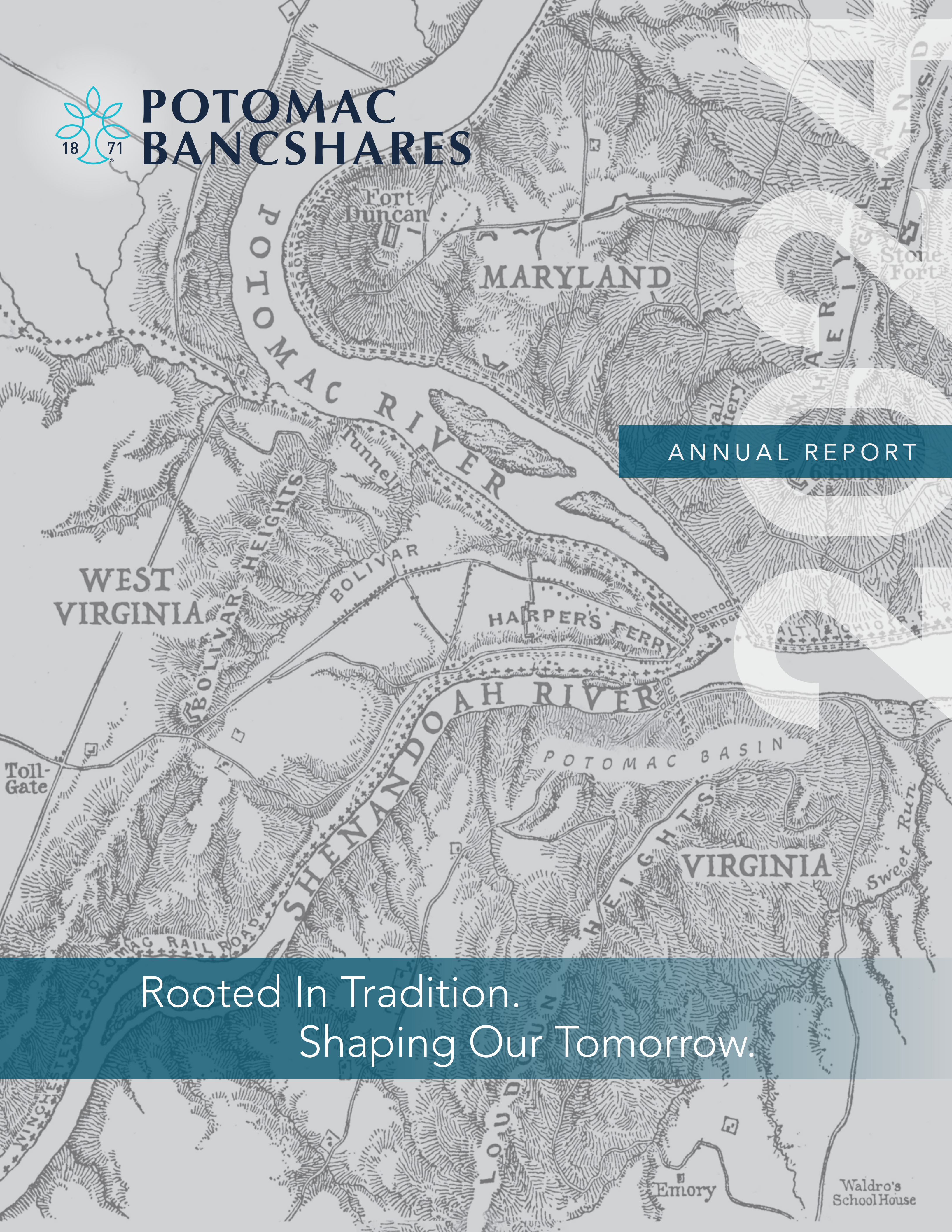

POTOMAC BANCSHARES

1871

2021

ANNUAL REPORT

Rooted In Tradition.
Shaping Our Tomorrow.

HIGHLIGHTS

2024

FINANCIAL HIGHLIGHTS

Total Assets	Total Loans	Total Deposits	Noninterest Bearing Deposits
$877.3 Million	$704.1 Million	$754.4 Million	$172.4 Million
2023 $830.7 Million	2023 $651.4 Million	2023 $739.7 Million	2023 $161.6 Million
2022 $756.1 Million	2022 $622.6 Million	2022 $665.4 Million	2022 $162.0 Million

Adjusted Earnings Per Share[1]	Tangible Book Value Per Share	Adjusted Return On Assets[1]	Adjusted Return On Equity[1]
$1.80	$17.71	0.87%	10.69 %
2023 $1.83	2023 $16.14	2023 0.95 %	2023 12.13 %
2022 $1.83	2022 $14.59	2022 1.03 %	2022 12.84 %

[1]*Unaudited non-GAAP financial measures exclude the impact of net losses on sale of securities.*

RECOGNITION

A Firm Foundation For A Strong Future

BCT continued to be recognized by industry, business, and community leaders as a top performer in 2024. An essential component of our success is an uncompromised focus by our leaders on our Core Values and commitment to providing exceptional client experiences, day in and day out.

DEAR SHAREHOLDERS,

As we reflect on the past year, we are proud to share the remarkable progress and achievements of our community bank. Our vision to be a high-performing presence in all the markets we serve and to become the clear bank of choice for businesses and community members has guided our efforts and driven our success.

Financial Highlights:

- **Total Assets:** Grew by 6%, or $46.6 million, reaching $877.3 million as of December 31, 2024.
- **Total Loans:** Increased by 8%, or $52.7 million, totaling $704.1 million at year-end.
- **Total Deposits:** Rose by $14.7 million, or 2%, to $754.4 million as of December 31, 2024.
- **Net Income:** Achieved $6.8 million for the year ended December 31, 2024, with basic earnings per share of $1.65.
- **Capital Position:** Remains strong with a leverage ratio of 9.92%, allowing for continued growth.
- **Asset Quality:** Remained pristine, with non-performing assets at 0.30% of total assets, compared to 0.32% the previous year.

Investing in Our Future: We continue to invest in our long-term future with the expansion into Eastern Loudoun through our new loan production office to support the steady growth in this market. In addition, we will always add talented teammates in all of the markets we serve and deploy technologies to support operational efficiency, ensuring we remain at the forefront of banking innovation and service excellence.

Our Culture and Vision: Our culture is the cornerstone of our success. We strive to create an environment that organically attracts individuals who want to be part of the BCT team, whether as employees, advocates, board members, or clients. This inclusive and dynamic culture has been instrumental in fostering a sense of belonging and purpose among all stakeholders.

We live our motto, "neighbors helping neighbors grow our communities." The BCTCares Foundation, our well-known and effective foundation, is dedicated to serving the food-insecure within our communities. This year, our fourth annual Pack the 'Pack campaign, designed to raise money for four food-insecure nonprofits that feed children, successfully raised $90,000. It is richly rewarding to see the commitment of our team and clients driven to see our community thrive.

We are known for our authentic and trustworthy conversations with our clients. Each experience is designed to make our clients feel welcomed, as if they are entering our home as a valued guest, regardless of the size of their balance sheets or income. This approach has been pivotal in building lasting relationships and trust within our community.

Honoring Our Retirees: This past year, we celebrated the retirements of two esteemed executives, Tim Lewis and Dean Cognetti. Tim joined the company in 2004, bringing his deep knowledge of deposit operations and technology, which later expanded into leading our retail banking offices and more. His deep roots in the community and relationships with our clients and shareholders provided invaluable insights into our growth initiatives. Dean's expertise was crucial during the financial crisis, navigating the company's return to profitability and contributing greatly to today's growth. We appreciate their many contributions and will be forever grateful for their commitment to BCT.

Looking Ahead: As we move forward, we remain dedicated to our vision of being a high-performing presence in all the markets we serve. We will continue to focus on delivering exceptional value to our clients, supporting the growth of local businesses, and enhancing the well-being of our communities.

Together with the Board of Directors, we thank and appreciate the hard work of our teammates who passionately deliver on our vision each day. We also thank you, our shareholders, for your continued trust and support. Together, we will achieve even greater heights in the coming year.

Warm regards,

Alice P. Frazier

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

Keith B Berkeley

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

SHAPING OUR TOMORROW

BUILDING ON OUR RICH HISTORY

Since 1871, our community bank has been a steadfast pillar in the community, deeply rooted in the values and traditions that have guided us since our inception. We take immense pride in our rich heritage, which is reflected in our commitment to personalized service, local decision-making, and community involvement. Our history is a testament to our resilience and dedication to serving generations of families and businesses. By honoring our past, we continue to build trust and foster relationships that stand the test of time.

SHAPING OUR TOMORROW

As we look to the future, we are intentional in our efforts to innovate and adapt to the evolving needs of our clients. Embracing modern technology and sustainable practices, we aim to provide practical yet innovative financial solutions while maintaining the personal touch that sets us apart. Our vision is to be a solid, high-performing presence in West Virginia, Maryland, and Virginia, becoming the clear bank of choice for businesses and members of our community. By investing in our people, technology, and community, we are shaping a future where our bank remains a trusted partner for generations to come.

