Bank of the James Announces Second Quarter, First Half 2022 Financial Results and Declaration of Dividend

Record Earnings, Organic Loan Growth, Strong Asset Quality

LYNCHBURG, VA, July 22, 2022 -- Bank of the James Financial Group, Inc. (the “Company”) (NASDAQ:BOTJ), the parent company of Bank of the James (the “Bank”), a full-service commercial and retail bank, and Pettyjohn, Wood & White, Inc. (“PWW”), an SEC-registered investment advisor, today announced unaudited results of operations for the three month and six month periods ended June 30, 2022. The Bank serves Region 2000 (the greater Lynchburg MSA), and the Blacksburg, Charlottesville, Harrisonburg, Lexington, Roanoke, and Wytheville, Virginia markets.

Net income for the three months ended June 30, 2022 was $2.29 million or $0.48 per basic and diluted share compared with $2.01 million or $0.42 per basic and diluted share for the three months ended June 30, 2021. Net income for the six months ended June 30, 2022 was $4.43 million or $0.93 per basic and diluted share compared with $3.85 million or $0.81 per basic and diluted share for the six months ended June 30, 2021.

Robert R. Chapman III, CEO, commented: “The Company’s record second quarter earnings and strong financial performance in the first half reflected balanced income contributions from our wide range of commercial, retail and wealth management services. The Company efficiently transitioned from the economic and pandemic-influenced climate of the past two years towards a more normalized environment, albeit one with new challenges and uncertainties, particularly inflation and a rapidly rising interest rate environment.

“Commercial real estate lending (CRE), which was strong throughout the pandemic, continued to grow. We had a record quarter for new loans in owner-occupied and non-owner-occupied CRE that reflected confidence in and the attractiveness of our markets. Commercial and industrial lending activity began a slow return towards more normal levels following the pandemic as business activity accelerated. The second quarter of 2022 reflected 6% net interest income growth from a year earlier.

“The electronic and web-based treasury services we offer to help businesses efficiently manage their finances continue to grow in use and popularity. Our reputation for service, expertise, and pricing led to these fee-based services enhancing noninterest income for the Company and allowed us to grow full-service relationships and attract new commercial banking customers. We continue to attract commercial and retail deposit business, which provides a foundation for lending.

“Our residential mortgage origination business, which has been exceptionally brisk in the past several years, continued at a strong pace, although rising interest rates have, as expected, impacted demand. Our established reputation for fast and efficient loan processing and outstanding service continues to position Bank of the James as a preferred mortgage provider, helping to ensure that we maintain a strong market share of origination business.

“The acquisition of Pettyjohn, Wood & White (PWW) in December has much enhanced the Company’s investment and wealth management capabilities and provided a new source of income. In its first six months with Bank of the James Financial Group, Inc., PWW contributed $2.0 million in revenue and $668,000 in net income, or $0.14 per share.

“As we enter the second half of 2022, we hope to stay ahead of the curve in providing the financial solutions customers need and the growth in value which shareholders expect.”

