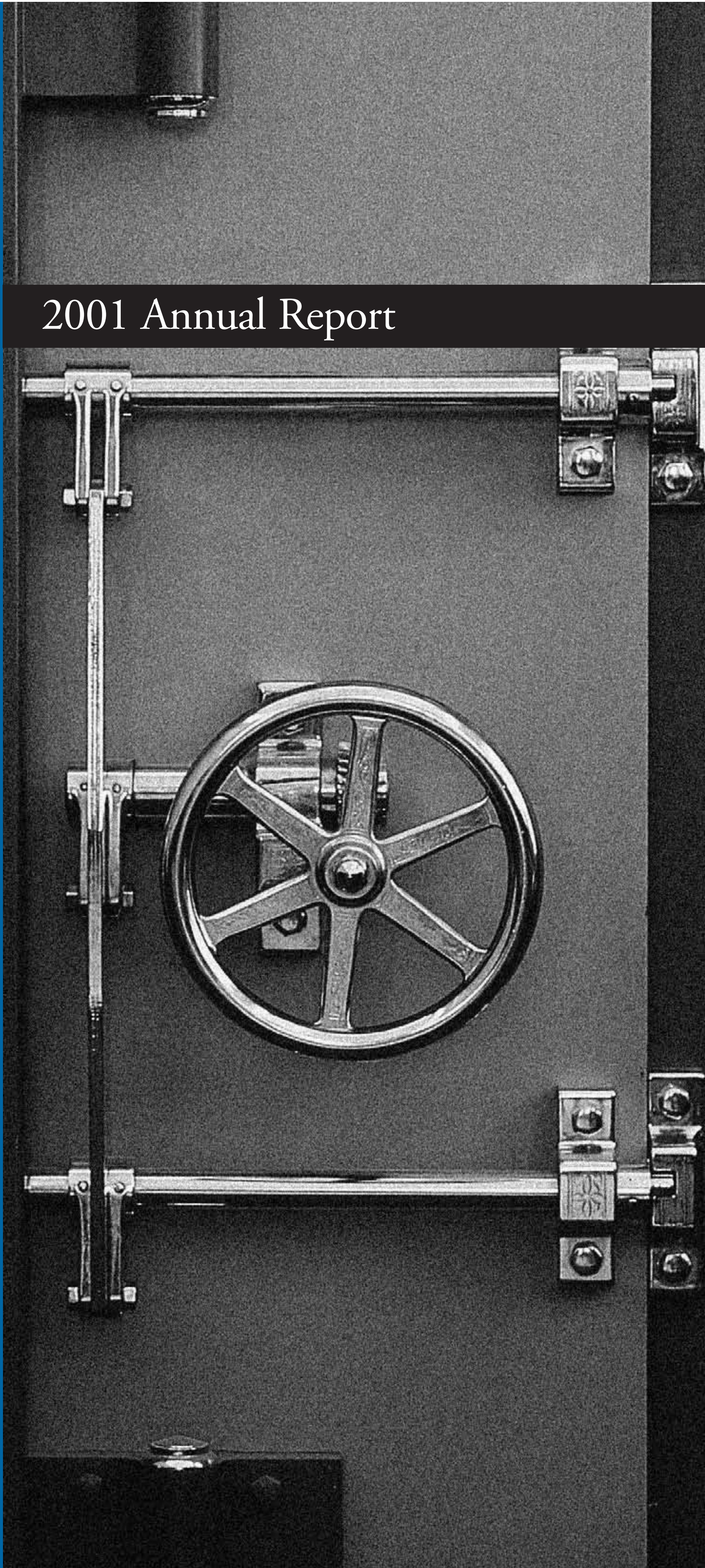
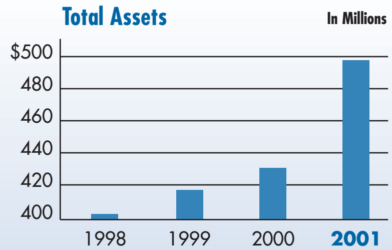
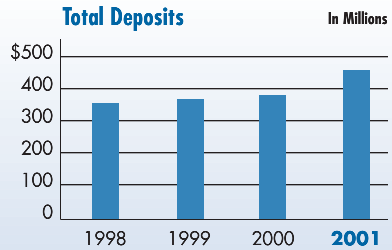
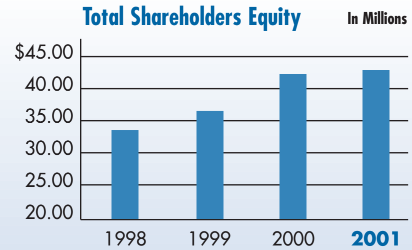
Putnam Bancshares, Inc.

