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POTOMAC BANCSHARES INC
Form 10QSB
May 10, 2001

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U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

XX Quarterly report under Section 13 or 15(d) of the Securities Exchange

Act of 1934

For quarterly period ended March 31, 2001

_____ Transition report under Section 13 or 15(d) of the Exchange Act

For the transition period from _____ to _____

Commission file number 0-24958

Potomac Bancshares, Inc.
(Exact Name of Small Business Issuer as Specified in Its Charter)

West Virginia 55-0732247
(State or Other Jurisdiction of (IRS Employer
Incorporation or Organization) Identification Number)

111 East Washington Street, Charles Town WV 25414-1071
(Address of Principal Executive Offices) (Zip Code)

304-725-8431
(Issuer's Telephone Number, Including Area Code)

NO CHANGE
(Former Name, Former Address and Former Fiscal Year, if Changed
Since Last Report)

Check whether the issuer: (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such
shorter period that the registrant was required to file such reports), and (2)
has been subject to such filing requirements for the past 90 days.

Yes XXX No _____

APPLICABLE ONLY TO ISSUERS INVOLVED IN
BANKRUPTCY PROCEEDINGS DURING THE
PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be
filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of
securities under a plan confirmed by a court.

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Yes _____ No _____ Not applicable

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 600,000 shares

Transitional Small Business Disclosure Format (check one):

Yes _____ No XXX

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

POTOMAC BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(000 OMITTED)

	(Unaudited) March 31 2001 -----
Assets:	
Cash and due from banks	\$ 7 357
Securities purchased under agreements to resell and federal funds sold	16 316
Securities held to maturity (fair value of \$12,330 at March 31, 2001 and \$18,105 at December 31, 2000	11 937
Securities available for sale, at fair value	24 451
Loans, net of allowance for loan losses of \$1,279 at March 31, 2001 and \$1,268 at December 31, 2000	87 341
Other real estate owned	--
Bank premises and equipment, net	3 175
Accrued interest receivable	1 033
Other assets	1 329

Total Assets	\$ 152 939 =====
Liabilities and Stockholders' Equity:	
Liabilities:	
Non-interest bearing deposits	\$ 17 605
Interest bearing deposits	115 327

Total Deposits	132 932
Accrued interest payable	284
Other liabilities	1 251

Total Liabilities	\$ 134 467 -----

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Stockholders' Equity:

Common stock par value \$1.00 per share (5,000,000 shares authorized, 600,000 shares issued and outstanding)	\$	600
Surplus		5 400
Accumulated other comprehensive income (loss)		92
Undivided profits		12 380

Total Stockholders' Equity		18 472

Total Liabilities and Stockholders' Equity	\$	152 939
		=====

See Accompanying Notes to Consolidated Financial Statements

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POTOMAC BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(000 omitted except for per share data)
(Unaudited)

	For the Three Months Ended March 31	
	2001	2000
	-----	-----
Interest Income:		
Interest and fees on loans	\$ 1 879	\$ 1 665
Interest on securities held to maturity		
Taxable	253	279
Interest on securities available for sale		
Taxable	266	404
Interest on securities purchased under agreements to resell and federal funds sold	190	139
Income on other securities	8	8
Other interest income	2	1
	-----	-----
Total Interest and Dividend Income	\$ 2 598	\$ 2 496
Interest Expense, interest on deposits	989	975
	-----	-----
Net Interest Income	\$ 1 609	\$ 1 521
Provision for Loan Losses	21	--
	-----	-----
Net Interest Income after Provision for Loan Losses	\$ 1 588	\$ 1 521
	-----	-----
Noninterest Income:		
Commissions and fees from fiduciary activities	\$ 125	\$ 127
Service charges on deposit accounts	96	77