Highlights

- Net income in the second quarter and first half of 2022 was highlighted by continuing revenue contributions from gains on the sale of originated residential mortgages and mortgage loan processing fees, a $600,000 recovery of loan losses in the first half, and strong income contribution from PWW.
- Total interest income in the second quarter of 2022 increased 5% to $7.6 million from $7.2 million a year earlier, primarily reflecting increases in interest rates, commercial real estate loan growth and a gradual return to more normalized commercial and industrial lending following the pandemic and conclusion of Paycheck Protection Program (PPP) loan activity.
- Net interest income after recovery of loan losses was $7.4 million in the second quarter of 2022 compared with $6.7 million in the second quarter of 2021. The increase was primarily due to increased interest income, the positive impact of a $300,000 recovery of loan losses in the quarter, and reduced interest expense. First half 2022 net interest income increased slightly from a year earlier.
- Total noninterest income in the second quarter was relatively flat but increased in the first half of 2022 when compared with the first half of 2021. Noninterest income from gains on sale of mortgage loans remained strong in the 2022 periods, but were lower than a year earlier, reflecting slower residential mortgage origination activity as interest rates rose. For the year to date, noninterest income increased primarily due to the revenue of PWW but was partially offset by a decrease in the gain on loans held for sale.
- Loans, net of the allowance for loan losses, increased to $607.32 million at June 30, 2022 compared with $576.47 million at December 31, 2021, primarily reflecting steady commercial loan growth throughout the first half of 2022. The Company had $4.5 million of loans held for sale, primarily originated residential mortgages, at June 30, 2022 that will be placed with the secondary market in subsequent quarters.
- The Company experienced approximately $18 million in loan portfolio growth in the second quarter of 2022.
- Asset quality remained exceptionally strong, reflected in a ratio of nonperforming loans to total loans of 0.14% at June 30, 2022 compared with 0.16% at December 31, 2021.
- Total deposits were $875.35 million at June 30, 2022, down marginally from December 31, 2021, but reflecting continued strength of lower-cost core deposits (noninterest-bearing demand, NOW, savings and money market accounts), which were 85% of total deposits.
- On July 19, 2022 the Company's board of directors approved a quarterly $0.07 per share dividend payable to stockholders of record on September 2, 2022, to be paid on September 16, 2022.
- On July 19, 2022, the Company's board of directors approved a stock repurchase plan to purchase up to $500,000 of the Company's common stock through July 18, 2023 in open market transactions or privately negotiated transactions, in accordance with Rule 10b5-1 and Rule 10b-18 under the Securities Exchange Act of 1934, as amended.

Second Quarter, First Half 2022 Operational Review

Net interest income after recovery of loan losses for the quarter ended June 30, 2022 was $7.4 million compared with $6.7 million a year earlier, primarily reflecting higher interest income, reduced interest expense, and a $300,000 recovery of loan losses, as indicated by the Bank's allowance for loan losses methodology.

For the six months ended June 30, 2022, net interest income after recovery of loan losses was $14.1 million compared with $13.5 million a year earlier, reflecting increased interest rates, an increase in interest income from the Bank's securities portfolio, a decrease in interest expense, and a $600,000 recovery of loan losses, as indicated by the Bank's allowance for loan losses methodology.

Total interest income increased to $7.6 million in the second quarter of 2022 compared with $7.2 million a year earlier, and up from $6.92 million in the first quarter of 2022. Year-over-year quarterly comparisons reflected lower accreted fees from PPP loan processing, accelerating organic loan growth and interest rate increases. Management anticipates higher rates will continue to have a positive impact on both earning assets and loan yields in the coming quarters. The return on interest earning assets during the second quarter of 2022 was 3.19% as compared to 3.39% in the second quarter of 2021. Total interest income in the first half of 2022 was $14.5 million compared with $14.6 million in the first half of 2021.

Total interest expense in the second quarter of 2022 was $474,000 compared with $524,000 a year earlier, primarily reflecting ongoing reductions in the cost of time deposits and high levels of lower-cost core deposits (noninterest-bearing demand, NOW, savings and money market accounts), partially offset by interest expense on a loan used to finance the acquisition of PWW. During the quarter, the Company maintained low rates on deposits despite the rising rate environment and also negotiated a lower rate paid on the acquisition loan. In the first half of 2022, total interest expense was $1.0 million compared with $1.1 million in the first half of 2021.

During the first half of 2022, the Company diligently monitored and managed funds held as investments, anticipating and responding to a changing rate environment. Actions included shifting a significant amount of investment funds from Fed Funds into its fixed income portfolio, including $30 million in agency mortgage-backed securities, as yields became more attractive. The net interest margin was 2.99% and the interest spread was 2.93% in the second quarter of 2022 and 2.92% and 2.87%, respectively, in the first half of 2022.

Noninterest income in the second quarters of both 2022 and 2021 was $3.0 million, reflecting mortgage processing fees, strong but lower gains from the sale of residential mortgages to the secondary market, income from the Bank's line of treasury management services for commercial customers, and fee income from PWW. Noninterest income in the first half of 2022 was $6.7 million compared with $5.5 million a year earlier.

Noninterest expense in the second quarter of 2022 was $7.6 million compared with $7.2 million in the second quarter of 2021. In the first half of 2022, noninterest expense was $15.2 million compared with $14.1 million a year earlier. Both periods of 2022 reflected increased salaries and employee benefits primarily related to the addition of PWW.

