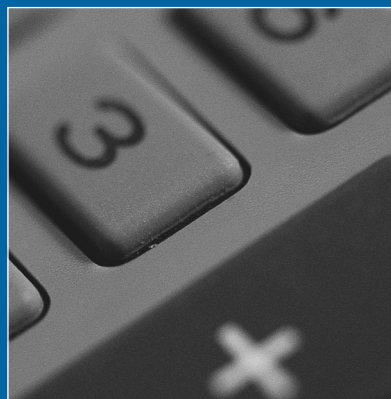


2004 Financial Report

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Analysis Of Earning Assets And Interest Bearing Liabilities

In Thousands of Dollars

	2004			2003		
	Avg. Balance	Interest	Yield/Rate	Avg. Balance	Interest	Yield/Rate
ASSETS						
Loans						
Commercial (1)	\$ 11,959	\$ 712	5.95%	\$ 14,273	\$ 910	6.38%
Real Estate	200,979	13,442	6.68%	198,774	14,403	7.25%
Installment (2)	13,254	1,211	9.14%	14,355	1,418	9.88%
Total Loans	\$ 226,192	\$ 15,365	6.79%	\$ 227,402	\$ 16,731	7.36%
Securities (3)						
Taxable	139,648	4,679	3.35%	133,313	4,534	3.40%
Tax-Exempt (4)	3,868	295	7.63%	3,175	261	8.23%
Total Securities	\$ 143,516	\$ 4,974	3.47%	\$ 136,488	\$ 4,795	3.51%
Federal Funds Sold	75,213	953	1.27%	93,510	822	0.88%
Total Earning Assets	\$ 444,921	\$ 21,292	4.79%	\$ 457,400	\$ 22,348	4.89%
Cash and Due from Banks	23,562			20,789		
Premises and Equipment, Net	1,003			1,078		
Other Assets	3,518			3,353		
Allowance for Loan Losses	(4,119)			(3,814)		
Total Assets	\$ 468,885			\$ 478,806		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest Bearing Deposits						
Super NOW and MMDA	\$ 121,664	\$ 1,226	1.01%	\$ 131,606	\$ 1,399	1.06%
Savings	21,438	214	1.00%	20,066	200	1.00%
Time	231,317	5,170	2.24%	236,832	6,184	2.61%
Total Interest Bearing Deposits	\$ 374,419	\$ 6,610	1.77%	\$ 388,504	\$ 7,783	2.00%
Long-Term Borrowings	0			0		
Total Interest Bearing Liabilities	\$ 374,419	\$ 6,610	1.77%	\$ 388,504	\$ 7,783	2.00%
Noninterest Bearing Deposits	42,175			37,411		
Accrued Expenses and Other Liabilities	2,355			3,543		
Equity	49,936			49,348		
Total Liabilities and Equity	\$ 468,885			\$ 478,806		
Net Interest Margin	\$ 444,921	\$ 14,682	3.30%	\$ 457,400	\$ 14,565	3.18%

(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, 2004

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)	\$ 53,707	\$ 7,022	\$ 6,347	\$ 59,379	\$ 57,987	\$ 48,539
Investment Securities (2)	30,966	18,014	42,101	41,241	2,673	1,732
Federal Funds Sold	<u>72,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Selected Assets	<u>\$156,673</u>	<u>\$ 25,036</u>	<u>\$ 48,448</u>	<u>\$ 100,620</u>	<u>\$ 60,660</u>	<u>\$ 50,271</u>
LIABILITIES						
Interest Bearing Deposits (3)	\$129,329	\$ 77,856	\$ 21,045	\$ 706	\$ 0	\$ 0
Borrowed Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Selected Liabilities	<u>\$129,329</u>	<u>\$ 77,856</u>	<u>\$ 21,045</u>	<u>\$ 706</u>	<u>\$ 0</u>	<u>\$ 0</u>
Differences	<u>\$ 27,344</u>	<u>(\$ 52,820)</u>	<u>\$ 27,403</u>	<u>\$ 99,914</u>	<u>\$ 60,660</u>	<u>\$ 50,271</u>
Cumulative Differences	<u>\$ 27,344</u>	<u>(\$ 25,476)</u>	<u>\$ 1,927</u>	<u>\$ 101,841</u>	<u>\$ 162,501</u>	<u>\$ 212,772</u>

(1) Does not include loans on nonaccrual status.