2001 Annual Report





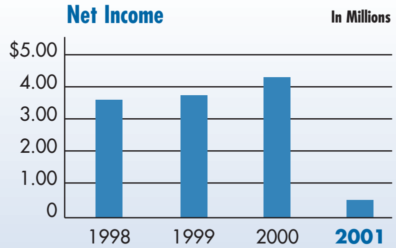


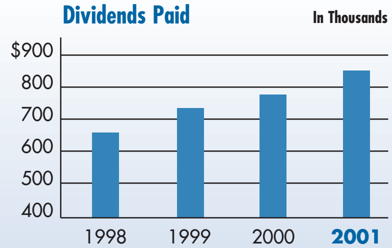


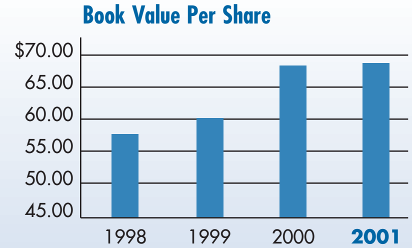
Selected Financial Summary

In Thousands of Dollars

	FOUR-YEAR SUMMARY			
	2001	2000	1999	1998
YEAR-END BALANCE SHEET SUMMARY				
Loans, Net	$ 261,893	$ 262,691	$ 255,538	$ 236,397
Investment Securities	131,447	88,204	81,331	102,876
Total Assets	498,046	430,467	416,748	402,960
Deposits	454,202	387,119	378,835	366,936
Shareholders' Equity	41,091	41,024	36,319	34,371
AVERAGE BALANCE SHEET SUMMARY				
Loans, Net	$ 264,121	$ 261,857	$ 248,053	$234,5358
Investment Securities	100,104	94,774	86,170	93,1106
Total Assets	462,817	417,775	414,648	385,104
Deposits	414,915	375,890	376,605	349,615
Shareholders' Equity	42,720	38,803	35,496	33,202
SELECTED RATIOS				
Return On Average Assets	0.11%	1.02%	.90%	.94%
Return On Average Equity	1.24%	10.99%	10.53%	10.89%
Dividends Declared As A Percentage Of Net Income	158.49%	16.88%	19.26%	18.25%
SUMMARY OF OPERATIONS				
Interest Income	$ 29,738	$ 30,783	$ 28,563	$ 27,310
Interest Expense	19,827	18,030	16,985	16,054
Net Interest Income	9,911	12,753	11,578	11,256
Provision For Loan Losses	3,985	1,305	329	1,020
Noninterest Income	237	310	244	209
Noninterest Expense	5,444	5,145	5,026	4,844
Net Income	530	4,246	3,738	3,616
PER SHARE DATA				
Net Income	$ 0.88	$ 7.08	$ 6.23	$ 6.03
Cash Dividends	1.40	1.30	1.20	1.10
Book Value	68.49	68.37	60.53	57.29







Report Contents

Analysis Of Earning Assets And Interest Bearing Liabilities

In Thousands of Dollars

	2001			2000		
ASSETS	Avg. Balance	Interest	Yield/Rate	Avg. Balance	Interest	Yield/Rate
Loans						
Commercial (1)	20,891	1,719	8.23%	22,783	2.090	9.19%
Real Estate	228,995	18,420	8.04%	221,856	18,478	8.33%
Installment (2)	17,060	1,703	9.98%	17,263	1,835	10.63%
Total Loans	266,946	21,842	8.18%	261,857	22,403	8.56%
Securities (3)						
Taxable	97,267	5,099	5.24%	91,964	5,674	6.17%
Tax-Exempt (4)	2,837	242	8.52%	2,810	244	8.67%
Total Securities	100,104	5,097	5.23%	94,774	5,918	6.24%
Federal Funds Sold	76,600	2,659	3.45%	42,249	2,554	6.05%
Total Earning Assets	443,650	29,842	6.70%	398,880	30,875	7.74%
Cash and Due from Banks	16,880			16,133		
Premises and Equipment, Net	1,200			1,300		
Other Assets	3,872			4,114		
Allowance for Loan Losses	(2,787)			(2,653)		
Total Assets	462,815			417,775		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest Bearing Deposits						
Super NOW and MMDA	105,059	4,197	3.99%	108,519	4,347	4.01%
Savings	18,320	515	2.81%	18,665	561	3.01%
Time	259,729	15,114	5.82%	217,132	13,122	6.04%
Total Interest Bearing Deposits	383,108	19,826	5.18%	344,316	18,030	5.23%
Long-Term Borrowings	0	0	0	0	0	0
Total Interest Bearing Liabilities	383,108	19,826	5.18%	344,316	18,030	5.23%
Noninterest Bearing Deposits	31,807			31,574		
Accrued Expenses and Other Liabilities	5,180			3,082		
Equity	42,720			38,803		
Total Liabilities and Equity	462,815			417,775		
Net Interest Margin	443,650	10,017	2.23%	398,880	12,860	3.22%

(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, 2001

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)	$ 69,834	$ 1,441	$ 12,289	$ 16,419	$ 89,752	$ 72,691
Investment Securities (2)	25,922	23,147	11,751	22,045	47,150	1,431
Federal Funds Sold	77,000	0	0	0	0	0
Total Selected Assests	172,756	24,588	24,040	38,464	136,902	74,122
LIABILITIES						
Interest Bearing Deposits (3)	$130,701	$ 98,316	$ 32,781	$ 270	0	0
Borrowed Funds	0	0	0	0	0	0
Total Selected Liabilities	130,701	98,316	32,781	270	0	0
Differences	$ 42,055	($ 73,728)	($ 8,741)	$ 38,194	$ 136,902	$ 74,122
Cummulative Differences	$ 42,055	($ 31,673)	($ 40,414)	($ 2,220)	$ 134,682	$ 208,804

(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 U.S. economy experienced its first recession since the early 1990's. The recession, which began March 2001, was declared to be over during March 2002 by the Federal Reserve Chairman Alan Greenspan. The effects of a slowing economy, falling interest rates and a catastrophic terrorist attack on the nation had ramifications even on Putnam Bancshares, Inc. While the recession may be over, the Putnam Bancshares, Inc. (the "Company") and its wholly-owned subsidiary, Putnam County Bank (the "Bank") faces many challenges as we enter 2002.

The year in review for Putnam Bancshares, Inc. was not positive, overall. Although the Company experienced a monumental increase in deposit accounts, it also experienced a significant drop in net income. This decline came largely from $4.0 million in provisions to the allowance for loan loss during 2001. Even though the outlook for the economy seems to be favorable, the recovery for the Company will involve a process of aggressively addressing problem loans and setting structures in place to improve credit administration. With interest rates on deposit accounts at their lowest point in forty years and a considerable number of loans being refinanced, the Company will concentrate heavily on preventing a further contraction of net interest margins to help improve future earnings.

West Virginia's average annual unemployment rate for 2001 was a record low at 4.6%. This compares to a 5.5% average unemployment rate for 2000. Surprisingly, the rate fell for West Virginia while the national unemployment rate rose to 5.8% for December 2001. Among neighboring counties, Lincoln (7.4%) and Mason (10.2) had a much worse rate than the state unemployment average. On the other hand, Kanawha (3.9) and Cabell (4.4) reported an average unemployment rate. Putnam County rated as having better than average unemployment with a 3.3% rate. With reports of continuing layoffs, increasing office space vacancies and slowing residential markets, the current administration made several welcoming announcements for 2002. Diamond Electric Manufacturing Corp. will be expanding its Eleanor ignition coil manufacturing plant. They will be supplying, among others, Toyota Motor Manufacturing with "pencil-type coil" starting in 2003. EXCEL Homes, the largest residential off-site construction builder in the eastern United States, opened a new 92,000-square-foot manufacturing facility in Charleston. The opening will create 200-300 jobs. The current administration has concentrated heavily on West Virginia economic development and job creation. During 2001, 3,253 new jobs were created in new and expanded facilities in West Virginia.

