Financial Report

Putnam Bancshares, Inc. and Subsidiary

Analysis Of Earning Assets And Interest Bearing Liabilities

In Thousands of Dollars

	1998			1997		
ASSETS	**Avg. Balance**	**Interest**	**Yield/Rate**	**Avg. Balance**	**Interest**	**Yield/Rate**
Loans						
Commercial (1)	72,016	6,355	8.82%	66,407	6,010	9.05%
Real Estate	142,350	11,791	8.27%	128,584	10,787	8.39%
Installment	22,297	2,184	9.80%	26,124	2,485	9.51%
Total Loans	236,843	20,330	8.58%	221,115	19,282	8.72%
Securities (3)						
Taxable	89,694	4,978	5.55%	78,481	4,644	5.92%
Tax-Exempt (2)	3,416	288	8.43%	3,425	289	8.44%
Total Securities (2)	93,110	5,266	5.66%	81,906	4,933	6.02%
Federal Funds Sold	36,860	1,837	4.98%	38,079	2,001	5.25%
Total Earning Assets (2)	366,813	27,433	7.48%	341,100	26,216	7.69%
Cash and Due from Banks	15,739			15,921		
Premises and Equipment, Net	1,431			1,282		
Other Assets	3,429			3,264		
Allowance for Loan Losses	(2,308)			(2,118)		
Total Assets	385,104			359,449		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest Bearing Deposits						
Super NOW and MMDA	103,641	4,101	3.96%	104,402	4,150	3.98%
Savings	18,785	607	3.23%	19,249	624	3.24%
Time	197,263	11,346	5.75%	176,797	10,095	5.71%
Total Interest Bearing Deposits	319,689	16,054	5.02%	300,448	14,869	4.95%
Long-Term Borrowings	0	0	0	0	0	0
Total Interest Bearing Liabilities	319,689	16,504	5.02%	300,448	14,869	4.95%
Noninterest Bearing Deposits	29,926			27,354		
Accrued Expenses and Other Liabilities	2,287			1,829		
Equity	33,202			29,818		
Total Liabilities and Equity	385,104			359,449		
Net Interest Margin (2)	366,813	11,379	3.10%	341,100	11,347	3.33%

(1) Includes loans on nonaccrual status.

(2) Tax-exempt income converted to a fully tax-equivalent basis assuming a tax rate of 34%.

(3) Average balance represents book value.

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Rate Sensitivity Analysis As Of December 31, 1998

In Thousands of Dollars

REPRICING INTERVAL	Three Months Or Less	Three To Twelve Months	One To Three Years	Three To Five Years	Five To Fifteen Years	Over Fifteen Years
ASSETS						
Total Loans (1)	$ 65,373	$ 2,450	$ 12,633	$ 15,866	$ 75,395	$ 65,235
Investment Securities (2)	23,863	25,386	14,969	5,287	31,141	1,421
Federal Funds Sold	41,000	0	0	0	0	0
Total Selected Assests	130,236	27,836	27,602	21,173	106,536	66,656
LIABILITIES						
Interest Bearing Deposits (3)	$102,711	$ 65,718	$ 38,086	$ 66	0	0
Borrowed Funds	0	0	0	0	0	0
Total Selected Liabilities	102,711	65,718	38,086	66	0	0
Differences	$ 27,525	($ 37,882)	($ 10,484)	$ 21,107	$ 106,536	$ 66,656
Cummulative Differences	$ 27,525	($ 10,357)	($ 20,841)	$ 266	$ 106,802	$ 173,458

(1) Does not include loans on nonaccrual status.

(2) Does not include Federal Reserve Stock or securities on nonaccrual status. Reported values based upon book value.

(3) Does not include Super NOW, Money Market Deposit Accounts or traditional savings deposits.

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Management's Discussion and Analysis of Financial Condition and Results of Operation

Summary

The economic picture in West Virginia continues to show some very positive aspects. The state's unemployment rate continues to decline through 1998 into 1999. The state's unemployment rate was 5.7% in February of 1999, which was the lowest for any month since 1978. The nation's unemployment rate was 4.4% in February of 1999. The greatest increase in jobs continues to be in the service-producing sector while mining and goods-producing sectors are showing the heaviest job loss. Locally, the unemployment picture in Putnam, Kanawha and Cabell counties continue to perform better than average with Mason and Lincoln performing below average.

Putnam County continues to illustrate the economic vibrancy of the state. With Toyota Motor Division's presence in Buffalo, improvements in highways and infrastructure, the county has received new emphasis. Other commercial entities have made increased commitments to Putnam County as a place to do business. Cellular One's move to its ultra-modern regional headquarters at Teays Corporate Centre in Scott Depot is one example. Commercial property development is also evident with two motels under construction at the Teays Valley exit of Interstate 64 and the announcement of further development east of the interchange. In addition, growth in medical services to county residents has also been increasing. Putnam General Hospital continues to grow and has opened its own birthing facilities. Plans for the hospital are for continued growth in the range and breadth of services. In addition, many medical office facilities are being developed in the county and many in the medical field find Putnam County an excellent location for their practices. Small business continues to prosper in Putnam County as the number of new members to the Putnam County Chamber of Commerce will illustrate. All point to the economic prosperity of the county.

The operating results and financial condition of Putnam Bancshares, Inc. (referred throughout as "the Company") is presented and analyzed with the following narrative which includes tables and charts. It is important that this narrative be read in conjunction with the Consolidated Balance Sheets, Statements of Income, Changes in Shareholders' Equity, Statements of Cash Flows, and Notes to Consolidated Financial Statements (beginning on page F12 and ending on page F29).

Throughout this narrative, references will be made comparing the Company to members in its "peer group". The Company's "peer group" is determined by the Federal Reserve Board's Division of Banking and Supervision and consists of all bank holding companies with consolidated total assets between $300 million and $500 million. The Federal Reserve Board publishes a quarterly Bank Holding Company Report, which provides statistical performance measures on companies formulated from quarterly regulatory reports filed with the Board.

Net Interest Income

Net interest income represents income from all interest-yielding assets (i.e. loans, investments) reduced by the amount of expense from interest-bearing liabilities (i.e. deposits, borrowings). Bancshares' net interest income increased $34 thousand or between year-end 1997 and year-end 1998. This compares with a $345 thousand or 3% increase in the previous year. The decline was a result of lower loan and investment yields in combination with higher deposit costs.

The company's net interest income-to-average assets was 3.10% in 1998 compared to 3.33% in 1997. This yield compares low to peer institutions. This is a result of slightly higher rates paid on deposits combined with rates on assets, which are closer to market. Management is aware of the effects of this on earnings and monitors net yield regularly. The average yield on earnings assets was 7.48% in 1998 compared with 7.69% in 1997. The

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rate paid on interest-bearing liabilities was 5.02% in 1998 compared with 4.95% in 1997.

Interest Income

Bancshares' interest income rose $1.2 million, or 5%, between 1997 and 1998. While asset yields declined during 1998, increased volumes in lending pushed interest income up.

Interest income on loans increased $1 million or 5%, between year-end 1997 and year-end 1998. The average balance of total loans increased $16 million, or 7%, between both periods.

The principal source of this increase has been in real estate secured lending. These totals increased nearly $10 million, or 5%, from year-end 1997 to 1998. This growth continues to be due to relatively low interest rates and the effect of new construction and refinancings. The Company's real estate lending is focused on the immediate market area of Putnam, Cabell and Kanawha counties.

The year-end balance of commercial lending increased $135 thousand between 1997 and 1998. Commercial lending has been reflective of cyclical factors in the market area. The majority of this lending is to the benefit of small businesses within the market area.

Installment and consumer lending declined $3 million, or 10%, between years ending 1997 and 1998. This segment of lending continues to be highly competitive, primarily in automobile lending.