(2) Does not include Federal Reserve Stock or securities on nonaccrual status. Reported HTM securities at amortized cost and AFS securities at fair 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

Commercial banks and savings institutions insured by the FDIC recorded their fourth consecutive year of record income in 2004. Putnam Bancshares, Inc and its sole subsidiary, Putnam County Bank, recorded another year of record income in 2004. West Virginia elected a new governor and Putnam County has several new faces in the local government. The new state administration wants to make West Virginia an inviting location for a myriad of business opportunities. The economy of Putnam County has seen its share of growth and new business opportunities. Toyota Manufacturing has plans to add an \$81 million expansion; Diamond Electric added another 30,000 sq. ft. and Tasty Blend Foods, Inc. is in the process of completing a new 58,000 sq. ft. facility at Putnam Business Park in Fraziers Bottom. On the recreational side, the Teays Valley Cinemas began construction in 2004 on a building with ten large screen cinemas located in Teays Valley Business and Industrial Park. The construction of the cinemas was completed in March 2005.

Once again, the West Virginia's unemployment rate of 4.5% beat the national average of 5.3%. West Virginia ranked 30th in the nation. The District of Columbia held the number one spot at 8.2% and Hawaii ranked fifty-first with 3.0%. The unemployment rate was 4.2% in Putnam County. With the exception of Cabell County, the bordering counties didn't fare quite as well. Their rates were as follows: Kanawha (4.3), Jackson (6.0), Lincoln (6.6) and Mason (8.8). Jefferson County, on the eastern panhandle, had the best rate at 2.5%. Putnam County's population is over 53,000 according to an estimated count from July 2003. Judging by the new businesses, climbing school populations and new housing starts, the Putnam County population continues to grow.

The Company has strived hard to adhere to the constant changing environment of banking and to keep abreast of all new banking regulations. In

addition to the monthly board meetings, the directors of Putnam County Bank are also involved in the monthly meetings of the Audit Committee, the Loan Committee, and the Asset/Liability Committee. In addition, the Putnam County Bank departmental managers meet monthly for Project Group Meetings and from those meetings, several subcommittees were formed. The purpose of the meetings is keep the employees apprised of current and future trends in banking, compliance issues and as a general way to address issues the employees may have and look for ways to improve the Bank and its operations.

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 __ and ending on page __). References also will be made to Putnam Bancshares' wholly-owned subsidiary, Putnam County Bank ("the Bank). In addition, various graphs, charts and analyses have been provided throughout the Annual Report to support the Management's Discussion and Analysis.

The Bank's "peer group" consists of all commercial banks having assets between \$300 million to \$1 billion. The Financial Institutions Examination Council (FFIEC) is a governmental organization represented by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency. The federal regulatory bodies gather financial data from commercial banks and compile the statistics on the banks and their related peer group culminating in a quarterly Uniform Bank Performance Report (UBPR). As of December 31, 2004, there were 1,013 banks in Putnam County Bank's peer group. When analyzing the peer group it is necessary to understand each bank has its own way of performing their operations which

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

can affect their financial information and thus causing its ratios to be above or below that of their peer group. So it is important to combine the understanding of the ratios in conjunction with an understanding of their operational procedures to get a more concise picture of the overall financial soundness of an institution. A UBPR report can be obtained on almost any bank through the FFIEC website at www.ffiec.gov.

