FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
SEC Accession No. 0000950169-96-000468

(HTML Version on secdatabase.com)

FILER

POTOMAC BANCSHARES INC

CIK:**925173**| IRS No.: **550732247** | State of Incorp.:**WV** | Fiscal Year End: **0331**
Type: **10QSB** | Act: **34** | File No.: **000-24958** | Film No.: **96665666**
SIC: **6022** State commercial banks

Mailing Address
P O BOX 906
CHARLES TOWN WV 25414

Business Address
111 EAST WASHINGTON ST
CHARLES TOWN WV 25414
3047258431

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 September 30, 1996

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 (State or Other Jurisdiction of Incorporation or Organization)	55-0732247 (IRS Employer Identification Number)
111 East Washington Street, Charles Town WV (Address of Principal Executive Offices)	25414-1071 (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.

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

<TABLE>
<CAPTION>

	(Unaudited) September 30 1996	December 31 1995
<S> <C>		
Assets:		
Cash and due from banks	$ 4,287	$ 3,396
Securities (fair value: September 30, 1996, $38,224; December 31, 1995, $26,307) (Note 2)	38,252	26,354
Securities purchased under agreements to resell	8,200	18,700
Loans (Note 3)	73,504	73,651
Less allowance for loan losses	(988)	(899)
Net loans	72,516	72,752
Bank premises and equipment, net	1,253	1,444
Accrued interest receivable	896	777
Other assets	520	620
	---------	---------
Total Assets	$ 125,924	$ 124,043
	=========	=========
Liabilities and Stockholders' Equity:		
Liabilities:		
Non-interest bearing deposits	$ 13,861	$ 13,847
Interest bearing deposits	97,072	95,942
	---------	---------
Total Deposits	110,933	109,789
Accrued interest payable	330	346
Other liabilities	581	485
	---------	---------
Total Liabilities	$ 111,844	$ 110,620
	---------	---------
Stockholders' Equity:		
Common stock par value $1.00 per share		

(5,000,000 shares authorized, 600,000 shares issued and outstanding)	$ 600	$ 600
Surplus	5,400	5,400
Net unrealized gain (loss) on securities available for sale	(85)	--
Undivided profits	8,165	7,423
Total Stockholders' Equity	14,080	13,423
Total Liabilities and Stockholders' Equity	$ 125,924	$ 124,043

</TABLE>

See Accompanying Notes to Consolidated Financial Statements

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

<TABLE>
<CAPTION>

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	1996	1995	1996	1995
<S> <C>				
Interest Income:				
Interest and fees on loans	$ 1,684	$ 1,677	$ 5,038	$ 4,884
Interest on investment securities				
Taxable	302	388	862	1,274
Interest and dividends on securities available for sale				
Taxable	187	41	474	157
Dividends	6	6	18	18
Interest on securities purchased under agreements to resell	91	97	353	145
Total Interest Income	$ 2,270	$ 2,209	$ 6,745	$ 6,478
Interest Expense:				
Interest on deposits	$ 908	$ 948	$ 2,733	$ 2,630
Interest on federal funds purchased	--	--	--	4
Total Interest Expense	$ 908	$ 948	$ 2,733	$ 2,634
Net Interest Income	$ 1,362	$ 1,261	$ 4,012	$ 3,844
Provision for Loan Losses	--	--	125	125

Net Interest Income after Provision for Loan Losses	$ 1,362	$ 1,261	$ 3,887	$ 3,719
Other Income:				
Commissions and fees from fiduciary activities	$ 110	$ 101	$ 336	$ 325
Service charges on deposit accounts	73	61	203	179
Fees for other customer services	48	51	142	145
Other operating income	30	7	44	20
Total Other Income	$ 261	$ 220	$ 725	$ 669
Other Expenses:				
Salaries and employee benefits	$ 609	$ 580	$ 1,811	$ 1,770
Net occupancy expense of premises	47	60	156	162
Furniture and equipment expenses	75	66	224	210
Deposit insurance	--	(8)	2	118
Other operating expenses	271	280	925	813
Total Other Expenses	$ 1,002	$ 978	$ 3,118	$ 3,073
Income before Income Tax Expense	$ 621	$ 503	$ 1,494	$ 1,315
Income Tax Expense	224	184	542	482
Net Income	$ 397	$ 319	$ 952	$ 833
Earnings Per Share, Net Income	$ .66	$ .53	$ 1.59	$ 1.39

