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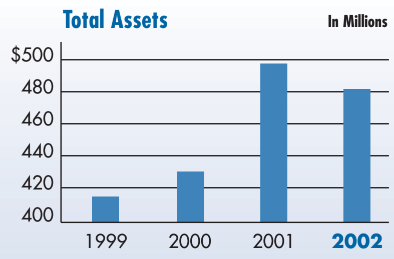
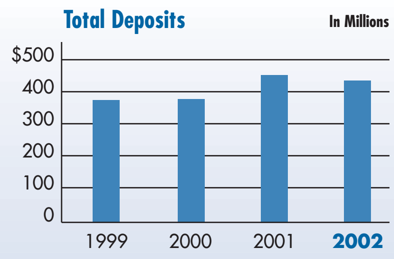
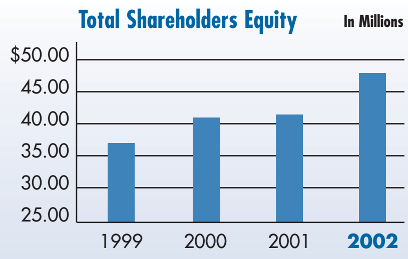
Putnam Bancshares Inc.

2002

ANNUAL REPORT



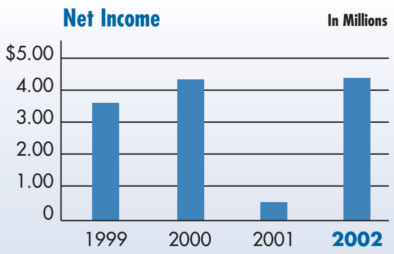


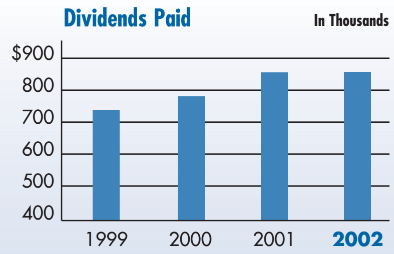


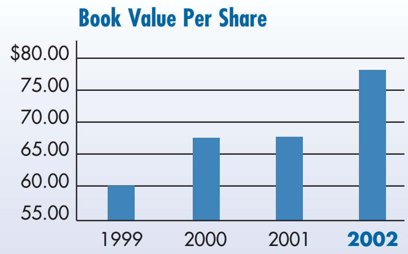
Selected Financial Summary

In Thousands of Dollars

	FOUR-YEAR SUMMARY			
	2002	2001	2000	1999
YEAR-END BALANCE SHEET SUMMARY				
Loans, Net	$ 246,724	$ 261,893	$ 262,691	$ 255,538
Investment Securities	131,203	131,447	88,204	81,331
Total Assets	481,187	498,046	430,467	416,748
Deposits	431,267	454,202	387,119	378,835
Shareholders' Equity	47,232	41,091	41,024	36,319
AVERAGE BALANCE SHEET SUMMARY				
Loans, Net	$ 259,096	$ 264,121	$ 261,857	$ 248,053
Investment Securities	85,795	100,104	94,774	86,170
Total Assets	487,576	462,817	417,775	414,648
Deposits	440,117	414,915	375,890	376,605
Shareholders' Equity	44,261	42,720	38,803	35,496
SELECTED RATIOS				
Return On Average Assets	0.87%	0.11%	1.02%	.90%
Return On Average Equity	9.63%	1.24%	10.99%	10.53%
Dividends Declared As A Percentage Of Net Income	19.70%	158.49%	16.88%	19.26%
SUMMARY OF OPERATIONS				
Interest Income	$ 26,046	$ 29,738	$ 30,783	$ 28,563
Interest Expense	12,415	19,827	18,030	16,985
Net Interest Income	13,631	9,911	12,753	11,578
Provision For Loan Losses	1,870	3,985	1,305	329
Noninterest Income	232	237	310	244
Noninterest Expense	5,299	5,444	5,145	5,026
Net Income	4,263	530	4,246	3,738
PER SHARE DATA				
Net Income	$ 7.11	$ 0.88	$ 7.08	$ 6.23
Cash Dividends	1.40	1.40	1.30	1.20
Book Value	78.72	68.49	68.37	60.53







2002

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Analysis Of Earning Assets And Interest Bearing Liabilities

In Thousands of Dollars

	2002			2001		
ASSETS	Avg. Balance	Interest	Yield/Rate	Avg. Balance	Interest	Yield/Rate
Loans						
Commercial (1)	17,200	1,264	7.35%	20,891	1,719	8.23%
Real Estate	225,701	17,238	7.64%	228,995	18,420	8.04%
Installment (2)	16,193	1,528	9.44%	17,060	1,703	9.98%
Total Loans	259,094	20,030	7.73%	266,946	21,842	8.18%
Securities (3)						
Taxable	113,136	4,727	4.18%	97,267	5,099	5.24%
Tax-Exempt (4)	3,143	268	8.54%	2,837	242	8.52%
Total Securities	116,279	4,997	4.30%	100,104	5,097	5.34%
Federal Funds Sold	85,834	1,136	1.32%	76,600	2,659	3.47%
Total Earning Assets	461,207	26,163	5.67%	443,650	29,842	6.73%
Cash and Due from Banks	21,510			16,880		
Premises and Equipment, Net	1,121			1,200		
Other Assets	5,656			3,872		
Allowance for Loan Losses	(3,102)			(2,787)		
Total Assets	486,392			462,815		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest Bearing Deposits						
Super NOW and MMDA	146,921	2,881	1.96%	105,059	4,197	3.99%
Savings	18,832	252	1.34%	18,320	515	2.81%
Time	240,100	9,282	3.87%	259,729	15,114	5.82%
Total Interest Bearing Deposits	405,853	12,415	3.06%	383,108	19,826	5.18%
Long-Term Borrowings	0	0	0	0	0	0
Total Interest Bearing Liabilities	405,853	12,415	3.06%	383,108	19,826	5.18%
Noninterest Bearing Deposits	34,264			31,807		
Accrued Expenses and Other Liabilities	2,014			5,180		
Equity	44,261			42,720		
Total Liabilities and Equity	486,392			462,815		
Net Interest Margin	461,207	13,748	2.98%	443,650	10,016	2.26%

