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## Analysis Of Earning Assets And Interest Bearing Liabilities

In Thousands of Dollars

ASSETS	2000			1999		
	Avg. Balance	Interest	Yield/Rate	Avg. Balance	Interest	Yield/Rate
<b>Loans</b>						
Commercial (1)	22,783	2,090	9.19%	19,870	1,789	9.00%
Real Estate	221,856	18,478	8.33%	208,632	17,160	8.23%
Installment (2)	17,263	1,835	10.63%	19,551	1,940	9.92%
Total Loans	261,857	22,403	8.56%	248,053	20,889	8.42%
<b>Securities (3)</b>						
Taxable	91,964	5,674	6.17%	83,184	4,589	5.52%
Tax-Exempt (4)	2,810	244	8.67%	2,986	258	8.63%
Total Securities	94,774	5,918	6.24%	86,170	4,847	5.62%
Federal Funds Sold	42,249	2,554	6.05%	61,471	2,937	4.78%
<b>Total Earning Assets</b>	398,880	30,875	7.74%	395,659	28,673	7.25%
Cash and Due from Banks	16,133			16,997		
Premises and Equipment, Net	1,300			1,375		
Other Assets	4,115			3,272		
Allowance for Loan Losses	(2,653)			(2,655)		
<b>Total Assets</b>	417,775			414,648		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>Interest Bearing Deposits</b>						
Super NOW and MMDA	108,519	4,347	4.01%	112,595	4,504	4.00%
Savings	18,665	561	3.01%	19,169	578	3.02%
Time	217,132	13,112	6.04%	212,499	11,903	5.60%
<b>Total Interest Bearing Deposits</b>	344,316	18,020	5.23%	344,263	16,985	4.93%
Long-Term Borrowings	0	0	0	0	0	0
<b>Total Interest Bearing Liabilities</b>	344,316	18,020	5.23%	344,263	16,985	4.93%
Noninterest Bearing Deposits	31,574			32,342		
Accrued Expenses and Other Liabilities	3,082			2,547		
<b>Equity</b>	38,803			35,496		
<b>Total Liabilities and Equity</b>	417,775			414,648		
Net Interest Margin	398,880	12,855	3.22%	395,694	11,688	2.95%

(1) Includes loans on nonaccrual status.

(2) Net of unearned interest.

(3) Represents amortized value.

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

## Rate Sensitivity Analysis As Of December 31, 2000

In Thousands of Dollars

<b>REPRICING INTERVAL</b>	<b>Three Months Or Less</b>	<b>Three To Twelve Months</b>	<b>One To Three Years</b>	<b>Three To Five Years</b>	<b>Five To Fifteen Years</b>	<b>Over Fifteen Years</b>
<b>ASSETS</b>						
Total Loans (1)	\$ 68,582	\$ 976	\$ 10,196	\$ 20,908	\$ 89,439	\$ 72,669
Investment Securities (2)	25,805	17,736	10,420	21,722	11,051	1,431
Federal Funds Sold	<u>56,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Selected Assests	150,387	18,712	20,616	42,630	100,490	74,100
<b>LIABILITIES</b>						
Interest Bearing Deposits (3)	\$106,367	\$ 68,415	\$ 58,571	\$ 400	0	0
Borrowed Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Selected Liabilities	<u>106,367</u>	<u>68,415</u>	<u>58,571</u>	<u>400</u>	<u>0</u>	<u>0</u>
Differences	<u>\$ 44,020</u>	<u>(\$ 49,703)</u>	<u>(\$ 37,955)</u>	<u>\$ 42,230</u>	<u>\$ 100,490</u>	<u>\$ 74,100</u>
Cummulative Differences	<u>\$ 44,020</u>	<u>(\$ 5,683)</u>	<u>(\$ 43,638)</u>	<u>(\$ 1,408)</u>	<u>\$ 99,082</u>	<u>\$ 173,182</u>

(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.

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

### Summary

The year 2000 marked another period of record growth for Putnam Bancshares ("the Company") and its sole subsidiary, Putnam County Bank. Much of the growth has been attributed to a surge in non-core deposits (time deposits of \$100,000 or more) from a falling stock market and individuals seeking the safe haven of FDIC deposits in the local market.

The economy is expected to continue its growth pattern but at a slower pace than the previous nine and a half years. Most analysts are predicting a GDP growth rate between 2.5 and 2.75 percent for 2001. The premises for the slow down prediction is based on higher energy prices, a modest inversion of the yield curve (short-term rates rising while longer-term rates declined), continuing low unemployment and a bearish stock market due to overvalued tech stocks. Some analysts have even suggested a possible recession based on some of the early economic indicators for 2001.

West Virginia's annual average unemployment rate staged another record during 2000 at 5.5 percent compared to 6 percent in 1999. Putnam (4.2%), Cabell (3.8%) and Kanawha (4.0%) were showing a better than average percentages while Mason (12.1%) and Lincoln (8.9%) were showing a worse than average percentage. This number is expected to increase during 2001 due to growing corporate layoffs from the acquisition of Union Carbide by Dow Chemical and budget cuts in the local governments. On a brighter note, the Toyota Buffalo plant announced its third expansion since coming to the Putnam County area. The expansion will accommodate production of the Lexus V6 engines and will create over 200 new jobs by 2003. In addition, Panda Energy International broke

ground for its new power plant in Culloden. The power plant is scheduled to be fully operational by 2004 and will employ approximately 500 people during construction and 46 permanent employees, thereafter.

The following description of the operating results and financial condition of Putnam Bancshares, Inc (referred throughout as "the Company") should 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 F16 and ending on page F28). In addition, various graphs and charts have been provided throughout the Annual Report to aid in the comprehension of Management's Discussion and Analysis.

Frequently throughout the discussion, references will be made to the Company's "peer group". The Company's "peer group" includes all insured commercial banks having assets between \$300 million and \$500 million with three or more banking offices. The peer group statistics are gathered by the Federal Financial Institutions Examination Council and produced in a Uniform Bank Performance Report, which is prepared quarterly. A free copy of any bank performance report can be downloaded from the FFIEC website ([www.ffiec.gov](http://www.ffiec.gov)).