“WE ARE INTENTIONAL IN OUR EFFORTS TO INNOVATE AND ADAPT TO THE EVOLVING NEEDS OF OUR CLIENTS.”

COMMUNITY FOCUS

BUILDING A LEGACY OF CARING

BCT considers community involvement an essential part of our ethical and strategic planning culture. Participating in our local communities is how we fully understand economic and social dynamics that provides clarity on how best to deliver services and investments in local economies. Being a strong community partner also helps us properly invest in the prosperity of our neighbors.

EMPLOYEES VOLUNTEERED OVER	EMPLOYEES THAT VOLUNTEERED	ORGANIZATIONS SUPPORTED
1,755 HOURS	70 PEOPLE	71 ORGS

FIGHTING FOOD INSECURITY

$125,000 Distributed to Local Charities

BCTCares Foundation distributed $125,000 to local charities who help fight food insecurity for children and families. Funds were a combination of $90,000 in donations raised through our annual Pack the ‘Pack campaign and $35,000 in contributions made by BCT-Bank of Charles Town.

The Pack the ‘Pack campaign funded over 5,600 student backpacks filled with enough food for a weekend. This food not only helps provide essential nutrition for the physical and mental development of local children, it also helps their families. Our four backpack partner charities each received $22,500 from the Pack the ‘Pack program. Eight other food charities received a total of $35,000 through BCT's charitable giving. Since 2019, BCTCares has distributed over $440,000 to fight food insecurity in our local communities.

2024 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.

KEITH B. BERKELEY, D.V.M.
Chairman of the Board, Potomac Bancshares and Bank of Charles Town, Veterinarian/Owner, Valley Equine Associates *(Retired)*

ALICE P. FRAZIER
President & CEO, Potomac Bancshares and Bank of Charles Town

KRISTINA BOUWEIRI
President & CEO, Reston Limousine

J. SCOTT BOYD
Pharmacist/President, Jefferson Pharmacy
Pharmacist/President, JSB Enterprises

NORMAN M. CASAGRANDE
Retired Location Manager, BMC East
Member, MAC Industries

MARGARET M. COGSWELL
CEO, Hospice of the Panhandle *(Retired)*

MICHAEL HUBER
Founder and CEO of Belfort Furniture and Stone Tower Winery

MITESH B. KOTHARI, M.D.
Managing Member, Capital Women's Care

ANDREW C. SKINNER
Attorney/Owner, Skinner Law Firm

WILLIAM "BILL" A. WHITE
Consultant
Retired CFO and Corporate Secretary
First Bauxite Corporation

ANTHONY P. ZELENKA
Retired President & CEO, WVU Medicine Berkeley Medical Center and Jefferson Medical Center

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

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

Jamila Jones-Fleet
Innovation Technology Solutions

Amy N. Panzarella
Amy N. Panzarella, LLC

Kenny Roberts
Invariant

Lisa Younis
Younis Orthodontics

Loudoun County, VA Advisory Board

Kristina Bouweiri
Chair, Reston Limousine

Paige Buscema
Eyetopia

Bob Caines
The Bob Caines Team, Re/Max

Gary Clemens
Loudoun County Circuit Court

Matthew Lowers
Wholesale Screening Solutions

Chauvon McFadden
Crimson Wealth Strategies

Susan Mitchell
Guardians of Honor, LLC

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

Kevin O'Leary
Coldwell Banker Innovations

Ted Reeder III, CPA
Tiger's Eye Benefits Consulting

John H. Roney II
Retired Banker

Christopher Smith
Manor House Builders

18 71®

POTOMAC BANCSHARES, INC.
Charles Town, West Virginia

NOTICE OF REGULAR ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD MAY 20, 2025

To the Shareholders:

The Regular Annual Meeting of Shareholders of Potomac Bancshares, Inc. (the "Company") will be held in person at the Bavarian Inn, 164 Shepherd Grade Road, Shepherdstown, West Virginia, at 4:30 p.m., Eastern Time, on May 20, 2025, for the purposes of considering and voting upon proposals:

1. To elect a class of directors for a term of three years;
2. To ratify the appointment of Yount, Hyde & Barbour, P.C., as the Company's independent auditors for the year ending December 31, 2025; 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 March 18, 2025, shall be entitled to notice of the meeting and to vote at the meeting.

By Order of the Board of Directors

M. Shane Bell
Secretary

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 MAY 20, 2025 - THE PROXY STATEMENT AND 2024 ANNUAL REPORT ARE AVAILABLE AT WWW.PROXYVOTE.COM.

April 2, 2025

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 – MAY 20, 2025

Potomac Bancshares, Inc. (the "Company") is furnishing this statement in connection with its solicitation of proxies for use at its annual meeting of shareholders to be held on May 20, 2025, at the time and for the purposes set forth in the accompanying notice of regular annual meeting of shareholders.

Solicitation of Proxies

The Company's management, at the direction of the Company's Board of Directors (the "Board"), 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 the Company in person,
- giving written notice to the Company of the revocation of the proxy,
- submitting to the Company a subsequently dated proxy, or
- attending the meeting and withdrawing the proxy before it is voted at the meeting.

The Company will pay the expenses of this proxy solicitation. In addition to this solicitation by mail, officers and other employees of the Company and its subsidiary, Bank of Charles Town (the "Bank") 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 the Company's bylaws, the Board of Directors has fixed March 18, 2025, 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 Company's common stock were outstanding and entitled to vote. As of the record date, the Company had a total of approximately 1,200 shareholders.

PURPOSES OF THE MEETING

1. ELECTION OF DIRECTORS

General

The Company'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 currently eleven directors on the Board, three of whom are nominees for election at the 2025 annual meeting to serve for a term of three years and until the election and qualification of their respective successors.

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 common stock to satisfy the requirements of federal law, state law and the bylaws of the Company.

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

The Company’s bylaws provide that nominations for election to the Board of Directors, other than those made by or on behalf of the Company’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 Bancshares, Inc.

Nominees	**Age**	**Served As Director of the Company Since**	**Family Relationship With Other Nominees**	**Year in Which Term Expires**	**Principal Occupation or Employment Last Five Years**
<u>For a term of three years:</u>					
J. Scott Boyd	68	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.
Michael Huber	67	2023	None	2025	Founder & CEO Belfort Furniture, Inc., and Founder of Stone Tower Winery.
Dr. Mitesh B. Kothari, M.D.	55	2019	None	2025	Health Care Consultant, Retired Physician, Former Managing Member of Capital Women's Care, Washington County, Maryland; Chairperson, Bank of Charles Town Washington County, Maryland Advisory Board.

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 the Company Since	Family Relationship With Other Nominees	Year in Which Term Expires	Principal Occupation or Employment Last Five Years
Dr. Keith B. Berkeley	66	2008	None	2027	Retired Veterinarian, Prior President of Valley Equine Associates, Jefferson County, West Virginia. Chairperson of The Board, Potomac Bancshares, Inc., and Bank of Charles Town.
Kristina Bouweiri	62	2019	None	2026	President & CEO, Reston Limousine, Loudoun County, Virginia.
Norman M. Casagrande	65	2013	None	2026	Member, MAC Industries, LLC Berkeley County, West Virginia. Retired Location Manager, BMC East, LLC.
Margaret M. Cogswell	66	2003	None	2026	Retired Chief Executive Officer, Hospice of the Panhandle, Berkeley, Hampshire, Jefferson, and Morgan Counties, West Virginia.
Alice P. Frazier	60	2017	None	2027	Employed by Potomac Bancshares, Inc., and Bank of Charles Town as of July 5, 2017, as President and Chief Executive Officer.
Andrew C. Skinner	54	2017	None	2026	Attorney/Owner, Skinner Law Firm. Jefferson County, West Virginia.
William A. White	67	2020	None	2027	Retired CFO and Corporate Secretary, First Bauxite Corporation.
Anthony P. Zelenka	71	2015	None	2027	Retired President and Chief Executive Officer of WVU Medicine – Berkeley Medical Center and Jefferson Medical Center.

Dr. Keith B. Berkeley is the Chairperson of the Board of Directors of the Company 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 was a veterinarian and business owner in the Eastern Panhandle of West Virginia for 20 plus years. Dr. Berkeley earned his Doctor of Veterinary Medicine from the Tuskegee Institute. Dr. Berkeley was elected to the Board for his business experience and his knowledge of the Company's market areas by virtue of his relationship with the community through his veterinary practice and as a successful businessperson. 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, Opportunity Scholars, Northern Virginia Community College Foundation, and the Northern Virginia Chamber of Commerce. She is a current board member of the Loudoun Senior Executive Council, Mansion on O Street, and Enterprising Woman Magazine. Ms. Bouweiri also serves as trustee of the Loudoun Education Foundation. Bouweiri founded the Sterling Women business networking luncheon 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 a 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 the Company in both Berkeley and Jefferson Counties. He has more than 30 years of business experience as well as his contacts with an array of people from the communities the Company serves. Mr. Boyd has attended the FDIC/West Virginia Community Bankers Directors College.

