pass	$ 26,676	$ 91,235	$ 74,885	$ 40,034	$ 32,284	$ 35,968	$ 125	$ 301,207
Special Mention	- -	453	- -	336	4,172	1,543	- -	6,504
Substandard	- -	- -	- -	2,663	- -	603	- -	3,266
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -
Total Commercial Real Estate	$ 26,676	$ 91,688	$ 74,885	$ 43,033	$ 36,456	$ 38,114	$ 125	$ 310,977
Construction and land development								
Pass	$ 10,858	$ 5,890	$ 1,477	$ 215	$ 47	$ 1,013	$ 7,667	$ 27,167
Special Mention	- -	- -	- -	- -	- -	- -	- -	- -
Substandard	- -	- -	- -	- -	- -	486	- -	486
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -
Total Construction and land development	$ 10,858	$ 5,890	$ 1,477	$ 215	$ 47	$ 1,499	$ 7,667	$ 27,653
Secured by residential (1)								
Pass	$ 21,146	$ 57,755	$ 48,440	$ 45,047	$ 14,804	$ 52,839	$ 19,319	$ 259,350
Special Mention	- -	- -	- -	- -	- -	- -	- -	- -
Substandard	- -	- -	- -	- -	- -	- -	- -	- -
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -
Total Secured by residential	$ 21,146	$ 57,755	$ 48,440	$ 45,047	$ 14,804	$ 52,839	$ 19,319	$ 259,350
Consumer (1)								
Pass	$ 1,092	$ 995	$ 890	$ 299	$ 93	$ 95	$ 225	$ 3,689
Special Mention	- -	- -	- -	- -	- -	- -	- -	- -
Substandard	- -	- -	- -	- -	- -	- -	- -	- -
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -
Total Consumer	$ 1,092	$ 995	$ 890	$ 299	$ 93	$ 95	$ 225	$ 3,689
All other loans								
Pass	$ 875	$ - -	$ 366	$ 188	$ 7	$ 6,634	$ 54	$ 8,124
Special Mention	- -	- -	- -	- -	- -	- -	- -	- -
Substandard	- -	- -	- -	- -	- -	- -	- -	- -
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -
Total All other loans	$ 875	$ - -	$ 366	$ 188	$ 7	$ 6,634	$ 54	$ 8,124
Total Recorded Investment	$ 68,288	$ 168,027	$ 131,438	$ 89,957	$ 52,562	$ 102,452	$ 38,636	$ 651,360
Gross Charge-offs during current period	$ 151	$ 14	$ 76	$ - -	$ - -	$ 3	$ 21	$ 265

(1) The company has a portfolio of smaller homogeneous loans that are not individually risk rated as per our policy, and include residential permanent and construction mortgage, home equity lines of credit, and consumer installment loans. For these loans management uses payment status as the primary credit quality indicator. None were classified as nonperforming at December 31, 2023, and are reflected in the above table in the pass categories.

Note 4. Allowance for Credit Losses (Continued)

The following table presents the credit quality at December 31, 2022:

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

Internal Risk Rating Grades	Pass	Special Mention	Sub-Standard	Doubtful	Loss
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	$355 548	$12 063	$3 490	$ - -	$ - -

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)

Non Risk Rated Loans	Performing	Nonperforming
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	$251 483	$ - -

Note 4. Allowance for Credit Losses (Continued)

Impaired Loans – By Class
December 31, 2022
(in thousands)

	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	- -	- -	- -	- -	- -
	$ 592	$ 571	$ 17	$ 587	$ 26
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	- -	- -	- -	- -	- -
	$ 592	$ 571	$ 17	$ 587	$ 26

At December 31, 2022, all impaired loans had a related allowance as noted in the table above.