</TABLE>

See Accompanying Notes to Consolidated Financial Statements

POTOMAC BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996 AND 1995
(000 Omitted)
(Unaudited)

<TABLE>
<CAPTION>

	Common Stock	Capital Surplus	Mkt Value AFS Secur	Undivided Profits	Total

<S> <C>

Balances: January 1, 1996	$ 600	$ 5,400	$ --	$ 7,423	$ 13,423
Net income	--	--	--	952	952
Cash dividends ($.35 per share)	--	--	--	(210)	(210)
Change in net unrealized gain (loss) on securities available for sale	--	--	(85)	--	(85)
Balances: September 30, 1996	$ 600	$ 5,400	$ (85)	$ 8,165	$ 14,080
Balances: January 1, 1995	$ 600	$ 5,400	$ (31)	$ 6,747	$ 12,716
Net income	--	--	--	833	833
Cash dividends ($.35 per share)	--	--	--	(210)	(210)
Change in net unrealized gain (loss) on securities available for sale	--	--	32	--	32
Balances: September 30, 1995	$ 600	$ 5,400	$ 1	$ 7,370	$ 13,371

</TABLE>

See Accompanying Notes to Consolidated Financial Statements

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

	For the Nine Months Ended September 30 1996	September 30 1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 952	$ 833

Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	125	125
Depreciation	134	129
Amortization	9	9
Discount accretion and premium amortization on securities, net	21	2
(Gain) loss on sale of real estate	84	--
(Increase) decrease in accrued interest receivable	(118)	74
(Increase) decrease in other assets	26	(83)
Increase (decrease) in accrued interest payable	(16)	37
Increase in other liabilities	96	99
Net cash provided by operating activities	$ 1,313	$ 1,225
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity of investment securities	$ 10,000	$ 9,000
Proceeds from maturity of securities available for sale	--	3,020
Purchase of investment securities	(7,976)	--
Purchase of securities available for sale	(14,072)	--
Net (increase) decrease in loans	110	(3,421)
Purchases of bank premises and equipment	(267)	(38)
Proceeds from sale of real estate	350	--
Net cash provided by (used in) investing activities	$(11,855)	$ 8,561
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits, NOW accounts and savings accounts	$ 1,074	$ (4,756)
Net increase in certificates of deposit	69	5,392
Cash dividends	(210)	(210)
Net cash provided by financing activities	$ 933	$ 426
Increase (decrease) in cash and cash equivalents	$ (9,609)	$ 10,212
CASH AND CASH EQUIVALENTS		
Beginning	22,096	6,125
Ending	$ 12,487	$ 16,337
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest paid to depositors	$ 2,748	$ 2,593
Income taxes	$ 572	$ 406

	========	========
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Other real estate acquired in settlement of loans	$ --	$ 108
	========	========
Unrealized gain (loss) on securities available for sale	$ (129)	$ 48
	========	========

See Accompanying Notes to Consolidated Financial Statements

POTOMAC BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1996 (UNAUDITED) AND DECEMBER 31, 1995

1. 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 September 30, 1996, and December 31, 1995, the results of operations for the three months ended September 30, 1996 and 1995, and results of operations and cash flows for the nine months ended September 30, 1996 and 1995. 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, 1995. The results of operations for the nine month periods ended September 30, 1996 and 1995, are not necessarily indicative of the results to be expected for the full year.

2. Securities held to maturity as of September 30, 1996 and December 31, 1995 are summarized below:

	(000 Omitted) September 30, 1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities held to maturity:				
U.S. Treasury securities	$ 12,978	$ 8	$ (19)	$ 12,967
Obligations of U.S. Government agencies	10,994	1	(18)	10,977
	$ 23,972	$ 9	$ (37)	$ 23,944

	(000 Omitted) December 31, 1995			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities held to maturity:				
U.S. Treasury securities	$ 15,986	$ 64	$ (42)	$ 16,008
Obligations of U.S. Government agencies	10,000	--	(69)	9,931
	$ 25,986	$ 64	$ (111)	$ 25,939

Securities available for sale as of September 30, 1996 and December 31, 1995 are summarized below:

	(000 Omitted) September 30, 1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
U.S. Treasury securities	$ 14,021	$ --	$ (128)	$ 13,893
Federal Home Loan Bank stock	387	--	--	387
	$ 14,408	$ --	$ (128)	$ 14,280

	(000 Omitted) December 31, 1995			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
Federal Home Loan Bank stock	$ 368	$ --	$ --	$ 368

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

	(000 Omitted) September 30, 1996	December 31, 1995
Real estate loans:		
Construction and land development	$ 856	$ 1,053
Secured by farmland	1,456	1,208
Secured by 1-4 family residential	37,543	36,586
Other real estate loans	12,256	12,295
Loans to farmers (except those secured by real estate	479	650
Commercial and industrial loans (except those secured by real estate)	1,593	2,383
Loans to individuals for personal expenditures	19,131	18,998
All other loans	190	478
Total loans	$ 73,504	$ 73,651

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

	(000 Omitted) September 30 1996	December 31 1995
Balance at beginning of period	$ 899	$ 988
Provision charged to operating expense	125	125
Recoveries added to the reserve	32	50
Loan losses charged to the reserve	(68)	(264)
Balance at end of period	$ 988	$ 899

Information about impaired loans as of September 30, 1996 is as follows:

	(000 Omitted)
Impaired loans for which a reserve has been provided	$ 410
Impaired loans for which no reserve has been provided	--
Total impaired loans	$ 410
Reserve provided for impaired loans, included in the reserve for loan losses	$ 205
Average balance in impaired loans	$ 514

Interest income recognized	$ 27

Nonaccrual loans excluded from impaired loan disclosure under FASB 114 amounted to $285,150 at September 30, 1996. If interest on these loans had been accrued, such income would have approximated $21,117.

5. The Corporation sponsors a postretirement life insurance plan covering retirees with 25 years of service over the age of 60 and health care plan for all retirees and seven current employees that have met certain eligibility requirements. The plan is contributory for future retirees, with retiree contributions that are currently set at 20% of the required premium. Effective January 1, 1995, the Corporation adopted Financial Accounting Standards Board Statement No. 106 to account for its share of the costs of those benefits. Under that Statement, the Corporation's share of the estimated costs that will be paid after retirement is generally being accrued by charges to expense over the employees' active service periods to the dates they are fully eligible for benefits, except that the Corporation's unfunded cost that existed at January 1, 1995 is being accrued primarily in a straight-line manner that will result in its full accrual by December 31, 2014. Prior to 1995, the Corporation expensed its share of costs as they were paid.

Net periodic postretirement benefit cost included the following components as of September 30, 1996.

	(000 Omitted)	
	Medical	Life
Service cost benefits attributable to service during the period	$ 2	$ 2
Interest on accumulated postretirement benefit obligation	16	9
Amortization of transition obligation	9	5
	$ 27	$ 16

Postretirement benefit cost recognized as of September 30, 1996 is $43,042 ($26,587 for medical and $16,455 for life).

The following table sets forth the plan's funded status reconciled with the obligation recognized in the accompanying balance sheet at September 30, 1996:

	(000 Omitted)	
	Medical	Life
Accumulated postretirement benefit obligation		
Plan assets:		

Accumulated postretirement benefit obligation in excess of plan assets	$ 303	$ 182
Unrecognized transition obligation	(209)	(109)
Unrecognized net (gain) loss	(36)	(37)
Premium payments for current retirees	(28)	(11)
Obligation included on balance sheet	$ 30	$ 25

For measurement purposes, a 10 percent annual rate of increase in per capita health care costs of covered benefits was assumed for 1996, with such annual rate of increase gradually declining to 5 percent in 2004. If assumed health care cost trend rates were increased by 1 percentage point in each year, the accumulated postretirement benefit obligation at September 30, 1996 would be increased by $26,298 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the period ended September 30, 1996 would be increased by $2,446.

The weighted average discount rate used in estimating the accumulated postretirement benefit obligation was 8%.