(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, 2002

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)	$ 56,763	$ 3,398	$ 27,635	$ 13,985	$ 79,982	$ 65,433
Investment Securities (2)	26,210	12,934	22,616	44,931	23,047	1,465
Federal Funds Sold	78,000	0	0	0	0	0
Total Selected Assests	160,973	16,332	50,251	58,916	103,029	66,898
LIABILITIES						
Interest Bearing Deposits (3)	$131,315	$ 82,459	$ 25,666	$ 327	0	0
Borrowed Funds	0	0	0	0	0	0
Total Selected Liabilities	131,315	82,459	25,666	327	0	0
Differences	$ 29,658	($ 66,127)	24,585	58,589	103,029	66,898
Cummulative Differences	$ 29,658	($ 36,469)	($ 11,884)	$ 46,705	$149,734	$ 216,632

(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 banking industry as a whole experienced a record profit year despite an economy that couldn't seem to regain the momentum experienced during the latter part of the nineties. Growing geopolitical tensions, corporate fraud, rising unemployment and uncertainty in general added to very sluggish economic growth during 2002.

Putnam Bancshares, Inc. experienced a very profitable year compared to 2001 but not without a lot of sacrifice, hard work and some very dedicated employees. Interest rates on deposit accounts had to be slashed several times and yet the Bank still maintained a higher than average rate compared to peers. Despite loan payoffs and lower yields on loans, the net interest margin for the Bank raised several basis points. The outlook for the economy is uncertain at best. While management is pleased with the improved financial results of 2002 compared to the dismal 2001 financial year-end, the Bank is still working in a recovery mode. With interest rates on deposit accounts at their lowest point in over forty years (and still falling), mixed with a high volume of loan refinancing, the Bank will continue to concentrate on maintaining net interest margin while sustaining the integrity of future earnings.

West Virginia's preliminary average annual unemployment rate for 2002 increased to 5.5% compared to 2001's record low of 4.6%. The national average rate was actually higher than West Virginia's at a 6% for 2002 compared to 5.8% for December 2001. Within West Virginia, the following counties reported a much worse rate than the state unemployment average: Calhoun (17.9), Wirt (13.0), Grant (12.6), Mason (11.3), Braxton (11.2), and Roane (11.0). On the other hand, the following counties reported an above average unemployment rate compared with the rest of the state: Brooke (2.9), Morgan (3.1), Hardy (3.4), Berkeley (3.8), Ohio (3.9), and Putnam (4.2). The preceding unemployment rates were derived from the February 2003 WV ECONOMIC SUMMARY. West Virginia ranked 17th in the nation in unemployment. Some of the job growth barriers plaguing West Virginia have been business taxes, workers compensation premiums, medical malpractice insurance and extremely high costs for uncontrolled lawsuits. State government and various organizations have pooled resources to make West Virginia more attractive for prospective and current employers. With a lot of corroboration, dedication and compromises from all those involved in the decision making, West Virginia is fast becoming the centralized location for many information technology companies. The WV Bureau of Employment Programs has listed computer applications software engineers as the third fastest growing occupation in the state. West Virginia is also one of the first states to offer biometric education. Great location, low cost of living, excellent transportation system and natural beauty also play a major role in attracting new and different companies.

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 16 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 the statistics and uses them to produce the Uniform

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

Bank Performance Report (UBPR) on a quarterly basis. A free copy of any bank performance report can be downloaded from the FFIEC website (www.ffiec.gov). In addition to the UBPR, consumers and investors can go to www.fdic.gov on the fifth Friday after quarter-end and pull Call Report data on any individual bank to obtain more information and make their own comparisons.

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 increased 72 basis points to 2.98% compared to 2.26% in 2001. The increase was derived from a large decrease on interest bearing deposit accounts and a smaller decrease on loans. In addition, interest rates on deposit accounts fell drastically while the interest rates on loans fell much more conservatively. The yield on interest bearing deposits decreased 284 basis points while the yield on loans decreased only 45 basis points. The peer group net interest margin was 4.34% for 2001 and 4.49% for 2002.

INTEREST INCOME

Interest income for the Company declined $3.7 million or 12.0% from year-end 2001 to year-end 2002. A decrease in yield was responsible for the diminished income. The volume on average interest-earning assets increased $17.6 million or 4.0%.

Interest income from lending fell $1.8 million or 6.0% from 2001 to 2002. The decrease more than tripled the drop from 2001 of $561 thousand. While the yield obviously dropped, average total loan principle also declined. Average loans fell $7.8 million or 3.0% for the period of 2002.

Commercial lending was responsible for 25% of the decrease in lending interest. The majority of these loans were tied to the prime rate, which fell 75 basis points during 2002. The commercial loans shrank 17.7% while the income on these loans fell 26.5% for the period of 2002.