### Net Interest Margin

Net interest margin is calculated by dividing the tax equivalent of net interest income by total average earning assets (see Analysis of Earning Assets on page F2). The importance of the net interest margin is that it is used to gauge the Bank's primary source of revenue, net interest income. The net interest margin increased 27 basis points to 3.22% in 2000 compared to 2.95%

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

in 1999. The major source of the increase was caused by an increase in the volume and yield within the investment portfolio. The yield on loans increased only 14 basis points compared to an increase of 30 basis points increase on the cost of interest bearing deposits. The peer group net interest margin was 4.24% for 1999 and 4.20% for 2000.

### Interest Income

Bancshares' interest income rose \$2.2 million or 8% from year-end 1999 to year-end 2000. An increase in both yield and volume were responsible for the rise.

Interest income from lending grew \$1.5 million or 7% from 1999 to 2000. This more than doubled the increase from the \$560 thousand or 3% from 1998 to 1999. Average loans grew \$13.8 million from 1999 to 2000 compared to a growth of \$11 million from 1998 to 1999.

The major source of this increase has been from real estate secured lending. The total real estate loan interest increased \$1.3 million or 8% during 2000. This has been a result of continuance of real estate and commercial development in Putnam and Cabell counties. The Bank's real estate lending is focused on the immediate market area of Putnam, Cabell and Kanawha counties.

Commercial lending increased \$2.9 million or 14% from 1999 to 2000. The majority of the lending was to the benefit of small businesses within the Bank's market area.

Installment and consumer lending declined almost \$2.3 million or 12%. This declining trend is due to the competitive nature for this market from car dealerships,

insurance companies and other nonbank entities and not as part of a more restrictive lending policy.

The average total of the investment portfolio increased \$8.6 million or 10% from year-end 1999 to 2000. Total investment income increased slightly above \$1 million dollars or 22% from year-end 1999 to 2000. With the increase in the investment portfolio came a decrease in the average federal funds sold of approximately \$19 million or 31% as liquidity concerns subsided over the passage of Y2K. Yields, however, increased 127 basis points. As of year-end 2000, all municipal securities are West Virginia issues which are investment quality by being rated A+ or better by Standard and Poors and A1 or better by Moody's. Of these, 40% are general obligations while remaining issues are revenue obligations.

### Interest Expense

While total interest-bearing deposit accounts increased only \$53 million (well below a 1% increase) the cost of these funds increased over \$1 million or 6%. The majority of the increase was within the non-core funds, which generally consists of large time deposits (\$100,000 or greater). Interest expense on noncore funds increased \$689 thousand or 4% from year-end 1999 to 2000. Core deposits-small time deposits, savings, demand and money market-actually declined by \$4.6 million or 4%. Interest expense on the core funds only increased \$356 thousand or 2.1%.

While the Bank has consistently maintained a philosophy of paying a higher cost of funds on deposit accounts than its peer group in order to retain and attract customers, this philosophy has been further justified by the fact the Bank does not have to pay interest cost on federal funds purchased, borrowed

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

money or subordinated notes and debentures. In addition, the Bank does not aggressively advertise or solicit deposit accounts. The bank does not participate in securing brokered deposit accounts. As of year-end 1999 and 2000, the Bank had no outstanding debt and does not intend to incur any in the near future.

### Asset And Liability Management, Interest Rate Sensitivity And Liquidity

A prime concern for financial institutions is to effectively manage assets and liabilities in terms of interest rate sensitivity and liquidity. It has been the Company's policy to constantly monitor its cost of funding on a monthly basis, the Federal Reserve Board policy and changes in U.S. Treasury markets and their long-term bonds. The yield curve for 2000 was basically flat and in some segments it was actually inverted. With the Federal Reserve increasing the Federal Funds rate and the U.S. Treasury lowering debt by purchasing bonds caused the short-term rates to be higher than the long-term rates in some places, and thus causing the yield curve to be partially inverted. A long term flat or inverted yield curve can cause an concern among financial institutions because they generally earn a positive net interest spread by borrowing short term at lower interest rates and funding loans or investing at higher rates for a longer period of time. With this in mind, the Bank is keeping a close watch on the yield or cost, composition and growth rates in earning assets and funding.

While monitoring interest rate risk exposure, the Bank also has to carefully scrutinize liquidity by focusing on volumes, maturity and/or repricing schedules of earning assets and deposits.

### Nonperforming Assets

Nonperforming assets includes all loans which are past due ninety days or more and all loans which are in nonaccrual status. Loans are required to be reported on nonaccrual basis if they are maintained on a cash basis due to a deterioration in the financial position of the borrower, payment in full of interest or principal is not expected, or principal or interest has been in default for 90 days or longer, unless the obligation is both well secured and in the process of collection. The total of nonperforming loans at the end of 2000 totaled \$5.8 million or 2.2% of total loans compared with \$3.4 million or 1.3% of total loans at the end of 1999. This considerable increase was due mainly by a commercial loan customer who owns a trucking company. The customer filed bankruptcy during the year but is currently collaborating with the Bank in making restitution for the loans. A large portion of the nonperforming loans in 1999, which were attributed to a local real estate developer, remained on nonaccrual for 2000. Management has continued working with the customer and taking every effort to minimize any possible loss exposure. The total of the developer's nonaccrual loans decreased by \$53 thousand during 2000. The condition, with respect to nonperforming loans, 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 2000 totaled \$251 thousand. This number remained unchanged from year-end 1999. The balance in 2000 represents one residential property in Hurricane acquired during the third quarter of 1999. This balance reflects the fair market value of the property at acquisition. The Bank did not incur a loss in this transaction as of December 31, 2000.

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

### Provision And Allowance For Loan Losses

Provisions to the allowance for loan losses totaled \$1.3 million for 2000 compared to \$329 thousand for 1999. The provision was increased in 2000 largely due to the write-off of a local contractor's loans, which totaled over \$500 thousand. Gross loan losses in 2000 totaled \$1.1 million compared to \$446 thousand in 1999. Loan loss recoveries in 2000 totaled \$28 thousand compared to \$257 thousand in 1999. Most of the difference in recoveries can be attributed to a recovery of \$150 in 1999 from a loss incurred in 1998 due to a local business owner operating a convenience store.

Net losses totaled \$1.1 million or .4% of average total loans in 2000 compared with \$189 thousand or .08% in 1999. This ratio is high to peer institutions in 2000 and low in 1999 (.19% in 2000 and in 1999). A major part of the losses (\$542 thousand) in 2000 was attributed to a local developer.