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Fees for other customer services	39	32
Other operating income	6	26
	-----	-----
Total Other Income	\$ 266	\$ 262
	-----	-----
Noninterest Expenses:		
Salaries and employee benefits	\$ 780	\$ 728
Net occupancy expense of premises	65	60
Furniture and equipment expenses	93	93
Other operating expenses	336	276
	-----	-----
Total Other Expenses	\$ 1 274	\$ 1 157
	-----	-----
Income before Income Tax Expense	\$ 580	\$ 626
Income Tax Expense	208	233
	-----	-----
Net Income	\$ 372	\$ 393
	=====	=====
Earnings Per Share, basic and diluted	\$.62	\$.65
	=====	=====

See Accompanying Notes to Consolidated Financial Statements

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POTOMAC BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000
(000 Omitted)
(Unaudited)

	Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income	Co
	-----	-----	-----	-----	-----
Balances, December 31, 1999	\$ 600	\$ 5 400	\$ 10 944	\$ (256)	
Comprehensive income					
Net income	--	--	393	--	
Other comprehensive income, unrealized holding losses arising during the period (net of tax, \$13)	--	--	--	(25)	
Comprehensive income					
Balances, March 31, 2000	\$ 600	\$ 5 400	\$ 11 337	\$ (281)	

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	=====	=====	=====	=====
Balances, December 31, 2000	\$ 600	\$ 5 400	\$ 12 008	\$ (44)
Comprehensive income				
Net income	--	--	372	--
Other comprehensive income, unrealized holding gains arising during the period (net of tax, \$70)	--	--	--	136
Comprehensive income				
	-----	-----	-----	-----
Balances, March 31, 2001	\$ 600	\$ 5 400	\$ 12 380	\$ 92
	=====	=====	=====	=====

See Accompanying Notes to Consolidated Financial Statements

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POTOMAC BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(000 Omitted)
(Unaudited)

	For the T
	March 31 2001

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 372
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	21
Depreciation	60
Discount accretion and premium amortization on securities, net	(12)
(Gain) loss on sale of real estate	5
(Gain) on sale of equipment	--
Decrease (increase) in accrued interest receivable	18
(Increase) in other assets	(106)
(Decrease) in accrued interest payable	(19)
Increase in other liabilities	241
Net cash provided by operating activities	\$ 580

CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from maturity of securities held to maturity	\$ 6 000
Proceeds from maturity of securities available for sale	--
Purchase of securities held to maturity	--
Purchase of securities available for sale	(6 080)
Net (increase) in loans	(4 183)
Purchases of bank premises and equipment	(58)
Proceeds from sale of real estate	8

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Net cash (used in) investing activities	\$ (4 313)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net increase (decrease) in non-interest bearing deposits	\$ (1 818)
Net increase in interest bearing deposits	5 805
Net cash provided by financing activities	\$ 3 987
Increase (decrease) in cash and cash equivalents	\$ 254
CASH AND CASH EQUIVALENTS	
Beginning	23 419
Ending	\$ 23 673
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash payments for:	
Interest	\$ 1 008
Income taxes	\$ 9
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES	
Other real estate acquired in settlement of loans	\$ --
Loans made on sale of real estate	\$ --
Unrealized gain (loss) on securities available for sale	\$ 206

See Accompanying Notes to Consolidated Financial Statements

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POTOMAC BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2001 (UNAUDITED) AND DECEMBER 31, 2000

- In the opinion of management, the accompanying financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of March 31, 2001, and December 31, 2000, and the results of operations and cash flows for the three months ended March 31, 2001 and 2000. The statements should be read in conjunction with Notes to Consolidated Financial Statements included in the Potomac Bancshares, Inc. annual report for the year ended December 31, 2000. The results of operations for the three month periods ended March 31, 2001 and 2000, are not necessarily indicative of the results to be expected for the full year.
- Securities held to maturity as of March 31, 2001 and December 31, 2000 are summarized below:

(000 Omitted)

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March 31, 2001

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)
Securities held to maturity:			
Obligations of U.S. Government agencies	\$ 11 937 =====	\$ 393 =====	\$ -- =====

(000 Omitted)
March 31, 2000

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)
Securities held to maturity:			
Obligations of U.S. Government agencies	\$ 17 928 =====	\$ 187 =====	\$ (10) =====