Consumer lending fell $867 thousand or 5.1% during 2002. Interest income on consumer lending went down $175 thousand or 10.3% for the year. The drop in on vehicle loans was a result of a number of car dealerships offering four to five year-loans for zero percent interest. In addition, many competing banks were offering credit cards with zero percent interest for six months to two years on transfer balances. And the trend of competition for consumer lending increases more each year from nonbank entities. The decline is not the result of a more restrictive lending policy.

The average total of the investment portfolio increased $16.2 million or 16.2% from year-end 2001 to 2002. Total tax-equivalent investment income decreased $344 thousand during 2002. The yields on the investments dropped for the second year in a row over 100 basis points. The average balance on federal funds sold increased 12.0% or $9.23 million. The yield, however, decreased 215 basis points from a 3.67% in 2001 to a 1.32% for 2002. Income on federal funds sold decreased $1.5 million or 57.3%. As of year-end 2002, 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, 34.1% are general obligations while the remaining issues are revenue obligations.

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

INTEREST EXPENSE

Interest income on interest bearing deposit accounts decreased $7.4 million, or 37.4%, during 2002. The yield on these deposit accounts was cut by 212 basis points. Management began aggressive tactics in cutting rates on deposit accounts in order to be more in line with the competition. However, even with deposit rates at their lowest point in decades, the Bank still managed to pay a higher than average rate compared to its peers. The Bank's average rate on deposit accounts was 3.06% compared to the peer's average of 2.65%. The largest decrease in interest expense was within the non-core funds (large time deposits of $100,000 or greater) with a 209 basis drop during 2002. Not far behind was a 204 basis drop in transaction accounts. Transaction accounts includes both demand deposits and NOW accounts. The advantage of paying a higher than average rate on deposit accounts is the fact that the Bank still has room to negotiate lower rates.

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 2001 and 2002, 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

When establishing and evaluating the Banks' asset and liability management (ALM), it is imperative that management understands the ramifications of the national, regional and local economy in order to be able to simulate changes that may or may not affect the underlying numbers on the balance sheet. Putnam Bancshares' Asset/Liability Management Committee (ALCO) is well aware of how important their responsibilities are and meet on a monthly basis to review, discuss and analyze interest rates, the current direction of operations, competition and regulatory influences to see that the appropriate steps are followed to minimize interest rate risk and to ensure sufficient/constant earnings while steadily increasing stockholders' equity over time. Predicting interest rate environments and customers' reaction to interest rate changes is difficult, if not impossible sometimes. For instance, many were predicting the Federal Reserve to cautiously raise rates during 2002. Instead, rates were lowered a total of 75 basis points between the March and November cuts. But having an understanding of the Bank's mix of rate sensitive assets, maturity schedules, and the effects that a rise or fall in interest rates has on them is an integral part of the monthly discussions. The cost of funding is constantly monitored and reviewed. With the war in Iraq, a roller coaster stock market and a general recessionary economic environment, predicting future trends has become more complex than ever. Despite all the negative information in the news, the Federal Reserve Board, according to the February 2003 Monetary Policy Report, is predicting a modest increase by year-end 2003.

Liquidity levels for the Bank has steadily increased during the past year due to a lower demand for loans and an increase in investment securities and fed fund sold. The loan to deposit ratio was 57.2% in 2002 compared to 2001's 58.3%, or a decrease of 110 basis points. Large time deposits over $100,000 still remain relatively high (25.5% of total deposits), however, the Bank is not dependent on these non-core deposits to fund its long term assets. The Banks has $106.5 million in non-pledged investment securities and $78 million in Fed Funds Sold. While some liquidity is necessary (and mandated), excess liquidity can negatively affect earnings due to lower yields.

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

Management is in the process of totally reorganizing loan processing, and in doing so, they are taking some aggressive steps in write-offs and liquidations of non-performing loans, thereby lowering total loans and increasing liquidity. In the mean time, management will continue monitoring liquidity levels by concentrating on volumes, maturity and/or repricing timetables of earning assets and deposits, and comparing the trends of the Bank with those of the dedicated Peer Group.

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 2002 totaled $3.8 million or 1.5% of total loans compared with $4.0 million or 1.5% of total loans at the end of 2001. Once again, like 2001, the decrease was not due to recoveries but a matter or writing off loans not deemed collectable. Of the total nonaccrual loans, 42% belong to a real estate developer whose loans were placed on nonaccrual in 1999. The Bank was able to liquidate 60% of the developer's non-accrual loans during the first quarter of 2003. In addition, the Bank was able to recoup over $600 thousand of the developer's loans previously written off. While the Bank regrets having to take such drastic steps, the developer was given more than ample time and leeway to turn his financial status around.

The amount of other real estate owned at the end of 2002 as the result of debts previously contracted totaled $227 thousand. The balance represents a residential property and some development property located in the Scott Depot area. The balance reflects the fair market value of the property.

PROVISION AND ALLOWANCE FOR LOAN LOSSES

Provisions to the allowance for loan losses totaled $1.9 million for 2002 compared to $4.0 million for 2001. The provision was considerably higher in 2001 due to anticipated write-offs, which were taken during the first quarter of 2002. Management considers the level of allowance for loan to be adequate for potential losses that may occur in the loan portfolio.