Norman M. Casagrande has 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 life and as a result, has several contacts within the Company'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. 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.

Alice P. Frazier has over 34 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, Inc., and Bank of Charles Town. Before joining Cardinal, she was Senior Vice President and Area Executive for BB&T in the Loudoun County, VA market. Ms. Frazier began her banking career at Middleburg Financial Corporation in 1991 serving as Chief Financial Officer and later Chief Operating Officer. Prior to her banking career, she worked in public accounting with a national and a regional firm. Ms. Frazier is a graduate of Radford University and Stonier Graduate School of Banking. She is a past Chair of the Virginia Association of Community Banks. Ms. Frazier has served as chair of various committees and as at large director with the Independent Community Bankers of America (ICBA) where she currently serves as Chair-Elect. She is a current board member of the Loudoun County Economic Development Authority, Loudoun County Chamber of Commerce, WVU East Hospital System, and 100 Women Strong. 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 from 2023 through 2025.

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 Senior Executive Council 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.

Dr. Mitesh B. Kothari retired from his medical career after 25-year career building one of the largest Women's Health practices in the United States. He currently serves as a consultant to the medical industry and to venture capital organizations seeking to make healthcare investments. He is also active in medical real estate in the region. Dr. Kothari has served on the Bank's Washington County, Maryland advisory board since 2014 and currently serves as chairperson. He joined the board of the Company and the Bank in 2019. Additionally, Dr. Kothari is active in his community as is evidenced by his service on many community boards including Meritus Medical Center Foundation, University of Maryland Alumni Association, University of Maryland System, Leadership Washington County, YMCA, Habitat for Humanity, and the Airport Advisory Commission. In addition, he is Past-Chairman of the Board for the Community Foundation of Washington County, 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.

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 36 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, where he led efforts in its successful Initial Public Offering process. Prior to this, he served in various financial positions at Union Carbide from 1985 until 1991 and worked for a regional public accounting firm. Mr. White is a graduate of Marshall University with a BBA in Business Administration – Accounting. He served as a volunteer member of the Executive Committee (Past President) of the Eastern West Virginia Community Foundation and as a volunteer for the WVU Hospital East Foundation as a member of its investment committee. He is currently a member of the Midlothian, VA Rotary. He is the current Chairperson of the Audit Committee of the Board of Directors of the Company 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 226,464 shares as a group. These shares represent, in aggregate, 5.46% of the common stock of Potomac Bancshares, Inc. The information is furnished as of February 28, 2025, on which date 4,144,561 shares were outstanding.

Compensation of Directors

Name (1)	Total ($)
Dr. Keith B. Berkeley	37,200
Kristina Bouweiri	31,400
J. Scott Boyd	35,100
Norman M. Casagrande	35,400
Margaret M. Cogswell	31,900
Alice P. Frazier	23,300
Michael Huber	32,950
Dr. Mitesh B. Kothari, M.D.	33,800
Andrew C. Skinner	29,500
William A. White	31,600
Anthony P. Zelenka	32,900

(1) Compensation of directors is determined by 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

The Company 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 the Company and the Bank, did not involve more than the normal risk of collectability or present other unfavorable features.

The Company 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 people. 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 the Company for the calendar year 2025. If the shareholders do not ratify the appointment of Yount, Hyde & Barbour, P.C., the committee will consider the appointment of other auditors. The Company is advised that no member of this accounting firm has any direct or indirect material interest in Potomac Bancshares, Inc., 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 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 the Company’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 Bancshares, Inc. 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, the people 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 Secretary M. Shane Bell, Potomac Bancshares, Inc., P.O. Box 906, Charles Town, West Virginia 25414. Any proper communication 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 Bavarian Inn, 164 Shepherd Grade Road, Shepherdstown, West Virginia, at 4:30 p.m., Eastern Time, on May 20, 2025.

M. Shane Bell
Secretary

Charles Town, West Virginia
April 2, 2025

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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, 2024, and 2023, the related consolidated statements of income, comprehensive income, changes in shareholders' 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, 2024, and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

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

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the general business information, letter to shareholders, notice of annual meeting, and proxy statement. 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 20, 2025

POTOMAC BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2024 and 2023
(in thousands, except share and per share data)

	2024	2023
ASSETS		
Cash and due from banks	$ 5,143	$ 3,521
Interest-bearing deposits in other financial institutions	59,621	65,181
Securities, available-for-sale, at fair value	77,385	83,929
Equity securities, at fair value	241	198
Restricted securities, at cost	2,103	1,571
Loans held for sale	1,506	678
Loans, net of allowance for credit losses of $6,977 in 2024 and $6,673 in 2023	697,132	644,687
Premises and equipment, net	8,099	5,965
Accrued interest receivable	2,283	2,003
Bank owned life insurance	13,976	13,566
Other assets	9,860	9,415
Total Assets	$877,349	$830,714
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Noninterest-bearing	$172,387	$161,622
Interest-bearing	581,971	578,058
Total deposits	$754,358	$739,680
Short term borrowings	3,170	2,839
Long term borrowings	31,000	6,000
Subordinated debt, net of unamortized issuance costs	9,958	9,897
Accrued interest receivable	1,266	763
Other liabilities	4,181	4,661
Total liabilities	$803,933	$763,840
SHAREHOLDERS' EQUITY		
Common stock, $1 per share par value, 10,000,000 shares authorized, 4,493,251 issued and outstanding at December 31, 2024 and December 31, 2023	$ 4,493	$ 4,493
Surplus	14,547	14,547
Retained earnings	63,806	58,884
Accumulated other comprehensive loss, net	(5,936)	(7,556)
	$ 76,910	$ 70,368
Less cost of shares acquired for the treasury, 348,690 shares in 2024 and 2023	(3,494)	(3,494)
Total shareholders' equity	$ 73,416	$ 66,874
Total liabilities and shareholders' equity	$877,349	$830,714

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
December 31, 2024 and 2023
(in thousands, except share and per share data)

	2024	2023
Interest and dividend income		
Interest and fees on loans	$34,858	$31,145
Interest on securities available for sale – taxable	2,656	2,162
Interest on securities available for sale – nontaxable	114	114
Other interest and dividends	4,064	2,162
Total interest and dividends	$41,692	$35,583
Interest expense		
Interest on deposits	$13,336	$ 8,676
Interest on short term borrowings	30	84
Interest on long term borrowings	691	250
Interest on subordinated debt	560	557
Total interest expense	$14,617	$ 9,567
Net interest income	$27,075	$26,016
Provision for credit losses	511	222
Net interest income after provision for credit losses	$26,564	$25,794
Noninterest income		
Wealth and investments	$ 1,948	$ 1,740
Service charges on deposit accounts	1,057	1,015
Secondary market income	994	678
Interchange fees	2,065	2,028
Earnings on bank owned life insurance	410	322
Gain on sale of loans held for sale	102	- -
Net gain on disposal of premises and equipment	2	- -
Net loss on sales of securities available for sale	(783)	(428)
Other operating income	602	595
Total noninterest income	$ 6,397	$ 5,950
Noninterest expense		
Salaries and employee benefits	$13,003	$12,362
Occupancy	1,128	1,030
Equipment	1,439	1,393
Accounting, audit, and compliance	261	254
Advertising and public relations	391	396
Computer services and online banking	1,641	1,450
FDIC assessment	387	361
Other professional fees	648	518
Trust professional fees	554	359
Director fees	356	353
Legal fees	246	155
Printing, stationery, and supplies	249	255
Communications	414	384
ATM & check card expenses	998	1,003
Other operating expenses	2,446	2,118
Total noninterest expenses	$24,161	$22,391
Income before income tax expense	$ 8,800	$ 9,353
Income tax expense	1,971	2,089
Net Income	$ 6,829	$ 7,264
Earnings per common share, basic and diluted	$ 1.65	$ 1.75

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
December 31, 2024 and 2023
(in thousands)

	2024	2023
Net income	$ 6,829	$ 7,264
Other comprehensive income:		
Unrealized holding gain on securities, net of tax of $73 and $141, respectively	219	424
Reclassification adjustments for losses included in net income, net of tax of $196 and $107, respectively	587	321
Net pension and other postretirement actuarial gain arising during the period net of tax of $260 and $115, respectively	778	346
Amortization of net actuarial loss included in net periodic benefit cost net of tax of $12 and $28, respectively	36	86
Other comprehensive income, net of tax	$ 1,620	$ 1,177
Comprehensive income	$ 8,449	$ 8,441

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2024 and 2023
(in thousands, except share and per share data)

	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss, net	Total
Balances, December 31, 2022	$4,493	$14,547	$53,647	$ (3,494)	$ (8,733)	$ 60,460
Adoption of new accounting standard (ASU 2016 - 13)	- -	- -	(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
Net income	- -	- -	6,829	- -	- -	6,829
Other comprehensive income	- -	- -	- -	- -	1,620	1,620
Cash dividends ($0.46 per share)	- -	- -	(1,907)	- -	- -	(1,907)
Balances, December 31, 2024	$4,493	$14,547	$63,806	$ (3,494)	$ (5,936)	$ 73,416