The following description of the operating outcome 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 11 and ending on page 28). In addition, various graphs, charts and analyses have been provided throughout the Annual Report to give support to the Management's Discussion and Analysis.

The Company's "peer group" consists of all insured commercial banks having assets between $300 million and $500 million with three or more banking offices. The Financial Institutions Examination Council gathers

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

the statistics and uses them to produce the Uniform Bank Performance Report on a quarterly basis. A free copy of any bank performance report can be downloaded from the FFIEC website (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 1). Net interest margin is used as a measure of the Company's net income, it's primary source of revenue. The net interest margin decreased by 96 basis points to 2.26% compared to 3.22% in 2000. The decrease was caused mainly by a major increase in interest bearing deposit accounts and a minor increase in loans. In addition, interest rates on deposit accounts remained steady during 2001 while the rates on loans tied to prime rate fell substantially. The yield on interest bearing deposits decreased five basis points while the yield on loans decreased 104 basis points. The peer group net interest margin was 4.47% for 2000 and 4.34% for 2001.

Interest Income

Interest income for the Company declined $1.2 million or 4% from year-end 2000 to year-end 2001. A decrease in yield was responsible for the diminished income. The volume on average interest-bearing funds increased $45 million or 11%.

Interest income from lending slipped $561 thousand or 2.5% from 2000 to 2001. This contrasts to a 7% increase or $1.5 million one year earlier. Average loans climbed $5 million from 2000 to 2001 compared to an increase of $14 million between 1999 and 2000.

Commercial lending was primarily responsible for the decrease in lending interest. The majority of these loans were tied to the prime rate, which fell 475 basis points during 2001. The commercial loans fell 8% while the income on these loans fell 18% at the end of 2001.

Consumer lending fell $203 thousand or 1% during 2001. Interest income on consumer lending went down $132 thousand or 7% for the year. The drop in loans and interest can be linked to the extremely competitive nature between banks, credit unions, insurance companies and other nonbank entities for automobile and personal loans. The decline is not the result of a more restrictive lending policy.

The average total of the investment portfolio increased $5.3 million or 6% from year-end 2000 to 2001. Total investment income decreased $315 thousand during 2001. The yields on the investments waned over 100 basis points. The average balance on federal funds sold increased 82% or $34 million. The yield, however, decreased 260 basis points from a 6.05% in 2000 to a 3.45% for 2001. Actual income on federal funds sold increased $88 thousand or 4%. As of year-end 2001, 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 municipal securities, 40% are general obligations while the remaining issues are revenue obligations.

Interest Expense

Interest income on interest bearing deposit accounts increased $1.8 million, or 10%, during 2001. The yield on these deposit accounts only fell five basis points. As was the case in the year 2000, the largest increase in interest expense was again within the non-core funds

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

(large time deposits of $100,000 or greater) during 2001. Total interest expense was 4.30% of average assets. This compares to a 3.24% for the comparable peer group during 2001.

Paying a higher rate on deposit accounts than the peer group has long been the Bank's approach for keeping and attracting customers. The Bank began lowering rates on deposit accounts throughout 2001 and into 2002. The rate on Super NOW accounts was lowered 225 basis points during the first three months of 2002 without a decline in deposit totals. With interest expense composing over 75% of the total expense for the Bank, it was imperative that the Bank began lowering rates with much more intensity in 2002.

The Bank does not have to pay interest cost on federal funds purchased, borrowed 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 2000 and 2001, 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

Predicting interest rate environments and customers' reaction to interest rate changes is a challenge in all asset/liability models and so is the case with Putnam Bancshares. It is management's responsibility to effectively manage assets and liabilities in terms of interest rate sensitivity and liquidity. The cost of funding is constantly monitored and reviewed on a monthly basis, at the very minimum. With eleven cuts in fund rates by the Federal Reserve Bank during 2001, the Bank's management team reviewed the cost of funding much more frequently. The yield curve for 2001 was a combination of normal, inverted, flat and U-shaped instead of the simple descending slope as was expected with rate cuts by the Federal Reserve. The rate cuts combined with economic growth, different analysis' concerning Fed policy, inflation etc caused the different fluctuations in the yield curve for the nations economy during 2001. With a stabilizing economy emerging and no inflation, the Fed will be very cautious before raising the rates for 2002. Quite a few economic analysts are predicting a more flatten yield curve. As in the past, the Bank will observe the yield or cost, composition and growth rates in earning assets and funding.

The Bank has to analyze liquidity levels by concentrating on volumes, maturity and/or repricing timetables of earning assets and deposits as part of its risk rate monitoring.

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 2001 totaled $4.0 million or 1.5% of total loans compared with $5.8 million or 2.2% of total loans at the end of 2000. Unfortunately, the decrease was due to losses recognized on these. The majority of these loans

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

belonged to a commercial loan customer who owns a trucking company. Plans initiated by the Bank for the customer to make restitution failed. The Bank is making arrangements at this time to aggressively pursue alternative means of collection to minimize any further loss. Of the total nonaccrual loans, 40% belong to a real estate developer whose loans were placed on nonaccrual in 1999. The Bank is taking steps to work toward liquidation of the collateral.

The amount of other real estate owned as a result of debts previously contracted at the end of 2001 totaled $193 thousand. The balance in 2001 represents one residential property in Milton acquired during the third quarter of 2001. The balance reflects the fair market value of the property at acquisition. The Bank did not incur a loss on this transaction as of December 31, 2001. The balance of other real estate during 2000, a residential property in Hurricane, was sold during the second quarter of 2001. The Bank realized a loss of $11 thousand on the sale.