The average total of the investment portfolio increased over $11 million, or 14%, in 1998. Total investment income (tax effective) increased over $300 thousand, or 7%, from 1997 to 1998. Yields on taxable securities (U. S. Government Treasury and Agency Securities) dropped 37 basis points from 1997 to 1998. The declines in average balance illustrates the movement of an increased volume of funds to investments rather than federal funds sold while the decline in yield is due to market factors, primarily agency securities with call factors and short-term Treasury securities being repriced at lower market rates. Market interest rates continued to ease through 1998 as a result of the continued economic expansion without a sustained threat of inflation. During the year, management makes changes in the portfolio to improve yields and reduce the Company's susceptibility to market losses. The yield on tax exempt securities remained relatively unchanged. The Company did not purchase or sell any tax exempt securities during 1998. As of year-end 1998, all municipal securities are West Virginia issues which are investment quality by being rated A+ or better by Standard & Poors and A1 or better by Moody's. Of these issues 51% are general obligations while the remaining issues are revenue obligations.

The Company decreased its average balance in federal funds sold during 1998. Federal funds sold provide a source of liquidity to allow the Company to employ funds for purposes such as lending or investment. The rate paid by larger, correspondent banks for federal funds sold is subject to change on a daily basis. The Company regularly monitors the financial strength of the banks with which it invests these funds to ensure that they are not subject to undue risk. The yield on funds declined 27 basis points between 1997 and 1998.

Interest Expense

Interest expense increased $1.2 million, or 8%, between years ended 1997 and 1998. Interest paid on deposits during 1998 totaled $16,054,378. The average cost of funds has increased seven basis points between 1997 and 1998. During 1997, the Company employed the strategy of offering a premium rate 18-month Certificate of Deposit to continue to appeal to customers in light of declining rates. This has been popular with our depositors and has been successful in attracting and

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retaining deposits. This rate has been adjusted, as well as other deposit rates, as market rates declined through 1998. With respect to peer institutions, the Company's interest expense is comparably higher. Management has maintained a philosophy of paying slightly higher rates for deposits, however, regularly monitoring the market. The Bank does not aggressively advertise or solicit deposits outside the Bank and does not engage in brokered deposits.

Within total deposits, the average balance of time deposits rose $20 million, or 12%, between 1997 and 1998. The cost of these deposits increased four basis points during the same period. This increase is largely related to the new 18-month Certificate of Deposit. Within the category, there appears disintermediation from shorter maturities into longer maturities. The balance of Individual Retirement Accounts and Simplified Employee Pensions declined only $75 thousand 1997 and 1998. The average balance of Super NOW and Money Market Deposit Accounts (MMDA) declined nearly $800 thousand, or 1%, from 1997 to 1998 while the cost of these deposits declined on two basis points.

Currently, the Company does not have any debt and does not plan to incur any debt in the foreseeable future.

Asset and Liability Management, Interest Rate Sensitivity and Liquidity

The primary goal of asset/liability management is to identify characteristics of the balance sheet in an effort to maximize net interest income, while, at the same time, providing sufficient liquidity to meet short- and long-term objectives. Factors such as the level of interest rate risk must be critically reviewed within the context of the current and projected interest rate environments. Changes in interest rates and the level of reaction of assets and liabilities to those changes through their maturities or repricing characteristics have a direct impact upon net interest margin. Management monitors changes in the asset and liability mix on a monthly basis as well as projected maturity and repricing capabilities. Management may adjust the mix through various actions such as through the pricing and terms in lending; investment selection and pricing on deposit products.

Please refer to the Rate Sensitivity Analysis as of December 31, 1998 found on page F2. This analysis report depicts the volume of assets and liabilities which are subject to repricing due to maturity or rate adjustment options, such as changes in prime rate. The loan categories illustrated will factor cash flow from repayments for repricing purposes.

Liquidity is the ability to access cash from assets in an amount to meet various needs. These needs include the funding of potential loan demand and seasonal fluctuations in deposit categories. Sources of liquidity include cash flow from loan payments, new deposits and cash flow from investments. In addition, federal funds sold and maturing issues from the investment portfolio add another layer of liquidity. The average balance in federal funds sold was $37 million in 1998 compared with $38 million in 1997. In addition, 48% of the investment portfolio will mature within one year as of year-end 1998. The Company has not required any outside borrowings (i.e. purchases of federal funds) to fund short-term liquidity needs in 1998 or 1997.

Nonperforming Assets

A nonperforming asset includes all loans which are past due ninety days or more and all loans which are in nonaccrual status. A loan placed in nonaccrual status has been past due for ninety days or more and is not fully secured by collateral causing the full collection of the accrued interest on the loan to be questionable. The total of nonperforming loans at the end of 1998 totaled $3.9 million, or 1.64%, of total loans. This compares with $5 million, or 2.17%, of total loans at year-end 1997. The percentage for 1998 and 1997 is relatively higher than peer institutions. The majority of these nonperforming assets is attributed to a local real estate developer who is involved in residential and commercial

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projects. Management is making efforts to work-out this situation as best as possible to protect values in collateral. The borrower maintains various real properties as collateral on these credits. The condition, with respect to nonperforming assets, is not indicative of relaxed lending standards.

The amount of other real estate owned as a result of debts previously contracted at the end of 1998 totaled $140 thousand compared with $328 thousand at year-end 1997. The balance in 1998 represents one residential property in Hurricane which was acquired in September of 1998. This property was sold during the first quarter of 1999 with a loss of under $500. The balance in 1997 comprises two residential properties in Hurricane.

A loss of $42 thousand was charged to the Allowance for Loan Losses during 1998 as a result of the sale of both properties. At the end of the first quarter of 1999, there was no balance in other real estate owned.

Provision and Allowance for Loan Losses

Provisions to the allowance for loan losses declined $597 thousand, or 37%, from year-end 1997 to 1998. The total provisions increased $907 thousand, or 128%, from year-end 1996 to 1997. The level of provisions in 1998 was necessary to cover losses in which the highest single figure was to a local business owner operating a convenience store totaling $293 thousand and an additional $37 thousand in accrued interest. The real estate was sold during 1998 however the transaction will not be fully consummated until April of 1999. A recovery of $160 thousand is expected as a result. The increased provisions during 1997 was due to losses recognized during the year, largely a result of a local real estate developer who is involved in residential and commercial projects. Included in loss was accrued interest which was deemed uncollectible. The remaining indebtedness involving this borrower has been placed in non-accrual status (See Nonperforming Assets). Provisions in 1998 totaled $1 million compared to $1.6 million in 1997. An increase in the level of provisions in 1998 was, in addition, a consequence of loan growth.

Management is responsible for maintaining an adequate amount in the allowance for loan losses to absorb identifiable and anticipated losses in the loan portfolio. After losses are charged to the allowance and after loan recoveries are considered, management will review the level of the allowance to ensure that it is adequate. If the allowance is lower than desired, a provision from operating expenses will be made. The adequacy of the allowance is subject to review by the Company's internal auditor, external auditors, Federal Reserve Bank and West Virginia Division of Banking.

Net losses totaled $730 thousand, or .31%, of average total loans in 1998. This compares with $1.4 million, or .65%, of average total loans in 1997. The net loss ratio is close to peers in 1998 and comparably higher in 1997 versus peer institutions (.32% in 1998 and .29% in 1997).

At December 31, 1998 the allowance for loan losses totaled $2.6 million, or 1.09%, of total loans compared with $2.3 million, or 1.0%, of total loans at the end of 1997.

Noninterest Income

Total noninterest sources of income increased $15 thousand from year-end 1997 to 1998. Excluding gross gains on securities transactions (none in 1998 and $222 thousand in 1997), noninterest income increased from $194 thousand at year-end 1997 to $209 thousand at year-end 1998. An increase in insufficient check charges of $14 thousand and increased revenues from safe deposit boxes of $11 thousand offset declines in service charges in deposit accounts ($4 thousand) and rental income on other real estate owned ($7 thousand). The insufficient check revenue rise was not due to a change in fees, but more aggressively charging those accounts which must be individually administered. Safe deposit box fee changes went into effect in 1998 to more

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accurately price our services comparable to the market.