Net losses totaled $ 3.87 million or 1.49% of average total loans in 2002 compared with $1.4 million or .52% in 2001. This ratio is high to peer institutions in both 2002 and 2001. The peer ratio was .22% in 2002 and .24% in 2001. The majority of the charge-offs can be attributed to a much more conservative management in regards to financial reporting. Management has also developed a much more aggressive stance in trying to liquidate repossessions. At December 31, 2002, the allowance for loan losses totaled $3.6 million or 1.44% of total loans compared with $5.6 million or 2.09% at the end of 2001. The peer ratios were 1.36% for 2002 and 1.33% for 2001. 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

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

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 of $232 thousand (excluding gross gains on securities transactions) decreased $5 thousand or 2% between 2002 and 2001. The decrease was derived mainly from a decrease in insufficient check charges.

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.

The Company recognized a net loss on the sale of securities in 2002 of $90 thousand compared to none for 2001. 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, 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) decreased $97 thousand or less than 2% from year-end 2001 to 2002. This compares with a $251 thousand or 5% increase from 2000 to 2001. Noninterest expenses are those that relate to personnel, occupancy and other operating expenditures.

Total personnel expense decreased $8 thousand between 2001 and 2002 to $2.95 million. Officer salaries decreased 13% or $117 thousand during 2002 while employee salaries increased $49 thousand or 3%. Group Health and Life insurance increased $73 thousand or 36% due to a growing trend of increasing premiums within the health industry. The Company pays 100% of the medical, dental and life insurance premiums for full-time employees. Putnam Bancshares personnel expense was .60% of average assets in 2002 compared to the peer percentage of 1.64%. At year-end, the Company had sixty-nine employees.

Occupancy expenses (relative to the maintenance of premises and equipment) decreased $48 thousand during 2002. Depreciation expense on Furniture and Fixtures and on Vehicles increased $27 thousand while the Maintenance and Repairs Expense decreased $87 thousand or 82%. The Company's occupancy expense was .09% to average assets in 2002 compared to .11% for 2001. The peer ratios were .44% for both 2002 and 2001. 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 decreased $48 thousand or 2.4% for 2002. While some expenses had a necessary increase, management tried to eliminate expenses where feasible without jeopardizing the operations of the bank. The Bank's other operational expenses were .40% of average assets 2002 and .43% for 2001. Total overhead expenses as a percentage of average assets decreased from 1.17% in 2001 to 1.09% or a .08% decrease. The peer average for 2002 and 2001 was 3.07% and 3.02% respectfully.

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

TAXES

Federal and state income taxes increased over $2.15 million from year-end 2001 to year-end 2002. Income taxes for year-end 2000 and year-end 2001 decreased $2.15 million or 93.0%. The current year's increase was due to an increase in reportable income, notably a $3.74 million increase in net interest income and a much smaller loan loss provision. Of the total income taxes reported as currently payable on the 2002 tax returns, federal taxes increased $1.19 million or 24.6% and state taxes decreased $42 thousand or 23.5%. The Bank's related deferred tax liability was $844 thousand for the federal and $103 thousand for the state deferred tax liability. This compares to a $774 federal tax benefit and a $95 thousand state tax benefit for the 2001 tax year.

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

Shareholders' equity increased almost 15.0% during 2002 to $47,231,926 from $41,091,307 for 2001 year-end. Much stronger earnings and a 263% increase in Other Comprehensive Income contributed to the record year for shareholders. 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.

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 $1.54 million or 3.6% from year-end 2001 to year-end 2002. This corresponds with the 9.0% increase from the 2001 calendar year. The 2001 average does not take into consideration of an additional $2.9 million allowance for loan loss provision initiated after year-end close for 2001. The book value of Putnam Bancshares' common stock at the end of 2002 was $78.72 or a 15% increase from $68.49 in 2001. The Company's return on average equity for 2002 was 9.63% compared with 1.24% for 2001.

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 2002, the Company had a Tier1 Risk-Based capital to risk-adjusted assets ratio of 19.29% and a Total Risk-Based capital to risk-adjusted assets ratio of 20.54%. The 2001 ratios were 16.25% and 17.52%, respectively. The Company's Tier One Leverage Capital ratio was 9.08% compared to the peer ratio of 8.46% for 2002. The Bank has consistently had higher ratios compared to peers. Using the federal guidelines, the Company is considered exceptionally well capitalized (see Note 13).

DIVIDENDS

The Bank paid cash dividends totaling $840 thousand for 2002. This was equal to the 2001 cash dividend. The Company's dividend payout ratio (dividends-to-net-

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

income) was 19.89%. Management decided to maintain the same dividend as 2001 for 2002 until the Bank could completely recover from low earnings from 2001. 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 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, 2002 and 2001, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the three years in the period ended December 31, 2002. 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, 2002 and 2001, and the results of its operations and its cash flows for the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Rollins, Cleavenger and Rollins

Certified Public Accountants

January 9, 2003

Consolidated Balance Sheets

DECEMBER 31, 2002 AND 2001

	2002	2001
ASSETS		
Cash and Due from Banks	$ 21,393,795	$ 22,171,225
Federal Funds Sold	78,000,000	77,000,000
Available for Sale Securities	92,313,725	92,619,115
Held to Maturity Securities	38,889,450	38,827,437
Loans - Less Allowance for Credit Losses of		
$3,600,000 and $5,603,699, Respectively	246,724,316	261,893,055
Bank Premises and Equipment	1,092,165	1,139,360
Federal Reserve Bank Stock, at Cost	39,000	39,000
Other Assets	2,734,793	4,356,795
Total Assets	$ 481,187,244	$ 498,045,987
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest Bearing	$ 34,692,270	$ 34,189,416
Interest Bearing	396,575,182	420,012,342
Total Deposits	$ 431,267,452	$ 454,201,758
Other Liabilities	2,687,866	2,752,922
Total Liabilities	$ 433,955,318	$ 456,954,680
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	42,181,348	38,758,276
Accumulated Other Comprehensive Income	3,750,578	1,033,031
Total Shareholders' Equity	$ 47,231,926	$ 41,091,307
Total Liabilities and Shareholders' Equity	$ 481,187,244	$ 498,045,987