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
December 31, 2024 and 2023
(in thousands)

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,829	$ 7,264
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses on loans	414	163
Provision for credit losses on unfunded commitments	97	59
Depreciation and amortization	856	917
Net gain on disposals of premises and equipment	(2)	- -
Deferred tax benefits	(380)	(139)
(Discount accretion) premium amortization on securities, net	(19)	63
Net loss on sale of securities available for sale	783	428
Fair values adjustment on equity securities	(43)	26
Increase in loans held for sale	(828)	(678)
Gain on sale of loans held for investment	(102)	- -
Earnings on bank owned life insurance	(410)	(322)
Amortization of debt issuance costs	61	58
Changes in assets and liabilities:		
Increase in accrued interest receivable	(280)	(300)
Decrease in other assets	185	7,172
Increase in accrued interest payable	503	400
(Decrease) increase in other liabilities	(602)	259
Net cash provided by operating activities	$ 7,062	$ 15,370
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity of certificates of deposits in other financial institutions	$ 245	$ - -
Proceeds from sale of securities available for sale	27,191	11,586
Proceeds from maturities and principal repayments of securities available for sale	9,546	5,302
Purchases of securities available for sale	(29,883)	(11,796)
Proceeds from sales of loans held for sale	2,197	- -
Net increase in loans	(54,954)	(28,826)
Investment in equity securities	- -	(500)
Purchased of premises and equipment	(2,667)	(105)
Purchases of restricted securities, net	(532)	(261)
Net cash provided by investing activities	$ (48,857)	$ (24,600)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in noninterest-bearing deposits	$ 10,765	$ (350)
Net increase in interest-bearing deposits	3,913	74,561
Net proceeds (repayment) of short term borrowings	331	(13,063)
Net proceeds from long term borrowings	25,000	6,000
Cash dividends	(1,907)	(1,575)
Net cash provided by financing activities	$ 38,102	$ 65,573
(Decrease) increase in cash and cash equivalents	$ (3,693)	$ 56,343
CASH AND CASH EQUIVALENTS		
Beginning	67,957	11,614
Ending	$ 64,264	$ 67,957
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 14,053	$ 9,103
Income taxes	$ 1,571	$ 2,410
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain on securities available for sale	$ 1,074	$ 993
Change in benefit obligations and plan assets for pension and other postretirement benefits	$ 1,086	$ 575
Liabilities assumed to acquire right of use assets under operating leases	$ - -	$ 55
Cumulative change in accounting principle	$ - -	$ (452)

See 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, and Loudoun 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 Bank's headquarters is located at 111 East Washington Street, Charles Town, West Virginia and its products and services are delivered through nine bank branch offices, two loan production offices, and online and mobile banking platforms.

The Bank also offers deposit products to the same primary market area as loans. These products include noninterest-bearing and interest-bearing checking accounts, money market accounts, savings accounts, and certificates of deposit in various terms. The Bank offers investment management, trust and estate services, and comprehensive financial planning through a department doing business as BCT Wealth Advisors. The Bank also offers brokerage, investment, and insurance products through a department doing business as 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.

Adoption of New Accounting Standard

The Company adopted the current expected credit loss model ("CECL") under Accounting Standards ("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 thousand reduction to shareholders' equity as compared to December 31, 2022, and consisted of adjustments to the allowance for credit losses on loans of $358 thousand as well as an adjustment to the Company's reserve

Adoption of New Accounting Standard (Continued)

for unfunded loan commitments in the amount of $245 thousand, net of tax of $151 thousand. 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.

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 was effective for public business entities for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption was permitted for all entities in any interim period. The Company adopted ASU 2023-02 on January 1, 2024 and it did not have a material impact on its 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. Restricted securities are comprised of FHLB stock and is 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 $317 thousand at December 31, 2024 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.

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

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 $2.0 million at December 31, 2024 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 recognized losses when it became probable that a credit loss would have been 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 include 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 are 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.

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. Credit Administration controls the report. 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 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 total. As of December 31, 2024, there were $1.5 million of loans held for sale. As of December 31, 2023, there were $678 thousand of loans held for sale.

Premises and Equipment

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

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

Other Real Estate Owned

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

There was no foreclosed residential real estate as of December 31, 2024 and December 31, 2023 as a result of obtaining physical possession of the property. As of December 31, 2024 and December 31, 2023 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 post retirement 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 represent 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 exceed 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 was no unrecognized tax benefits recorded as of December 31, 2024 and 2023. 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 $500 thousand as of December 31, 2024 and $745 thousand as of December 31, 2023 are not included in cash and cash equivalents. These balances typically have maturities greater than 90 days.

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

BCT Wealth Advisors and BCT Investments

Securities and other property held by BCT Wealth 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 $391 thousand and $396 thousand in 2024 and 2023, 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 have 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 the previous year’s net income or shareholders’ equity.

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

Recent Accounting Pronouncements

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.

In November 2024, the Financial Accounting Standards Board (FASB) issued ASU 2024-03, "Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses." ASU 2024-03 requires public companies to disclose, in the notes to the financial statements, specific information about certain costs and expenses at each interim and annual reporting period. This includes disclosing amounts related to employee compensation, depreciation, and intangible asset amortization. In addition, public companies will need to provide qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively. The FASB subsequently issued ASU 2025-01, "Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date", which amends the effective date of ASU 2024-03 to clarify that all public business entities are required to adopt the guidance in ASU 2024-03 in annual reporting periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027. Early adoption of ASU 2024-03 is permitted. Implementation of ASU 2024-03 may be applied prospectively or retrospectively. The Company does not expect the adoption of ASU 2024-03 to have a material impact on its consolidated financial statements.

Note 2. Securities

There were no securities held to maturity as of December 31, 2024 and 2023.

The amortized cost and fair value of securities available for sale (in thousands) as of December 31, 2024 and 2023 are as follows:

	2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Obligations of U.S. Government sponsored agencies	$ 4,467	$ 3	$ (6)	$ 4,464
Mortgage-backed	68,696	117	(6,813)	62,000
State and municipal obligations	4,597	28	(408)	4,217
Corporate securities	7,250	- -	(546)	6,704
	$85,010	$148	$(7,773)	$77,385

Note 2. Securities (Continued)

	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

No allowance for credit losses was recognized as of December 31, 2024 or December 31, 2023 related to the Company's investment portfolio.

The Company held equity securities with readily determinable fair values which totaled $241 thousand at December 31, 2024 and $198 thousand at December 31, 2023 which are presented separately on the consolidated balance sheet. The fair value adjustment recorded through earnings in other operating income totaled $(43) thousand and $26 thousand for the twelve months ended December 31, 2024 and December 31, 2023, respectively.

The amortized cost and fair value of the securities available for sale as of December 31, 2024 (in thousands), by contractual maturity, are shown below:

	Amortized Cost	Fair Value
Due after one year through five years	$ 2,799	$ 2,737
Due after five years through ten years	11,651	10,853
Due after ten years	70,560	63,795
	$ 85,010	$77,385

Proceeds of the sales of securities during 2024 were $27.2 million. Gross losses of $783 thousand were realized on those sales. The tax benefit applicable to these realized losses amounted to $196 thousand. 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 losses amounted to $107 thousand.

The primary purpose of the investment portfolio is to generate income and meet the 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. There were ninety-one securities in the consolidated portfolio in an unrealized loss position at December 31, 2024. There were ninety-four security accounts in the consolidated portfolio in an unrealized loss position at December 31, 2023. 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 concluded that a credit loss did not exist in its securities portfolio at December 31, 2024 and 2023 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, 2024 and 2023 (in thousands).

	December 31, 2024					
	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	$ 1,988	$ (6)	$ 12	$ - -	$ 2,000	$ (6)
Mortgage-backed	22,565	(147)	32,150	(6,666)	54,715	(6,813)
State and municipal obligations	- -	- -	3,055	(408)	3,055	(408)
Corporate securities	- -	- -	6,454	(546)	6,454	(546)
	$ 24,553	$ (153)	$ 41,671	$(7,620)	$66,224	$(7,773)

	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)

The Company's investment in restricted securities was comprised of Federal Home Loan Bank (FHLB) stock, which totaled $2.1 million and $1.6 million at December 31, 2024 and 2023, 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, 2024 and no impairment has been recognized. Restricted stock is shown as a separate line item on the consolidated balance sheets and is not a part of the available for sale securities portfolio.

Securities with a carrying value of $33.9 million and $34.4 million at December 31, 2024 and 2023, 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.