At December 31, 2000, the allowance for loan losses totaled \$3 million or 1.13% of total loans compared with \$2.7 million or 1.06% at the end of 1999. It is management's responsibility to see that the provision for loan and lease losses is sufficient to cover losses inherent in the loan portfolio. The analysis of the adequacy of the allowance for loan loss includes several factors. Those factors include an evaluation of problem loans, analysis of prior loan losses and management's projection of the local economy and its possible effects. Provisions are deducted from current earnings to increase the allowance as needed. The adequacy of the allowance is also subject to review by the Company's internal auditor, external auditors, Federal Reserve Bank and the West Virginia Division of Banking.

### Noninterest Income

Total noninterest sources of income (excluding gross gains on securities transactions) increased over \$65 thousand or 27% between 2000 and 1999. Over 70% of the increase was derived from an increase in insufficient funds check charges and automatic teller machine surcharges on nonbank customers. The Company began initiating \$1 surcharge on all nonbank customers during the latter part of 1999. While the surcharge has not provided a substantial increase to net income overall, it has helped in offsetting ATM maintenance expenses.

It has long been a tradition for the Company to provide its customers with full banking services without charging excessive service fees. This has proved not only economical for the customer but instills goodwill for the bank as well.

The Company recognized a net gain on security transactions in 2000 of \$1 thousand compared to a net loss on securities in 1999 of \$648 thousand. The gains and losses are derived from a portion of the investment portfolio labeled as Available for Sale (AFS). AFS securities are reported at fair value and may be sold at any time under management's discretion. Management's basis for selling securities may be due to market interest rates, liquidity needs and availability and yield of alternative investments and funding sources and terms. All sales are carefully planned by management and reviewed by the Board. The Company does not speculate by "trading" in the portfolio and does not utilize any interest rate hedges or derivative products in its investment strategies.

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

### Noninterest Expense

Total noninterest expense (excluding gross securities losses) increased \$149 thousand or 3% from year-end 1999 to 2000. This compares with a \$182 thousand or 4% from 1998 to 1999. Noninterest expenses are those that relate to personnel, occupancy and other operating expenditures.

Personnel expense increased \$56 thousand or 2% between 1999 and 2000. Out of this increase, \$53 thousand was attributed to Group Health and Life Insurance, which increased almost 29% from the prior year. The Company entered into an agreement with a new carrier in September 2000. It is anticipated that the new carrier will be more successful at controlling costs. Total staffing at the end of 2000 was 68 or a 5.5% decline from 1999. This decline was due mainly to two of our senior officers retiring and part-time employees hired for Y2K whose employment ended after January 2000.

Occupancy expenses (relative to the maintenance of premises and equipment) increased over \$17 thousand or 3.4% from year-end 1999. This increase is relatively close to the \$20 thousand or 4% increase between 1998 and 1999. The majority of the increase was in Maintenance and Repairs (renovations to storage buildings) and Other Occupancy Expense (final payments related to Y2K projects). The increase was partially countered with a decrease in depreciation on furniture and fixtures. The Bank continues to operate from three locations in West Virginia: 2761 Main Street in Hurricane; 300 Hurricane Creek Road in Hurricane; and 3058 Mt. Vernon Road in Scott Depot.

Other operational expenses increased \$76 thousand or 4.4% during 2000. The chief areas for the increases came from the FDIC Insurance Assessment and the West Virginia Business Franchise Tax. Although the Bank is in the lowest risk category and pays no assessment for the FDIC premium, the Bank is required to pay a Financing Corporation (FICO) assessment. Prior to year-end 1999, FICO rates on the Bank Insurance Fund (BIF) were one-fifth of the rates assessed the Savings Association Insurance Fund (SAIF). Beginning in 2000, the insurance funds were merged and assessed the same rate. While the SAIF assessment decreased, the BIF assessment increased an average of eight-eight basis points. The increase in the Franchise Tax was not indicative of rising taxes but an increase in income and differences in estimating the tax for both years. The increase was defrayed some with a 34% decrease in Office Supplies and Printing expenses, generally, because of Year 2000 inventory stock still on hand.

It is the responsibility of the Company's management to control noninterest expense. One of the principal measures of the effectiveness of this control is the efficiency ratio. Taking noninterest expense and dividing it by the tax-equivalent net interest income plus noninterest income (less security gains/losses) will calculate the efficiency ratio. The Company's efficiency ratio for 2000 was 39.13% and at year-end 1999, it was 41.89%. Both years produced a low ratio comparatively to the Bank's peer group. However, the 1999 ratio was rather high for the Bank because of costs involved in preparing for the Year 2000. The peer group ratio was 60% for both 1999 and 2000.

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

### Taxes

Federal and state income taxes increased \$240 thousand or 11.5% from year-end 1999 to year-end 2000. Income taxes for year-end 1998 and year-end 1999 increased only \$97 thousand or 5%. The current year's increase was due to an increase in taxable income, which before taxes, increased \$750 thousand or almost 13%. Of the total income taxes reported as currently payable on the 2000 tax returns, federal taxes increased \$223 thousand or 12% and state taxes increased almost \$11 thousand or 4%. The Bank's deferred tax benefit decreased over \$8 thousand due to a reduction in the bad debt expense recognized between 1999 and 2000.

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

Maintaining a reasonable level of capital is a priority of management and is examined on a constant basis. Giving stockholders a respectable return on their investment while keeping liquidity at appropriate levels to sustain prospective growth and abide by regulatory agencies requirement levels is vital. The shareholders' equity at year-end 2000 was \$41,023,714, which was an increase of \$4,704,839 or 13% from year-end 1999. Of this increase, \$3.5 million was attributed to net income and \$1.2 million was related to net unrealized gains on available for sale securities.

See the accompanying "Note 13 - Dividend and Capital Restrictions" for additional information on capital and Consolidated Statements of Changes in Shareholders' Equity located on page F13 of the Consolidated Financial Statements. The Company's average equity increased \$3.3 million or 9% from year-end 1999 to year-end 2000. This corresponds with the 9% increase from the 1999 calendar year. The book value of Putnam Bancshares' common stock at the end of 2000 was \$68.37. This was a 13% increase from the \$60.53 at the end of 1999. The Company's return on average equity for 2000 was 10.94% and 10.53% in 1999.