Provision and Allowance for Loan Losses

Provisions to the allowance for loan losses totaled $4.0 million for 2001 compared to $1.3 million for 2000. The allowance for loan losses was increased in 2001 due an increased level of problem loans and increased loss potential. The Bank will continue to work to minimize loss and to recover as much as possible after a loan has been charged to the allowance for loan loss. Gross loan losses in 2001 totaled $ 1.4 million compared to $1.1 million in 2000. Loan loss recoveries in 2001 totaled $38 thousand compared to $28 thousand in 2000.

Net losses totaled $ 1.4 million or .52% of average total loans in 2001 compared with $1.1 million or .40% in 2000. This ratio is high to peer institutions in both 2001 and 2000. The peer ratio was .24% in 2001 and .18% in 2000. A chief contributor to the losses ($444 thousand) in 2001 was attributed to a trucking company. At December 31, 2001, the allowance for loan losses totaled $5.6 million or 2.09% of total loans compared with $3 million or 1.13% at the end of 2000. It is management's responsibility to see that the allowance 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) decreased $74 thousand or 24% between 2001 and 2000. A majority of this decrease was attributed to a decrease in insufficient funds check charges. Other declines were noted in income on credit life insurance and check printing fees.

The Bank provides 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.

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

The Company did not recognize a gain or loss on the sale of securities in 2001 because they did not sell any securities from the investment portfolio. Gains and losses are derived from the investment portfolio section entitled "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.

Noninterest Expense

Total noninterest expense (excluding gross securities losses) increased $251 thousand or 5% from year-end 2000 to 2001. This compares with a $149 thousand or 3% from 1999 to 2000. Noninterest expenses are those that relate to personnel, occupancy and other operating expenditures.

Personnel expense increased $135 thousand or 5% between 2000 and 2001. The major portion of the increase came from increase ($132 thousand) in employee retirement expenses due to larger contributions to the retirement plan due to the larger number of employees collecting retirement benefits. Salary expense grew $27 thousand or 1% from 2000 to 2001 and this increase was offset by a decrease of $36 thousand in Group Health and Life insurance. This was due in part to an agreement entered into with a new carrier during the fall of 2000.

Occupancy expenses (relative to the maintenance of premises and equipment) decreased $41 thousand during 2001. Depreciation expense on furniture and fixtures was a major contributor to the decrease in occupancy expense, falling almost $35 thousand or 18%. 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 $165 thousand. Other real estate expense was the largest contributor to the increase with an increase of $64 thousand. This was a result of repairs which were necessary to bring repossessed properties into a marketable condition. Legal expenses also increased by $54 thousand, related to increased loan collection work which was required. In addition, increases in data processing ($21 thousand) and office supplies ($35 thousand) contributed to the higher level of operation expenses.

Taxes

Federal and state income taxes decreased over $2.1 million or 93% from year-end 2000 to year-end 2001. Income taxes for year-end 1999 and year-end 2000 increased $240 thousand or 12%. The current year's decrease was due to a restatement of allowance for loan loss provision as well as a smaller net interest margin causing taxable income to be considerably lower than the year before. Of the total income taxes reported as currently payable on the 2001 tax returns, federal taxes decreased $1.1 million or 57% and state taxes decreased $148 thousand or 52%. The Bank's related deferred tax benefit increased $736 thousand for the federal and $90 thousand for the state deferred tax benefit.

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

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 requirements is essential. The shareholders' equity at year-end 2001 was $41,091,307, which was an increase of $67,593 or less than 1% from year-end 2000.

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 13 of the Consolidated Financial Statements. The Company's average equity increased $3.5 million or 9% from year-end 2000 to year-end 2001. This corresponds with the 9% increase from the 2000 calendar year. The book value of Putnam Bancshares' common stock at the end of 2001 was $68.49. The Company's return on average equity for 2001 was .11% compared with 10.94% for 2000.

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 2001, the Company had a Tier1 Risk-Based capital to risk-adjusted assets ratio of 16.25% and a Total Risk-Based capital to risk-adjusted assets ratio of 17.52%. The 2000 ratios were 16.43% and 17.65%, respectively. The Company has consistently had higher ratios compared to peers. Using the federal guidelines, the Company is considered to be exceptionally well capitalized (see Note 13).

Dividends

The Bank paid cash dividends totaling $840 thousand for 2001. This was a $60 thousand increase or 7.7% from 2000. The Company's dividend payout ratio (dividends-to-net-income) was 158.5%. This ratio was extremely high due to an 88% drop in net income from the year before. 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 Responsibiltiy

The financial statements, related financial data and other information found in this report are 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.

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

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 level of assurance that the financial statements are presented in all material respects.

Independent Auditors' Report

To the 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 (a West Virginia corporation) as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Putnam Bancshares, Inc. and Subsidiary as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Rollins, Cleavenger and Rollins

Certified Public Accountants

March 25, 2002

Consolidated Balance Sheets

DECEMBER 31, 2001 AND 2000

	2001	2000
ASSETS		
Cash and Due from Banks	$ 22,171,225	$ 18,866,473
Federal Funds Sold	77,000,000	56,000,000
Available for Sale Securities	92,619,115	49,650,469
Held to Maturity Securities	38,827,437	38,514,756
Loans - Less Allowance for Credit Losses of $5,603,699 and $3,000,000, Respectively	261,893,055	262,690,477
Bank Premises and Equipment	1,139,360	1,270,970
Federal Reserve Bank Stock, at Cost	39,000	39,000
Other Assets	4,356,795	3,434,898
Total Assets	$ 498,045,987	$ 430,467,043
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest Bearing	$ 34,189,416	$ 35,664,579
Interest Bearing	420,012,342	351,454,253
Total Deposits	$ 454,201,758	$ 387,118,832
Other Liabilities	2,752,922	2,324,497
Total Liabilities	$ 456,954,680	$ 389,443,329
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	38,758,276	39,067,869
Accumulated Other Comprehensive Income	1,033,031	655,845
Total Shareholders' Equity	$ 41,091,307	$ 41,023,714
Total Liabilities and Shareholders' Equity	$ 498,045,987	$ 430,467,043