The Company continues to show a level of noninterest income from fees and service charges which is significantly lower than peer institutions. This continues management's philosophy of providing low-cost services to its customers as a way of differentiating the Bank from others. This philosophy has been a positive avenue to attract new customers and to cross-sell other services and products.

Please refer to "Noninterest Expense" for a discussion of the gross gains and losses on securities transactions.

Noninterest Expense

Total noninterest expense decreased seven thousand between year-end 1997 and year-end 1998. Excluding the effect of gross losses taken on securities transactions, noninterest expense increased $453 thousand, or 10%, from year-end 1997 to year-end 1998. Noninterest expenses are those which relate to personnel, occupancy and other operating expenditures.

Personnel expenses increased $253 thousand, or 10%, from 1997 to 1998. Salary expense accounted for $200 thousand of the increase and represents a 10% increase between the two periods. This increase is considered reasonable in order to maintain a professional and experienced staff. The next highest increase was expenses relating to employee group life and medical coverage which totaled $47 thousand for a 30% increase. Medical insurance premiums reflected an increase based upon our medical history and claims. At the end of 1998, the Company concurred with the West Virginia Bankers Association in changing medical insurance providers when the current provider desired to increase premiums by two-thirds. It is believed that the new provider will provide good coverage and help us manage this expense. Total staffing of the Company remained at 72 at the end of 1998 and 1997.

Occupancy expenses (relative to the maintenance of premises and equipment) increased $160 thousand, or 48%, between 1997 and 1998. Among the leading reasons for the increase involve renovations at the Interstate Office including paving ($59 thousand) and the installation of a new heating and cooling unit ($16 thousand) Also, the acquisition of new computer equipment and systems in relation to our conversion to a new external data processor (Computer Services, Inc. Of Paducah, Kentucky) precipitated increases in depreciation of equipment ($44 thousand) and service contracts ($21 thousand). Capital expenditures in terms of equipment and software related to the conversion totaled $250 thousand.

Other operational expenses increased $42 thousand, or 2%, from 1997 to 1998. The primary cause was an increase in advertising of $48 thousand between year-end 1997 and 1998. Advertising expenses increased as a result of the Company's participation in a variety of community-related functions. Examples include special events related to the 110th anniversary of the City of Hurricane and the West Virginia Symphony's performance at Forrest Burdette Methodist Church. The Company has always been active in supporting community events in its market area. External data processing expenses remained relatively the same comparing 1997 and 1998 between the previous and existing servicer.

There were no planned sales of investment securities during 1998. Planned sales of investment securities yielded a net loss in 1997 of $239 thousand. Management has segregated a portion of its investment portfolio as "available for sale" and given certain market characteristics, such as changes in interest rates, may elect to sell securities to better position the Bank for the future. This may be in terms of selling securities if prices are anticipated to fall in order to provide liquidity to purchase when prices are lower and thus improve yield. Such transactions are carefully planned by management and reviewed by the Board. The Bank does not speculate by "trading" in the portfolio and does not

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utilize any interest rate hedges or derivative products in it's investment strategies.

When analyzing overhead expense, the Company continues to significantly outperform peer institutions. Effective maintenance of staffing and compensation levels, full utilization of premises and effective expense control are responsible for this outcome. The Bank provides services from a main and two branch locations. While many competitors offer late hours through the week, the Bank does not maintain hours as such. However, the Bank provides free ATM cards and schedules loan customers after-hours to meet their personal schedules.

Year 2000

The transition from the year 1999 to 2000 will present a risk to some degree in all entities which utilize equipment that has "imbedded chip" technology which allows a two-digit year field or relies on servicers and vendors who rely on such technology.

In late 1996, the Bank recognized a calculation problem in loan software which gave rise to a search for resolutions. The solution was to convert external data processing functions to Computer Services, Inc. of Paducah, Kentucky and contracts were signed in November of 1997. The conversion took place in May of 1998. The conversion also necessitated the purchase of over $250 thousand in new software, computers and telecommunication equipment. The purchase replaced teller equipment which was over thirteen years old and in need of replacement.

During 1998, Year 2000 planning has intensified. Following guidelines set by federal regulatory authorities, the Bank has been going through the five phases of planning: awareness, assessment, renovation, testing and implementation.

The Bank has a Year 2000 Committee which meets at least monthly to discuss concerns of the issue. Members include management members representing all operational areas of the Bank and also customer service personnel from various areas including the branches. These meetings discuss planning, testing results, customer concerns and any topic of relevance to Year 2000. Minutes are recorded and forwarded to the Board. The Board receives regular reporting on Year 2000 issues and the Bank's efforts in compliance. The assessment of Year 2000 risks has involved the identification of areas in the Bank involving "mission critical" functions. The renovation of these areas is vital to ensuring that the Bank functions in a smooth manner. In addition, a detailed inventory of all electrical equipment and software which is date sensitive has been conducted and all items are graded according to risk. In the renovation phase, corrective steps are taken, where needed, to bring the item into readiness. This may be updated software or new equipment. This involves the installation of the fix and assurances from the vendor that the fix is proper. The testing phase is one that many consider the most important because it validates whether the fix actually works. This may involve simulating Year 2000 in a computer or software to review results or test calculations to ensure the fix works properly. In situations where we cannot perform "hands-on" tests, we have relied on proxy testing when we can assure it has been conducted properly in testing all areas of risk. Implementation is the movement of the fix into a production mode. Most all of the fix and remediated equipment is moved into production and tested and remains in production.

The Bank, as a part of planning, is responsible for contingency plans to address the Bank's response to an interruption in service caused by a Year 2000 issue. Lines of responsibility in all areas are set and written procedures have been developed. Management continues to work to enhance its contingency planning. Also, the Bank has mailed questionnaires to commercial borrowers, large depositors and retail depositors to assess

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their level of readiness.

Management has also been actively reviewing the Bank's liquidity position to ensure that there is adequate cash available to meet anticipated increases toward the end of the year. All available sources are being reviewed and analyzed for use and future planning will take liquidity for year-end into consideration.

The Bank has also been involved in publicizing its readiness efforts with various types of printed communications to our customers. In addition, management has been meeting with community groups, such as the local government and civic groups to explain the Bank's efforts at Year 2000 readiness and to help reassure the public that measures are being taken to address concern.

As of year-end, the Bank has been renovating applications and testing fixes. As of March 31, 1999 it is estimated that 85% of the Bank's mission critical areas have been renovated, tested and are ready. According to federal guidelines, mission critical testing and implementation should be substantially complete by June 30, 1999. At this time, there appears no difficulty in meeting this milestone.

The conversion to a new data processor solved many Year 2000 issues. Additional issues, such as backup power, however, is also important for overall business continuity. The Bank's Year 2000 costs are not anticipated to have a material financial effect upon the Company's financial statements.

The Company believes it is taking reasonable action to prepare for risks presented by Year 2000. It is impossible to give an absolute guarantee of compliance. This is because of the reliance we have on others to provide services on a daily basis. However, the Company has planned to remediate all issues identifiable and for unforeseen interruptions, there are contingency plans to provide alternate solutions.

Income Taxes

Federal and state income taxes increased $148 thousand, or 8%, from year-end 1997 to year-end 1998. This compares with a decrease of $494 thousand, or 21%, from year-end 1996 to year-end 1997. The current year's increase was due to an increase in taxable income between the two periods. Of total income taxes calculated as currently payable, federal taxes (calculated at the top rate of 34%) increased $248 thousand, or 15%, between 1997 and 1998 and state taxes increased $24 thousand, or 10%. Deferred taxes which net against currently payable increased $124 thousand between 1997 and 1998.

The Company invests in municipal securities issued in West Virginia, which are "bank qualified" investments and, as such, are exempt from federal taxation.

Please refer to "Note 7 - Income Taxes" in the Consolidated Financial Statements for further discussion.