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	
	2024	2023
	(in thousands)	
Commercial – non real estate		
Commercial and industrial	$ 54,205	$ 34,548
Commercial real estate		
Owner occupied	120,590	118,181
Non-owner occupied	199,016	192,796
Construction		
Residential	7,369	6,447
Commercial	32,035	21,206
Real Estate		
Farmland	6,769	7,019
Residential		
Revolving open end	20,713	19,050
1 to 4 family – first liens	220,163	213,601
1 to 4 family – junior liens	6,423	5,647
5 or more family	26,298	21,052
Consumer loans	2,910	3,689
All other loans	7,618	8,124
Total loans (1)	$704,109	$651,360
Less: allowance for credit losses	6,977	6,673
Total loans, net	$697,132	$644,687

(1) Includes net deferred loan fees of $1.1 million and $916 thousand at December 31, 2024 and 2023.

Loans to directors and executive officers of the Company or to their associates at December 31, 2024 and 2023 totaled $3.3 million and $1.6 million, respectively. The previous year's balance has been updated from the amount reported in the 2023 annual report to reflect the retirement of two executive officers during 2024. In management's opinion, such loans were made on substantially the same terms as those prevailing for comparable transactions with similar risks. During 2024 total principal additions were $2.8 million and total principal payments were $1.1 million.

The FHLB of Pittsburgh has a blanket lien on all commercial – non real estate, commercial real estate, farmland, residential, and agricultural production (included in all other loans above) loans except those loans specifically pledged to the Federal Reserve and removed from the FHLB lien. At December 31, 2024 the FHLB lien is securing $31.0 million in outstanding long term advances, and letters of credit in the amount of $57.3 million to secure public funds. At December 31, 2023 the FHLB lien was securing $6 million in outstanding long term advances and letters of credit in the amount of $121.5 million to secure public funds.

Note 4. Allowance for Credit Losses

The following table provides an analysis of the allowance for credit losses for 2024 as follows:

Allowance for Credit Losses – By Segment
December 31, 2024
(in thousands)

	Farmland	Commercial	Commercial Real Estate	Construction	Consumer	Residential	All Other	Total
Allowance for credit losses:								
Beginning balance	$ 74	$ 806	$ 3,221	$ 345	$ 39	$ 2,111	$ 77	$ 6,673
Charge-offs	- -	(80)	- -	- -	(138)	(42)	- -	(260)
Recoveries	- -	- -	18	- -	87	45	- -	150
Provision (recovery)	16	405	(222)	71	40	109	(5)	414
Ending balance	$ 90	$ 1,131	$ 3,017	$ 416	$ 28	$ 2,223	$ 72	$ 6,977
Loans:								
Ending balance	$6,769	$54,205	$319,606	$39,404	$2,910	$273,597	$7,618	$704,109

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	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

Note 4. Allowance for Credit Losses (Continued)

Credit Quality Information – By Class
December 31, 2024
(in thousands)

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

	2024	2023	2022	2021	2020	Prior	Revolving	Total
Farmland								
Pass	$ 387	$ 502	$ 3,382	$ 59	$ - -	$ 1,611	$ 15	$ 5,956
Special Mention	- -	813	- -	- -	- -	- -	- -	813
Substandard	- -	- -	- -	- -	- -	- -	- -	- -
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -
Total Farmland	$ 387	$ 1,315	$ 3,382	$ 59	$ - -	$ 1,611	$ 15	$ 6,769
Commercial and industrial								
Pass	$ 16,327	$ 4,596	$ 5,367	$ 4,628	$ 706	$ 1,372	$ 19,979	$ 52,975
Special Mention	- -	- -	231	41	- -	- -	- -	272
Substandard	- -	107	663	62	- -	126	- -	958
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -
Total Commercial and industrial	$ 16,327	$ 4,703	$ 6,261	$ 4,731	$ 706	$ 1,498	$ 19,979	$ 54,205
Commercial Real Estate								
Pass	$ 22,354	$ 29,293	$ 85,714	$ 68,063	$ 36,934	$ 63,897	$ 1,178	$ 307,433
Special Mention	- -	- -	4,221	4,717	- -	604	- -	9,542
Substandard	- -	- -	- -	- -	2,631	- -	- -	2,631
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -
Total Commercial Real Estate	$ 22,354	$ 29,293	$ 89,935	$ 72,780	$ 39,565	$ 64,501	$ 1,178	$ 319,606
Construction and land development								
Pass	$ 13,199	$ 9,959	$ 3,623	$ 1,460	$ 122	$ 950	$ 9,442	$ 38,755
Special Mention	- -	- -	- -	- -	- -	- -	- -	- -
Substandard	- -	- -	- -	- -	- -	649	- -	649
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -
Total Construction and land development	$ 13,199	$ 9,959	$ 3,623	$ 1,460	$ 122	$ 1,599	$ 9,442	$ 39,404
Secured by residential (1)								
Pass	$ 32,485	$ 20,097	$ 55,015	$ 45,681	$ 40,384	$ 56,443	$ 23,492	$ 273,597
Special Mention	- -	- -	- -	- -	- -	- -	- -	- -
Substandard	- -	- -	- -	- -	- -	- -	- -	- -
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -
Total Secured by residential	$ 32,485	$ 20,097	$ 55,015	$ 45,681	$ 40,384	$ 56,443	$ 23,492	$ 273,597
Consumer (1)								
Pass	$ 897	$ 644	$ 547	$ 574	$ 83	$ 47	$ 118	$ 2,910
Special Mention	- -	- -	- -	- -	- -	- -	- -	- -
Substandard	- -	- -	- -	- -	- -	- -	- -	- -
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -
Total Consumer	$ 897	$ 644	$ 547	$ 574	$ 83	$ 47	$ 118	$ 2,910
All other loans								
Pass	$ 506	$ 640	$ 6	$ 246	$ 64	$ 6,097	$ 59	$ 7,618
Special Mention	- -	- -	- -	- -	- -	- -	- -	- -
Substandard	- -	- -	- -	- -	- -	- -	- -	- -
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -
Total All other loans	$ 506	$ 640	$ 6	$ 246	$ 64	$ 6,097	$ 59	$ 7,618
Total Recorded Investment	$ 86,155	$ 66,651	$ 158,769	$ 125,531	$ 80,924	$ 131,796	$ 54,283	$ 704,109
Gross Charge-offs during current period	$ 138	$ 41	$ 41	$ 40	$ - -	$ - -	$ - -	$ 260

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	$ - -	$ - -	$ 24	$ - -	$ 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, 2024 or December 31, 2023 and are reflected in the above tables in the pass categories.

Note 4. Allowance for Credit Losses (Continued)

Nonaccrual and Past Due Loans – By Class
December 31, 2024
(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	$ 41	$ - -	$ 107	$ 148	$ 54,057	$ 54,205	$ - -	$ 107
Commercial real estate								
Owner occupied	- -	- -	2,631	2,631	117,959	120,590	- -	2,631
Non-owner occupied	- -	- -	- -	- -	199,016	199,016	- -	- -
Construction								
Residential	- -	- -	- -	- -	7,369	7,369	- -	- -
Commercial	- -	- -	- -	- -	32,035	32,035	- -	- -
Real estate								
Farmland	- -	- -	- -	- -	6,769	6,769	- -	- -
Residential								
Revolving open end	- -	- -	- -	- -	20,713	20,713	- -	- -
1 to 4 family – first liens	310	121	- -	431	219,732	220,163	- -	- -
1 to 4 family – junior liens	- -	- -	- -	- -	6,423	6,423	- -	- -
5 or more family	- -	- -	- -	- -	26,298	26,298	- -	- -
Consumer loans	2	- -	- -	2	2,908	2,910	- -	- -
All other loans	- -	- -	- -	- -	7,618	7,618	- -	- -
Total loans	$353	$121	$2,738	$3,212	$700,897	$704,109	$ - -	$2,738
Percentage to Total Loans	0.05%	0.02%	0.39%	0.46%	99.54%		0.00%	0.39%

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 loans	11	- -	- -	11	3,678	3,689	- -	- -
All other loans	- -	- -	- -	- -	8,124	8,124	- -	- -
Total loans	$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%

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, 2024 (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	$ 107	- -	- -
Commercial real estate			
Owner occupied	2,631	- -	- -
	$ 2,738	$ - -	$ - -

Note 4. Allowance for Credit Losses (Continued)

The Company recognized $24 thousand in interest income on nonaccrual loans during the year ended December 31, 2024.

The amount of interest that would have been recognized had these loans been on accrual in 2024 would have been $187 thousand.

	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	$ - -	$ - -

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, 2024 (thousands):

	December 31, 2024	December 31, 2023
Commercial real estate		
Owner occupied	$2,631	$2,666
Total	$2,631	$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, 2024 and December 31, 2023 consisted 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.

Note 4. Allowance for Credit Losses (Continued)

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, 2024 the Company did not modify any loans to borrowers experiencing financial distress. 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, 2024. The concession included changing the contractual cash flows.

As of December 31, 2024 the total modified loans with amortized cost totaling $232 thousand represented 0.4% of Commercial and Industrial loans.