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

Consolidated Statements Of Income

FOR YEARS ENDED DECEMBER 31, 2002, 2001, AND 2000

	2002	2001	2000
INTEREST INCOME:			
Interest and Fees on Loans	$ 20,029,976	$ 21,842,628	$ 22,403,184
Interest on Available for Sale Securities	4,161,110	3,579,603	3,542,955
Interest on Held to Maturity Securities	719,183	1,656,387	2,269,778
Interest on Federal Funds Sold	1,135,792	2,642,358	2,567,503
Total Interest Income	$ 26,046,061	$ 29,720,976	$ 30,783,420
INTEREST EXPENSE:			
Interest on Deposits	$ 12,414,676	$ 19,826,647	$ 18,030,035
Net Interest Income	$ 13,631,385	$ 9,894,329	$ 12,753,385
Provision for Possible Credit Losses	1,869,569	3,984,718	1,304,932
Net Interest Income after Provision for Possible Credit Losses	$ 11,761,816	$ 5,909,611	$ 11,448,453
OTHER INCOME:			
Service Charges and Commissions	$ 211,768	$ 229,358	$ 259,268
Net Realized Gains on Sales of Available for Sale Securities	239,517	-0-	362,349
Other Operating Income	20,527	15,571	37,189
Total Other Income	$ 471,812	$ 244,929	$ 658,806
OTHER EXPENSES:			
Salaries and Employee Benefits	$ 2,934,916	$ 2,942,714	$ 2,808,366
Expenses of Premises and Equipment	443,516	491,526	535,310
Net Realized Losses on Sales of Available for Sale Securities	329,882	-0-	361,202
Other Operating Expenses	1,936,913	2,017,720	1,833,568
Total Other Expenses	$ 5,645,227	$ 5,451,960	$ 5,538,446
Income before Income Taxes	$ 6,588,401	$ 702,580	$ 6,568,813
Provision for Income Taxes	2,325,329	172,173	2,323,042
Net Income	$ 4,263,072	$ 530,407	$ 4,245,771

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

Consolidated Statements Of Changes In Shareholders' Equity

FOR YEARS ENDED DECEMBER 31, 2002, 2001, AND 2000

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
BALANCES– January 1, 2000	$ 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
COMPREHENSIVE INCOME					
Net Income			4,263,072		4,263,072
Other Comprehensive Income - Net of Tax: Change in Unrealized Gain (Loss) on Securities Available for Sale, Net of Deferred Income Tax of $1,571,511				2,660,292	2,660,292
Add: Reclassification Adjustment				57,255	57,255
					2,717,547
Total Comprehensive Income					6,980,619
Cash Dividends ($1.40 Per Share)			(840,000)		(840,000)
BALANCES - December 31, 2002	$ 300,000	$ 1,000,000	$ 42,181,348	$ 3,750,578	$ 47,231,926

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

Consolidated Statements Of Cash Flows

FOR YEARS ENDED DECEMBER 31, 2002, 2001, AND 2000

	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 4,263,072	$ 530,407	$ 4,245,771
Adjustments to Reconcile Net			
Income to Net Cash Provided by Operating Activities:			
Depreciation	158,553	131,611	166,361
Provision for Credit Losses	1,869,569	3,984,718	1,304,932
Provision for Deferred Taxes	947,332	(868,893)	(41,805)
Net Realized (Gains) Losses on			
Available for Sale Securities	90,365	-0-	(1,147)
Net (Gains) Losses on Sale of Other			
Real Estate	-0-	11,374	-0-
Increase in Cash Value - Life Insurance	(10,564)	(12,890)	(9,334)
Amortization of Premiums			
and (Accretion) of Discounts on			
Available for Sale Securities - Net	452,566	296,748	199,530
(Increase) Decrease in Interest Receivable	410,110	(109,605)	(416,451)
(Increase) Decrease in Prepaid Expenses	150,313	(206,874)	92,074
Increase (Decrease) in Other Assets	-0-	-0-	23,161
Increase (Decrease) in Accrued Interest	(1,539,000)	528,291	626,602
Increase (Decrease) in Other Liabilities	61,633	(99,866)	103,381
Net Cash Provided by			
Operating Activities	$ 6,853,949	$ 4,185,021	$ 6,293,075
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net (Increase) Decrease in Federal Funds Sold	($ 1,000,000)	($ 21,000,000)	($ 1,000,000)
Proceeds from Sales and Maturities			
of Available for Sale Securities	41,854,900	30,000,000	25,098,047
Proceeds from Maturities of			
Held to Maturity Securities	103,280,817	102,343,613	101,730,222
Proceeds from Sales of Other Real Estate	230,000	1,095,864	-0-
Purchases of Available for Sale Securities	(37,803,383)	(72,670,088)	(30,228,275)
Purchases of Held to Maturity Securities	(103,342,830)	(102,656,295)	(101,676,560)
Purchase of Bank Premises and Equipment	(111,358)	-0-	(65,614)
Net (Increase) Decrease in Loans	13,034,780	(4,236,288)	(8,457,148)
Net Cash Provided by (Used in)			
Investing Activities	$ 16,142,926	($ 67,123,194)	($ 14,599,328)