Shareholders' Equity and Capital Ratios

The shareholders' equity at year-end 1998 was $34,371,327 representing an increase from year-end 1997 of $3,181,981, or 10%. Net income for the year ending 1997 was $3,616,205, an increase of $282,481, or 8%, over the previous year.

For a detailed view of the changes in equity during the last three years, please refer to the Consolidated Statements of Changes in Shareholders' Equity found on page F14 of the Consolidated Financial Statements. The average equity increased $3.4 million, or 11%, from 1997 to 1998. The Company's book value per share was $57.29 at year-end 1998 compared to $51.98 at year-end 1997. The Company's return on average equity at year-end 1998 was 10.89% compared with 11.18% at year-end 1997. The Company has enhanced its equity position in 1998 from favorable earnings combined with

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a conservative dividend payout and slightly lower asset growth.

The regulatory agencies view capital with respect to Tier 1 (shareholders' equity excluding the effect of unrealized gain or loss on available-for-sale securities), Tier 2 (allowance for loan losses, and Risk-Based Capital (combination of Tier 1 and Tier 2). These amounts are viewed in relation to the Company's risk-weighted assets. As of year-end 1998, the Company had Tier 1 capital-to-risk weighted assets of 14.91% and total risk-based capital ratio of 16.06%. As depicted by these ratios, the Company is considered to be well capitalized. For a further discussion on capital, please refer to "Note 13 - Dividend and Capital Restrictions" and Consolidated Statements of Changes in Shareholders' Equity in the Consolidated Financial Statements.

Dividends

The Company paid cash dividends totaling $660,000 for the year of 1998. This represented an increase of $60 thousand, or 10%, from the year of 1997. The Company's dividend payout ratio (dividends-to-net income) was 18% in 1998 and 1997. While this ratio is below peers, such a practice serves to enhance the Company's equity. The Company's regular cash dividends are paid on a semiannual basis: June and December.

For further discussion of dividends, please refer to "Note 13 - Dividend and Capital Restrictions" and Consolidated Statements of Changes in Shareholders' Equity in the Consolidated Financial Statements.

Responsibility for Financial Statements

The financial statements, related financial data and other information found in this report is the responsibility of the management of Putnam Bancshares, Inc. The financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis.

The accounting systems of Putnam Bancshares, Inc. and its wholly owned subsidiary, Putnam County Bank, include internal controls and procedures, which provide reasonable assurance to the reliability of financial records. In meeting its responsibility both for integrity and fairness of these statements and information, management depends on the accounting system and internal control structures that are designed to provide reasonable assurances that all transactions are authorized and recorded in accordance with established procedures and all assets are safeguarded and proper and reliable records are maintained.

The concept of reasonable assurance is based on the recognition that the cost of an internal control structure should not excess the related benefits. As an integral part of the internal control structure, the Bank employs an internal auditor who monitors the compliance and level of effectiveness of internal control.

The Audit Committee of Putnam County Bank, composed of outside directors, meets on a regular basis to review control matters and auditing efforts with the auditor. The auditor, independent auditors and banking regulators have direct access to this Committee with or without management present.

The financial statements have been audited by Rollins, Cleavenger and Rollins, Public Accountants who render an independent professional opinion on the statements. Their appointment is recommended by the Board of Directors and requires ratification by the shareholders. Their examination provides an objective assessment of the degree to which management meets its responsibility for financial reporting. Their opinion is based on auditing procedures, which include reviewing internal control structures and performing selected tests of transactions and records, as they deem appropriate. These auditing procedures are designed to provide a reasonable level of assurance that the financial statements are presented in all material aspects.

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Independent Auditors' Report

Board of Directors and Shareholders
Putnam Bancshares, Inc. and Subsidiary
Hurricane, West Virginia

We have audited the accompanying consolidated balance sheets of Putnam Bancshares, Inc. and Subsidiary as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Putnam Bancshares, Inc. and Subsidiary as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Rollins, Cleavenger and Rollins

Public Accountants

January 7, 1998

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Consolidated Balance Sheets

DECEMBER 31, 1998 & 1997

	1998	1997
ASSETS:		
Cash and Due from Banks	**$ 18,114,652**	$ 17,089,167
Federal Funds Sold	**41,000,000**	28,000,000
Available for Sale Securities	**64,213,695**	48,890,133
Held to Maturity Securities	**38,622,968**	38,595,807
Loans - Less Allowance for Loan Losses of $2,600,000 and $2,310,000, Respectively	**236,397,376**	229,287,473
Bank Premises and Equipment	**1,432,452**	1,302,774
Federal Reserve Bank Stock, at Cost	**39,000**	39,000
Other Assets	**3,139,794**	3,653,531
Total Assets	**$ 402,959,937**	$ 366,857,885
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest Bearing	**$ 33,463,285**	$ 27,701,577
Interest Bearing	**333,472,790**	306,486,052
Total Deposits	**$ 366,936,075**	$ 334,187,629
Other Liabilities	**1,652,535**	1,480,910
Total Liabilities	**$ 368,588,610**	$ 335,668,539
Commitments and Contingent Liabilities (Note 11)		
SHAREHOLDERS' EQUITY:		
Common Stock, $.50 Par Value, 1,200,000 Shares Authorized, 600,000 Shares Issued and Outstanding	**$ 300,000**	$ 300,000
Surplus	**1,000,000**	1,000,000
Retained Earnings	**32,583,774**	29,627,569
Accumulated Other Comprehensive Income	**487,553**	261,777
Total Shareholders' Equity	**$ 34,371,327**	$ 31,189,346
Total Liabilities and Shareholders' Equity	**$ 402,959,937**	$ 366,857,885

The accompanying notes are an integral part of these consolidated financial statements

Putnam Bancshares, Inc. and Subsidiary

Consolidated Statements Of Income

FOR YEARS ENDED DECEMBER 31, 1998, 1997 & 1996

	1998	1997	1996
INTEREST INCOME:			
Interest and Fees on Loans	$ 20,330,186	$ 19,281,661	$ 17,123,092
Interest on Available for Sale Securities	3,181,325	2,782,185	4,069,564
Interest on Held to Maturity Securities	1,961,281	2,026,765	2,024,058
Interest on Federal Funds Sold	1,837,303	2,000,947	1,760,195
Total Interest Income	$ 27,310,095	$ 26,091,558	$ 24,976,909
INTEREST EXPENSE:			
Interest on Deposits	$ 16,054,378	$ 14,869,271	$ 14,099,788
Net Interest Income	$ 11,255,717	$ 11,222,287	$ 10,877,121
Provision for Possible Loan Losses	1,020,107	1,616,680	709,783
Net Interest Income after Provision for Possible Loan Losses	$ 10,235,610	$ 9,605,607	$ 10,167,338
OTHER INCOME:			
Service Charges and Commissions	$ 195,649	$ 178,071	$ 184,381
Net Realized Gains on Sales of Available for Sale Securities	-0-	222,015	675,573
Other Operating Income	13,270	15,640	454,739
Total Other Income	$ 208,919	$ 415,726	$ 1,314,693
OTHER EXPENSES:			
Salaries and Employee Benefits	$ 2,660,789	$ 2,406,962	$ 2,233,185
Expenses of Premises and Equipment	495,031	335,173	343,989
Net Realized Losses on Sales of Available for Sale Securities	-0-	460,664	810,120
Other Operating Expenses	1,688,283	1,648,699	1,625,106
Total Other Expenses	$ 4,844,103	$ 4,851,498	$ 5,012,400
Income before Income Taxes	$ 5,600,426	$ 5,169,835	$ 6,469,631
Provision for Income Taxes	1,984,221	1,836,111	2,330,603
Net Income	$ 3,616,205	$ 3,333,724	$ 4,139,028

The accompanying notes are an integral part of these consolidated financial statements