Note 5. Premises and Equipment, Net

Premises and equipment consist of the following:

	December 31	
	2024	2023
	(in thousands)	
Premises and improvements	$10,885	$10,618
Furniture and equipment	7,439	5,097
	$18,324	$15,715
Less accumulated depreciation	10,225	9,750
	$ 8,099	$ 5,965

Depreciation included in noninterest expense for 2024 and 2023 was $536 thousand and $586 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.

Note 6. Leases (Continued)

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

	December 31, 2024	December 31, 2023
Lease liabilities	$ 960	$ 1,290
Right-of-use assets, net	$ 915	$ 1,236
Weighted average remaining lease term	3.27 years	4.14 years
Weighted average discount rate	3.27%	3.25%

	For the Year Ended	
	December 31, 2024	December 31, 2023
Lease cost		
Operating lease cost	$359	$378
Variable lease cost	35	35
Short-term lease cost	22	5
Total lease cost	$416	$418
Cash paid for amounts included in the measurement of lease liabilities:	$367	$377

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)
2025	$ 352
2026	278
2027	238
2028	141
2029	5
Thereafter	- -
Total undiscounted cash flows	$1,014
Discount	(54)
Lease liabilities	$ 960

Note 7. Deposits

The aggregate amount of time deposits with a balance of $250,000 or more was $47.7 million and $55.3 million at December 31, 2024 and 2023, respectively. At December 31, 2024 no depositor had aggregate deposits greater than 5% of total deposits. At December 31, 2023 one depositor had aggregate deposits of 11.5%. These deposits are collateralized by letters of credit.

At December 31, 2024 the scheduled maturities of all time deposits (in thousands) are as follows:

2025	$119,369
2026	7,658
2027	5,540
2028	3,658
2029	6,613
	$142,838

Note 7. Deposits (Continued)

There were no brokered deposits at December 31, 2024 and December 31, 2023. Also included in total deposits were reciprocal deposits of $114.0 million and $83.7 million as of December 31, 2024 and 2023, respectively.

Deposits of the Company's directors, executive officers and associates totaled $6.8 million at December 31, 2024 and totaled $5.6 million at December 31, 2023.

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 $3.2 million and $2.8 million as of December 31, 2024 and 2023, respectively.

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

	December 31	
	2024	2023
Balance outstanding at year end	$ 3,170	$ 2,839
Maximum balance at any month-end during the year	$ 4,060	$13,217
Average balance for the year	$ 3,523	$ 5,454
Weighted average rate for the year	0.84%	1.54%
Weighted average rate at year end	0.91%	0.84%

Long-term borrowings consisted of FHLB Advances (in thousands):

	December 31	
	2024	2023
Balance outstanding at year end	$31,000	$ 6,000
Maximum balance at any month-end during the year	$31,000	$ 6,000
Average balance for the year	$15,904	$ 5,589
Weighted average rate for the year	4.34%	4.42%
Weighted average rate at year end	4.32%	4.42%

Maturities of long-term borrowings will occur with $14.5 million maturing in 2026, $12.5 million maturing in 2027, and $2.0 million maturing in 2028.

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, 2024 the subsidiary Bank had total credit available through these institutions of $323 million.

Note 9. Employee Benefit Plans

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

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

Note 9. Employee Benefit Plans (Continued)

The Company sponsors a 401(k)-retirement savings plan available to all employees meeting certain age requirements. Employees become eligible to participate in the plan upon reaching age 18. Employees can make a salary deferral election authorizing the Company to withhold up to the amount allowed by law each calendar year. The Company may make a discretionary matching contribution each plan year. The Company may also make other discretionary contributions to the plan. The Company made 401(k) matching contributions of $298 thousand and $328 thousand in 2024 and 2023, 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, 2024 and 2023. While these liabilities are unfunded, the Company has obtained life insurance to help offset these payments.

The following tables summarize the changes in the obligations, plan assets, and funded statuses of the Company's pension and other post retirement plans as of and for the years ended December 31, 2024 and 2023.

	Pension Benefits		Other Postretirement Benefits	
	2024	2023	2024	2023
	(in thousands)		(in thousands)	
Change in benefit obligation:				
Benefit obligation, beginning	$ 7,599	$ 7,586	$ 122	$ 122
Interest cost	363	377	6	6
Actuarial (gain) loss	(274)	208	15	12
Benefits paid	(584)	(572)	(19)	(18)
Benefit obligation, ending	$ 7,104	$ 7,599	$ 124	$ 122
Change in plan assets:				
Fair value of plan assets, beginning	$ 9,788	$ 9,167	$ - -	$ - -
Actual return on plan assets	1,325	1,193	- -	- -
Employer contributions	- -	- -	19	18
Benefits paid	(584)	(572)	(19)	(18)
Fair value of plan assets, ending	$10,529	$ 9,788	$ - -	$ - -
Funded status at end of year	$ 3,425	$ 2,189	$(124)	$(122)
Accounts recognized on consolidated balance sheets as:				
Accrued benefit asset (cost)	$ 3,425	$ 2,189	$(124)	$(122)
Amounts recognized in accumulated other comprehensive loss consists of:				
Net actuarial loss (gain)	$ 342	$ 1,453	$ (53)	$ (78)
Deferred tax (asset) liability	(86)	(362)	13	19
	$ 256	$ 1,091	$ (40)	$ (59)

The accumulated benefit obligation for the defined benefit pension plan was $7.1 and million $7.6 million at December 31, 2024 and 2023, 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	
	2024	2023	2024	2023
	(in thousands)		(in thousands)	
Components of net periodic benefit income:				
Interest cost	$ 364	$ 377	$ 6	$ 6
Expected return on plan assets	(547)	(516)	- -	- -
Amortization of actuarial loss (gain)	59	132	(10)	(14)
Net periodic benefit income	$ (124)	$ (7)	$ (4)	$ (8)
Other changes in plan assets and benefit obligations recognized as other comprehensive (income) loss:				
Net actuarial (gain) loss	$ (1,052)	$ (469)	$ 15	$ 12
Deferred tax	278	150	(6)	(7)
Amortization of actuarial (loss) gain	(59)	(132)	10	14
Total recognized as other comprehensive (income) loss	$ (833)	$ (451)	$ 19	$ 19

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 $7 thousand.

Assumptions

	Pension Benefits		Other Postretirement Benefits	
	2024	2023	2024	2023
Weighted-average assumptions used to determine net periodic benefit cost:				
Discount rate	4.98%	5.17%	5.35%	5.70%
Expected return on plan assets	5.76%	5.82%	- -	- -
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	5.62%	4.98%	5.55%	5.35%
Expected return on plan assets	4.89%	5.76%	- -	- -

Discount Rate

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

Long-Term Rate of Return

The plan sponsor selects the expected long-term rate-of-return-on-assets assumption in consultation with their actuary. This rate is intended to reflect the average rate of earnings expected to be earned on the funds invested or to be invested to provide plan benefits. Historical performance is reviewed, especially with respect to real rates of 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.

Note 9. Employee Benefit Plans (Continued)

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, 2024 and 2023, respectively, are as follows:

		Fair Value Measurement at December 31, 2024		
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	$ 144	$ 144	$ - -	$ - -
U. S. Treasury securities	10,385	- -	10,385	- -
Total	$ 10,529	$ 144	$ 10,385	$ - -

		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	$ - -

Asset Allocation

The pension plan's asset allocations at December 31, 2024 and 2023 by asset category are as follows:

	Plan Assets at December 31	
	2024	2023
Asset Category		
Equities	0%	63%
Fixed income/cash	100%	37%
Total	100%	100%

The trust fund has a target asset allocation of 100% fixed income and cash. The reallocation of funds is due to recent increases in asset values and allows the Bank to limit potential losses. 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.

Note 9. Employee Benefit Plans (Continued)

There was no Company common stock included in the equity securities of the pension plan at December 31, 2024.

Cash Flow

The Company currently expects to make no contributions to its pension plan in 2025 and $18 thousand to its postretirement plan in 2025.

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

	Pension Benefits	Other Postretirement Benefits
2025	$ 628	$18
2026	625	17
2027	615	16
2028	600	15
2029	603	14
Thereafter	2,774	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 2024 and 2023.

	2024		2023	
	Average Shares (in thousands)	Per Share Amount	Average Shares (in thousands)	Per Share Amount
Basic earnings per common share	4,145	$1.65	4,145	$ 1.75
Effect of dilutive securities:	- -		- -	
Diluted earnings per common share	4,145	$1.65	4,145	$ 1.75

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 2021.

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.