Securities available for sale as of March 31, 2001 and December 31, 2000 are summarized below:

(000 Omitted)
March 31, 2001

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)
Securities available for sale:			
Obligations of U.S. Government agencies	\$ 24 312 =====	\$ 139 =====	\$ -- =====

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(000 Omitted)
March 31, 2000

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)

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Securities available for sale:

Obligations of U.S. Government
agencies

\$ 18 229
=====

\$ 15
=====

\$ (82)
=====

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

	(000 Omit March 31 2001 -----
Real estate loans:	
Construction and land development	\$ --
Secured by farmland	2 629
Secured by 1-4 family residential	45 455
Other real estate loans	15 324
Loans to farmers (except those secured by real estate)	95
Commercial and industrial loans (except those secured by real estate)	2 182
Loans to individuals for personal expenditures	22 748
All other loans	187

	\$ 88 620
Less: Allowance for loan losses	1 279

Total loans	\$ 87 341 =====

4. The following is a summary of transactions in the allowance for loan losses:

	(000 Omit March 31 2001 -----
Balance at beginning of period	\$ 1 268
Provision charged (credited) to operating expense	21
Recoveries added to the allowance	9
Loan losses charged to the allowance	(19)

Balance at end of period	\$ 1 279 =====

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5. Information about impaired loans as of March 31, 2001 and December 31, 2000 is as follows:

	(000 Omi)
	----- March 31 2001 -----
Impaired loans for which an allowance has been provided	\$ 46
Impaired loans for which no allowance has been provided	--

Total impaired loans	\$ 46 =====
Allowance provided for impaired loans, included in the allowance for loan losses	\$ 14 =====
Average balance in impaired loans	\$ 193 =====
Interest income recognized	\$ 1 =====

Nonaccrual loans excluded from impaired loan disclosures under FASB 114 amounted to \$33,092 at March 31, 2001 and \$-0- at December 31, 2000. If interest on these loans had been accrued, such income would have been \$477 for the first three months of 2001 and \$-0- in 2000.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Between December 31, 2000 and March 31, 2001, total assets have increased \$4,700,000. Investment volume overall has remained relatively stable. There has been a shift from the held to maturity investment portfolio to the available for sale portfolio to increase liquidity. Loans have increased \$4,200,000 since December 31. Approximately \$3,200,000 are in the other real estate loans category and are commercial purpose loans.

Management goals for 2001 are to continue increasing loans and deposits while maintaining held to maturity and available for sale securities stable. Daily investments in repurchase agreements are anticipated to decrease with increased loan demand. In order to accomplish increased loan goals, two additional loan officers have been added to the staff during the first quarter. One officer is concentrating primarily in commercial lending, an area the Bank has not actively pursued previously. The commercial lending focus will be to small businesses. Although commercial lending inherently carries more risk, management does not intend to compromise it's current stringent underwriting standards. In fact, underwriting standards for small business loans are being enhanced. The second additional loan officer will concentrate, but not necessarily be limited to, secondary market lending, which will not add to the Bank's loan portfolio but will service our customers and increase noninterest income.

The March 31 annualized return on average assets is 1.01% compared to 1.25% at December 31. At March 31 the annualized return on average equity is 8.17% compared to 10.46% at December 31. The leverage capital (equity to assets) ratio

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is 12.08% at March 31 compared to 12.32% at December 31.

The table on the next page is an analysis of the Corporation's allowance for loan losses. Net charge-offs for the Corporation have been very low when compared with the size of the total loan portfolio. Management monitors the loan portfolio on a continual basis with procedures that allow for problem loans and potentially problem loans to be highlighted and watched. Written reports detailing this loan information are prepared on a quarterly basis. Based on experience, the loan policies and the current monitoring program, management believes the loan loss allowance is very adequate.