Federal bank regulatory pronouncements mandate the guidelines a financial institution must use in risk-weighting values of both balance sheet and off-balance sheet items for use in measuring capital risk-based ratios. Tier 1 capital (common shareholders' equity less the tax-equivalent of unrealized gains or losses on securities available for sale) and a total capital (Tier 1 plus allowance for loan losses) are two of the risk-based capital ratios the regulatory agencies will monitor on a quarterly basis. As of year-end 2000, the Company had a Tier 1 Risk-Based capital to risk-adjusted assets ratio of 16.43% and a Total Risk-Based capital to risk-adjusted assets ratio of 17.65%. The 1999 ratios were 15.50% and 16.43%, respectively. The Company has consistently had higher ratios compared to peers, which in 2000, the peer group averaged 11.79% Risk-Based capital to risk-adjusted assets and 12.94% Total Risk-Based capital. Using the federal guidelines, the Company is considered to be exceptionally well capitalized (see Note 13).

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

### Dividends

The Company paid cash dividends totaling \$780 thousand for 2000. This was a \$60 thousand increase or 8.3% from 1999. The Company's dividend payout ratio (dividends-to-net-income) was 18.4%. This ratio was slightly lower compared to 1999 due to higher net income and a conservative dividend payout. The 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 the consolidated Statements of Changes in Shareholders' Equity in the Consolidated Financial Statements.

### Statement Of Management Responsibility

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 conformance with generally accepted accounting principles appropriate for the circumstances to mirror, in all material respects, reportable events and transactions.

The accounting systems of Putnam Bancshares, Inc., and its wholly-owned subsidiary, Putnam County Bank, record, summarize and report financial data. The Bank uses internal controls and procedures to provide reasonable assurance (the cost involved should not exceed related benefits) to the reliability of the financial records. Reliance on the accounting system and internal controls by management is enhanced with written policies, internal audits and continuous training of accounting personnel in order to present fair and accurate statements.

The Audit Committee of Putnam County Bank, composed solely of outside directors, meets on a monthly basis to review the internal audit function. The selection of Rollins, Cleavenger and Rollins as the Company's external auditors is recommended by the Board of Directors and has been ratified annually by the shareholders of Putnam Bancshares, Inc.

The financial statements have been audited by Rollins, Cleavenger and Rollins, Public Accountants who will render an independent professional opinion on the statements. Their engagement provides an impartial evaluation of management's responsibilities in regards to the financial statements and third parties affected by their decisions, particularly the shareholders. Their opinion is based on auditing procedures, which include reviewing internal control structures and performing selected tests of transactions and records, as they consider appropriate. These auditing procedures are designed to provide a reasonable lever of assurance that the financial statements are presented in all material respects.

## 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, 2000 and 1999, 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, 2000. 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, 2000 and 1999, and the results of its operations and its cash flows for the three years in the period ended December 31, 2000, in conformity with generally accepted accounting principles.

A handwritten signature in blue ink that reads "Rollins, Cleavenger and Rollins". The signature is written in a cursive, flowing style.

Public Accountants

January 6, 2001

## Consolidated Balance Sheets

DECEMBER 31, 2000 AND 1999

	2000	1999
<b>ASSETS:</b>		
Cash and Due from Banks	\$ 18,866,473	\$ 19,668,584
Federal Funds Sold	56,000,000	55,000,000
Available for Sale Securities	49,650,469	42,763,023
Held to Maturity Securities	38,514,756	38,568,418
Loans - Less Allowance for Credit Losses of \$3,000,000 and \$2,740,559, Respectively	262,690,477	255,538,261
Bank Premises and Equipment	1,270,970	1,371,717
Federal Reserve Bank Stock, at Cost	39,000	39,000
Other Assets	3,434,898	3,799,076
Total Assets	<u>\$ 430,467,043</u>	<u>\$ 416,748,079</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Deposits:		
Noninterest Bearing	\$ 35,664,579	\$ 34,322,921
Interest Bearing	<u>351,454,253</u>	<u>344,511,769</u>
Total Deposits	\$ 387,118,832	\$ 378,834,690
Other Liabilities	<u>2,324,497</u>	<u>1,594,514</u>
Total Liabilities	<u>\$ 389,443,329</u>	<u>\$ 380,429,204</u>
Commitments and Contingent Liabilities (Note 11)		
<b>SHAREHOLDERS' EQUITY:</b>		
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	39,067,869	35,602,098
Accumulated Other Comprehensive Income	<u>655,845</u>	<u>(583,223)</u>
Total Shareholders' Equity	<u>\$ 41,023,714</u>	<u>\$ 36,318,875</u>
Total Liabilities and Shareholders' Equity	<u>\$ 430,467,043</u>	<u>\$ 416,748,079</u>

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

## Consolidated Statements Of Income

FOR YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

	2000	1999	1998
<b>INTEREST INCOME:</b>			
Interest and Fees on Loans	\$ 22,403,184	\$ 20,889,574	\$ 20,330,186
Interest on Available for Sale Securities	3,542,955	2,929,159	3,181,325
Interest on Held to Maturity Securities	2,269,778	1,807,519	1,961,281
Interest on Federal Funds Sold	<u>2,567,503</u>	<u>2,936,658</u>	<u>1,837,303</u>
Total Interest Income	<u>\$ 30,783,420</u>	<u>\$ 28,562,910</u>	<u>\$ 27,310,095</u>
<b>INTEREST EXPENSE:</b>			
Interest on Deposits	<u>\$ 18,030,035</u>	<u>\$ 16,985,149</u>	<u>\$ 16,054,378</u>
Net Interest Income	\$ 12,753,385	\$ 11,577,761	\$ 11,255,717
Provision for Possible Credit Losses	<u>1,304,932</u>	<u>329,073</u>	<u>1,020,107</u>
Net Interest Income after Provision for Possible Credit Losses	<u>\$ 11,448,453</u>	<u>\$ 11,248,688</u>	<u>\$ 10,235,610</u>
<b>OTHER INCOME:</b>			
Service Charges and Commissions	\$ 259,268	\$ 224,185	\$ 195,649
Net Realized Gains on Sales of Available for Sale Securities	362,349	180,049	-0-
Other Operating Income	<u>37,189</u>	<u>20,180</u>	<u>13,270</u>
Total Other Income	<u>\$ 658,806</u>	<u>\$ 424,414</u>	<u>\$ 208,919</u>
<b>OTHER EXPENSES:</b>			
Salaries and Employee Benefits	\$ 2,808,366	\$ 2,752,545	\$ 2,660,789
Expenses of Premises and Equipment	535,310	514,730	495,031
Net Realized Losses on Sales of Available for Sale Securities	361,202	826,775	-0-
Other Operating Expenses	<u>1,833,568</u>	<u>1,759,154</u>	<u>1,688,283</u>
Total Other Expenses	<u>\$ 5,538,446</u>	<u>\$ 5,853,204</u>	<u>\$ 4,844,103</u>
Income before Income Taxes	\$ 6,568,813	\$ 5,819,898	\$ 5,600,426
Provision for Income Taxes	<u>2,323,042</u>	<u>2,081,574</u>	<u>1,984,221</u>
Net Income	<u>\$ 4,245,771</u>	<u>\$ 3,738,324</u>	<u>\$ 3,616,205</u>