Note 11. Income Taxes (Continued)

Net deferred tax assets (in thousands) consist of the following components as of December 31, 2024 and 2023:

	2024	2023
Deferred tax assets:		
Reserve for credit losses	$1,842	$1,734
Other postretirement benefits	49	48
Net loan origination fees	264	228
Nonaccrual interest	80	44
Lease liability	240	320
Paid time off (PTO) accrual	36	33
Employee stock incentive	76	93
Equity securities	- -	19
Historical tax credit	262	- -
Securities available for sale	1,906	2,175
	$4,755	$4,694
Deferred tax liabilities:		
Depreciation	$ 198	$ 200
Equity securities	6	- -
Right of use asset	228	307
Unrealized gain investment fund	- -	17
Defined benefit pension plan	855	542
	$1,287	$1,066
Net deferred tax assets	$3,468	$3,628

The provision for income taxes charged to operations for the years ended December 31, 2024 and 2023 consists of the following (in thousands):

	2024	2023
Current tax expense	$2,351	$2,228
Deferred tax benefit	(380)	(139)
	$1,971	$2,089

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, 2024 and 2023 due to the following (in thousands):

	2024	2023
Computed "expected" tax expense	$1,848	$1,964
Increase (decrease) in income taxes resulting from:		
Tax exempt income	(151)	(131)
State income tax expense, net of federal benefit	120	250
Other	154	6
	$1,971	$2,089

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 total, 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, 2025, the Bank had available $10.0 million for the payment of dividends.

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

Note 14. Accumulated Other Comprehensive Income (Loss)

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

	Net Unrealized Gains (Losses) on Securities	Adjustments Related to Pension and Other Post Retirement Benefits	Accumulated Other Comprehensive Loss, net
Balance at December 31, 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)
Net unrealized holding gains on securities, net of tax of $269	806	- -	806
Change in benefit obligation and plan assets for pension and other postretirement benefits, net of tax of $272	- -	814	814
Balance at December 31, 2024	$(5,718)	$ (218)	$(5,936)

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, 2024 and 2023 (in thousands):

	2024	2023	Affected Line Item on the Consolidated Statements of Income
Available for sale securities			
Realized losses on securities available for sale, net	$(783)	$(428)	Net Loss on sales of securities available for sale
Tax effect	(196)	(107)	Income tax expense
Net of tax	$(587)	$(321)	Net of tax
Pension and other postretirement benefits			
Amortization of net actuarial loss (1)	$ (48)	$(118)	Other operating expenses
Tax effect	(12)	(32)	Income tax expense
Net of tax	$ (36)	$ (86)	Net of tax
Total reclassifications for the period	$(623)	$(407)	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, 2024 and 2023 (in thousands) is as follows:

	2024	2023
Financial instruments whose amounts represent credit risk:		
Commitments to extend credit	$ 127,480	$ 106,116
Standby letters of credit	927	1,233

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 potential 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 $402 thousand as of December 31, 2024 and $304 thousand at December 31, 2023 and is reflected in other liabilities in the consolidated financial statements. There were no charge-offs during 2024.

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, 2024 and 2023 were estimated using an exit price notion.

Note 16. Fair Value Measurements (Continued)

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

		Fair Value Measurements at December 31, 2024 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Assets					
Cash and cash equivalents	$ 64,264	$ 64,264	$ - -	$ - -	$ 64,264
Certificates of deposits in other financial institutions	500	- -	477	- -	477
Securities available for sale	77,385	- -	77,385	- -	77,385
Equity securities	241	- -	241	- -	241
Loans held for sale	1,506	- -	1,506	- -	1,506
Loans, net	697,132	- -	- -	661,842	661,842
Restricted securities	2,103	- -	2,103	- -	2,103
BOLI	13,976	- -	13,976	- -	13,976
Accrued interest receivable	2,283	- -	2,283	- -	2,283
Liabilities					
Deposits	$754,358	$ - -	$754,085	$ - -	$754,085
Short term borrowings	3,170	- -	3,170	- -	3,170
Long term borrowings	31,000	- -	30,714	- -	30,714
Subordinated debt, net of issuance costs	9,958	- -	9,794	- -	9,794
Accrued interest payable	1,266	- -	1,266	- -	1,266

		Fair Value Measurements at December 31, 2023 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Assets					
Cash and cash equivalents	$ 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
Restricted securities	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

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, 2024 Using		
Description	Balance as of December 31 2024	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	$ 4,464	$ - -	$ 4,464	$ - -
Mortgage-backed	62,000	- -	62,000	- -
State and municipal securities	4,217	- -	4,217	- -
Corporate securities	6,704	- -	6,704	- -
Total available for sale securities	77,385	- -	77,385	- -
Equity securities	241	- -	241	- -
Total securities	$77,626	$ - -	$77,626	$ - -

		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	$ - -

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 by 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, 2024 and 2023.

Loans held for sale: Loans held for sale are carried at cost which approximates estimated fair value. As of December 31, 2024, there were $1.5 million 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, 2024. There were $678 thousand in loans held for sales as of December 31, 2023. Gains and losses on the sale of loans are recorded within "Secondary Market Income" on the consolidated statements of income.

At December 31, 2024 and December 31, 2023, there were no individually assessed collateral dependent loans with a specific reserve.

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 5.57% as of December 31, 2024. Management believes that as of December 31, 2024 and 2023 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, 2024:						
Total capital (to risk-weighted assets):						
Bank of Charles Town	$95,449	13.57%	$73,839	10.50%	$70,323	10.00%
CET 1 capital (to risk-weighted assets):						
Bank of Charles Town	$88,070	12.52%	$49,226	7.00%	$45,710	6.50%
Tier 1 capital (to risk-weighted assets):						
Bank of Charles Town	$88,070	12.52%	$59,775	8.50%	$56,258	8.00%
Tier 1 Leverage (to average assets):						
Bank of Charles Town	$88,070	9.92%	$35,524	4.00%	$44,405	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, 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%

(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% up 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 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, 2024 and 2023 consisted of the following:

	Years Ended December 31,	
Noninterest income (in thousands):	2024	2023
Wealth and investments:		
Trust asset management fees (1)	$ 1,856	$ 1,671
Brokerage fees (1)	92	69
Service charges on deposit accounts:		
Overdraft & return check charges (1)	811	772
Charges - use of foreign ATMs (1)	123	122
Other service charges (1)	123	121
Secondary market income		
Wholesale/broker fee income (1)	249	129
Gain on sales of loans in the secondary market	745	549
Interchange fees (1)	2,065	2,028
Earnings on bank owned life insurance	410	322
Gain on sale of loans held for sale	102	- -
Net gain on disposal of premises and equipment	2	- -
Net loss on sales of securities available for sale	(783)	(428)
Other operating income (2)	602	595
Total noninterest income	$ 6,397	$ 5,950

(1) Income within the scope of Topic 606.

(2) For 2024, includes other income within the scope of Topic 606 amounting to $517 thousand. For 2023, includes other income within the scope of Topic 606 amounting to $475 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, 2024 and December 31, 2023 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, 2024 and 2023
(in thousands)

	2024	2023
ASSETS		
Cash	$ 180	$ 177
Investment in subsidiary	82,134	75,604
Equity securities, at fair value	241	199
Other assets	967	941
Total assets	$83,522	$76,921
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Subordinated debt, net of unamortized issuance costs	$ 9,958	$ 9,897
Other liabilities	148	150
Total Liabilities	$10,106	$10,047
SHAREHOLDERS' EQUITY		
Common stock	$ 4,493	$ 4,493
Surplus	14,547	14,547
Retained earnings	63,806	58,884
Accumulated other comprehensive loss, net	(5,936)	(7,556)
	$76,910	$70,368
Less cost of shares acquired for the treasury	(3,494)	(3,494)
Total shareholders' equity	$73,416	$66,874
Total liabilities and shareholders' equity	$83,522	$76,921

Note 20. Parent Company Only Financial Statements (Continued)

POTOMAC BANCSHARES, INC.
(Parent Company Only)
Statements of Income
Years Ended December 31, 2024 and 2023
(in thousands)

	2024	2023
Interest Expense		
Interest on subordinated debt	$ 560	$ 557
Total interest expense	560	557
Other Income		
Dividends from subsidiary	2,447	2,730
Other income	55	61
Total other income	2,502	2,791
Noninterest Expense		
Transfer agent expense	44	44
Director and committee fees	24	31
Legal fees	2	10
Other professional fees	23	36
Postage	12	11
Proxy solicitation	19	23
Printing, stationery, and supplies	20	24
Other	18	10
Total noninterest expense	162	189
Income before income tax benefit and equity in undistributed income of subsidiary	1,780	2,045
Income tax benefit	(140)	(145)
Income before equity in undistributed income of subsidiary	1,920	2,190
Equity in undistributed income of subsidiary	4,909	5,074
Net income	$6,829	$7,264

Note 20. Parent Company Only Financial Statements (Continued)

POTOMAC BANCSHARES, INC.
(Parent Company Only)
Statements of Cash Flows
Years Ended December 31, 2024 and 2023
(in thousands)

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,829	$ 7,264
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of subsidiary	(4,909)	(5,074)
Amortization of debt issuance costs	61	58
Fair value adjustment on equity securities	(42)	25
Increase in other assets	(27)	(178)
(Decrease) increase in other liabilities	(2)	4
Net cash provided by operating activities	$ 1,910	$ 2,099
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in equity security	$ - -	$ (500)
Net cash used in investing activities	$ - -	$ (500)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends	$(1,907)	$(1,575)
Net cash used in financing activities	$(1,907)	$(1,575)
Increase in cash and cash equivalents	$ 3	$ 24
CASH AND CASH EQUIVALENTS		
Beginning	$ 177	$ 153
Ending	$ 180	$ 177

Note 21. Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 20, 2025, the date the financial statements were available to be issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including estimates inherent in the process of preparing financial statements, and (2) non recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. In the opinion of management, all subsequent events requiring recognition or disclosure have been included in the consolidated annual statements.