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(000 Omitted)
March 31, 2001

Balance at beginning of period	\$ 1 268
Charge-offs:	
Commercial, financial and agricultural	--
Real estate - construction	--
Real estate - mortgage	2
Consumer	17

Total charge-offs	19

Recoveries:	
Commercial, financial and agricultural	--
Real estate - construction	--
Real estate - mortgage	--
Consumer	9

Total recoveries	9

Net charge-offs	10
Additions charged to operations	21

Balance at end of period	\$ 1 279
	=====
Ratio of net charge-offs during the period to average loans outstanding during the period	.0116%
	=====

Loans are placed on nonaccrual status when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received. Following is a table showing the risk elements in the loan portfolio.

(000 Omitted)
March 31, 2001

Nonaccrual loans	\$ 67
------------------	-------

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Restructured loans	--
Foreclosed properties	--

Total nonperforming assets	\$ 67
	=====
Loans past due 90 days accruing interest	\$ 27
	=====
Allowance for loan losses to period end loans	1.44%
	=====
Nonperforming assets to period end loans and foreclosed properties	.076%
	=====

At March 31, 2001, other potential problem loans (excluding impaired loans) totalled \$84,494. Loans are viewed as potential problem loans according to the ability of such borrowers to comply with current repayment terms. These loans are subject to constant management attention, and their status is reviewed on a regular basis. Management has allocated a portion of the allowance for these loans according to the review of the potential loss in each loan situation.

Total deposits have increased approximately \$4,000,000 as of March 31, 2001 compared with December 31, 2000. Demand deposits decreased \$1,800,000. There are increases in the following deposit categories: NOW (including Select checking), \$2,200,000; money market accounts, \$2,100,000; savings accounts, \$700,000 and certificates of deposit, \$800,000.

The comparison of the income statements for the three months ended March 31, 2001 and 2000 shows a decrease of 5% in net income in 2001. Net interest income increased nearly 6%, interest income increased 4%, and interest expense increased over 1%.

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Increased loan production, additional fee income in the loan area, closer scrutiny of all expenses, and close monitoring of deposit interest rates are among the steps management is taking to stabilize the net income level.

Noninterest income increased over 1% as of March 31, 2001 compared to March 31, 2000. Noninterest expense increased 10%. This included a 7% increase in salaries in 2001 compared to 2000 and some nonrecurring expenses.

Liquid assets of the Corporation include cash and due from banks, securities purchased under agreements to resell, securities available for sale, and loans and investments maturing within one year. The Corporation's statement of cash flows details this liquidity. Net income after certain adjustments for noncash transactions provided cash from operating activities. Funds from maturity of securities held to maturity and cash on hand were used to fund investing activities. Financing activities provided funds since total deposits increased. Cash and cash equivalents increased slightly during this period, and liquidity of the Corporation is more than adequate to meet present and future financial obligations.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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There are no material legal proceedings to which the Registrant or its subsidiary, directors or officers is a party or by which they, or any of them, are threatened. All legal proceedings presently pending or threatened against Potomac Bancshares, Inc. and its subsidiary involve routine litigation incidental to the business of the Company or the subsidiary and are either not material in respect to the amount in controversy or fully covered by insurance.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

2. Plan of acquisition, reorganization, arrangement, liquidation or succession.
Not applicable
4. Instruments defining the rights of security holders, including indentures.
Not applicable
10. Material contracts.
Not applicable
11. Statement re: computation of per share earnings.
Not applicable
15. Letter on unaudited interim financial information.
Not applicable
18. Letter on change in accounting principles.
Not applicable
19. Reports furnished to security holders.
Not applicable
22. Published report regarding matters submitted to vote of security holders.
Not applicable
23. Consent of experts and counsel.
Not applicable
24. Power of attorney.
Not applicable
99. Additional exhibits.
Not applicable

(b) Reports on Form 8-K:

NONE

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POTOMAC BANCSHARES, INC.

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Date May 9, 2001

/s/ Robert F. Baronner, Jr.

Robert F. Baronner, Jr., President & CEO

Date May 9, 2001

/s/ L. Gayle Marshall Johnson

L. Gayle Marshall Johnson, Vice
President and Chief Financial Officer