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

Note 4. Allowance for Credit Losses (Continued)

Nonaccrual and Past Due Loans – By Class
December 31, 2023
(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	$358	$ - -	$ - -	$ 358	$ 34 190	$ 34 548	$- -	$ 29
Commercial real estate								
Owner occupied	--	182	2 666	2 848	115 333	118 181	- -	2 666
Non owner occupied	- -	- -	- -	--	192 796	192 796	- -	- -
Construction								
Residential	- -	- -	- -	--	6 447	6 447	- -	- -
Commercial	- -	- -	- -	--	21 206	21 206	- -	- -
Real estate								
Farmland	- -	- -	- -	--	7 019	7 019	- -	- -
Residential								
Revolving open end	- -	- -	- -	--	19 050	19 050	- -	- -
1 to 4 family – first liens	126	91	--	217	213 384	213 601	- -	- -
1 to 4 family – junior liens	- -	- -	- -	--	5 647	5 647	- -	- -
5 or more family	- -	- -	- -	--	21 052	21 052	- -	- -
Consumer	11	- -	--	11	3 678	3 689	- -	- -
All other	- -	- -	- -	--	8 124	8 124	- -	- -
Totals	$495	$273	$2 666	$3 434	$647 926	$651 360	$- -	$2 695
Percentage to Total Loans	0.08%	0.04%	0.41%	0.53%	99.47%		0.00%	0.41%

Note 4. Allowance for Credit 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	$ 451	$ - -	$ - -	$ 451	$622 133	$622 584	$ - -	$ - -
Percentage to Total Loans	0.07%	0.00%	0.00%	0.07%	99.93%		0.00%	0.00%

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.

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of December 31, 2023 (in thousands):

	Nonaccrual With No Allowance for Credit Loss	Nonaccrual With an Allowance for Credit Losses	Loans Past Due Over 89 Days Still Accruing
Commercial – non real estate			
Commercial and industrial	$ 29	- -	- -
Commercial real estate			
Owner occupied	2 666	- -	- -
	$2 695	$- -	$- -

Note 4. Allowance for Credit Losses (Continued)

The company recognized $14 thousand in interest income on nonaccrual loans during the year ended December 31, 2023.

The amount of interest that would have been recognized had these loans been on accrual in 2023 would have been $179 thousand.

The following table presents the amortized cost basis of collateral dependent loans on nonaccrual as of December 31, 2023 (thousands):

	December 31, 2023
Commercial real estate	
Owner occupied	$2 666
Total	$2 666

The company designates individually evaluated loans on nonaccrual status as collateral dependent loans, as well as other loans that management of the company designates as having higher risk and loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral. Under CECL, for collateral dependent loans, the company measures the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

The balance above as of December 31, 2023 consists of two loans. These loans are on nonaccrual and the fair value of the collateral is estimated to exceed the amortized cost and no allowance is required.

Modifications

Occasionally, the company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

During the year ended December 31, 2023 the company modified one loan with a balance as of December 31, 2023 of $235 thousand. This loan is performing according to the modified terms as of December 31, 2023. The concession included changing the contractual cash flows. During 2022 the company did not modify any loans that would have required classification as a Troubled debt restructuring (TDR).

As of December 31, 2023 the total modified loans with amortized cost totaling $235 thousand represented 0.7% of Commercial and Industrial loans.

Note 5. Premises and Equipment, Net

Premises and equipment consist of the following:

	December 31	
	2023	2022
	(in thousands)	
Premises and improvements	$10 618	$10 572
Furniture and equipment	5 097	5 038
	$15 715	$15 610
Less accumulated depreciation	9 750	9 164
	$ 5 965	$ 6 446

Depreciation included in noninterest expense for 2023 and 2022 was $586 thousand and $613 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.

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, 2023	December 31, 2022
Lease liabilities	$ 1 290	$ 1 565
Right-of-use assets, net	$ 1 236	$ 1 512
Weighted average remaining lease term	4.14 years	4.93 years
Weighted average discount rate	3.25%	3.19%

	For the Year Ended	
	December 31, 2023	December 31, 2022
Lease cost (in thousands)		
Operating lease cost	$378	$375
Variable lease cost	35	23
Short-term lease cost	5	5
Total lease cost	$418	$403
Cash paid for amounts included in the measurement of lease liabilities (in thousands):	$377	$367

Note 6. Leases (Continued)

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)
2024	$ 367
2025	352
2026	278
2027	238
2028	141
Thereafter	5
Total undiscounted cash flows	$1 381
Discount	(91)
Lease liabilities	$1 290

Note 7. Deposits

The aggregate amount of time deposits with a balance of $250,000 or more was $55.3 million and $40.1 million at December 31, 2023 and 2022, respectively. At December 31, 2023 one depositor had aggregate deposits of 11.5%. These deposits are collateralized by letters of credit. At December 31, 2022 there were no depositors with aggregate balances greater than 5% of total deposits.