Putnam Bancshares, Inc. and Subsidiary

Consolidated Statements Of Changes In Shareholders' Equity

FOR YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balances– January 1, 1996	$ 300,000	$ 1,000,000	$23,270,817	$ 1,111,434	$ 25,682,251
Comprehensive Income					
Net Income			4,139,028		4,139,028
Other Comprehensive Income - Net of Tax: Change in Unrealized Gain (Loss) on Securities Available for Sale, Net of Deferred Income Tax Benefit of $633,001				(1,094,622)	(1,094,622)
Add: Reclassification Adjustment				85,249	85,249
					(1,009,373)
Total Comprehensive Income					3,129,655
Cash Dividends ($.86 Per Share)			(516,000)		(516,000)
Balances– December 31, 1996	$ 300,000	$ 1,000,000	$26,893,845	$ 102,061	$ 28,295,906
Comprehensive Income					
Net Income			3,333,724		3,333,724
Other Comprehensive Income - Net of Tax: Change in Unrealized Gain (Loss) on Securities Available for Sale, Net of Deferred Income Tax of $4,920				8,508	8,508
Add: Reclassification Adjustment				151,208	151,208
					159,716
Total Comprehensive Income					3,493,440
Cash Dividends ($1.00 Per Share)			(600,000)		(600,000)
Balances– December 31, 1997	**$ 300,000**	**$ 1,000,000**	**$ 29,627,569**	**$ 261,777**	**$ 31,189,346**
Comprehensive Income					
Net Income			**3,616,205**		**3,616,205**
Other Comprehensive Income - Net of Tax: Change in Unrealized Gain (Loss) on Securities Available for Sale, Net of Deferred Income Tax of $130,562				**225,776**	**225,776**
Less: Reclassification Adjustment				**-0-**	**-0-**
					225,776
Total Comprehensive Income					**3,841,981**
Cash Dividends ($1.10 Per Share)				**(660,000)**	**(660,000)**
Balances - December 31, 1998	**$ 300,000**	**$ 1,000,000**	**$ 32,583,774**	**$ 487,553**	**$ 34,371,327**

The accompanying notes are an integral part of these consolidated financial statements

Putnam Bancshares, Inc. and Subsidiary

Consolidated Statements Of Cash Flows

FOR YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 3,616,205	$ 3,333,724	$ 4,139,028
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation	150,339	91,944	94,646
Provision for Loan Losses	1,020,106	1,616,680	709,783
Provision for Deferred Taxes	(125,638)	(1,773)	(228,261)
Net Gain on Sales of Other Real Estate	-0-	-0-	(406,518)
Net Realized (Gains) Losses on Available for Sale Securities	-0-	238,649	134,547
Amortization of Premiums and Accretion of Discounts on Available for Sale Securities - Net	29,651	29,081	273,302
(Increase) Decrease in Interest Receivable	331,196	(36,945)	(268,764)
Increase in Cash Value - Life Insurance	(12,105)	(12,229)	(12,322)
(Increase) Decrease in Prepaid Expenses	2,464	(187,794)	61,610
Increase (Decrease) in Other Assets	42,155	(927)	25,835
Increase in Accrued Interest	172,575	270,900	37,855
Increase (Decrease) in Other Liabilities	(948)	(142,753)	115,874
Net Cash Provided by Operating Activities	$ 5,226,000	$ 5,198,557	$ 4,676,615
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net (Increase) Decrease in Federal Funds Sold	($ 13,000,000)	$ 1,000,000	$ 17,000,000
Proceeds from Sales and Maturities of Available for Sale Securities	40,000,000	90,487,890	106,989,844
Proceeds from Maturities of Held to Maturity Securities	104,030,969	102,968,586	101,975,942
Proceeds from Sales of Other Real Estate	285,341	23,118	1,301,518
Purchases of Available for Sale Securities	(54,996,875)	(85,567,969)	(102,933,523)
Purchases of Held to Maturity Securities	(104,058,130)	(102,967,721)	(102,001,959)
Proceeds from Sale of Bank Premises and Equipment	20,290	-0-	-0-
Purchase of Bank Premises and Equipment	(300,307)	(86,386)	(28,225)
Net Increase in Loans	(8,270,249)	(22,687,600)	(33,379,746)
Net Cash Used in Investing Activities	($ 36,288,961)	($ 16,830,082)	($ 11,076,149)

The accompanying notes are an integral part of these consolidated financial statements

Putnam Bancshares, Inc. and Subsidiary

Consolidated Statements Of Cash Flows (Continued)

FOR YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net Increase (Decrease) in Demand Deposits	$ 13,231,267	($ 2,164,111)	$ 1,107,654
Net Increase in Certificates of Deposit	19,517,179	16,136,861	4,748,471
Dividends Paid	(660,000)	(600,000)	(516,000)
Net Cash Provided by Financing Activities	$ 32,088,446	$ 13,372,750	$ 5,340,125
Net Increase (Decrease) in Cash and Cash Equivalents	$ 1,025,485	$ 1,741,225	($ 1,059,409)
Cash and Cash Equivalents at Beginning of Year	17,089,167	15,347,942	16,407,351
Cash and Cash Equivalents at End of Year	$ 18,114,652	$ 17,089,167	$ 15,347,942
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash Paid During the Year for:			
Interest	$ 15,882,194	$ 14,598,371	$ 14,061,933
Income Taxes	$ 2,091,000	$ 2,152,864	$ 2,429,514
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH ACTIVITIES:			
1997			
Transfer from Loans to Other Real Estate Owned	$ 140,239	$ 327,497	$ -0-

The accompanying notes are an integral part of these consolidated financial statements

Putnam Bancshares, Inc. and Subsidiary

Notes To Consolidated Financial Statements For Years Ended December 31, 1998, 1997 And 1996

Note 1
Summary of Significant Accounting Policies:

The accounting and reporting policies of Putnam Bancshares, Inc. and its wholly-owned subsidiary conform to generally accepted accounting principles and general practices within the banking industry. Following is a summary of the more significant accounting policies:

Nature of Operations

Putnam County Bank operates under a state bank charter and provides full banking services, with the exception of trust services. As a state bank, the Bank is subject to regulation of the West Virginia Division of Banking, the Federal Reserve System, and the Federal Deposit Insurance Corporation. The area served by Putnam County Bank is Putnam County and its neighboring counties with services provided by the main office and two branch offices.

Principles of Consolidation

The consolidated statements include the accounts of Putnam Bancshares, Inc. and its wholly-owned subsidiary, Putnam County Bank. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment Securities

Securities that management has both the positive intent and ability to hold to maturity are classified as securities held to maturity and are carried at cost, adjusted for amortization of premium or accretion of discount using the interest method. Securities that may be sold prior to maturity for asset/liability management purposes, or that may be sold in response to changes in interest rates, changes in prepayment risk, to increase regulatory capital or other similar factors, are classified as securities available for sale and carried at fair value with any adjustments to fair value, after tax, reported as a separate component of stockholders' equity.

Interest and dividends on securities, including the amortization of premiums and the accretion of discounts, are reported in interest and dividends on securities using the interest method. Gains and losses on securities are determined using specific-identification method.

Declines in the fair value of individual held to maturity and available for sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. The Bank had no such losses for the years ended December 31, 1998, 1997 and 1996.

Revenue Recognition

Interest on loans is accrued and credited to operations based upon the principal amount outstanding. The accrual of interest income generally is discontinued when a loan becomes 90 days past due as to principal or interest. When interest accruals are discontinued, unpaid interest credited to income in the current year is reversed, and interest accrued in prior years is charged to the allowance for loan losses. Management may elect to continue the accrual of interest when the estimated net realizable value of collateral is sufficient to cover the principal balance and accrued interest, and the loan is in the process of collection.

Credit life insurance commissions on loans (principally short-term installment loans) are being recognized as collected. The use of this method of recognition does not produce results which are materially different from that which would have been produced if such commissions were deferred and amortized as an adjustment of loan yield over the life of the related loan.