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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

ASHBURN—LENDING OFFICE
44790 Maynard Square, Suite 200
Ashburn, VA 20147
703.443.4484

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

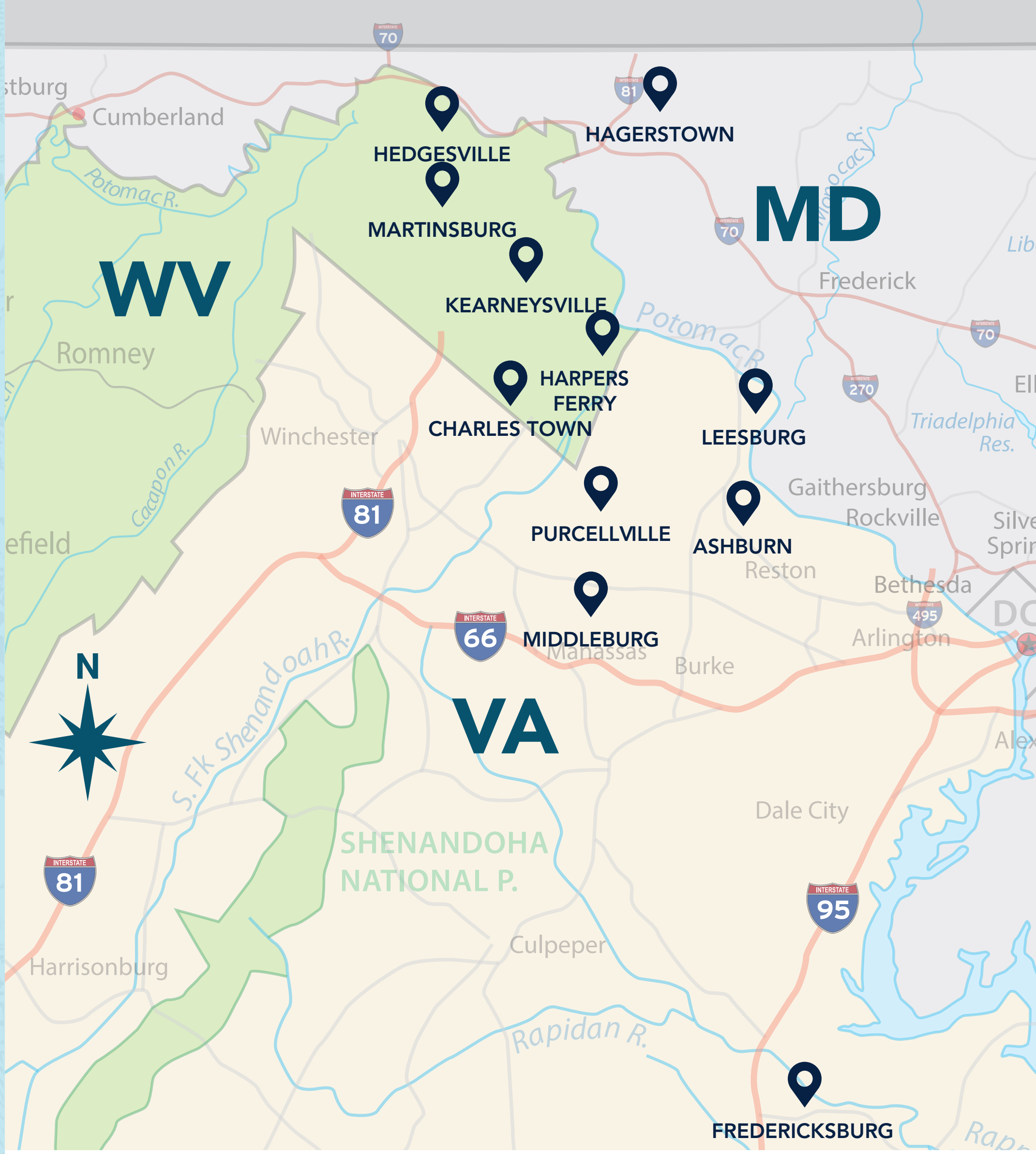
LEESBURG
446 Madison Trade Plaza SE
Leesburg, VA 20175
703.777.6319

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: **ir.mybct.bank**

For further information contact:
M. Shane Bell
Executive Vice President,
Chief Financial Officer, and
Secretary of Potomac Bancshares, Inc.

111 E. Washington Street
Charles Town, WV 25414-0906

Stock Trading Symbol – OTC: PTBS

Dividend Reinvestment & Direct Stock Purchase and Sale Plan

Equiniti 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 conducted in person on Tuesday, May 20, 2025, at 4:30 p.m. Eastern Time. The meeting will be followed by a shareholder "reunion" reception with food and beverages. The meeting and reception will be held at the Bavarian Inn, 164 Shepherd Grade Rd, Shepherdstown, WV, 25443.

For any questions, please call Laura Hunter at 304.728.2453.

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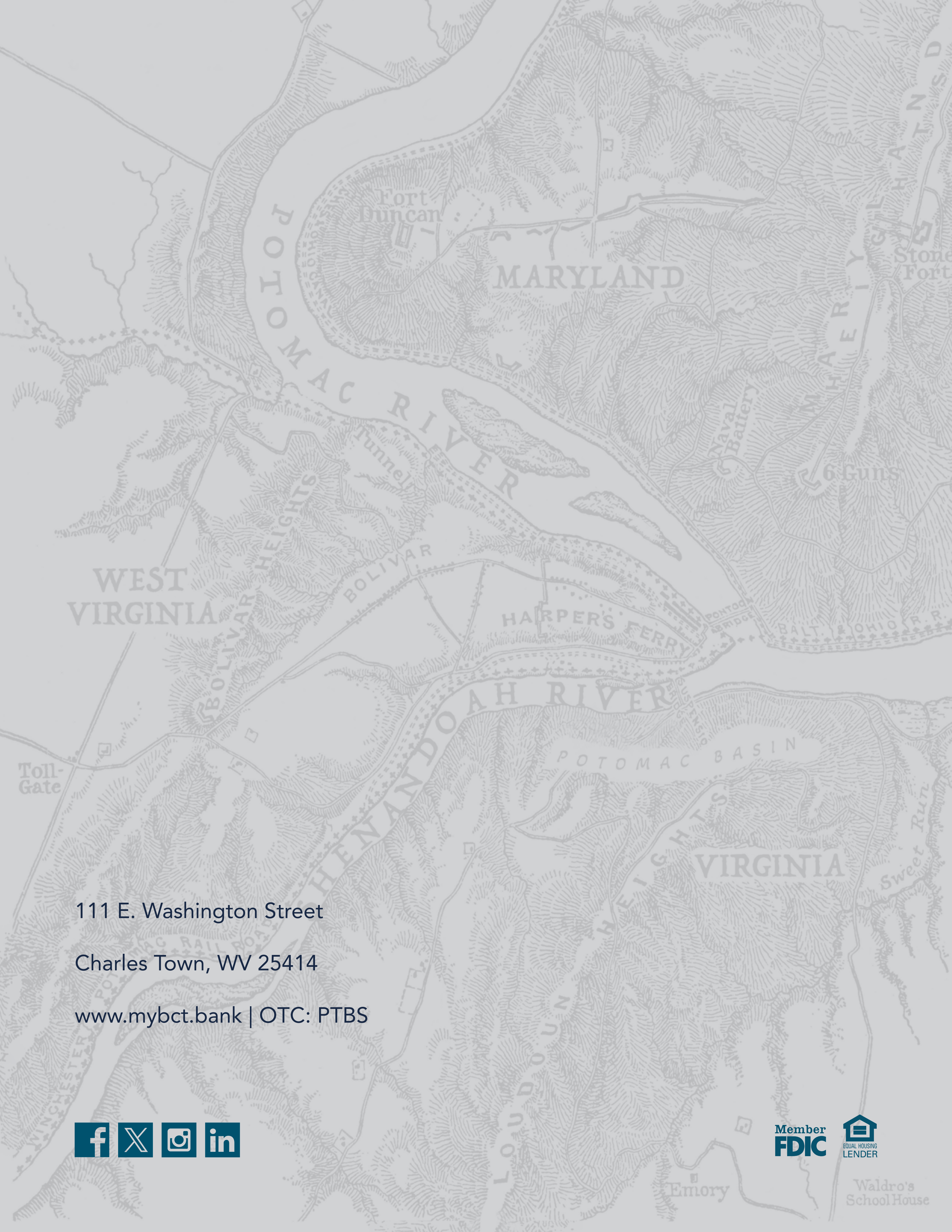

111 E. Washington Street

Charles Town, WV 25414

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Member FDIC

EQUAL HOUSING LENDER