At December 31, 2023, the scheduled maturities of all time deposits (in thousands) are as follows:

2024	$101 149
2025	15 676
2026	5 399
2027	4 271
2028	3 667
	$130 162

There were no brokered deposits at December 31, 2023 and December 31, 2022. Also included in total deposits were reciprocal deposits of $83.7 million and $48.3 million as of December 31, 2023 and 2022, respectively.

Deposits of the company's directors, executive officers and associates totaled $5.6 million at December 31, 2023 and totaled $5.4 million at December 31, 2022.

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 $2.8 million and $4.2 million as of December 31, 2023 and 2022, respectively.

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

	December 31	
	2023	2022
Balance outstanding at year end	$ 2 839	$15 902
Maximum balance at any month-end during the year	$13 217	$15 902
Average balance for the year	$ 5 454	$ 7 733
Weighted average rate for the year	1.54%	0.65%
Weighted average rate at year end	0.84%	2.61%

Note 8. Borrowings (Continued)

Long-term borrowings at December 31, 2023 consisted of FHLB Advances (in thousands):

	December 31	
	2023	2022
Balance outstanding at year end	$ 6 000	$- -
Maximum balance at any month-end during the year	$ 6 000	$- -
Average balance for the year	$ 5 589	$- -
Weighted average rate for the year	4.42%	- -
Weighted average rate at year end	4.42%	- -

Maturities of the long-term borrowings occur with $2.0 million maturing in each of the years 2025, 2026 and 2028, respectively.

Noncore funding capabilities, including borrowing, provide additional liquidity. The subsidiary bank maintains a federal funds line with three 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, 2023, the subsidiary bank had total credit available through these institutions of $276 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.

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 $328 thousand and $255 thousand in 2023 and 2022, 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, 2023 and 2022. While these liabilities are unfunded, life insurance has been obtained by the company to help offset these payments.

Note 9. Employee Benefit Plans (Continued)

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, 2023 and 2022.

	Pension Benefits		Other Postretirement Benefits	
	2023	2022	2023	2022
	(in thousands)		(in thousands)	
Change in benefit obligation:				
Benefit obligation, beginning	$ 7 586	$ 9 829	$ 122	$ 137
Interest cost	377	274	6	3
Actuarial loss (gain)	208	(1 933)	12	(1)
Benefits paid	(572)	(584)	(18)	(17)
Benefit obligation, ending	$ 7 599	$ 7 586	$ 122	$ 122
Change in plan assets:				
Fair value of plan assets, beginning	$ 9 167	$11 015	$ - -	$ - -
Actual return on plan assets	1 193	(1 264)	- -	- -
Employer contributions	- -	- -	18	17
Benefits paid	(572)	(584)	(18)	(17)
Fair value of plan assets, ending	$ 9 788	$ 9 167	$ - -	$ - -
Funded status at end of year	$ 2 189	$ 1 581	$(122)	$(122)
Accounts recognized on consolidated balance sheet as:				
Accrued benefit asset (cost)	$ 2 189	$ 1 581	$(122)	$(122)
Amounts recognized in accumulated other comprehensive loss consists of:				
Net actuarial loss (gain)	$ 1 453	$ 2 054	$ (78)	$(104)
Deferred tax (asset) liability	(362)	(513)	19	27
	$ 1 091	$ 1 541	$ (59)	$ (77)

The accumulated benefit obligation for the defined benefit pension plan was $7.6 million at December 31, 2023 and 2022, 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	
	2023	2022	2023	2022
	(in thousands)		(in thousands)	
Components of net periodic benefit income:				
Interest cost	$ 377	$ 274	$ 6	$ 3
Expected return on plan assets	(516)	(485)	- -	- -
Amortization of actuarial loss (gain)	132	148	(14)	(14)
Net periodic benefit income	$ (7)	$ (63)	$ (8)	$(11)
Other changes in plan assets and benefit obligations recognized as other comprehensive (income) loss:				
Net actuarial (gain) loss	$(469)	$ (184)	$ 12	$ (1)
Deferred tax	150	83	(7)	(3)
Amortization of actuarial (loss) gain	(132)	(148)	14	14
Total recognized as other comprehensive (income) loss	$(451)	$ (249)	$ 19	$ 10

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 $59 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 $12 thousand.