For the three months ended June 30, 2022, return on average equity (ROAE) was 12.68% and return on average assets (ROAA) was 0.89%, essentially stable compared with a year earlier. For the six months ended June 30, 2022, ROAE was 12.48% and ROAA was 0.89%, also relatively unchanged from a year earlier.

Balance Sheet Reflects Organic Loan Growth, Strong Asset Quality

Total assets were $961.34 million at June 30, 2022 compared with $987.63 million at December 31, 2021, with the decline primarily reflecting a trimming of cash and cash equivalents during the first half and the final payoffs of PPP loans, partially offset by increased securities available for sale, organic (non-PPP) loan growth and increases in the deferred tax asset and loans held for sale.

Loans, net of allowance for loan losses, increased to $607.32 million at June 30, 2022 from $576.47 million at December 31, 2021. The growth in loans receivable primarily reflected new CRE loans. Commercial real estate loans (owner occupied and non-owner occupied and excluding construction loans) were approximately $331.00 million at June 30, 2022, an increase from $307.95 million at December 31, 2021 and significantly up from $295.80 million at June 30, 2021.

Michael A. Syrek, President of the Bank, commented: "The second quarter of 2022 was one of our strongest quarters ever for lending, with particularly strong activity in commercial real estate and consumer lending. The Bank increased its loan portfolio by approximately $18 million during the quarter, driven by high quality new loans. We achieved this growth despite receiving a payoff of $12 million in commercial credits.

"While customers are dealing with the same challenges as the rest of the country – inflation, fuel prices, supply chain difficulties - the general economic health of our served markets is sound. We have solid loan pipelines, continued growth in the use of commercial treasury services, excellent customer credit quality and strong relationships with customers."

Commercial loans (primarily C&I loans) were $102.88 million at June 30, 2022 compared with $105.07 million at December 31, 2021. The commercial loan portfolio at quarter-end was approximately $33 million lower than a year earlier, primarily reflecting the completed paydowns and forgiveness of PPP loans. Management noted that businesses' significant cash reserves and conservative operations driven by inflation concerns, supply chain issues and a tight labor market continue to have a drag on normal levels of commercial and industrial lending.

Commercial construction loans at June 30, 2022 of $23.1 million declined slightly from prior quarters as previous projects were completed. Residential construction lending has steadily increased, reflecting continuing demand for new housing in several of the Company's markets. Secured consumer lending increased significantly at June 30, 2022 compared with June 30, 2021.

Improved qualitative factors due to the economy and delinquency trends (as reflected in the non-performing loan ratio improvement) resulted in recovery of $600,000 from the allowance for loan losses in the first half of 2022. Asset quality has been consistently strong and stable, with a ratio of nonperforming loans to total loans of 0.14% at June 30, 2022. The allowance for loan losses to total loans was 1.08% at June 30, 2022 as compared to 1.19% at December 31, 2021. Total nonperforming loans of $855,000 were down 10% from December 31, 2021. Management believes the current levels of the allowance for loan losses is a reasonable estimate of the probable losses inherent in the Company's loan portfolio.

Total deposits at June 30, 2022 were $875.35 million, compared with $887.06 million at December 31, 2021. Total deposits continued to reflect good demand deposit activity and continued trimming of time deposits.

At June 30, 2022, the Company reported total retained earnings of $27.2 million compared with $23.4 million at December 31, 2021. Total stockholders' equity decreased by $16.1 million to $53.3 million as of June 30, 2022 from $69.4 million at December 31, 2021. This corresponds to a decrease of $3.40 per share in book value to $11.25 at June 30, 2022 from $14.05 at December 31, 2021. These decreases directly resulted from the impact that increased interest rates had on the market value of the Company's available-for-sale securities portfolio. As of June 30, 2022, the Bank had a net unrealized loss of $21.26 million on the market value of its available-for-sale securities portfolio. This loss was responsible for a $4.49 per share decrease in tangible book value. This decrease in book value per share was partially offset by the Company's earnings during the first six months of 2022. These mark-to-market losses should accrete back to capital over time. The duration of our overall securities portfolio is 6.5 years.

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, Roanoke, Rustburg, and Wytheville. 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. The Company provides investment advisory services through its wholly-owned subsidiary, Pettyjohn, Wood & White, Inc., an SEC-registered investment advisor. 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, the effect of the COVID-19 pandemic, and changes in the value of real estate securing loans made by the Bank. 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.

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