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

Consolidated Statements Of Income

FOR YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	2001	2000	1999
INTEREST INCOME:			
Interest and Fees on Loans	$ 21,842,628	$ 22,403,184	$20,889,574
Interest on Available for Sale Securities	3,579,603	3,542,955	2,929,159
Interest on Held to Maturity Securities	1,656,387	2,269,778	1,807,519
Interest on Federal Funds Sold	2,659,004	2,567,503	2,936,658
Total Interest Income	$ 29,737,622	$ 30,783,420	$28,562,910
INTEREST EXPENSE:			
Interest on Deposits	$ 19,826,647	$ 18,030,035	$16,985,149
Net Interest Income	$ 9,910,975	$ 12,753,385	$11,577,761
Provision for Possible Credit Losses	3,984,718	1,304,932	329,073
Net Interest Income after Provision for Possible Credit Losses	$ 5,926,257	$ 11,448,453	$11,248,688
OTHER INCOME:			
Service Charges and Commissions	$ 212,712	$ 259,268	$ 224,185
Net Realized Gains on Sales of Available for Sale Securities	-0-	362,349	180,049
Other Operating Income	15,571	37,189	20,180
Total Other Income	$ 228,283	$ 658,806	$ 424,414
OTHER EXPENSES:			
Salaries and Employee Benefits	$ 2,942,714	$ 2,808,366	$ 2,752,545
Expenses of Premises and Equipment	491,526	535,310	514,730
Net Realized Losses on Sales of Available for Sale Securities	-0-	361,202	826,775
Other Operating Expenses	2,017,720	1,833,568	1,759,154
Total Other Expenses	$ 5,451,960	$ 5,538,446	$ 5,853,204
Income before Income Taxes	$ 702,580	$ 6,568,813	$ 5,819,898
Provision for Income Taxes	172,173	2,323,042	2,081,574
Net Income	$ 530,407	$ 4,245,771	$ 3,738,324

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

Consolidated Statements Of Changes In Shareholders' Equity

FOR YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
BALANCES– January 1, 1999	$ 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 Tax Benefit of $856,171				(1,480,541)	(1,480,541)
Add: Reclassification Adjustment				409,765	409,765
					(1,070,776)
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 Tax of $716,952				1,239,796	1,239,796
Deduct: Reclassification Adjustment				(728)	(728)
					1,239,068
Total Comprehensive Income					5,484,839
Cash Dividends ($1.30 Per Share)			(780,000)		(780,000)
BALANCES– December 31, 2000	$ 300,000	$ 1,000,000	$39,067,869	$ 655,845	$ 41,023,714
COMPREHENSIVE INCOME					
Net Income			530,407		530,407
Other Comprehensive Income - Net of Tax: Change in Unrealized Gain (Loss) on Securities Available for Sale, Net of Deferred Income Tax of $218,120				377,186	377,186
Add: Reclassification Adjustment				-0-	-0-
					377,186
Total Comprehensive Income					907,593
Cash Dividends ($1.40 Per Share)			(840,000)		(840,000)
BALANCES - December 31, 2001	$ 300,000	$ 1,000,000	$38,758,276	$ 1,033,031	$41,091,307

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

Consolidated Statements Of Cash Flows

FOR YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 530,407	$ 4,245,771	$ 3,738,324
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation	131,611	166,361	189,815
Provision for Credit Losses	3,984,718	1,304,932	329,073
Provision for Deferred Taxes	(868,893)	(41,805)	(50,215)
Net Realized (Gains) Losses on Available for Sale Securities	-0-	(1,147)	646,725
Net (Gains) Losses on Sale of Other Real Estate	11,374	-0-	-0-
Increase in Cash Value - Life Insurance	(12,890)	(9,334)	(11,953)
Amortization of Premiums and (Accretion) of Discounts on Available for Sale Securities - Net	296,748	199,530	62,460
(Increase) Decrease in Interest Receivable	(109,605)	(416,451)	85,998
(Increase) Decrease in Prepaid Expenses	(206,874)	92,074	70,295
Increase (Decrease) in Other Assets	-0-	23,161	(22,821)
Increase (Decrease) in Accrued Interest	528,291	626,602	(76,651)
Increase (Decrease) in Other Liabilities	(99,866)	103,381	18,629
Net Cash Provided by Operating Activities	$ 4,185,021	$ 6,293,075	$ 4,979,679
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net (Increase) Decrease in Federal Funds Sold	($ 21,000,000)	($ 1,000,000)	($ 14,000,000)
Proceeds from Sales and Maturities of Available for Sale Securities	30,000,000	25,098,047	79,865,000
Proceeds from Maturities of Held to Maturity Securities	102,343,613	101,730,222	102,191,622
Proceeds from Sales of Other Real Estate	1,095,864	-0-	139,900
Purchases of Available for Sale Securities	(72,670,088)	(30,228,275)	(60,813,500)
Purchases of Held to Maturity Securities	(102,656,295)	(101,676,560)	(102,137,071)
Purchase of Bank Premises and Equipment	-0-	(65,614)	(129,081)
Net (Increase) Decrease in Loans	(4,236,288)	(8,457,148)	(19,721,232)
Net Cash Used in Investing Activities	($ 67,123,194)	($ 14,599,328)	($ 14,604,362)

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

Consolidated Statements Of Cash Flows

FOR YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999 (Continued)

	2001	2000	1999
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net Increase (Decrease) in Demand and Savings Deposits	$ 38,758,261	($ 14,065,183)	$ 6,988,971
Net Increase in Certificates of Deposit	28,324,664	22,349,325	4,909,644
Dividends Paid	(840,000)	(780,000)	(720,000)
Net Cash Provided by Financing Activities	$ 66,242,925	$ 7,504,142	$ 11,178,615
Net Increase (Decrease) in Cash and Cash Equivalents	$ 3,304,752	$ (802,111)	$ 1,553,932
Cash and Cash Equivalents at Beginning of Year	18,866,473	19,668,584	18,114,652
Cash and Cash Equivalents at End of Year	$ 22,171,225	$ 18,866,473	$ 19,668,584
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash Paid During the Year for:			
Interest	$ 19,298,355	$ 17,403,433	$ 17,061,800
Income Taxes	$ 1,320,755	$ 2,177,901	$ 2,085,000
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH ACTIVITIES:			
Transfer from Loans to Other Real Estate Owned	$ 1,048,992	$ -0-	$ 251,274

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

Notes To Consolidated Financial Statements
For Years Ended December 31, 2001, 2000 And 1999

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, 2001, 2000 and 1999.