6. On January 1, 1995, the Corporation adopted Financial Accounting Standards Statement No. 114, "Accounting by Creditors for Impairment of a Loan." This Statement has been amended by FASB Statement No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." Statement 114, as amended, requires that the impairment of loans that have been separately identified for evaluation is to be measured based on the present value of expected future cash flows or, alternatively, the observable market price of the loans or the fair value of the collateral. However, for those loans that are collateral dependent (that is, if repayment of those loans is expected to be provided solely by the underlying collateral) and for which management has determined foreclosure is probable, the measure of impairment of those loans is to be based on the fair value of the collateral. Statement 114, as amended, also requires certain disclosures about investments in impaired loans and the allowance for credit losses and interest income recognized on loans.

7. In October, 1994, Statement of Financial Accounting Standards No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments" was issued. The Statement is effective for financial statements issued for fiscal years ending after December 15, 1994. It requires various disclosures for derivative financial instruments which are futures, forward, swap, or option contract, or other financial instruments with similar characteristics. The Corporation does not have any derivative financial instruments as defined under this Statement.

8. Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," establishes standards for the impairment of long-lived

assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. This Statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Statement is effective for fiscal years beginning after December 15, 1995. The Statement does not have a material impact on the Corporation.

9. Statement of Financial Accounting Standards No. 122, "Accounting for Mortgage Servicing Rights," amends FASB Statement No. 65, "Accounting for Certain Mortgage Banking Activities," to require that a mortgage banking enterprise recognize as separate assets rights to service mortgage loans for others, however those servicing rights are acquired. A mortgage banking enterprise that acquires mortgage servicing rights through either the purchase or origination of mortgage loans and sells or securitizes those loans with servicing rights retained should allocate the total cost of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values if it is practicable to estimate those fair values. If it is not practicable to estimate the fair values of the mortgage servicing rights and the mortgage loans (without the mortgage servicing rights), the entire cost of purchasing or originating the loans should be allocated to the mortgage loans (without the mortgage servicing rights) and no cost should be allocated to the mortgage servicing rights. The Statement is effective for transactions in fiscal years beginning after December 15, 1995. The Statement does not have a material impact on the Corporation.

10. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," establishes financial accounting and reporting standards for stock-based employee compensation plans. Those plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer's stock. Examples are stock purchase plans, stock options, restricted stock, and stock appreciation rights. This Statement also applies to transactions in which an entity issues its equity instruments to acquire goods or services from nonemployees. Those transactions must be accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

The Statement is effective for fiscal years beginning after December 15, 1995. The disclosures must include the pro forma effects of other awards granted in fiscal years beginning after December 31, 1994. The Corporation does not have any stock-based employee compensation plans.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Between December 31, 1995 and September 30, 1996, total assets have increased slightly. The September 30 annualized return on average assets is 1.02% compared to .97% at December 31. At September 30 the annualized return on average equity is 9.23% compared to 9.08% at December 31. The leverage capital (equity to assets) ratio is 11.18% at September 30 compared to 10.73% at December 31. Since dividends are paid on a semi-annual basis, this ratio may seem higher at the end of the first and third quarters of the year.

The real estate home equity loans have continued to grow in 1996 adding $860,000 to the loan portfolio since December 31. The total balance of the various adjustable rate mortgage products has increased to $16,171,601 at September 30 compared with $5,627,604 at December 31.

The table shown below is an analysis of the Corporation's reserve 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 quarterly basis with procedures that allow for problem loans and potentially problem loans to be highlighted and watched. Based on experience, the loan policies and the current monitoring program, management believes the loan loss reserve is adequate.

	(000 Omitted) September 30, 1996
Balance at beginning of period	$ 899
Charge-offs:	
Commercial, financial and agricultural	--
Real estate - construction	--
Real estate - mortgage	--
Consumer	68
Total charge-offs	68
Recoveries:	
Commercial, financial and agricultural	--
Real estate - construction	--
Real estate - mortgage	6
Consumer	26
Total recoveries	32
Net charge-offs	36
Additions charged to operations	125
Balance at end of period	$ 988
Ratio of net charge-offs during the period to average loans outstanding during the period	.0489%

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) September 30, 1996
Nonaccrual loans	$ 285
Restructured loans	--
Foreclosed properties	--
Total nonperforming assets	$ 285
Loans past due 90 days accruing interest	$ 52
Reserve for loan losses to period end loans	1.34%
Nonperforming assets to period end loans and foreclosed properties	.39%

Nonaccrual loans excluded from impaired loan disclosure under FASB 114 amounted to $285,150 at September 30, 1996. If interest on these loans had been accrued, such income would have approximated $21,117.