Net Interest Margin

The net interest margin is calculated by dividing the tax equivalent of net interest income by average earning assets. Net interest margin represents an important measure of the Company's primary source of revenue. The net interest margin increased from 3.18% in 2003 to 3.30% in 2004. The increase was attributable to loan rates increasing at a faster rate than the rate on deposit accounts. The Company's cost of funds declined from 2.00% in 2003 to 1.77% in 2004. The cost of funds is calculated by dividing the tax equivalent of interest expense from deposit accounts by the year-to-date average of deposit accounts balances. Company continues to compare lower than the peer group with respect to net interest margin as the peer showed 4.15% in 2003 and 4.14% in 2004 according to the UBPR for the fourth quarter of 2004. The Company has historically compared low to peer as a result of paying higher rates on deposits combined with greater than normal liquidity in investments.

Interest Income

Interest income declined \$1.1 million or 4.9% from year-end 2003 to year-end 2004. While interest rates started to go up in 2004, they remain stagnant until around July when the prime rate increased approximately 25 basis points every month except for November. The refinancing boom had finally started slowing down and borrowers were locking in on the low fixed rates. Loans began a general descent for the first few months of 2004 but turned around and

began increasing as the year progressed but the momentum wasn't enough to increase the average loan balances outstanding for the year. Interest income from loans represented the greatest portion of the decline in interest income. Loan income declined \$1.4 million or 8.2% from 2003 to 2004. Average loans declined \$1.2 million or less than 1% in the same period. The volume of average earning assets declined \$12.5 million or 2.8% between 2003 and 2004.

Within the category of loan income, income derived from mortgage lending declined \$9.6 thousand or 6.7% between year-end 2003 and 2004. Continued low market rates during the first half of 2004 fueled refinancing of mortgages and produced a highly competitive market in mortgage lending. Competition from local institutions, banking and non-banking, as well as internet lending companies have produced many alternatives for those seeking mortgage financing. The Company's average total of real estate secured loans increased \$2.2 million or 1.1% between 2003 and 2004. The Bank was slower to raise interest rates on real estate secured loan products than many of the local competitors and was thus able to entice new and former customers.

Income on commercial lending declined \$198 thousand or 21.8% between 2003 and 2004. Income on installment lending declined \$207 thousand or 14.6%. As mentioned earlier, this is indicative of the increased competitiveness for loans and low market rates. The average total of commercial loans declined \$2.3 million or 16.2% between 2003 and 2004, while the average total of installment loans declined \$1.1 million or 7.7% in the same period. It is important to note that this decline in loan volumes is not a result of more restrictive loan policies administered by the Company, however an increasingly competitive environment for credit.

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

The average total of the investment portfolio increased \$7 million or 5.10% between 2003 and 2004. Income on securities increased \$179 thousand or 3.7% in the same period. The average yield on securities declined from 3.51% in 2003 to 3.47% in 2004. Purchases of investment securities in 2004, aside for regular purchases of Treasury bills, consisted of Treasury notes which are generally viewed as a safe investment with good liquidity and purchases were made to absorb liquidity from reductions in loans. Income on securities increased largely as a result of the increase in the purchases of additional securities. The Company purchases Treasury bills in three- and six-month maturities on a weekly basis at the Treasury's auction. The average balance of federal funds sold decreased \$18.3 million or 19.60% between 2003 and 2004. Income, on the other hand, increased from the sale of federal funds by \$131 thousand or 15.9% between 2003 and 2004 and indicative of this increase is the yield of .88% in 2003 compared with 1.27% in 2004. Federal funds sold represent excess liquidity and is sold to correspondent banks at an interest rate which changes daily. As of year-end 2004, all municipal securities are West Virginia issues which are investment quality and rated A+ or better by Standard and Poors and A1 or better by Moody's. Of these municipal securities, 36% are general obligations while the remaining issues are revenue obligations.

Interest Expense

Interest expense on deposit accounts decreased \$1.2 million or 15.06% from year-end 2003 to 2004. The average cost of deposits declined from 2.00% to 1.77% in the same period. Almost 87% of the decrease in interest expense was derived from a decrease in certificates of deposit and individual retirement accounts. While certificates of deposit evidenced the greatest decline in cost, a reduction in Super NOW volume equated to significantly lower costs as well. Countering the decreases was an increase of 7% or \$14 thousand on passbook savings

account interest expense from 2003 to 2004 and an increase in the volume of 6.8% or \$1.3 million for the same time period. The Bank has continued to pay, as it has historically, slightly higher rates on deposits than local financial institutions. The Bank does not actively advertise for deposits in its marketing area and does not solicit deposits from brokers.