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, 2001, 2000 And 1999 (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 $9,683,000 and $6,971,000 for the years ended December 31, 2001 and 2000, respectively.

Notes To Consolidated Financial Statements
For Years Ended December 31, 2001, 2000 And 1999 (Continued)

Note 3
Investment Securities:

The carrying amounts and approximate market values of investment securities at December 31, 2001 and 2000, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2001				
Available for Sale Securities -				
U.S. Government and Agency Securities	$ 88,187,337	$ 2,096,947	($ 499,913)	$ 89,784,371
State and Municipal Securities	2,801,362	33,382	(-0-)	2,834,744
Totals	$ 90,988,699	$ 2,130,329	($ 499,913)	$ 92,619,115
Held to Maturity Securities -				
U.S. Government and Agency Securities	$ 38,827,437	$ 34,032	($ 227)	$ 38,861,242

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2000				
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	2,807,133	14,172	(2,084)	2,819,221
Totals	$ 48,615,359	$ 1,038,757	($ 3,647)	$ 49,650,469
Held to Maturity Securities -				
U.S. Government and Agency Securities	$ 38,514,756	$ 13,314	($ 3,392)	$ 38,524,678

Investment securities with carrying amounts of $22,913,749 and $23,082,517 and market values of $24,347,816 and $23,920,311, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law at December 31, 2001 and 2000.

Gross realized gains and gross realized losses on sales of available for sale securities for the years ended December 31, 2001, 2000 and 1999, are as follows:

	2001	2000	1999
Gross Realized Gains:			
U.S. Government and Agency Securities	$ -0-	$ 362,349	$ 180,049
Gross Realized Losses:			
U.S. Government and Agency Securities	$ -0-	$ 361,202	($ 826,775)

The amortized cost and estimated market value of debt securities at December 31, 2001, 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	$ 9,995,819	$ 10,242,187	$ 38,827,437	$ 38,861,242
Due from One Year to Five Years	32,201,148	33,796,376		
Due from Five Years to Ten Years	47,371,600	47,149,998		
Due after Ten Years	1,420,132	1,430,554		
Totals	$ 90,988,699	$ 92,619,115	$ 38,827,437	$ 38,861,242

Notes To Consolidated Financial Statements
For Years Ended December 31, 2001, 2000 And 1999 (Continued)

Note 4
Loans:

Total loans at December 31, 2001 and 2000, by major loan categories are summarized as follows:

	2001	2000
Commercial	$ 19,405,955	$ 23,080,812
Real Estate - Construction and Mortgage	231,411,799	225,293,606
Installment	19,812,840	20,776,747
Gross Loans	$ 270,630,594	$ 269,151,165
Unearned Discount	(3,133,840)	(3,460,688)
Total Loans	$ 267,496,754	$ 265,690,477
Allowance for Credit Losses	(5,603,699)	(3,000,000)
Loans, Net	$ 261,893,055	$ 262,690,477

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

	2001	2000	1999
Beginning Balances - January 1,	$ 3,000,000	$ 2,740,559	$ 2,600,000
Loans Charged Off	(1,419,296)	(1,073,850)	(445,841)
Recoveries of Loans Previously Charged Off	38,277	28,359	257,327
Provision to Expense for Credit Losses	3,984,718	1,304,932	329,073
Ending Balances - December 31,	$ 5,603,699	$ 3,000,000	$ 2,740,559

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, 2001, 2000 and 1999:

	2001	2000	1999
Impaired Loans with Related Allowance	$ 4,070,965	$ 2,891,000	$ 2,239,000
Impaired Loans with no Related Allowance	-0-	-0-	-0-
Total Impaired Loans	$ 4,070,965	$ 2,891,000	$ 2,239,000
Allowance on Impaired Loans	$ 845,333	$ 577,000	$ 515,000
Average Impaired Loans	$ 4,505,398	$ 2,783,000	$ 2,161,000
Interest Income Recognized on Impaired Loans	$ 120,399	$ 88,000	$ 89,000

Notes To Consolidated Financial Statements
For Years Ended December 31, 2001, 2000 And 1999 (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 2001 and 2000:

	2001	2000
Balances - January 1,	$ 6,071,972	$ 8,052,528
New Loans	837,921	1,087,437
Repayments	(990,293)	(3,067,993)
Balances - December 31,	$ 5,919,600	$ 6,071,972

Note 5
Bank Premises and Equipment:

Major classifications of bank premises and equipment at December 31, 2001 and 2000, are summarized as follows:

	2001	2000
Buildings and Improvements	$ 1,856,589	$ 1,856,589
Furniture and Fixtures	1,413,321	1,413,320
	$ 3,269,910	$ 3,269,909
Less: Accumulated Depreciation	2,331,010	2,199,399
	$ 938,900	$ 1,070,510
Land	200,460	200,460
Bank Premises and Equipment, Net	$ 1,139,360	$ 1,270,970

Depreciation expense for the years ended December 31, 2001, 2000 and 1999, was $131,611, $166,361, and $189,815, 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, 2001 is as follows:

Year	Amount
2002	$ 40,516
2003	-0-
2004	-0-
2005	-0-
2006	-0-
Total	$ 40,516

Notes To Consolidated Financial Statements
For Years Ended December 31, 2001, 2000 And 1999 (Continued)

Note 6
Deposits:

The major categories of deposits at December 31, 2001 and 2000, are as follows:

	2001	2000
Noninterest Bearing	$ 34,189,416	$ 35,664,579
Interest Bearing:		
Money Market	$139,236,650	$ 99,698,910
Savings	18,707,690	18,002,352
Time and Certificates of Deposit	146,326,052	146,467,258
Certificates of Deposit over $100,000	115,741,950	87,285,733
Total Interest Bearing Deposits	$420,012,342	$ 351,454,253
Total Deposits	$454,201,758	$ 387,118,832

Scheduled maturities of time and certificates of deposits at December 31, 2001, are as follows:

2002	$229,017,097
2003	28,261,107
2004	4,519,370
2005 and Thereafter	270,428
Total	$262,068,002

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 $26,471,000 and $24,232,000 at December 31, 2001 and 2000, respectively.

