Bank of the James Announces Second Quarter, First Half 2019 Financial Results

Commercial Loan Growth, Robust Mortgage Origination, Expanded Market Presence

LYNCHBURG, Va., July 19, 2019 -- Bank of the James Financial Group, Inc. (the "Company") (NASDAQ:BOTJ), the parent company of Bank of the James, a full-service commercial and retail bank serving Region 2000 (Greater Lynchburg MSA), and the Charlottesville, Harrisonburg, and Roanoke, Virginia markets, today announced unaudited results for the three months and six months ended June 30, 2019.

Net income for the three months ended June 30, 2019 was $1.38 million or $0.31 per diluted share, compared with $1.30 million or $0.30 per diluted share for the three months ended June 30, 2018. Net income for the six months ended June 30, 2019 was $2.61 million or $0.60 per diluted share, compared with $2.42 million or $0.55 per diluted share for the six months ended June 30, 2018.

Robert R. Chapman III, President and CEO, commented: "Steady growth in earnings, loans, assets and the Company's book value reflects the outstanding work by our entire banking team. Our core Region 2000 market continues to generate strong results, and we have been very encouraged by the consistent commercial loan growth, mortgage originations and deposit expansion in our Charlottesville, Harrisonburg and Roanoke markets.

"In June, 2019, we opened our second full-service banking locations in Charlottesville and Roanoke – an expansion reflecting the positive reception and success in these markets. We are on-track to establish a new office in Rustburg, Virginia this year, and will soon expand our presence in Lexington, Virginia, extending our footprint in the Shenandoah Valley to serve Buena Vista, Lexington and the Rockbridge County community.

"As anticipated, our expansion resulted in increased operating expenses, including increased investment in personnel, equipment and facilities. It was particularly encouraging that even with higher operating costs, our Company reported higher year-over-year earnings that reflected increasing productivity of our established team and assets."

Highlights

- Loans receivable, net of the allowance for loan losses, were a Company-record $551.97 million at June 30, 2019, increasing by more than $21 million during the first six months of 2019 from $530.02 million at December 31, 2018.
- Commercial lending growth was highlighted by expanded commercial real estate (CRE) lending throughout the Company's served markets. Non-owner-occupied real estate loans were $185.72 million at June 30, 2019, up 8% compared with a year earlier. Total construction loans increased 17% year-over-year.
- Total interest income in the second quarter of 2019 rose 10% compared with a year earlier, and increased 14% in the first half of 2019 compared with the first half of 2018, primarily as a result of loan growth.
- Strong residential mortgage origination, which generates income from gains on loan sales to the secondary market, contributed significantly to increased total noninterest income, which was $1.66 million in the second quarter of 2019, up 15% from $1.44 million in the second quarter of 2018. Income from mortgage activity and fees from corporate treasury services contributed to total noninterest income of $2.88 million in the first half of 2019, up from $2.63 million in the first half of 2018.
- Reflecting the Company's emphasis on growing its deposit base, total deposits rose to $617.18 million at June 30, 2019, compared with $612.04 million at December 31, 2018 and $596.07 million at June 30, 2018. Core deposits (noninterest-bearing demand, NOW, savings and money market accounts) comprised approximately 70% of the Company's total deposits.

- Total assets rose to a Company-record $690.10 million at June 30, 2019, with strong asset quality.
- New full-service offices opened in Charlottesville and Roanoke, the Company's second full-service branches in both markets.
- Total stockholders' equity increased by more than $4 million to $59.25 million at June 30, 2019 from December 31, 2018. Tangible book value per share rose to $13.53, compared to $12.59 at December 31, 2018 and $12.00 at June 30, 2018.

Second Quarter, First Half of 2019 Operational Review

Total interest income was $7.39 million in the second quarter of 2019, up from $6.73 million a year earlier, reflecting loan growth and adjustable rate loans that repriced to reflect rising interest rates. Income from lending represented 92% of total interest income. Interest expense increased year-over-year, which reflected a larger deposit base and rate increases in demand and time deposits. Rates paid on total interest-bearing deposits in the second quarter of 2019 were 0.90% compared with 0.69% a year earlier.

Net interest income after provision for loan losses was $6.04 million for the three months ended June 30, 2019, compared with $5.49 million for the same period a year earlier. Commercial lending growth and modest loan yield increases contributed to the net interest margin of 3.82% in the second quarter of 2019 compared with 3.74% in the second quarter of 2018.

For the six months of 2019, total interest income rose nearly 14% to $14.62 million at June 30, 2019 from $12.88 million at June 30, 2018. Total interest expense increased year-over-year, reflecting a larger deposit base and rate increases on interest-bearing deposits. For the six months of 2019, net interest income after the provision for loan losses was $11.96 million, up 11% from $10.80 million for the six months of 2018. The net interest margin was 3.87% for the six months ended June 30, 2019 compared with 3.69% for the six months ended June 30, 2018.

J. Todd Scruggs, Executive Vice President and CFO, commented: "We have generally been satisfied with the stability of the net interest margin and interest rate spread. Even with higher interest expense, net interest income has demonstrated solid year-over-year growth driven by income from lending and supported by sound loan quality that has led to consistently low provisions for loan losses."

Noninterest income, including gains from the sale of residential mortgages to the secondary market, revenue contributions from BOTJ Investment Services, and income from the Bank's line of treasury management services for commercial customers was $1.66 million in the second quarter of 2019 compared with $1.44 million in the second quarter of 2018. In the first half of 2019, noninterest income rose to $2.88 million compared with $2.63 million in the first half of 2018.