The Bank has not required borrowings to fund its operations in 2004. This has been due to ample liquidity in federal funds sales and in the investment portfolio. As of year-end 2004, the Company has no outstanding debt and there are no plans to incur debt in the immediate future.

Asset and Liability Management, Interest Rate Sensitivity and Liquidity

To properly understand and interpret the Bank's financial asset and liability management, management not only has to analyze internally prepared reports but the effects that the current national, regional and local economies and industry conditions might have on the Bank's financial evaluation, composition of assets and liabilities. Putnam County Bank has an Asset/Liability Committee (ALCO) which meets on a monthly basis to review historical performance data on the Bank, and to discuss current and future trends expected from the Bank and the banking industry as a whole as well as influences from the market, regulatory and competition. The end result is to identify risks to earnings and capital and to manage these risks effectively.

Liquidity levels in the Bank decreased in 2004 as evidenced by an increase of 5.0% total loans and a decrease of 8.3% in investments and federal funds sold. The Bank's loan-to-deposit ratio increased from 52.41% at year-end 2003 to 55.72% at year-end 2004. The Bank recognizes the importance of growing its ratio, either by increased lending or declines in deposits. The loan-to-deposit ratio for peer banks is 85%. The Bank's federal funds sold to

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

average assets is consistently higher than that of the peer group. The ratio was 18.6% for 2003 and 16.4% for 2004. The Bank ranked in the ninety-eight percentile both years. Management is constantly monitoring new and/or more efficient ways to invest these funds in areas which may create a better return for the Bank yet create minimal risks for the Bank. Such risks include credit risk (safety of principal), interest rate risk (risk of investment given changes in market rates) and extension risk (susceptibility to market changes given the term of the selected investment or loan). With interest rates at a level that some perceive are subject to increase, any plan must consider what effects this could produce. Also, while Super NOW account and Money Market Deposit account totals have declined from 2003 to 2004, they represent deposits which may be repriced with an immediate effect. Conversely, some loans have fixed rates with long-term maturities. Management of interest rate risk must look at the distinct characteristics of assets and liabilities and project the effects on earnings and capital that changes in markets over various time spans may cause. Management must next identify what risk is reasonable and if the risk is unreasonable, steps to adjust the balance sheet to produce a more desirable risk profile.

Nonperforming Assets

Nonperforming assets includes all loans which are past due ninety days or more and any loans in nonaccrual status. Loans are required to be reported in nonaccrual status when principal and interest has been in default for ninety days or longer unless the loan is both well secured and in process of collection. Loans in nonaccrual status are generally those where payment of principal and interest is in question due to the deterioration of the financial condition of the borrower and any payments are reflected in cash basis. The total of nonperforming loans at the end of 2004 was \$1.1 million or .46% compared to \$718 thousand or .32% in 2003. This compares with peer bank ratios of .53% at year-end 2004 and .69% at

year-end 2003. There was an increase in the nonaccrual from \$576 in 2003 to \$1 million for 2004. While some properties were either liquidated or transferred to the allowance for loan loss during the year, the balance in non-accrual status at year-end 2004 was largely attributed to commercial real estate property located in the Culloden area. The nonperforming loan ratios are comparable with those of our peers.

The amount of other real estate owned at the end of 2004 as a result of debts previously contracted was \$95 thousand. The balance represents a one-to-four family residential property located in Winfield, WV. The property was shown at the lower of book or fair market value. The property was liquidated as of February of 2005

Provision and Allowance for Loan Losses

The Bank did not make any provisions to the allowance for loan loss in 2004. Provisions to the allowance for loan losses totaled \$868 thousand in 2003. The Bank had a higher rate of recovery on previously written off loans in 2004 than in 2003. The recoveries for 2004 totaled \$909 thousand and in 2003 totaled \$830 thousand. In addition, the Bank had substantially less charge-offs in 2004 verses 2003. The charge-offs accounted for in 2004 were \$703 thousand and in 2003 the amount was \$1.3 million.