Note 7
Income Taxes:

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

	2001	2000	1999
Currently Payable:			
Federal	$ 902,782	$ 2,077,728	$ 1,855,217
State	138,284	287,119	276,572
Totals	$ 1,041,066	$ 2,364,847	$ 2,131,789
Deferred (Benefit):			
Federal	($ 774,036)	($ 37,241)	($ 44,733)
State	(94,857)	(4,564)	(5,482)
Totals	($ 868,893)	($ 41,805)	($ 50,215)
Total Applicable Income Taxes	$ 172,173	$ 2,323,042	$ 2,081,574

Notes To Consolidated Financial Statements
For Years Ended December 31, 2001, 2000 And 1999 (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):

	2001	2000	1999
Bad Debts	($ 868,986)	($ 41,895)	($ 50,300)
Discount on Investment Securities	93	90	85
Totals	($ 868,893)	($ 41,805)	($ 50,215)

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

	2001		2000		1999	
	Amount	%	Amount	%	Amount	%
Tax on Income before Income Tax at the Top Statutory Income Tax Rate	$ 238,877	34.00%	$2,233,396	34.00%	$1,978,765	34.00%
Increase (Decrease) Resulting from:						
State Income Tax, Net of Federal Benefit	28,661	4.08	184,934	2.82	177,056	3.04
Nontaxable Interest Income	(116,806)	(16.63)	(123,117)	(1.87)	(93,482)	(1.61)
Nondeductible Interest Expense	18,017	2.56	18,853	.28	14,802	.25
Other Items	3,424	.49	8,976	.13	4,433	.08
Tax on Income	$ 172,173	24.50%	$2,323,042	35.36%	$2,081,574	35.76%

The approximate tax (benefit) effects of the net investment securities gains (losses) were $-0-, $420, and ($236,960) for the years 2001, 2000, and 1999, respectively.

Notes To Consolidated Financial Statements
For Years Ended December 31, 2001, 2000 And 1999 (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, 2001 and 2000:

	2001	2000
Accumulated Pension Benefit Obligation:		
Vested	$ 2,210,910	$ 1,938,867
Nonvested	32,765	29,917
Totals	$ 2,243,675	$ 1,968,784
Value of Future Salary Projections	287,190	232,030
Total Projected Pension Benefit Obligation	$ 2,530,865	$ 2,200,814
Fair Value of Plan Assets	1,945,378	2,127,689
Plan Assets in Excess (Deficient) of Projected Benefit Obligation	($ 585,487)	($ 73,125)
Unrecognized Prior Service Cost	(26,945)	(31,940)
Unrecognized Net Loss or (Gain)	449,165	(80,999)
Unrecognized Net Transition Liability or (Asset)	(25,374)	(32,933)
Additional Liability	(109,656)	-0-
Unfunded (Accrued) or Prepaid Pension Cost	($ 298,297)	($ 218,997)

The components of pension (expense) income for the years ended December 31, 2001, 2000 and 1999, are as follows:

	2001	2000	1999
Service Cost-Benefits Earned During Year	($ 81,527)	($ 94,351)	($ 97,307)
Interest Cost on Projected Benefit Obligation	(169,925)	(159,683)	(144,468)
Actual Return on Assets	174,856	175,094	174,775
Net Amortization and Deferral	12,554	12,554	12,554
Net Periodic Pension (Cost) Benefit	($ 64,042)	($ 66,386)	($ 54,446)
Actuarial Assumptions:			
Weighted Average Discount Rate for Projected Benefit Obligation	7.25%	8.00%	8.00%
Weighted Average Rate of Compensation Increase	4.25%	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, 2001, 2000 And 1999 (Continued)

Note 9
Parent Company Condensed Financial Information:

CONDENSED BALANCE SHEETS
December 31,

	2001	2000
ASSETS		
Investment in Subsidiary	$ 40,058,276	$ 40,367,869
Other Assets	-0-	-0-
Total Assets	$ 40,058,276	$ 40,367,869
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total Liabilities	$ -0-	$ -0-
Shareholders' Equity	$ 40,058,276	$ 40,367,869
Total Liabilities and Shareholders' Equity	$ 40,058,276	$ 40,367,869

CONDENSED STATEMENTS OF INCOME
For Years Ended December 31,

	2001	2000	1999
INCOME	$ 868,868	$ 799,386	$ 738,443
EXPENSES:			
Operating Expenses	$ 48,065	$ 32,278	$ 30,707
Income before Income Tax Benefit and Equity in Undistributed Earnings of Subsidiary	$ 820,803	$ 767,108	$ 707,736
Applicable Income Taxes (Benefit)	(19,197)	(12,892)	(12,264)
Income before Equity in Undistributed Earnings of Subsidiary	$ 840,000	$ 780,000	$ 720,000
Equity in Undistributed Earnings of Subsidiary	(309,593)	3,465,771	3,018,324
Net Income	$ 530,407	$ 4,245,771	$ 3,738,324

Notes To Consolidated Financial Statements
For Years Ended December 31, 2001, 2000 And 1999 (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For Years Ended December 31,

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 530,407	$ 4,245,771	$ 3,738,324
Adjustments to Reconcile Net			
Income to Net Cash Provided by Operating Activities:			
Equity in Undistributed Earnings of Subsidiary	309,593	(3,465,771)	(3,018,324)
Net Cash Provided by Operating Activities	$ 840,000	$ 780,000	$ 720,000
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends Paid	($ 840,000)	($ 780,000)	($ 720,000)
Net Cash Used in Financing Activities	($ 840,000)	($ 780,000)	($ 720,000)
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.