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

Consolidated Statements Of Cash Flows

FOR YEARS ENDED DECEMBER 31, 2002, 2001, AND 2000 (Continued)

	2002	2001	2000
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net Increase (Decrease) in Demand and Savings Deposits	($ 636,725)	$ 38,758,261	($ 14,065,183)
Net Increase (Decrease) in Certificates of Deposit	(22,297,580)	28,324,664	22,349,325
Dividends Paid	(840,000)	(840,000)	(780,000)
Net Cash Provided by (Used in) Financing Activities	($ 23,774,305)	$ 66,242,925	$ 7,504,142
Net Increase (Decrease) in Cash and Cash Equivalents	($ 777,430)	$ 3,304,752	($ 802,111)
Cash and Cash Equivalents at Beginning of Year	22,171,225	18,866,473	19,668,584
Cash and Cash Equivalents at End of Year	$ 21,393,795	$ 22,171,225	$ 18,866,473
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash Paid During the Year for:			
Interest	$ 13,953,677	$ 19,298,355	$ 17,403,433
Income Taxes	$ 1,137,000	$ 1,320,755	$ 2,177,901
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH ACTIVITIES:			
Transfer from Loans to Other Real Estate Owned	$ 264,389	$ 1,048,992	$ -0-

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

Notes To Consolidated Financial Statements For Years Ended December 31, 2002, 2001, And 2000

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, 2002, 2001, and 2000.

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, 2002, 2001, And 2000 (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.

Reclassifications

Certain reclassifications have been made to the 2001 period financial statements in order to conform with the current period presentation.

Note 2
Restrictions on Cash and Due from Banks:

Federal Reserve regulations require depository institutions to maintain cash reserves with the Federal Reserve Bank. The average amounts of required reserve balances were approximately $10,051,000 and $9,683,000 for the years ended December 31, 2002 and 2001, respectively.

Notes To Consolidated Financial Statements For Years Ended December 31, 2002, 2001, And 2000 (Continued)

Note 3
Investment Securities:

The carrying amounts and approximate market values of investment securities at December 31, 2002 and 2001, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2002				
Available for Sale Securities -				
U.S. Government and Agency Securities	$ 83,073,382	$ 5,803,181	$ -0-	$ 88,876,563
State and Municipal Securities	3,320,869	116,293	-0-	3,437,162
Totals	$ 86,394,251	$ 5,919,474	$ -0-	$ 92,313,725
Held to Maturity Securities -				
U.S. Government and Agency Securities	$ 38,889,450	$ 15,862	$ -0-	$ 38,905,312

	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

Investment securities with carrying amounts of $22,725,609 and $22,913,749 and market values of $24,650,607 and $24,347,816, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law at December 31, 2002 and 2001.

Gross realized gains and gross realized losses on sales of available for sale securities for the years ended December 31, 2002, 2001, and 2000, are as follows:

	2002	2001	2000
Gross Realized Gains:			
U.S. Government and Agency Securities	$ 239,517	$ -0-	$ 362,349
Gross Realized Losses:			
U.S. Government and Agency Securities	$ 329,882	$ -0-	$ 361,202

The amortized cost and estimated market value of debt securities at December 31, 2002, 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	$ 689,037	$ 705,795	$ 38,889,450	$ 38,905,312
Due from One Year to Five Years	64,549,954	68,560,770	-0-	-0-
Due from Five Years to Ten Years	21,155,260	23,047,160	-0-	-0-
Due after Ten Years	-0-	-0-	-0-	-0-
Totals	$ 86,394,251	$ 92,313,725	$ 38,889,450	$ 38,905,312

Notes To Consolidated Financial Statements
For Years Ended December 31, 2002, 2001, And 2000 (Continued)

Note 4
Loans:

Total loans at December 31, 2002 and 2001, by major loan categories are summarized as follows:

	2002	2001
Commercial	$ 16,208,381	$ 19,405,955
Real Estate - Construction and Mortgage	218,235,336	231,411,799
Installment	18,630,045	19,812,840
Gross Loans	$ 253,073,762	$ 270,630,594
Unearned Discount	(2,749,446)	(3,133,840)
Total Loans	$ 250,324,316	$ 267,496,754
Allowance for Credit Losses	(3,600,000)	(5,603,699)
Loans, Net	$ 246,724,316	$ 261,893,055

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

	2002	2001	2000
Beginning Balances - January 1,	$ 5,603,699	$ 3,000,000	$ 2,740,559
Loans Charged Off	(4,499,817)	(1,419,296)	(1,073,850)
Recoveries of Loans Previously Charged Off	626,549	38,277	28,359
Provision to Expense for Credit Losses	1,869,569	3,984,718	1,304,932
Ending Balances - December 31,	$ 3,600,000	$ 5,603,699	$ 3,000,000

The provision for credit losses charged to expense is based upon credit loss experience and an evaluation of potential losses in the current loan and lease portfolio, including the evaluation of impaired loans under SFAS No.'s 114 and 118 (collectively, SFAS 114), "Accounting by Creditors for Impairment of a Loan" and "Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures." All nonaccrual loans on which a specific reserve calculation is required and significant troubled debt restructurings are considered impaired. Impairment is primarily measured based on the fair value of the loan's collateral. Impairment losses are included in the provision for 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, 2002, 2001, and 2000:

	2002	2001	2000
Impaired Loans with Related Allowance	$ 3,129,322	$ 4,070,965	$ 2,891,000
Impaired Loans with no Related Allowance	-0-	-0-	-0-
Total Impaired Loans	$ 3,129,322	$ 4,070,965	$ 2,891,000
Allowance on Impaired Loans	$ 469,398	$ 845,333	$ 577,000
Average Impaired Loans	$ 4,048,421	$ 4,505,398	$ 2,783,000
Interest Income Recognized on Impaired Loans	$ 65,439	$ 120,399	$ 88,000

Notes To Consolidated Financial Statements
For Years Ended December 31, 2002, 2001, And 2000 (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 2002 and 2001:

	2002	2001
Balances - January 1,	$ 5,919,600	$ 6,071,972
New Loans	2,020,689	837,921
Repayments	(1,313,241)	(990,293)
Balances - December 31,	$ 6,627,048	$ 5,919,600

Note 5
Bank Premises and Equipment:

Major classifications of bank premises and equipment at December 31, 2002 and 2001, are summarized as follows:

	2002	2001
Buildings and Improvements	$ 1,856,589	$ 1,856,589
Furniture and Fixtures	1,510,034	1,413,321
	$ 3,366,623	$ 3,269,910
Less: Accumulated Depreciation	2,474,918	2,331,010
	$ 891,705	$ 938,900
Land	200,460	200,460
Bank Premises and Equipment, Net	$ 1,092,165	$ 1,139,360

Depreciation expense for the years ended December 31, 2002, 2001, and 2000, was $158,553, $131,611, and $166,361, 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, 2002, is as follows:

Year	Amount
2003	$ 45,781
2004	47,302
2005	48,896
2006	50,548
2007	47,767
Total	$ 240,294

Notes To Consolidated Financial Statements For Years Ended December 31, 2002, 2001, And 2000 (Continued)

Note 6
Deposits:

The major categories of deposits at December 31, 2002 and 2001, are as follows:

	2002	2001
Noninterest Bearing	$ 34,692,270	$ 34,189,416
Interest Bearing:		
Money Market	$137,586,557	$ 139,236,650
Savings	19,221,760	18,707,690
Time and Certificates of Deposit	129,581,098	146,326,052
Certificates of Deposit over $100,000	110,185,767	115,741,950
Total Interest Bearing Deposits	$396,575,182	$ 420,012,342
Total Deposits	$431,267,452	$ 454,201,758

Scheduled maturities of time and certificates of deposits at December 31, 2002, are as follows:

2003	$192,530,539
2004	43,636,475
2005	3,272,354
2006 and Thereafter	327,497
Total	$239,766,865

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 $25,523,697 and $26,471,000 at December 31, 2002 and 2001, respectively.

Note 7
Income Taxes:

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

	2002	2001	2000
Currently Payable:			
Federal	$ 1,197,251	$ 902,782	$ 2,077,728
State	180,746	138,284	287,119
Totals	$ 1,377,997	$ 1,041,066	$ 2,364,847
Deferred (Benefit):			
Federal	$ 843,912	($ 774,036)	($ 37,241)
State	103,420	(94,857)	(4,564)
Totals	$ 947,332	($ 868,893)	($ 41,805)
Total Applicable Income Taxes	$ 2,325,329	$ 172,173	$ 2,323,042

Notes To Consolidated Financial Statements
For Years Ended December 31, 2002, 2001, And 2000 (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):

	2002	2001	2000
Bad Debts	$ 947,235	($ 868,986)	($ 41,895)
Discount on Investment Securities	97	93	90
Totals	$ 947,332	($ 868,893)	($ 41,805)

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

	2002		2001		2000	
	Amount	%	Amount	%	Amount	%
Tax on Income before Income Tax at the Top Statutory Income Tax Rate	$2,240,056	34.00%	$ 238,877	34.00%	$2,233,396	34.00%
Increase (Decrease) Resulting from:						
State Income Tax, Net of Federal Benefit	187,550	2.85	28,661	4.08	184,934	2.82
Nontaxable Interest Income	(115,508)	(1.75)	(116,806)	(16.63)	(123,117)	(1.87)
Nondeductible Interest Expense	10,993	.16	18,017	2.56	18,853	.28
Other Items	2,238	.03	3,424	.49	8,976	.13
Tax on Income	$2,325,329	35.29%	$ 172,173	24.50%	$2,323,042	35.36%

The approximate tax (benefit) effects of the net investment securities gains (losses) were ($33,110), $-0-, and $420 for the years 2002, 2001, and 2000, respectively.

Notes To Consolidated Financial Statements
For Years Ended December 31, 2002, 2001, And 2000 (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, 2002 and 2001:

	2002	2001
Accumulated Pension Benefit Obligation:		
Vested	$ 2,395,710	$ 2,210,910
Nonvested	31,391	32,765
Totals	$ 2,427,101	$ 2,243,675
Value of Future Salary Projections	271,437	287,190
Total Projected Pension Benefit Obligation	$ 2,698,538	$ 2,530,865
Fair Value of Plan Assets	1,650,296	1,945,378
Plan Assets in Excess (Deficient) of Projected Benefit Obligation	($ 1,048,242)	($ 585,487)
Unrecognized Prior Service Cost	(21,950)	(26,945)
Unrecognized Net Loss or (Gain)	941,099	449,165
Unrecognized Net Transition Liability or (Asset)	(17,815)	(25,374)
Additional Liability	(629,897)	(109,656)
Unfunded (Accrued) or Prepaid Pension Cost	($ 776,805)	($ 298,297)