Net loan recoveries were \$209 thousand during 2004 compared to net losses of \$468 thousand or .21% of total loans in 2003. The Bank's negative ratio of -.09% of net losses to average total loans stood in contrast with the peer ratio of .17% placing the Bank in the lower 2% of all banks in our peer group. In 2003, the Bank ranked in the 59% of the peer group. As mentioned before, the improvement is related to a lower volume of losses and increased recoveries. As of December 31, 2004, the allowance for loan loss stood at \$4.2 million or 1.80% of total loans. This

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

compares to \$4 million or 1.79% of total loans on December 31, 2003. Peer banks show ratios of 1.27% in 2004 and 1.35% in 2003. It is management's responsibility to see that the allowance for loan losses is at a level which is sufficient to cover losses in the loan portfolio. The analysis of the allowance includes the evaluation of problem loans, historical trends in loan losses as well as local economic trends and their possible effects. The adequacy of the allowance is subject to review by the Company's internal auditors, external auditors, Federal Reserve Bank and the West Virginia Division of Banking.

Noninterest Income

Total noninterest sources of income totaled \$252 thousand in 2004 (excluding gross gains on securities transactions) compared with \$195 thousand in 2003. The most obvious increase came from Visa Checkcard fees which were up \$21 thousand or 153% between 2003 and 2004.

The Bank has historically been a low-cost provider of banking services. The percentage of noninterest income to average assets at the end of 2004 was .06% compared with 0.93% for peer institutions. As competition intensifies given the current low rate environment, many institutions have placed increasing focus on generating revenue through service charges and other noninterest sources.

The Company reported a net gain of \$42 thousand in 2004 compared with a zero gain or loss for 2003. Gains and losses are effected by transactions on investments classed as "available for sale". These securities are reflected on financial statements at their fair market value and may be sold at any time at the discretion of management. Management must consider several points before the decision to sell, such as changing interest rates, liquidity, availability and alternative investments with the projected change on the Bank's asset/liability structure. All sales are

carefully reviewed by management and reviewed by the Board. The Company does not speculate by "trading" in the portfolio and does not utilize any interest rate hedging or derivative products in its investment strategies.

Noninterest Expense

Total noninterest expense (excluding gross securities losses) increased \$667 thousand or 11% between 2003 and 2004. This compares with a increase of \$729 thousand or 13% between 2002 and 2003. Noninterest expenses primarily relate to personnel, occupancy and other operating expenses.

Total personnel expenses increased \$535 thousand or 16.3% from 2003 to 2004. Officer and employee salary expense increased \$270 thousand or 10.7% between 2003 and 2004. This reflects salary adjustments to maintain an experienced workforce as well as additions to the Bank. Other significant increases included a \$192 thousand increase, or 109% to fund the Bank's retirement plan and an increase of \$53 thousand in group life and health insurance premiums. The retirement plan is administered through the West Virginia Bankers Association as a noncontributory plan whereby the plan's actuary assigns the value of contribution to be made by its members. Most of the increase in the retirement funding is due to low returns from the stock market for the past several years and the number of individuals collecting retirement. Today's workforce is living longer and working longer as a general rule, and, thus businesses are incurring more expenses in regards to retirement funding. Bank's group health insurance is a preferred provider option which provides flexibility in utilization of providers. The dollar increase in 2004 represents an annual 16.6% increase which is approximately consistent with medical inflation rates. At year-end 2004, the Bank employed 75 people.