Assumptions

	Pension Benefits		Other Postretirement Benefits	
	2023	2022	2023	2022
Weighted-average assumptions used to determine net periodic benefit cost:				
Discount rate	5.17%	2.88%	5.70%	2.60%
Expected return on plan assets	5.82%	4.53%	- -	- -
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	4.98%	5.17%	5.35%	5.70%
Expected return on plan assets	5.76%	5.82%	- -	- -

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.

Note 9. Employee Benefit Plans (Continued)

Long-Term Rate of Return

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

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

The fair value (in thousands) of the company's pension assets as of December 31, 2023 and 2022, respectively, are as follows:

		Fair Value Measurement at December 31, 2023		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash & cash equivalents	$ 134	$ 134	$ - -	$- -
Equity securities				
U.S. companies	5 371	5 371	- -	- -
International companies	825	825	- -	- -
U. S. Treasury securities	1 261	- -	1 261	- -
U. S. Government Agencies	244	- -	244	- -
Corporate bonds				
U.S. companies	1 687	- -	1 687	- -
International companies	266	- -	266	- -
Total	$ 9 788	$6 330	$3 458	$- -

		Fair Value Measurement at December 31, 2022		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash & cash equivalents	$ 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	$ 9 167	$5 625	$3 542	$- -

Note 9. Employee Benefit Plans (Continued)

Asset Allocation

The pension plan's asset allocations at December 31, 2023 and 2022 by asset category are as follows:

	Plan Assets at December 31	
	2023	2022
Asset Category		
Equities	63%	60%
Fixed income/cash	37%	40%
Total	100%	100%

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

There was no company common stock included in the equity securities of the pension plan at December 31, 2023 and 2022.

Cash Flow

The company currently expects to make no contributions to its pension plan in 2024 and $17 thousand to its postretirement plan in 2024.

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

	Pension Benefits	Other Postretirement Benefits
2024	$ 607	$17
2025	610	16
2026	608	15
2027	598	14
2028	584	13
Thereafter	2 796	51

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 2023 and 2022.

	2023		2022	
	Average Shares (in thousands)	Per Share Amount	Average Shares (in thousands)	Per Share Amount
Basic earnings per common share	4 145	$1.75	4 142	$ 1.77
Effect of dilutive securities:	- -		- -	
Diluted earnings per common share	4 145	$1.75	4 142	$ 1.77

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 2020.

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, 2023 and 2022:

	2023	2022
Deferred tax assets:		
Reserve for credit losses	$1 734	$1 539
Other postretirement benefits	48	54
Net loan origination fees	228	229
Nonaccrual interest	44	- -
Lease liability	320	388
Paid time off (PTO) accrual	33	26
Employee stock incentive	93	69
Equity securities	19	- -
Securities available for sale	2 175	2 423
	$4 694	$4 728
Deferred tax liabilities:		
Depreciation	$ 200	$ 234
Equity securities	- -	1
Right of use asset	307	375
Unrealized gain investment fund	17	- -
Defined benefit pension plan	542	388
	$1 066	$ 998
Net deferred tax assets	$3 628	$3 730

The provision for income taxes charged to operations for the years ended December 31, 2023 and 2022 consists of the following (in thousands):

	2023	2022
Current tax expense	$2 228	$2 408
Deferred tax benefit	(139)	(329)
	$2 089	$2 079

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, 2023 and 2022 due to the following (in thousands):