The components of pension (expense) income for the years ended December 31, 2002, 2001, and 2000, are as follows:

	2002	2001	2000
Service Cost-Benefits Earned During Year	($ 91,140)	($ 81,527)	($ 94,351)
Interest Cost on Projected Benefit Obligation	(179,202)	(169,925)	(159,683)
Actual Return on Assets	183,803	174,856	175,094
Net Amortization and Deferral	12,554	12,554	12,554
Net Periodic Pension (Cost) Benefit	($ 73,985)	($ 64,042)	($ 66,386)
Actuarial Assumptions:			
Weighted Average Discount Rate for Projected Benefit Obligation	7.00%	7.25%	8.00%
Weighted Average Rate of Compensation Increase	4.00%	4.25%	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, 2002, 2001, And 2000 (Continued)

Note 9
Parent Company Condensed Financial Information:

CONDENSED BALANCE SHEETS
December 31,

	2002	2001
ASSETS		
Investment in Subsidiary	$ 43,481,348	$ 40,058,276
Other Assets	-0-	-0-
Total Assets	$ 43,481,348	$ 40,058,276
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total Liabilities	$ -0-	$ -0-
Shareholders' Equity	$ 43,481,348	$ 40,058,276
Total Liabilities and Shareholders' Equity	$ 43,481,348	$ 40,058,276

CONDENSED STATEMENTS OF INCOME
For Years Ended December 31,

	2002	2001	2000
INCOME	$ 849,747	$ 868,868	$ 799,386
EXPENSES:			
Operating Expenses	$ 16,229	$ 48,065	$ 32,278
Income before Income Tax Benefit and Equity in Undistributed Earnings of Subsidiary	$ 833,518	$ 820,803	$ 767,108
Applicable Income Taxes (Benefit)	(6,482)	(19,197)	(12,892)
Income before Equity in Undistributed Earnings of Subsidiary	$ 840,000	$ 840,000	$ 780,000
Equity in Undistributed Earnings of Subsidiary	3,423,072	(309,593)	3,465,771
Net Income	$ 4,263,072	$ 530,407	$ 4,245,771

Notes To Consolidated Financial Statements
For Years Ended December 31, 2002, 2001, And 2000 (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For Years Ended December 31,

	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 4,263,072	$ 530,407	$ 4,245,771
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Equity in Undistributed Earnings of Subsidiary	(3,423,072)	309,593	(3,465,771)
Net Cash Provided by Operating Activities	$ 840,000	$ 840,000	$ 780,000
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends Paid	($ 840,000)	($ 840,000)	($ 780,000)
Net Cash Used in Financing Activities	($ 840,000)	($ 840,000)	($ 780,000)
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, 2002, 2001, And 2000 (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, 2002, is as follows:

	Notional Amount
Commitments to Extend Credit	$ 37,156,043
Commercial Letters of Credit	-0-
Standby Letters of Credit	1,358,638

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

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, 2002, 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 $7,265,000 at December 31, 2002. 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, 2002, that the Bank could declare without the approval of the West Virginia Division of Banking and the Federal Reserve Board, amounted to approximately $3,113,479.

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, 2002 and 2001, 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, 2002, 2001, And 2000 (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, 2002:				
Tier 1 Risk-Based Capital	19.29%	$ 43,481,000	$ 9,017,000	$ 13,526,000
Total Risk-Based Capital	20.54	46,309,000	18,035,000	22,543,000
Tier 1 Leverage Capital	9.08	43,481,000	19,147,000	23,933,000
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

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, 2002, 2001, And 2000 (Continued)

The estimated fair values of the Bank's financial instruments at December 31, 2002 and 2001, are as follows:

	2002		2001	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Financial Assets:				
Cash and Due from Banks	$ 21,393,795	$ 21,393,795	$ 22,171,225	$ 22,171,225
Federal Funds Sold	78,000,000	78,000,000	77,000,000	77,000,000
Investment Securities	131,203,175	131,219,037	131,446,552	131,480,357
Loans	250,324,316	256,128,013	267,496,754	271,015,291
Financial Liabilities:				
Deposits	431,267,452	431,406,055	454,201,758	455,210,478

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.

2002 officers and employees

JACK WILSON . . . . .President & Chief Executive Officer
GENE W. YOUNG . . . . .Vice President, Security Officer & Branch Manager
JOHN R. WILSON, JR. . . . . .Vice President
DANIEL M. ROBERTS . . . .Vice President & Senior Lending Officer
JERRY P. BROWN . . . . .Cashier
DON C. CHAPMAN . . . . .Auditor
RICHARD M. JORDAN . . . . .Assistant Vice President
GAYLE M. BERRY . . . . . . .Assistant Cashier, Manager Proof Dept.
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 . . . . .Paying & Receiving
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
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 C. COTTRELL . . . . .Paying & Receiving
TAMMY J. SOVINE . . . . .Data Process Verification
STEPHANIE L. RAPPOLD . . . . .Paying & Receiving
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
WHITNEY L. GREGORY .Bookkeeping
LUKE H. BASSETT . . . . .Bookkeeping
JUSTIN M. HEINDL . . . . .Assistant Auditor
CHASITY D. STRICKLIN . . . . .Paying & Receiving
MATTHEW A. GORE . . . . .Bookkeeping
HAROLD FACEMYER, JR. . . . . .Building Manager

2002 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	RSD, Inc.
H. Morris Hauldren	Nondestructive Inspection Services, Inc.
Robert F. Hatfield	Hatfield Enterprises, Inc.
Jack Wilson	President and CEO