Noninterest expense for the three months and six months ended June 30, 2019 increased, primarily reflecting increased personnel expenses and higher occupancy and equipment costs related to previously noted market expansion.

In the second quarter of 2019, Return on Average Assets (ROAA) was 0.80% and Return on Average Equity (ROAE) was 9.47%. In the first half of 2019, ROAA was 0.77% and ROAE was 9.11%. For both periods, ROAA was up slightly from a year earlier, and ROAE was down slightly from a year earlier. The Company's efficiency ratio was higher in both periods compared to a year earlier, primarily reflecting the addition of personnel and facilities and an increase in variable compensation related to increased production in the mortgage and investment divisions.

Balance Sheet Review: Steady Growth, Sound Quality

Total assets were $690.10 million at June 30, 2019. The primary driver of balance sheet growth continues to be deposits used to fund loans held for investment, net of the allowance for loan losses, which totaled $551.97 million at June 30, 2019. Loans held-for-sale were $4.44 million, primarily reflecting strong residential mortgage activity. Fair value of securities available-for-sale was $53.82 million compared with $52.73 million at December 31, 2018.

Commercial lending continued to lead the Company's loan portfolio growth, with stable year-over-year commercial & industrial lending, 4.5% growth in real estate lending and a 17% increase in construction lending.

"The heart of successful commercial lending, particularly with small and midsize businesses, comes from building and maintaining relationships, providing expert advice, and offering customized financial solutions to every client," explained

Michael A. Syrek, Executive Vice President and Chief Loan Officer. "By building partnerships with clients, we are flexible and responsive to their needs.

"Commercial clients often have changing needs based on seasonality, project opportunity, and operating capital requirements. A focus on partnering with clients, communicating frequently, and offering a range of services and options enhances client retention and earns us referrals."

The Company's loan portfolio continued to provide balanced performance and year-over-year growth. Non-owner occupied commercial real estate (primarily commercial and investment property), was $185.72 million at June 30, 2019 compared with $171.67 million a year earlier. Owner-occupied commercial real estate was $156.43 million at June 30, 2019, up from $155.88 million at June 30, 2018. Total construction loans, led by non 1-4 family construction growth of 89%, was $25.16 million, up 17% from $21.44 million a year earlier. Consumer and home equity loans were similar to a year ago.

Total deposits at June 30, 2019 were $617.18 million, up from $612.04 million at December 31, 2018, led by expanded core deposits, which comprised 70% of total deposits. Interest-bearing demand deposits were $342.38 million at June 30, 2019 compared with $331.30 million at December 31, 2018. Noninterest bearing demand deposits were $88.90 million at June 30, 2019 compared with $91.36 million at December 31, 2018.

Asset quality remained strong, with a ratio of nonperforming loans to total loans of 0.63% at June 30, 2019, compared to 0.55% at December 31, 2018 and 0.60% at June 30, 2018. The allowance for loan losses to total loans was 0.85% at June 30, 2019, representing slight decreases from December 31, 2018 and June 30, 2018. During the quarter, the Company added modestly to its loan loss reserve, primarily to keep pace with loan growth. Based on continuing loan quality, the Company's allowance for loan losses to nonperforming loans was 136% at June 30, 2019 compared to 156% at December 31, 2018.

Chapman noted: "We believe our longstanding trend of maintaining strong asset quality while consistently growing commercial loans and originating quality residential mortgage loans makes a strong statement about the credit policies and procedures in place. It also speaks to strong judgment of our people involved in determining creditworthiness, and their commitment to analyzing every borrower and situation. Strong loan quality has greatly contributed to quality earnings and maximizing shareholder value."

As noted in the highlights, total stockholders' equity and tangible book value per share increased at June 30, 2019. Retained earnings increased to $18.61 million at June 30, 2019 from $16.52 million at December 31, 2018. The Bank's regulatory capital ratios continued to exceed accepted regulatory standards for a well-capitalized institution.

About the Company

Bank of the James, a wholly owned subsidiary of Bank of the James Financial Group, Inc. opened for business in July 1999 and is headquartered in Lynchburg, Virginia. The bank currently services customers in Virginia from offices located in Altavista, Amherst, Appomattox, Bedford, Blacksburg, Charlottesville, Forest, Harrisonburg, Lexington, Lynchburg, Madison Heights, and Roanoke. The bank offers full investment and insurance services through its BOTJ Investment Services division and BOTJ Insurance, Inc. subsidiary. The bank provides mortgage loan origination through Bank of the James Mortgage, a division of Bank of the James. Bank of the James Financial Group, Inc. common stock is listed under the symbol "BOTJ" on the NASDAQ Stock Market, LLC. Additional information on the Company is available at www.bankofthejames.bank.

Cautionary Statement Regarding Forward-Looking Statements

This press release contains statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believe," "estimate," "expect," "intend," "anticipate," "plan" and similar expressions and variations thereof identify certain of such forward-looking statements which speak only as of the dates on which they were made. Bank of the James Financial Group, Inc. (the "Company") undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those indicated in the forward-looking statements as a result of various factors. Such factors include, but are not limited to, competition, general economic conditions, potential changes in interest rates, and changes in the value of real estate securing loans made by Bank of the James (the "Bank"), a subsidiary of the Company. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the Company's filings with the Securities and Exchange Commission and previously filed by the Bank (as predecessor of the Company) with the Federal Reserve Board.

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