Notes To Consolidated Financial Statements
For Years Ended December 31, 2001, 2000 And 1999 (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, 2001, is as follows:

	Notional Amount
Commitments to Extend Credit	$ 32,528,789
Commercial Letters of Credit	-0-
Standby Letters of Credit	3,158,625

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, 2001, 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 $9,300,000 at December 31, 2001. 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, 2001, that the Bank could declare without the approval of the West Virginia Division of Banking and the Federal Reserve Board, amounted to approximately $3,156,000.

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, 2001 and 2000, 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, 2001, 2000 And 1999 (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, 2001:				
Tier 1 Risk-Based Capital	16.25%	$ 40,058,000	$ 9,916,000	$ 14,874,000
Total Risk-Based Capital	17.52	43,170,000	19,832,000	24,790,000
Tier 1 Leverage Capital	8.18	40,058,000	19,577,240	24,471,550
As of December 31, 2000:				
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

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, 2001, 2000 And 1999 (Continued)

The estimated fair values of the Bank's financial instruments at December 31, 2001 and 2000, are as follows:

	2001		2000	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Financial Assets:				
Cash and Due from Banks	$ 22,171,225	$ 22,171,225	$ 18,866,473	$ 18,866,473
Federal Funds Sold	77,000,000	77,000,000	56,000,000	56,000,000
Investment Securities	131,446,552	131,480,357	88,165,225	88,175,147
Loans	267,496,754	271,015,291	265,690,477	264,428,036
Financial Liabilities:				
Deposits	454,201,758	455,210,478	387,118,832	386,562,216

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.

Officers & Employees

Jack Wilson . . . . President & CEO
Gene W. Young . . . . Vice President, Security Officer and Branch Manager
John R. Wilson, Jr. . . . . Vice President
Gary R. Sargent . . . . Cashier
Don C. Chapman . . . . Auditor
Jerry P. Brown . . . . Assistant Vice President
Richard M. Jordan . . . . Assistant Vice President
Gayle M. Berry . . . . Assistant Cashier and Manager Proof Department
Clara B. Carmichael . . . . Assistant Cashier, Loans
Phyllis J. Canterbury . . . . Assistant Cashier, Loans
Virginia Hart . . . . Assistant Cashier
Les Reynolds . . . . Loan Officer
George E. Wallace, Jr. . . . . Loan Officer
Vera Highlander Conley . . . . Controller
Rodney W. Linville . . . . Branch Manager
Debra G. Casey . . . . Paying & Receiving
Rebecca L. Foster . . . . Vault Manager
Tina M. Barnette . . . . Paying & Receiving
Judith M. Taylor . . . . Loans
Claudia S. Leadman . . . . Paying & Receiving
Sue Bennett . . . . Paying & Receiving
Denise D. Edwards . . . . Electronic Banking
Linda M. Runion . . . . Loans
Teresa K. White . . . . Paying & Receiving
Todd Sargent . . . . Bookkeeping
Retha A. Lemon . . . . Paying & Receiving
Connie D. Bird . . . . Paying & Receiving
Jean Wade . . . . Bookkeeping
Hope A. Ginn . . . . Paying & Receiving
Marilou McKinney . . . . Paying & Receiving
Angela G. Melton . . . . Proof Department
Juli D. Lovejoy . . . . Paying & Receiving
Jeffrey R. Davis . . . . Loans
Linda L. Bird . . . . Paying & Receiving
Joanne N. Sovine . . . . Bookkeeping
Iris O. Roach . . . . Bookkeeping
Arnold L. Rollins . . . . Accounting
Rhonda L. Cunningham . . . . Electronic Banking
Penny L. Collier . . . . Proof Department
Jack D. Runion . . . . Loans
Diana L. Gregory . . . . Paying & Receiving
Deborah R. Milton . . . . Paying & Receiving
Melissa J. Johnson . . . . Data Process Verification
Toni L. Davis . . . . Paying & Receiving
John B. Lawman . . . . Loans
Donna J. Stowers . . . . Paying & Receiving
Marsha D. Eggleton . . . . Paying & Receiving
Melissa J. Holley . . . . Proof Department
Rebecca J. Foster . . . . Paying & Receiving
R. Calvin Damron, II . . . . Loans
Barbara Cottrell . . . . Paying & Receiving
Tammy J. Sovine . . . . Data Process Verification
Stephanie L. Rappold . . . . Bookkeeping
Tina M. Ellison . . . . Bookkeeping
Kelly L. Shaw . . . . Paying & Receiving
Joy M. Persinger . . . . Proof Department
Carrie Jo Johnston . . . . Bookkeeping
Rita Kay Thomasson . . . . Bookkeeping
Betsy S. Motto . . . . Paying & Receiving
Kristen Lea Facemyer . . . . Bookkeeping
Jodi S. Harshbarger . . . . Paying & Receiving
Betty Jane Morris . . . . Paying & Receiving
Michelle A. Wallace . . . . Bookkeeping
Sarah A. Gore . . . . Paying & Receiving
Loraine S. Rappold . . . . Bookkeeping
Nancy Ann Chapman . . . . Bookkeeping
Luke H. Bassett . . . . Bookkeeping
Justin M. Heindl . . . . Assistant Auditor
Harold Facemyer, Jr. . . . . Building Manager

Board of Directors

Standing (left to right)

Gary D. Young	G&G Builders, Inc.
John R. Wilson, Jr.	Vice President
Stephen Hodges, Jr.	Stephen Hodges Home Builders, Inc.
Boyd Meadows	Half-Way Markets, Inc.
Okey M. Landers, Jr.	Landers Automotive, Inc.
Tim Hayslett	Hayslett Construction Company

Seated (left to right)

Robert S. Duckworth	7-Eleven/RSD, Inc.
H. Morris Hauldren	Nondestructive Inspection Services, Inc.
Robert F. Hatfield	Hatfield Enterprises, Inc.
Jack Wilson	President and CEO