At September 30, 1996, other potential problem loans totalled $49,446. 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 reserve for these loans according to the review of the potential loss in each loan situation.

At September 30 deposits are up about $1,000,000 compared with December 31, 1995. Now, money market, and savings accounts are showing increases.

The comparison of the income statements for the three months ended September 30, 1996 and 1995 shows an increase in net income of 24% in 1996. Interest income increased about 3% and interest expense decreased about 4% in 1996. Total other expenses have increased by 3% in 1996 over 1995 for the three month period.

When comparing the income statements for the nine months ended September 30, 1996 and 1995, net income has increased over 12% in 1996 over 1995. Interest income and interest expense have increased about 4% in 1996 over 1995.

Interest income has increased by 3% in interest and fees on loans and by 7% in income from securities. These increases are due to a combination of higher rates and increased balances. The increase in interest expense is also due to a combination of higher rates and increased balances.

Noninterest income has increased over 8% as of September 30, 1996 compared with September 30, 1995. This increase is a combination of an increase in service charges on deposit accounts as discussed in June, an increase in fiduciary fees, and a gain on sale of other real estate included in other operating income.

Noninterest expense has increased by 1% as of September 30, 1996 compared with September 30, 1995. This minimal change is due to the decrease in deposit insurance and an offsetting increase in various other operating 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. Maturity of investment securities provided cash from investing activities. This cash plus cash & cash equivalents on hand were used to replace these matured securities and to purchase additional securities thus increasing the portfolio. Financing activities provided cash through the increase of deposits. The September 30 balance of cash and cash equivalents was reduced due to these activities. Liquidity of the Corporation is still more than adequate to meet present and future financial obligations.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

27. Financial Data Schedule.

99. Additional exhibits.
Not applicable

(b) Reports on Form 8-K:

NONE

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.

Date ________________________ ____________________________________
Charles W. LeMaster, President & CEO

Date ________________________ ____________________________________
L. Gayle Marshall Johnson, Vice President & Chief Financial Officer

<TABLE> <S> <C>

<ARTICLE>		9
<MULTIPLIER>		1,000
<S>	<C>	
<PERIOD-TYPE>	9-MOS	
<FISCAL-YEAR-END>		DEC-31-1996
<PERIOD-START>		JAN-01-1996
<PERIOD-END>		SEP-30-1996
<CASH>		4,279
<INT-BEARING-DEPOSITS>		8
<FED-FUNDS-SOLD>		8,200
<TRADING-ASSETS>		0
<INVESTMENTS-HELD-FOR-SALE>		14,280
<INVESTMENTS-CARRYING>		23,972
<INVESTMENTS-MARKET>		23,944
<LOANS>		73,504
<ALLOWANCE>		988
<TOTAL-ASSETS>		125,924
<DEPOSITS>		110,933
<SHORT-TERM>		0
<LIABILITIES-OTHER>		911
<LONG-TERM>		0
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		600
<OTHER-SE>		13,480
<TOTAL-LIABILITIES-AND-EQUITY>		125,924
<INTEREST-LOAN>		5,038
<INTEREST-INVEST>		1,354
<INTEREST-OTHER>		353
<INTEREST-TOTAL>		6,745
<INTEREST-DEPOSIT>		2,733
<INTEREST-EXPENSE>		2,733
<INTEREST-INCOME-NET>		4,012
<LOAN-LOSSES>		125
<SECURITIES-GAINS>		0
<EXPENSE-OTHER>		3,118
<INCOME-PRETAX>		1,494
<INCOME-PRE-EXTRAORDINARY>		952
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		952
<EPS-PRIMARY>		1.59
<EPS-DILUTED>		1.59
<YIELD-ACTUAL>		7.55
<LOANS-NON>		285

<LOANS-PAST> 52
<LOANS-TROUBLED> 0
<LOANS-PROBLEM> 49
<ALLOWANCE-OPEN> 899
<CHARGE-OFFS> 68
<RECOVERIES> 32
<ALLOWANCE-CLOSE> 988
<ALLOWANCE-DOMESTIC> 988
<ALLOWANCE-FOREIGN> 0
<ALLOWANCE-UNALLOCATED> 0

</TABLE>