Comprehensive Income

Effective January 1, 1998, the Bank adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). Pursuant to this rule, the Consolidated Statements of Changes in Shareholders' Equity now include a new measure called "Comprehensive Income," which includes net income as well as certain items that are reported within a separate component of shareholders' equity that bypass net income. Currently, the Bank's only component of other comprehensive income is its unrealized gains (losses) on securities available for sale. Prior year financial statements have been reclassified to conform to the requirements of SFAS 130.

Putnam Bancshares, Inc. and Subsidiary

Notes To Consolidated Financial Statements For Years Ended December 31, 1998, 1997 And 1996 (Continued)

Allowance for Loan Losses

The allowance for loan losses is maintained at a level considered adequate to provide for potential loan losses. The allowance is increased by provisions charged to operating expense and reduced by net charge offs. The level of the allowance is based on management's evaluation of potential losses in the loan portfolio, as well as prevailing and anticipated economic conditions.

Effective January 1, 1995, the Bank adopted Financial Accounting Standards (FAS) No. 114 (as amended by FAS 118), "Accounting by Creditors for Impairment of a Loan." Under this standard, a loan is considered impaired, based on current information and events, if it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. The reserve for possible loan losses related to loans that are identified for evaluation, in accordance with FAS 114, is based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. If the valuation is less than the recorded value of the loan, an impairment reserve must be established for the difference. The adoption of this standard did not have, and is not expected to have, a material effect on the Bank's financial position, results of operations, accounting policies or the determination of the adequacy of the allowance for loan losses.

Bank Premises and Equipment

Bank premises and equipment are carried at original cost, less accumulated depreciation computed primarily on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs and minor improvements are charged to expense. Gains and losses on premises and equipment retired or sold are recognized currently in the statements of income.

Other Real Estate

Real estate acquired through foreclosure is carried at the lower of cost or market value determined at the date of acquisition. Any excess of the loan balance over the fair market value is charged to the allowance for loan losses. Expenses incurred in connection with other real estate subsequent to acquisition are charged to operating expense.

Income Taxes

The Bank follows the practice of accruing federal income taxes based on income reported for financial statement purposes. In the event income or expenses are recognized in different periods for tax, as opposed to financial purposes, deferred taxes are provided on such timing differences.

Pension Plan

The Bank accounts for its pension plan in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." Pension accounting information is disclosed in Note 8 to the consolidated financial statements.

Cash and Cash Equivalents

For the purpose of presentation in the statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "Cash and Due from Banks."

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Reclassifications

Certain amounts in 1997 have been reclassified to conform with the 1998 presentation.

Note 2
Restrictions on Cash and Due from Banks:

Federal Reserve regulations require depository institutions to maintain cash reserves with the Federal Reserve Bank. The average amounts of required reserve balances were approximately $7,229,000 and $6,137,000 for the years ended December 31, 1998 and 1997, respectively.

Putnam Bancshares, Inc. and Subsidiary

Notes To Consolidated Financial Statements
For Years Ended December 31, 1998, 1997 And 1996 (Continued)

Note 3
Investment Securities:

The carrying amounts and approximate market values of investment securities at December 31, 1998 and 1997, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 1998				
Available for Sale Securities -				
U.S. Government and Agency Securities	$ 60,030,508	$ 845,790	($ 121,614)	$ 60,754,684
State and Municipal Securities	3,413,691	45,320	-0-	3,459,011
Totals	$ 63,444,199	$ 891,110	($ 121,614)	$ 64,213,695
Held to Maturity Securities -				
U.S. Government and Agency Securities	$ 38,622,968	$ 4,417	($ 10,521)	$ 38,616,864

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 1997				
Available for Sale Securities -				
U.S. Government and Agency Securities	$ 45,055,971	$ 406,527	($ 7,813)	$ 45,454,685
State and Municipal Securities	3,421,004	23,908	(9,464)	3,435,448
Totals	$ 48,476,975	$ 430,435	($ 17,277)	$ 48,890,133
Held to Maturity Securities -				
U.S. Government and Agency Securities	$ 38,595,807	$ 1,820	($ 6,886)	$ 38,590,741

Investment securities with carrying amounts of $22,160,050 and $22,148,907 and market values of $22,637,914 and $22,464,341, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law at December 31, 1998 and 1997.

Gross realized gains and gross realized losses on sales of available for sale securities for the years ended December 31, 1998, 1997 and 1996, are as follows:

	1998	1997	1996
Gross Realized Gains:			
U.S. Government and Agency Securities	$ -0-	$ 222,015	$ 675,573
Gross Realized Losses:			
U.S. Government and Agency Securities	$ -0-	$ 460,664	$ 810,120

The amortized cost and estimated market value of debt securities at December 31, 1998, by contractual maturities, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or repayment penalties.

	Available for Sale Securities		Held to Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	$ 10,626,643	$ 10,763,926	$ 38,622,968	$ 38,616,864
Due from One Year to Five Years	20,255,526	20,975,103	-0-	-0-
Due from Five Years to Ten Years	31,141,213	31,030,608	-0-	-0-
Due after Ten Years	1,420,817	1,444,058	-0-	-0-
Totals	$ 63,444,199	$ 64,213,695	$ 38,622,968	$ 38,616,864

Putnam Bancshares, Inc. and Subsidiary

Notes To Consolidated Financial Statements For Years Ended December 31, 1998, 1997 And 1996 (Continued)

Note 4
Loans:

Total loans at December 31, 1998 and 1997, by major loan categories are summarized as follows:

	1998	1997
Commercial	$ 18,110,687	$ 17,975,074
Real Estate - Construction and Mortgage	198,953,545	189,112,537
Installment	25,572,353	28,537,422
Gross Loans	$ 242,636,585	$ 235,625,033
Unearned Discount	(3,639,209)	(4,027,560)
Total Loans	$ 238,997,376	$ 231,597,473
Allowance for Loan Losses	(2,600,000)	(2,310,000)
Loans, Net	$ 236,397,376	$ 229,287,473

	1998	1997	1996
Beginning Balances - January 1,	$ 2,310,000	$ 2,110,000	$ 1,500,000
Loans Charged Off	(834,895)	(1,499,938)	(142,200)
Recoveries of Loans Previously Charged Off	104,788	83,258	42,417
Provision to Expense for Loan Losses	1,020,107	1,616,680	709,783
Ending Balances - December 31,	$ 2,600,000	$ 2,310,000	$ 2,110,000

The provision for credit losses charged to expense is based upon credit loss experience and an evaluation of potential losses in the current loan and lease portfolio, including the evaluation of impaired loans under SFAS No.'s 114 and 118 (collectively, SFAS 114), "Accounting by Creditors for Impairment of a Loan" and "Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures". All nonaccrual loans on which a specific reserve calculation is required and significant troubled debt restructurings are considered impaired. Impairment is primarily measured based on the fair value of the loan's collateral. Impairment losses are included in the provision for loan losses. Loans collectively evaluated for impairment include certain smaller balance commercial loans, consumer loans and residential real estate loans. SFAS 114 does not apply to large groups of smaller balance homogeneous loans that are collectively evaluated for impairment, except for those loans restructured under a troubled debt restructuring. A loan is considered restructured when certain concessions are made to a financially troubled debtor that are not normally considered.

The following summarizes impaired loan information at December 31, 1998, 1997 and 1996:

	1998	1997	1996
Impaired Loans with Related Allowance	$ 2,025,000	$ 2,437,000	$ 404,000
Impaired Loans with no Related Allowance	-0-	-0-	2,889,000
Total Impaired Loans	$ 2,025,000	$ 2,437,000	$ 3,293,000
Allowance on Impaired Loans	$ 440,000	$ 440,000	$ 120,000
Average Impaired Loans	$ 2,231,000	$ 2,743,000	$ 2,465,000
Interest Income Recognized on Impaired Loans	158,000	168,000	123,000

Putnam Bancshares, Inc. and Subsidiary

Notes To Consolidated Financial Statements For Years Ended December 31, 1998, 1997 And 1996 (Continued)

Interest payments on impaired loans are typically applied to principal unless collectibility of the principal amounts is fully assured, in which case interest is recognized on the cash basis. Interest may be recognized on the accrual basis for certain troubled debt restructurings which are included in the impaired loan data above.