	2023	2022
Computed "expected" tax expense	$1 964	$1 972
Increase (decrease) in income taxes resulting from:		
Tax exempt income	(131)	(128)
State income tax expense, net of federal benefit	250	225
Other	6	10
	$2 089	$2 079

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, 2024, the bank had available $11.5 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, 2021	$ (659)	$(1 703)	$(2 362)
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	(7 269)	(1 464)	(8 733)
Net unrealized holding gains on securities, net of tax of $248	745	- -	745
Change in benefit obligation and plan assets for pension and other postretirement benefits, net of tax of $143	- -	432	432
Balance at December 31, 2023	$(6 524)	$(1 032)	$(7 556)

Note 14. Accumulated Other Comprehensive Income (Loss) (Continued)

The following table presents information on amounts reclassified out of accumulated other comprehensive loss, by category during the years ended December 31, 2023 and 2022 (in thousands):

	2023	2022	Affected Line Item on the Consolidated Statements of Income
Available for sale securities			
Realized losses on securities available for sale, net	$(428)	$(367)	Losses on sales of securities available for sale
Tax effect	(107)	(92)	Income tax expense
Net of tax	$(321)	$(275)	Net of tax
Pension and other postretirement benefits			
Amortization of net actuarial loss (1)	$(118)	$(134)	Other operating expenses
Tax effect	(32)	(34)	Income tax expense
Net of tax	$ (86)	$(100)	Net of tax
Total reclassifications for the period	$(407)	$(375)	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 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, 2023 and 2022 (in thousands) is as follows:

	2023	2022
Financial instruments whose amounts represent credit risk:		
Commitments to extend credit	$106 116	$ 88 824
Standby letters of credit	1 233	363

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. The allowance for unfunded commitments was $304 thousand as of December 31, 2023, and is reflected in other liabilities in the consolidated financial statements. There were no charge-offs during 2023.

Note 15. Financial Instruments With Off-Balance-Sheet Risk (Continued)

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

Note 16. Fair Value Measurements

Determination of Fair Value

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

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

Fair Value Hierarchy

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

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

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

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

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

The carrying amounts and estimated fair values of the company's financial instruments are presented in the following tables (in thousands). Fair values for December 31, 2023 and 2022 were estimated using an exit price notion.

Note 16. Fair Value Measurements (Continued)

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

	Carrying Value	Fair Value Measurements at December 31, 2023 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Assets					
Cash and cash equivalents	$ 67 957	$ 67 957	$ - -	$ - -	$ 67 957
Certificates of deposits in other financial institutions	745	- -	705	- -	705
Securities available for sale	83 929	- -	83 929	- -	83 929
Equity securities	198	- -	198	- -	198
Loans held for sale	678	- -	678	- -	678
Loans, net	644 687	- -	- -	605 755	605 755
FHLB Stock	1 571	- -	1 571	- -	1 571
BOLI	13 566	- -	13 566	- -	13 566
Accrued interest receivable	2 003	- -	2 003	- -	2 003
Liabilities					
Deposits	$739 680	$ - -	$738 283	$ - -	$738 283
Short term borrowings	2 839	- -	2 839	- -	2 839
Long term borrowings	6 000		5 918	- -	5 918
Subordinated debt, net of issuance costs	9 897	- -	9 515	- -	9 515
Accrued interest payable	763	- -	763	- -	763

	Carrying Value	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)	Balance
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)

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).

		Fair Value Measurements at December 31, 2023 Using		
Description	Balance as of December 31 2023	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	$ 3 798	$- -	$ 3 798	$ - -
U.S. Treasuries	13 229	- -	13 229	- -
Mortgage-backed	55 599	- -	55 599	- -
State and municipal securities	4 327	- -	4 327	- -
Corporate securities	6 976	- -	6 976	- -
Total available for sale securities	83 929	- -	83 929	- -
Equity securities	198	- -	198	- -
Total securities	$84 127	$- -	$84 127	$ - -

		Fair Value Measurements at December 31, 2022 Using		
Description	Balance as of December 31 2022	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	$ - -

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:

Collateral Dependent Loans: Loans are designated as individually assessed when, in the judgment of management those loans do not share similar risk characteristics with other loans of that segment. The measurement of loss associated with individually assessed loans is based on the fair value of the collateral less estimated disposal costs. 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 credit losses on the consolidated statements of income. The carrying values of all individually assessed 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, 2023 and 2022.