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

## Consolidated Statements Of Changes In Shareholders' Equity

FOR YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balances—					
January 1, 1998	\$ 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				225,776	225,776
Tax of \$130,562					
Add: Reclassification Adjustment				-0-	-0-
					<u>225,776</u>
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
Comprehensive Income					
Net Income			3,738,324		3,738,324
Other Comprehensive					
Income - Net of Tax:					
Change in Unrealized					
Gain (Loss) on Securities					
Available for Sale, Net of					
Deferred Income				(1,480,541)	(1,480,541)
Tax Benefit of \$856,171					
Add: Reclassification Adjustment				409,765	409,765
					<u>(1,070,776)</u>
Total Comprehensive Income					2,667,548
Cash Dividends (\$1.20 Per Share)			(720,000)		(720,000)
Balances—					
December 31, 1999	\$ 300,000	\$ 1,000,000	\$35,602,098	(\$ 583,223)	\$ 36,318,875
Comprehensive Income					
Net Income			4,245,771		4,245,771
Other Comprehensive					
Income - Net of Tax:					
Change in Unrealized					
Gain (Loss) on Securities					
Available for Sale, Net of					
Deferred Income				1,239,796	1,239,796
Tax of \$716,952					
Deduct: Reclassification Adjustment				(728)	(728)
					<u>1,239,068</u>
Total Comprehensive Income					5,484,839
Cash Dividends (\$1.30 Per Share)			(780,000)		(780,000)
Balances -					
December 31, 2000	<u>\$ 300,000</u>	<u>\$ 1,000,000</u>	<u>\$39,067,869</u>	<u>\$ 655,845</u>	<u>\$ 41,023,714</u>

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

## Consolidated Statements Of Cash Flows

FOR YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

	2000	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income	\$ 4,245,771	\$ 3,738,324	\$ 3,616,205
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation	166,361	189,815	150,339
Provision for Credit Losses	1,304,932	329,073	1,020,106
Provision for Deferred Taxes	(41,805)	(50,215)	(125,638)
Net Realized (Gains) Losses on Available for Sale Securities	(1,147)	646,725	-0-
Amortization of Premiums and Accretion of Discounts on Available for Sale Securities - Net	199,530	62,460	29,651
(Increase) Decrease in Interest Receivable	(416,451)	85,998	331,196
Increase in Cash Value - Life Insurance	(9,334)	(11,953)	(12,105)
(Increase) Decrease in Prepaid Expenses	92,074	70,295	2,464
(Increase) Decrease in Other Assets	23,161	(22,821)	42,155
Increase (Decrease) in Accrued Interest	626,602	(76,651)	172,575
Increase (Decrease) in Other Liabilities	<u>103,381</u>	<u>18,629</u>	<u>(948)</u>
Net Cash Provided by Operating Activities	<u>\$ 6,293,075</u>	<u>\$ 4,979,679</u>	<u>\$ 5,226,000</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net Increase in Federal Funds Sold	(\$ 1,000,000)	(\$ 14,000,000)	(\$ 13,000,000)
Proceeds from Sales and Maturities of Available for Sale Securities	25,098,047	79,865,000	40,000,000
Proceeds from Maturities of Held to Maturity Securities	101,730,222	102,191,622	104,030,969
Proceeds from Sales of Other Real Estate	-0-	139,900	285,341
Purchases of Available for Sale Securities	(30,228,275)	(60,813,500)	(54,996,875)
Purchases of Held to Maturity Securities	(101,676,560)	(102,137,071)	(104,058,130)
Proceeds from Sale of Bank Premises and Equipment	-0-	-0-	20,290
Purchase of Bank Premises and Equipment	(65,614)	(129,081)	(300,307)
Net Increase in Loans	<u>(8,457,148)</u>	<u>(19,721,232)</u>	<u>(8,270,249)</u>
Net Cash Used in Investing Activities	<u>(\$ 14,599,328)</u>	<u>(\$ 14,604,362)</u>	<u>(\$ 36,288,961)</u>

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

**Consolidated Statements Of Cash Flows (Continued)****FOR YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998**

	2000	1999	1998
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net Increase (Decrease) in			
Demand Deposits	(\$ 14,065,183)	\$ 6,988,971	\$ 13,231,267
Net Increase in Certificates of Deposit	22,349,325	4,909,644	19,517,179
Dividends Paid	<u>(780,000)</u>	<u>(720,000)</u>	<u>(660,000)</u>
Net Cash Provided by Financing Activities	<u>\$ 7,504,142</u>	<u>\$ 11,178,615</u>	<u>\$ 32,088,446</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(\$ 802,111)	\$ 1,553,932	\$ 1,025,485
Cash and Cash Equivalents at Beginning of Year	<u>19,668,584</u>	<u>18,114,652</u>	<u>17,089,167</u>
Cash and Cash Equivalents at End of Year	<u>\$ 18,866,473</u>	<u>\$ 19,668,584</u>	<u>\$ 18,114,652</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Cash Paid During the Year for:			
Interest	<u>\$ 17,403,433</u>	<u>\$ 17,061,800</u>	<u>\$ 15,882,194</u>
Income Taxes	<u>\$ 2,177,901</u>	<u>\$ 2,085,000</u>	<u>\$ 2,091,000</u>
<b>SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH ACTIVITIES:</b>			
Transfer from Loans to Other Real Estate Owned	<u>\$ -0-</u>	<u>\$ 251,274</u>	<u>\$ 140,239</u>

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

## Notes To Consolidated Financial Statements For Years Ended December 31, 2000, 1999 And 1998

### 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 shareholders' 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, 2000, 1999 and 1998.