In the normal course of business, the Bank makes loans to executive officers and directors and related business interests on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectibility.

The following presents the activity with respect to loans to related parties for 1998 and 1997.

	1998	1997
Balances - January 1,	$ 7,372,977	$ 6,363,628
New Loans	6,867,192	2,987,335
Repayments	(6,070,738)	(1,977,986)
Balances - December 31,	$ 8,169,431	$ 7,372,977

Note 5
Bank Premises and Equipment:

Major classifications of bank premises and equipment at December 31, 1998 and 1997, are summarized as follows:

	1998	1997
Buildings and Improvements	$ 1,856,589	$ 1,856,589
Furniture and Fixtures	1,258,332	966,732
	$ 3,114,921	$ 2,823,321
Less: Accumulated Depreciation	1,882,929	1,741,297
	$ 1,231,992	$ 1,082,024
Land	200,460	220,750
Bank Premises and Equipment, Net	$ 1,432,452	$ 1,302,774

Depreciation expense for the years ended December 31, 1998, 1997 and 1996, was $150,339, $91,944, and $94,646, respectively, and is included in expenses of premises and equipment on the statements of income.

Putnam County Bank has entered into a noncancelable lease agreement (operating lease) with a related party for its Teays Valley branch. The minimum annual rental commitment under this lease, exclusive of taxes and other charges payable by the lessee at December 31, 1998, is as follows:

Year	Amount
1999	32,556
2000	33,858
2001	35,213
2002	33,458
2003	-0-
	$ 135,085

Putnam Bancshares, Inc. and Subsidiary

Notes To Consolidated Financial Statements For Years Ended December 31, 1998, 1997 And 1996 (Continued)

Note 6
Deposits:

The major categories of deposits at December 31, 1998 and 1997, are as follows:

	1998	1997
Noninterest Bearing	$ 33, 463,285	$ 27,701,577
Interest Bearing:		
Money Market	$ 108,148,240	$ 100,977,995
Savings	18,743,082	18,442,586
Time and Certificates of Deposit	143,126,786	127,921,706
Certificates of Deposit over $100,000	63,454,682	59,143,765
Total Interest Bearing Deposits	$ 333,472,790	$ 306,486,052
Total Deposits	$ 366,936,075	$ 334,187,629

Scheduled maturities of time and certificates of deposits at December 31, 1998, are as follows:

1999	$ 168,429,196
2000	33,551,494
2001	4,275,365
2002	259,608
2003 and Thereafter	65,805
Total	$ 206,581,468

Note 7
Income Taxes:

The income tax provisions (benefits) included in the consolidated statements of income are summarized as follows:

	1998	1997	1996
Currently Payable:			
Federal	$ 1,854,005	$ 1,605,595	$ 2,253,773
State	255,854	232,289	305,091
Totals	$ 2,109,859	$ 1,837,884	$ 2,558,864
Deferred (Benefit):			
Federal	($ 111,922)	($ 1,579)	($ 203,342)
State	(13,716)	(194)	(24,919)
Totals	($ 125,638)	($ 1,773)	($ 228,261)
Total Applicable Income Taxes	$ 1,984,221	$ 1,836,111	$ 2,330,603

Timing differences in the recognition of income and expenses for tax and financial reporting purposes created the following components of deferred income taxes (benefit):

	1998	1997	1996
Bad Debts	($ 125,718)	($ 1,848)	($ 228,333)
Discount on Investment Securities	80	75	72
Totals	($ 125,638)	($ 1,773)	($ 228,261)

Putnam Bancshares, Inc. and Subsidiary

Notes To Consolidated Financial Statements
For Years Ended December 31, 1998, 1997 And 1996 (Continued)

The following is a reconciliation of consolidated federal income tax to the amount computed at the statutory rate:

	1998		1997		1996	
	Amount	%	Amount	%	Amount	%
Tax on Income before Income Tax at the Top Statutory Income Tax Rate	**$ 1,904,145**	**34.00%**	$ 1,757,744	34.00%	$ 2,199,675	34.00%
Increase (Decrease) Resulting from:						
State Income Tax, Net of Federal Benefit	**155,148**	**2.77**	153,117	2.96	176,441	2.73
Nontaxable Interest Income	**(95,903)**	**(1.71)**	(90,468)	(1.75)	(66,275)	(1.02)
Nondeductible Interest Expense	**14,318**	**.25**	14,179	.27	10,853	.17
Other Items	**6,513**	**.12**	1,539	.03	9,909	.15
Tax on Income	**$ 1,984,221**	**35.43%**	$ 1,836,111	35.51%	$ 2,330,603	36.03%

The approximate tax effects of the net investment securities gains (losses) were $-0-, ($88,196), and ($49,561) for the years 1998, 1997 and 1996, respectively.

Putnam Bancshares, Inc. and Subsidiary

Notes To Consolidated Financial Statements
For Years Ended December 31, 1998, 1997 And 1996 (Continued)

Note 8
Pension Plan:

The Bank is a participant in a multiple employer non-contributory defined benefit pension plan covering the majority of employees. The retirement benefits are based on length of service and the employee's compensation during his/her time of service.

The following table shows the plan's funded status at December 31, 1998 and 1997:

	1998	1997
Accumulated pension benefit obligation:		
Vested	$ 1,828,186	$ 1,556,838
Nonvested	18,026	28,163
Totals	$ 1,846,212	$ 1,585,001
Value of future salary projections	256,753	224,522
Total projected pension benefit obligation	$ 2,102,965	$ 1,809,523
Fair value of plan assets	2,107,047	2,080,191
Plan assets in excess of projected benefit obligation	$ 4,082	$ 270,668
Unrecognized prior service cost	(41,930)	(46,925)
Unrecognized net loss or (gain)	(12,266)	(231,026)
Unrecognized net transition liability or (asset)	(48,051)	(55,610)
Unfunded (accrued) or prepaid pension cost	($ 98,165)	($ 62,893)

The components of pension (expense) income for the years ended December 31, 1998, 1997 and 1996, are as follows:

	1998	1997	1996
Service cost-benefits earned during year	($ 85,480)	($ 58,624)	($ 68,969)
Interest cost on projected benefit obligation	(135,155)	(120,894)	(107,995)
Actual return on assets	172,809	151,473	232,883
Net amortization and deferral	12,554	12,554	(82,148)
Net periodic pension (cost) benefit	($ 35,272)	($ 15,491)	($ 26,229)
Actuarial assumptions:			
Weighted average discount rate for projected benefit obligation	7.00%	7.25%	7.75%
Weighted average rate of compensation increase	5.00%	5.00%	6.00%
Expected long-term rate of return on plan assets	8.50%	8.50%	8.50%

Putnam Bancshares, Inc. and Subsidiary

Notes To Consolidated Financial Statements For Years Ended December 31, 1998, 1997 And 1996 (Continued)

Note 9
Parent Company Condensed Financial Information:

CONDENSED BALANCE SHEETS
December 31,

	1998	1997
ASSETS		
Investment in Subsidiary	$ 33,883,774	$ 30,927,569
Other Assets	-0-	-0-
Total Assets	$ 33,883,774	$ 30,927,569
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total Liabilities	$ -0-	$ -0-
Shareholders' Equity	$ 33,883,774	$ 30,927,569
Total Liabilities and Shareholders' Equity	$ 33,883,774	$ 30,927,569

CONDENSED STATEMENTS OF INCOME
For Years Ended December 31,

	1998	1997	1996
INCOME	$ 675,338	$ 618,688	$ 521,315
EXPENSES:			
Operating Expenses	$ 25,538	$ 31,116	$ 27,281
Interest Expense	-0-	-0-	-0-
Total Expenses	$ 25,538	$ 31,116	$ 27,281
Income before Income Tax Benefit and Equity in Undistributed Earnings of Subsidiary	$ 649,800	$ 587,572	$ 494,034
Applicable Income Taxes (Benefit)	(10,200)	(12,428)	(10,896)
Income before Equity in Undistributed Earnings of Subsidiary	$ 660,000	$ 600,000	$ 504,930
Equity in Undistributed Earnings of Subsidiary	2,956,205	2,733,724	3,634,098
Net Income	$ 3,616,205	$ 3,333,724	$ 4,139,028