Loans held for sale: Loans held for sale are carried at cost which approximates estimated fair value. As of December 31, 2023, there were $678 thousand 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, 2023. There were no loans held for sales as of December 31, 2022. 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, 2023 and 2022.

		Carrying Value at December 31, 2023		
Description	Balance as of December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Input (Level 3)
Assets				
Collateral dependent loans	$2 666	$- -	$- -	$2 666

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

	Quantitative information about Level 3 Fair Value Measurement for December 31, 2023			
	Fair Value (000s)	Valuation Technique(s)	Unobservable Input	Weighted Average (1)
Asset				
Collateral dependent loans	$2 666	Appraised values	Market discount	-0-%

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

(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 5.97% as of December 31, 2023. Management believes that as of December 31, 2023 and 2022, 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.

	Actual		Minimum Required – Including Capital Conservation Buffer (1)		Required To Be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2023:						
Total capital (to risk-weighted assets):						
Bank of Charles Town	$90 139	13.97%	$67 765	10.50%	$64 538	10.00%
CET 1 capital (to risk-weighted assets):						
Bank of Charles Town	$83 160	12.89%	$45 176	7.00%	$41 950	6.50%
Tier 1 capital (to risk-weighted assets):						
Bank of Charles Town	$83 160	12.89%	$54 857	8.50%	$51 630	8.00%
Tier 1 Leverage (to average assets):						
Bank of Charles Town	$83 160	9.77%	$34 049	4.00%	$42 561	5.00%

	Actual		Minimum Required – Including Capital Conservation Buffer (1)		Required To Be Considered Well Capitalized	
	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%

(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.

Wealth and Investments

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

Interchange fees

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

Secondary market income

Secondary market income is comprised of gains on sales of loans 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.

Note 19. Revenue (Continued)

Noninterest income disaggregated by major source, for the years ended December 31, 2023 and 2022, consisted of the following:

	Years Ended December 31,	
Noninterest income (in thousands):	2023	2022
Wealth and investments:		
Trust asset management fees (1)	$ 1 671	$ 1 457
Brokerage fees (1)	69	49
Service charges on deposit accounts:		
Overdraft & return check charges (1)	772	799
Charges - use of foreign ATMs (1)	122	116
Other service charges (1)	121	116
Secondary market income		
Wholesale/broker fee income (1)	129	32
Gain on sales of loans in the secondary market	549	595
Loss on sales of securities available for sale	(428)	(367)
Interchange fees (1)	2 028	1 991
Earnings on bank owned life insurance	322	305
Other operating income (2)	595	623
Total noninterest income	$ 5 950	$ 5 716

(1) Income within the scope of Topic 606.

(2) For 2023, includes other income within the scope of Topic 606 amounting to $475 thousand. For 2022, includes other income within the scope of Topic 606 amounting to $534 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, 2023, and December 31, 2022, 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, 2023 and 2022
(in thousands)

	2023	2022
ASSETS		
Cash	$ 177	$ 153
Investment in subsidiary	75 604	69 806
Equity securities, at fair value	199	224
Other assets	941	263
Total Assets	$76 921	$70 446
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Subordinated debt, net of unamortized issuance costs	$ 9 897	$ 9 839
Other liabilities	150	147
Total Liabilities	$10 047	$ 9 986
STOCKHOLDERS' EQUITY		
Common stock	$ 4 493	$ 4 493
Surplus	14 547	14 547
Undivided profits	58 884	53 647
Accumulated other comprehensive loss, net	(7 556)	(8 733)
	$70 368	$63 954
Less cost of shares acquired for the treasury	(3 494)	(3 494)
Total Stockholders' Equity	$66 874	$60 460
Total Liabilities and Stockholders' Equity	$76 921	$70 446

Note 20. Parent Company Only Financial Statements (Continued)

POTOMAC BANCSHARES, INC.
(Parent Company Only)
Statements of Income
Years Ended December 31, 2023 and 2022
(in thousands)