#### 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 credit 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, 1999, the Bank adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." 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.

## Notes To Consolidated Financial Statements For Years Ended December 31, 2000, 1999 And 1998 (Continued)

### Allowance for Credit Losses

The allowance for credit losses is maintained at a level considered adequate to provide for potential credit 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 credit 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 credit losses.

### Bank Premises and Equipment

Bank premises and equipment are carried at original cost, less accumulated depreciation computed primarily on the modified accelerated cost recovery system 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 credit 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. 132, "Employer's 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.

## 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 \$6,971,000 and \$7,596,000 for the years ended December 31, 2000 and 1999, respectively.

## Notes To Consolidated Financial Statements For Years Ended December 31, 2000, 1999 And 1998 (Continued)

### Note 3 Investment Securities:

The carrying amounts and approximate market values of investment securities at December 31, 2000 and 1999, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2000</b>				
Available for Sale Securities -				
U.S. Government and Agency Securities	\$ 45,808,226	\$ 1,024,585	(\$ 1,563)	\$ 46,831,248
State and Municipal Securities	<u>2,807,133</u>	<u>14,172</u>	<u>( 2,084)</u>	<u>2,819,221</u>
Totals	<u>\$ 48,615,359</u>	<u>\$ 1,038,757</u>	<u>(\$ 3,647)</u>	<u>\$ 49,650,469</u>
Held to Maturity Securities -				
U.S. Government and Agency Securities	<u>\$ 38,514,756</u>	<u>\$ 13,314</u>	<u>(\$ 3,392)</u>	<u>\$ 38,524,678</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 1999</b>				
Available for Sale Securities -				
U.S. Government and Agency Securities	\$ 40,870,859	\$ -0-	(\$ 775,549)	\$ 40,095,310
State and Municipal Securities	<u>2,812,655</u>	<u>775</u>	<u>( 145,717)</u>	<u>2,667,713</u>
Totals	<u>\$ 43,683,514</u>	<u>\$ 775</u>	<u>(\$ 921,266)</u>	<u>\$ 42,763,023</u>
Held to Maturity Securities -				
U.S. Government and Agency Securities	<u>\$ 38,568,418</u>	<u>\$ 1,922</u>	<u>(\$ 13,788)</u>	<u>\$ 38,556,552</u>

Investment securities with carrying amounts of \$23,082,517 and \$22,646,925 and market values of \$23,920,311 and \$22,251,436, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law at December 31, 2000 and 1999.

Gross realized gains and gross realized losses on sales of available for sale securities for the years ended December 31, 2000, 1999 and 1998, are as follows:

	2000	1999	1998
Gross Realized Gains:			
U.S. Government and Agency Securities	<u>\$ 362,349</u>	<u>\$ 180,049</u>	<u>\$ -0-</u>
Gross Realized Losses:			
U.S. Government and Agency Securities	<u>\$ 361,202</u>	<u>(\$ 826,775)</u>	<u>\$ -0-</u>

The amortized cost and estimated market value of debt securities at December 31, 2000, 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	\$ 5,018,974	\$ 5,026,562	\$ 38,514,756	\$ 38,524,678
Due from One Year to Five Years	31,355,874	32,141,556	-0-	-0-
Due from Five Years to Ten Years	10,820,139	11,051,293	-0-	-0-
Due after Ten Years	<u>1,420,372</u>	<u>1,431,058</u>	<u>-0-</u>	<u>-0-</u>
Totals	<u>\$ 48,615,359</u>	<u>\$ 49,650,469</u>	<u>\$ 38,514,756</u>	<u>\$ 38,524,678</u>

## Notes To Consolidated Financial Statements For Years Ended December 31, 2000, 1999 And 1998 (Continued)

### Note 4 Loans:

Total loans at December 31, 2000 and 1999, by major loan categories are summarized as follows:

	2000	1999
Commercial	\$ 23,080,812	\$ 22,995,629
Real Estate - Construction and Mortgage	225,293,606	217,655,630
Installment	<u>20,776,747</u>	<u>21,151,804</u>
Gross Loans	\$ 269,151,165	\$ 261,803,063
Unearned Discount	<u>(3,460,688)</u>	<u>(3,524,243)</u>
Total Loans	\$ 265,690,477	\$ 258,278,820
Allowance for Credit Losses	<u>(3,000,000)</u>	<u>(2,740,559)</u>
Loans, Net	<u>\$ 262,690,477</u>	<u>\$ 255,538,261</u>

An analysis of the change in the allowance for credit losses follows:

	2000	1999	1998
Beginning Balances - January 1,	\$ 2,740,559	\$ 2,600,000	\$ 2,310,000
Loans Charged Off	(1,073,850)	(445,841)	(834,895)
Recoveries of Loans			
Previously Charged Off	28,359	257,327	104,788
Provision to Expense for Credit Losses	<u>1,304,932</u>	<u>329,073</u>	<u>1,020,107</u>
Ending Balances - December 31,	<u>\$ 3,000,000</u>	<u>\$ 2,740,559</u>	<u>\$ 2,600,000</u>

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 credit 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, 2000, 1999 and 1998:

	2000	1999	1998
Impaired Loans with Related Allowance	\$ 2,891,000	\$ 2,239,000	\$ 2,025,000
Impaired Loans with no Related Allowance	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Impaired Loans	<u>\$ 2,891,000</u>	<u>\$ 2,239,000</u>	<u>\$ 2,025,000</u>
Allowance on Impaired Loans	<u>\$ 577,000</u>	<u>\$ 515,000</u>	<u>\$ 440,000</u>
Average Impaired Loans	<u>\$ 2,783,000</u>	<u>\$ 2,161,000</u>	<u>\$ 2,231,000</u>
Interest Income Recognized on Impaired Loans	<u>\$ 88,000</u>	<u>\$ 89,000</u>	<u>\$ 158,000</u>

## Notes To Consolidated Financial Statements For Years Ended December 31, 2000, 1999 And 1998 (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 2000 and 1999:

	2000	1999
Balances - January 1,	\$ 8,052,528	\$ 8,169,431
New Loans	1,087,437	1,285,032
Repayments	<u>(3,067,993)</u>	<u>(1,401,935)</u>
Balances - December 31,	<u>\$ 6,071,972</u>	<u>\$ 8,052,528</u>

### Note 5 Bank Premises and Equipment:

Major classifications of bank premises and equipment at December 31, 2000 and 1999, are summarized as follows:

	2000	1999
Buildings and Improvements	\$ 1,856,589	\$ 1,856,589
Furniture and Fixtures	<u>1,413,320</u>	<u>1,370,615</u>
	\$ 3,269,909	\$ 3,227,204
Less: Accumulated Depreciation	<u>2,199,399</u>	<u>2,055,947</u>
	\$ 1,070,510	\$ 1,171,257
Land	<u>200,460</u>	<u>200,460</u>
Bank Premises and Equipment, Net	<u>\$ 1,270,970</u>	<u>\$ 1,371,717</u>

Depreciation expense for the years ended December 31, 2000, 1999 and 1998, was \$166,361, \$189,815, and \$150,339, 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, 2000, is as follows:

Year	Amount
2001	\$ 35,213
2002	33,458
2003	-0-
2004	-0-
2005	<u>-0-</u>
Total	<u>\$ 68,671</u>

## Notes To Consolidated Financial Statements For Years Ended December 31, 2000, 1999 And 1998 (Continued)

### Note 6 Deposits:

The major categories of deposits at December 31, 2000 and 1999, are as follows:

	2000	1999
Noninterest Bearing	<u>\$ 35,664,579</u>	<u>\$ 34,322,921</u>
Interest Bearing:		
Money Market	\$ 99,698,910	\$ 114,240,576
Savings	18,002,352	18,778,219
Time and Certificates of Deposit	146,467,258	142,166,804
Certificates of Deposit over \$100,000	<u>87,285,733</u>	<u>69,326,170</u>
Total Interest Bearing Deposits	<u>\$351,454,253</u>	<u>\$ 344,511,769</u>
Total Deposits	<u>\$387,118,832</u>	<u>\$ 378,834,690</u>

Scheduled maturities of time and certificates of deposits at December 31, 2000, are as follows:

2001	\$174,781,960
2002	46,944,981
2003	11,626,396
2004	153,175
2005 and Thereafter	<u>246,479</u>
Total	<u>\$233,752,991</u>

The Bank has received deposits in the normal course of business from directors and officers of the Bank and their associates. Such related party deposits were accepted on substantially the same terms including interest rates and maturities as those prevailing at the time for comparable transactions with unrelated parties. The aggregate dollar amount of these deposits was approximately \$24,232,000 and \$21,908,000 at December 31, 2000 and 1999, respectively.

### Note 7 Income Taxes:

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

	2000	1999	1998
Currently Payable:			
Federal	\$ 2,077,728	\$ 1,855,217	\$ 1,854,005
State	<u>287,119</u>	<u>276,572</u>	<u>255,854</u>
Totals	<u>\$ 2,364,847</u>	<u>\$ 2,131,789</u>	<u>\$ 2,109,859</u>
Deferred (Benefit):			
Federal	(\$ 37,241)	(\$ 44,733)	(\$ 111,922)
State	<u>(4,564)</u>	<u>(5,482)</u>	<u>(13,716)</u>
Totals	<u>(\$ 41,805)</u>	<u>(\$ 50,215)</u>	<u>(\$ 125,638)</u>
Total Applicable Income Taxes	<u>\$ 2,323,042</u>	<u>\$ 2,081,574</u>	<u>\$ 1,984,221</u>

## Notes To Consolidated Financial Statements

### For Years Ended December 31, 2000, 1999 And 1998 (Continued)

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

	<b>2000</b>	<b>1999</b>	<b>1998</b>
Bad Debts	(\$ 41,895)	(\$ 50,300)	(\$ 125,718)
Discount on Investment Securities	<u>90</u>	<u>85</u>	<u>80</u>
Totals	<u>(\$ 41,805)</u>	<u>(\$ 50,215)</u>	<u>(\$ 125,638)</u>

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

	<b>2000</b>		<b>1999</b>		<b>1998</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Tax on Income before Income Tax at the Top Statutory Income Tax Rate	\$2,233,396	34.00%	\$1,978,765	34.00%	\$1,904,145	34.00%
Increase (Decrease) Resulting from:						
State Income Tax, Net of Federal Benefit	184,934	2.82	177,056	3.04	155,148	2.77
Nontaxable Interest Income	(123,117)	(1.87)	(93,482)	(1.61)	(95,903)	(1.71)
Nondeductible Interest Expense	18,853	.28	14,802	.25	14,318	.25
Other Items	<u>8,976</u>	<u>.13</u>	<u>4,433</u>	<u>.08</u>	<u>6,513</u>	<u>.12</u>
Tax on Income	<u>\$ 2,323,042</u>	<u>35.36%</u>	<u>\$2,081,574</u>	<u>35.76%</u>	<u>\$1,984,221</u>	<u>35.43%</u>

The approximate tax effects of the net investment securities gains (losses) were \$420, (\$236,960), and \$-0- for the years 2000, 1999 and 1998, respectively.

## Notes To Consolidated Financial Statements

### For Years Ended December 31, 2000, 1999 And 1998 (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, 2000 and 1999:

	2000	1999
Accumulated pension benefit obligation:		
Vested	\$ 1,938,867	\$ 1,778,569
Nonvested	<u>29,917</u>	<u>18,144</u>
Totals	\$ 1,968,784	\$ 1,796,713
Value of future salary projections	<u>232,030</u>	<u>201,471</u>
Total projected pension benefit obligation	\$ 2,200,814	\$ 1,998,184
Fair value of plan assets	<u>2,127,689</u>	<u>2,110,292</u>
Plan assets in excess (deficient) of projected benefit obligation	(\$ 73,125)	\$ 112,108
Unrecognized prior service cost	(31,940)	(36,935)
Unrecognized net loss or (gain)	(80,999)	(187,292)
Unrecognized net transition liability or (asset)	<u>(32,933)</u>	<u>(40,492)</u>
Unfunded (accrued) or prepaid pension cost	<u><u>(\$ 218,997)</u></u>	<u><u>(\$ 152,611)</u></u>

The components of pension (expense) income for the years ended December 31, 2000, 1999 and 1998, are as follows:

	2000	1999	1998
Service cost-benefits earned during year	(\$ 94,351)	(\$ 97,307)	(\$ 85,480)
Interest cost on projected benefit obligation	(159,683)	(144,468)	(135,155)
Actual return on assets	175,094	174,775	172,809
Net amortization and deferral	<u>12,554</u>	<u>12,554</u>	<u>12,554</u>
Net periodic pension (cost) benefit	<u><u>(\$ 66,386)</u></u>	<u><u>(\$ 54,446)</u></u>	<u><u>(\$ 35,272)</u></u>