Putnam Bancshares, Inc. and Subsidiary

Notes To Consolidated Financial Statements
For Years Ended December 31, 1998, 1997 And 1996 (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For Years Ended December 31,

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 3,616,205	$ 3,333,724	$ 4,139,028
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Equity in Undistributed Earnings of Subsidiary	(2,956,205)	(2,733,724)	(3,634,098)
Change in Other Assets	-0-	-0-	11,070
Net Cash Provided by Operating Activities	$ 660,000	$ 600,000	$ 516,000
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends Paid	($ 660,000)	($ 600,000)	($ 516,000)
Net Cash Used in Financing Activities	($ 660,000)	($ 600,000)	($ 516,000)
Net Change in Cash and Cash Equivalents	$ -0-	$ -0-	$ -0-
Cash and Cash Equivalents at Beginning of Year	-0-	-0-	-0-
Cash and Cash Equivalents at End of Year	$ -0-	$ -0-	$ -0-

Note 10
Related Party Transactions:

Some officers and directors (including their affiliates, families and related entities) of Putnam Bancshares, Inc. and its subsidiary are customers of the subsidiary and have had, and are expected to have, transactions with the subsidiary in the ordinary course of business. In addition, some officers and directors are also officers and directors of corporations which are customers of the Bank and have had, and are expected to have, transactions with the Bank in the ordinary course of business. In the opinion of management, such transactions are consistent with prudent banking practices and are within applicable banking regulations.

Putnam Bancshares, Inc. and Subsidiary

Notes To Consolidated Financial Statements For Years Ended December 31, 1998, 1997 And 1996 (Continued)

Note 11
Commitments and Contingent Liabilities:

The Bank's consolidated financial statements do not reflect various commitments and contingent liabilities that arise in the normal course of business and that involve elements of credit risk, interest rate risk, and liquidity risk. These commitments and contingent liabilities are commitments to extend credit, commercial letters of credit, and standby letters of credit. A summary of the Bank's commitments and contingent liabilities at December 31, 1998, is as follows:

	Notional Amount
Commitments to Extend Credit	$ 25,724,596
Commercial Letters of Credit	-0-
Standby Letters of Credit	3,517,638

Commitments to extend credit, commercial letters of credit, and standby letters of credit all include exposure to some credit loss in the event of nonperformance of the customer. The Bank's credit policies and procedures for credit commitments and financial guarantees are the same as those for extension of credit that are recorded on the consolidated balance sheets. Because these instruments generally have fixed maturity dates, they do not generally present any significant liquidity risk to the Bank.

Note 12
Concentrations of Credit Risk:

Cash due from correspondent banks, based on bank balances, exceeded federally insured limits by approximately $8,400,000 at December 31, 1998. Federal funds sold are generally unsecured by the correspondent banks.

All of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area. All such customers are depositors of the Bank. Investments in state and municipal securities and loans to governmental entities are within the Bank's market area. The concentrations of credit by type of loan are set forth in Note 4. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers.

Note 13
Dividend and Capital Restrictions:

Putnam Bancshares, Inc.'s principal source of funds for future dividend payments to shareholders will be from dividend payments received from its wholly-owned subsidiary, Putnam County Bank.

The Bank, as a state chartered member bank of the Federal Reserve System, is subject to the dividend restrictions set forth by the West Virginia Division of Banking as well as the Federal Reserve Board. Under such restrictions, the Bank may not, without the prior approval of the West Virginia Division of Banking and the Federal Reserve Board, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained net profits (as defined) from the prior two years. The Bank normally restricts dividends to a lesser amount. The dividends as of December 31, 1998, that the Bank could declare without the approval of the West Virginia Division of Banking and the Federal Reserve Board, amounted to approximately $5,690,000.

The Bank is also subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet the minimum capital requirements can initiate certain actions by regulators that, if undertaken, could have a material effect on the Bank and the consolidated financial statements. Capital adequacy guidelines require minimum ratios of 4.00% for Tier 1 risk-based capital, 8.00% for total risk-based capital, and 4.00% for Tier 1 leverage capital. To be considered well capitalized under the regulatory framework for prompt corrective actions, the ratios must be at least 6.00%, 10.00%, and 5.00%, respectively.

Capital amounts and classifications are also subject to qualitative judgements by the regulators about components, risk-weighting of assets and certain off-balance sheet items, and other factors. As of December 31, 1998 and 1997, the Bank has met all capital adequacy requirements and had regulatory capital ratios in excess of the levels established for well capitalized institutions. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category

Putnam Bancshares, Inc. and Subsidiary

Notes To Consolidated Financial Statements For Years Ended December 31, 1998, 1997 And 1996 (Continued)

The Bank's actual ratios as well as a comparison of the period-end capital balances with the related amounts established by the regulatory agencies are as follows:

		Capital Amounts		
	Ratios	**Actual**	**Minimum**	**Well Capitalized**
As of December 31, 1998:				
Tier 1 Risk-Based Capital	14.91%	$ 33,884,000	$ 9,088,000	$ 13,632,000
Total Risk-Based Capital	16.06	36,484,000	18,176,000	22,720,000
Tier 1 Leverage Capital	8.64	33,884,000	15,680,000	19,600,00
As of December 31, 1997:				
Tier 1 Risk-Based Capital	14.56%	$ 30,927,000	$ 8,496,000	$ 12,744,000
Total Risk-Based Capital	15.65	33,237,000	16,992,000	21,240,000
Tier 1 Leverage Capital	8.42	30,927,000	14,682,000	18,353,000

Note 14
Disclosures about Fair Value of Financial Instruments:

At December 31, 1995, the Bank adopted Financial Accounting Standards Board Statement 107, which requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Statement 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Bank.

The following methods and assumptions were used by the Bank in estimating its fair value disclosures for financial instruments.

Cash and Due from Banks: The carrying amount reported in the balance sheet for cash and due from banks approximates that asset's fair value.

Federal Funds Sold: The carrying amount reported in the balance sheet for federal funds sold approximates that asset's fair value.

Investment Securities: Fair values for investment securities are based on quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of similar instruments.

Loans: The fair values of fixed rate commercial, real estate, and consumer loans are estimated using discounted cash flow analysis, using interests rates currently being offered for loans with similar terms to borrowers of similar credit quality. For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Deposits: The estimated fair values of demand deposits (i.e. interest and noninterest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to their carrying amounts. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates, currently being offered on certificates, to a schedule of aggregated expected monthly maturities on time deposits.

Putnam Bancshares, Inc. and Subsidiary

Notes To Consolidated Financial Statements
For Years Ended December 31, 1998, 1997 And 1996 (Continued)

The estimated fair values of the Bank's financial instruments at December 31, 1998 and 1997, are as follows:

	1998		1997	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Financial Assets:				
Cash and Due from Banks	**$ 18,114,652**	**$ 18,114,652**	$ 17,089,167	$ 17,089,167
Federal Funds Sold	**41,000,000**	**41,000,000**	28,000,000	28,000,000
Investment Securities	**102,836,663**	**102,830,559**	87,485,940	87,480,874
Loans	**238,997,376**	**242,703,782**	231,597,473	231,806,831
Financial Liabilities:				
Deposits	**366,936,075**	**366,993,899**	334,187,629	334,313,753

The carrying amounts in the preceding table are included in the consolidated balance sheets under the applicable captions. The contract or notional amounts of the Bank's financial instruments with off-balance-sheet risk are disclosed in Note 11. It is not practicable to estimate the fair value of Federal Reserve Bank stock because it is not marketable. The carrying amount of that investment is reported in the consolidated balance sheets.