	2023	2022
Interest Expense		
Interest on subordinated debt	$ 557	$ 554
Total Interest Expense	557	554
Other Income		
Dividends from subsidiary	2 730	1 449
Other income	61	1
Total Other Income	2 791	1 450
Noninterest Expense		
Transfer agent expense	44	40
Director and committee fees	31	20
Legal fees	10	8
Other professional fees	36	43
Postage	11	10
Proxy solicitation	23	19
Printing, stationery and supplies	24	23
Other	10	7
Total Noninterest Expense	189	170
Income before Income Tax Benefit and Equity in Undistributed Income of Subsidiary	2 045	726
Income Tax Benefit	(145)	(152)
Income before Equity in Undistributed Income of Subsidiary	2 190	878
Equity in Undistributed Income of Subsidiary	5 074	6 433
Net Income	$7 264	$7 311

Note 20. Parent Company Only Financial Statements (Continued)

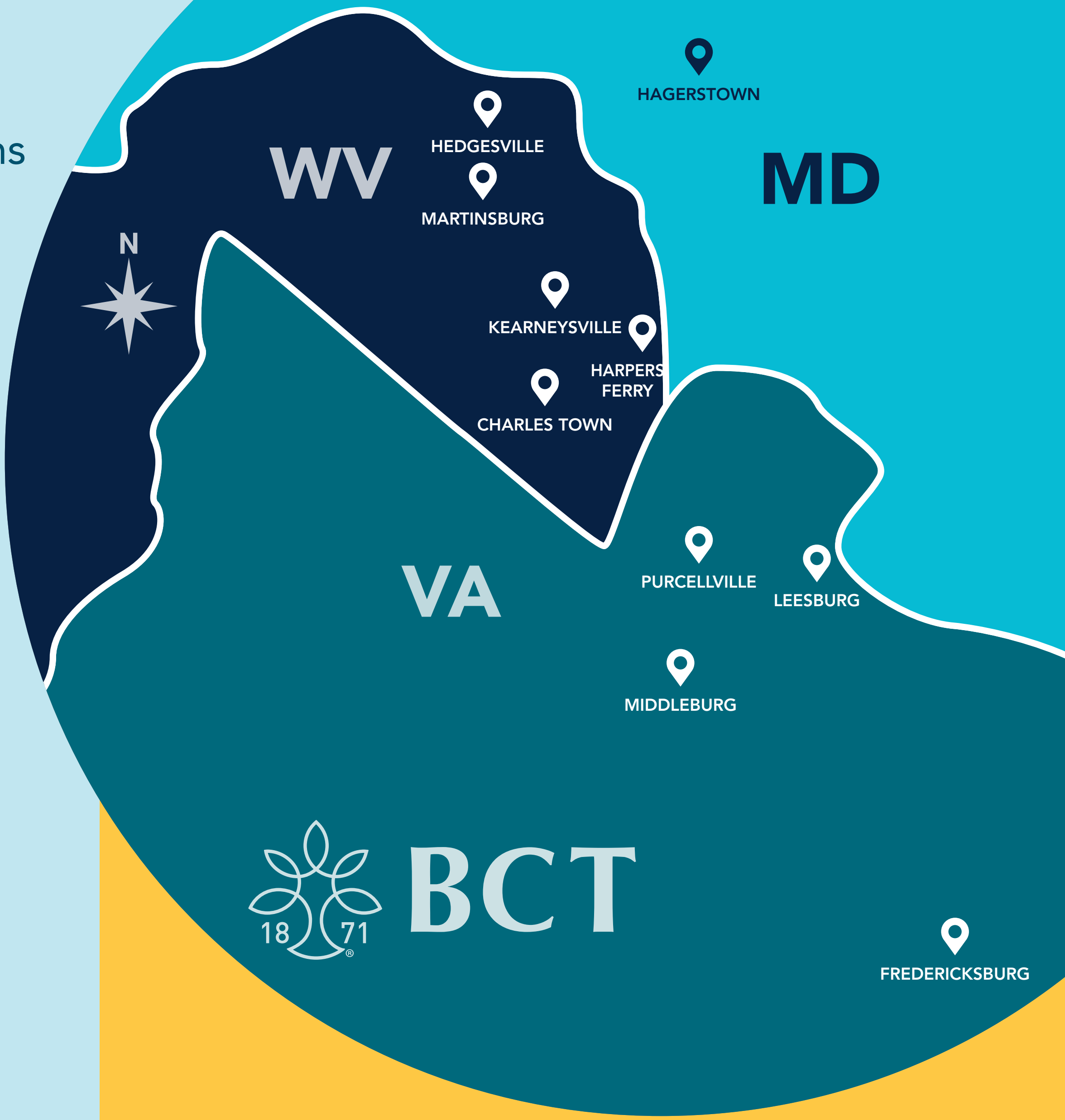
POTOMAC BANCSHARES, INC.
(Parent Company Only)
Statements of Cash Flows
Years Ended December 31, 2023 and 2022
(in thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7 264	$ 7 311
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of Subsidiary	(5 074)	(6 433)
Amortization of debt issuance costs	58	54
Fair value adjustment on equity securities	25	30
Increase in other assets	(178)	(41)
Increase (decrease) in other liabilities	4	(1)
Net cash provided by operating activities	$ 2 099	$ 920
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in equity security	$ (500)	$ - -
Net cash used in investing activities	$ (500)	$ - -
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock, net of issuance costs	$ --	$ 199
Cash dividends	(1 575)	(1 449)
Net cash used in financing activities	$(1 575)	$(1 250)
Increase (decrease) in cash and cash Equivalents	$ 24	$ (330)
CASH AND CASH EQUIVALENTS		
Beginning	$ 153	$ 483
Ending	$ 177	$ 153