Actuarial assumptions:

Weighted average discount rate for projected benefit obligation	8.00%	8.00%	7.00%
Weighted average rate of compensation increase	5.00%	5.00%	5.00%
Expected long-term rate of return on plan assets	8.50%	8.50%	8.50%

## Notes To Consolidated Financial Statements

### For Years Ended December 31, 2000, 1999 And 1998 (Continued)

#### Note 9

#### Parent Company Condensed Financial Information:

	CONDENSED BALANCE SHEETS	
	December 31,	
	2000	1999
<b>ASSETS</b>		
Investment in Subsidiary	\$ 40,367,869	\$ 36,902,098
Other Assets	<u>-0-</u>	<u>-0-</u>
Total Assets	<u>\$ 40,367,869</u>	<u>\$ 36,902,098</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Total Liabilities	\$ <u>-0-</u>	\$ <u>-0-</u>
Shareholders' Equity	<u>\$ 40,367,869</u>	<u>\$ 36,902,098</u>
Total Liabilities and Shareholders' Equity	<u>\$ 40,367,869</u>	<u>\$ 36,902,098</u>

	CONDENSED STATEMENTS OF INCOME		
	For Years Ended December 31,		
	2000	1999	1998
<b>INCOME</b>			
	\$ <u>799,386</u>	\$ <u>738,443</u>	\$ <u>675,338</u>
<b>EXPENSES:</b>			
Operating Expenses	\$ <u>32,278</u>	\$ <u>30,707</u>	\$ <u>25,538</u>
Income before Income Tax Benefit and Equity in Undistributed Earnings of Subsidiary	\$ 767,108	\$ 707,736	\$ 649,800
Applicable Income Taxes (Benefit)	<u>(12,892)</u>	<u>(12,264)</u>	<u>(10,200)</u>
Income before Equity in Undistributed Earnings of Subsidiary	\$ 780,000	\$ 720,000	\$ 660,000
Equity in Undistributed Earnings of Subsidiary	<u>3,465,771</u>	<u>3,018,324</u>	<u>2,956,205</u>
Net Income	<u>\$ 4,245,771</u>	<u>\$ 3,738,324</u>	<u>\$ 3,616,205</u>

## Notes To Consolidated Financial Statements

### For Years Ended December 31, 2000, 1999 And 1998 (Continued)

#### CONDENSED STATEMENTS OF CASH FLOWS

For Years Ended December 31,

	2000	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income	\$ 4,245,771	\$ 3,738,324	\$ 3,616,205
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Equity in Undistributed Earnings of Subsidiary	<u>(3,465,771)</u>	<u>(3,018,324)</u>	<u>(2,956,205)</u>
Net Cash Provided by Operating Activities	<u>\$ 780,000</u>	<u>\$ 720,000</u>	<u>\$ 660,000</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Dividends Paid	<u>(\$ 780,000)</u>	<u>(\$ 720,000)</u>	<u>(\$ 660,000)</u>
Net Cash Used in Financing Activities	<u>(\$ 780,000)</u>	<u>(\$ 720,000)</u>	<u>(\$ 660,000)</u>
Net Change in Cash and Cash Equivalents	\$ -0-	\$ -0-	\$ -0-
Cash and Cash Equivalents at Beginning of Year	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Cash and Cash Equivalents at End of Year	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

### 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.

## Notes To Consolidated Financial Statements For Years Ended December 31, 2000, 1999 And 1998 (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, 2000, is as follows:

	Notional Amount
Commitments to Extend Credit	\$ 30,362,581
Commercial Letters of Credit	-0-
Standby Letters of Credit	3,203,365

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.

In the ordinary course of business, Putnam Bancshares, Inc. and its subsidiary are sometimes parties to various legal proceedings and claims. While any litigation contains an element of uncertainty, management is unaware of any legal proceedings at December 31, 2000, of which the result would have a material adverse effect upon the consolidated financial statements.

### Note 12 Concentrations of Credit Risk:

Cash due from correspondent banks, based on bank balances, exceeded federally insured limits by approximately \$8,500,000 at December 31, 2000. Federal funds sold are generally unsecured by the correspondent banks.

The majority of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area. The rest are to customers from the area that have since relocated to other areas. Most of such customers are depositors of the Bank. Investments in state and municipal securities and loans to governmental entities are within the Bank's home state. 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, 2000, that the Bank could declare without the approval of the West Virginia Division of Banking and the Federal Reserve Board, amounted to approximately \$6,484,000.

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 judgments by the regulators about components, risk-weighting of assets and certain off-balance sheet items, and other factors. As of December 31, 2000 and 1999, 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.

## Notes To Consolidated Financial Statements For Years Ended December 31, 2000, 1999 And 1998 (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
<b>As of December 31, 2000:</b>				
Tier 1 Risk-Based Capital	16.43%	\$ 40,368,000	\$ 9,830,520	\$ 14,745,780
Total Risk-Based Capital	17.65	43,368,000	19,961,040	24,576,300
Tier 1 Leverage Capital	9.54	40,368,000	16,916,960	21,146,200
<b>As of December 31, 1999:</b>				
Tier 1 Risk-Based Capital	15.30%	\$ 36,902,000	\$ 9,649,000	\$ 14,474,000
Total Risk-Based Capital	16.43	39,642,000	19,298,000	24,123,000
Tier 1 Leverage Capital	8.93	36,902,000	16,529,000	20,661,000

### 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 interest 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.

## Notes To Consolidated Financial Statements For Years Ended December 31, 2000, 1999 And 1998 (Continued)

The estimated fair values of the Bank's financial instruments at December 31, 2000 and 1999, are as follows:

	2000		1999	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
<b>Financial Assets:</b>				
Cash and Due from Banks	\$ 18,866,473	\$ 18,866,473	\$ 19,668,584	\$ 19,668,584
Federal Funds Sold	56,000,000	56,000,000	55,000,000	55,000,000
Investment Securities	88,165,225	88,175,147	81,331,441	81,319,575
Loans	265,690,477	264,428,036	258,278,820	260,630,139
<b>Financial Liabilities:</b>				
Deposits	387,118,832	386,562,216	378,834,690	378,730,397

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.