Note 21. Subsequent Events

In preparing these financial statements, the company has evaluated events and transactions for potential recognition or disclosure through March 15, 2024, 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 Locations



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

VIRGINIA

FREDERICKSBURG—LENDING OFFICE ONLY
1125 Emancipation Highway, Suite 400
Fredericksburg, VA 22401
540.361.2612

LEESBURG
446 Madison Trade Plaza SE
Leesburg, VA 20175
703.777.6319

LEESBURG—LENDING OFFICE ONLY
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

MARYLAND

HAGERSTOWN
1101 Frederick Street
Hagerstown, MD 21740
301.739.4228

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 and 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

Equinity Trust Company, LLC ("EQ") (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 Equinity Trust Company directly with any questions.

Stock Transfer Agent

Equiniti Trust Company, LLC ("EQ")
48 Wall Street, Floor 23
New York, NY 10005
equiniti.com/us/

Annual Meeting
The annual shareholder meeting will be held in person on Tuesday, April 23, 2024 at 4:00 p.m. Eastern Time. The meeting will be followed immediately by a shareholder "reunion" reception. The meeting and reception will be held at BCT's main office at 111 E. Washington Street, Charles Town, WV 25414.

For any questions, please call Laura Hunter at 304.728.2453.

111 E. Washington Street

Charles Town, WV 25414

www.mybct.bank | OTC: PTBS

Postage

Potomac Bancshares, Inc.
Attn: Laura Hunter
P.O. Box 906
Charles Town, WV 25414-0906

Potomac Bancshares, Inc. Shareholder Meeting

Please bring family and friends!

Date: April 23, 2024
Time: 4:00 p.m. Eastern, followed by "reunion" reception
Locale: Bank of Charles Town (main lobby)
111 E. Washington Street
Charles Town, WV 25414
Parking: Use client and employee lots adjacent to the bank.

I/We plan to attend the Potomac Bancshares, Inc. annual shareholder meeting and the "reunion" reception immediately following on Tuesday, April 23, 2024, at 4:00 p.m. Eastern.

RSVP REQUIRED. Please RSVP by April 15, 2024.

(List names of all attending)

____
____
____

To RSVP by email:

- Address: lhunter@mybct.bank
- Subject line: RSVP for PTBS
- In body:
  - Type YES.
  - Provide name(s) and contact information for all shareholders attending with you

1871 POTOMAC BANCSHARES