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

Total occupancy expense increased \$41 thousand or 8.5% from 2003 to 2004. There was a \$40 thousand net increase in depreciation expense. The Bank purchased two bank vehicles, installed new security systems at our Main Office and Interstate Office and purchased a new coin wrapper which would account for a major portion of the increased depreciation. Not surprisingly, fuel and vehicle maintenance increased over \$3 thousand, or 52.8% from 2003 to 2004. The expense of equipment service contracts and equipment rental actually decreased \$21 thousand mainly due to proof equipment no longer in use. The Bank continues to operate three locations: 2761 Main Street in Hurricane; 300 Hurricane Creek Road in Hurricane; and 3058 Mount Vernon Road in Hurricane.

Other operating expenses increased \$88 thousand or 3.9% from 2003 to 2004. Those categories largely responsible for the increase include Charitable Contributions (\$38 thousand); Advertising (\$19 thousand); Data Processing (\$64 thousand) and Other Real Estate Expense (\$20 thousand). During 2004, Data processing expenses increased 13.5% largely because of the costs involved with image statements and Check 21. Putnam County Bank partnered with Computer Services Incorporated in order to comply with the new imaging regulations and to streamline costs and training. Charitable Contributions increased 33.5%. The Bank is strongly committed to giving back to the community that supports the Bank. The local schools, museums, libraries, civic clubs and recreational centers all rely on the Bank and other businesses for annual funding in order to keep operating. Offsetting some of the increases were some major decreases in the following areas: Office Supplies and Printers (\$20 thousand); Computer Supplies (\$25 thousand); Fees to Consultants (\$19 thousand) and Loss on Sale of OREO (\$34 thousand).

The Bank's overhead expense as a percentage of average assets was at a record level for the past decade. However, the Bank still manages to rank in the

low percentiles compared to peer banks. During 2004, the Bank's overhead expense ratio was 1.43% compared to the peer group rating of 2.90%. The ratio is up from year-end 2003 when the ratio was 1.27% for the Bank and 2.98% for peer banks.

Another common measure of the Bank's ability to generate income from carefully managing its assets is the calculation of its efficiency ratio. The efficiency ratio is derived from using the noninterest expense and dividing it by net interest income and noninterest income (excluding gains or losses on the sale of securities). Putnam County Bank's efficiency ratio for 2004 was 44.96% compared to the peer ratio of 59.78%. The ratios for 2003 were 40.83% and 59.88%, respectfully.

Taxes

Federal and state income taxes increased \$149 thousand from year-end 2003 to year-end 2004 or a 5.3% increase. Income taxes for year-end 2002 and year-end 2003 increased over 20%. The current year's increase was derived from an increase in net income, caused mainly by no provision to the allowance for loan loss during 2004 and an increase in interest on investment security income for the same time period. Of the total income taxes reported as currently payable on the 2004 tax returns, federal taxes decreased \$78.42 thousand or 2.8% and state taxes decreased \$20.5 thousand or 3.9%. The Bank's related deferred tax benefit remained relatively unchanged from 2003 to 2004. For both years the deferred tax benefit was \$909 thousand for the federal and \$111 thousand for the state.

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.

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

Shareholders' Equity and Capital Ratios

Shareholders' Equity increased \$2.5 million or 5% between 2003 and 2004. This was recognized even in light of a \$1.8 thousand decline in the amount of market value in excess of book value on available for sale securities. Nonetheless, the amount of this excess (also referred to as "other comprehensive income") added \$951 thousand to equity capital at year-end 2003. The book value of Putnam Bancshares, Inc. common stock at the end of 2004 was \$88.15 compared to \$83.96 at year end 2003, representing a 7% increase. The Company's return on average equity for 2003 was 10.06% compared with 9.72% for 2002.

Banking regulatory bodies mandate the risk-weighting assets and off-balance sheet items to more accurately assess capital adequacy. Tier 1 capital (equity capital less the tax equivalent of unrealized gains or losses on available for sale securities) and total risk-based capital (Tier 1 plus an allowable portion of the allowance for loan losses) comprise two vital measures of capital adequacy. As of year-end 2004, the Company's Tier 1 risk based capital-to-risk weighted assets was 24.49% compared to 23.62% at year-end 2003. The peer banks' ratios were 11.85% in 2004 and 11.96% in 2003. In addition, the Company's total risk based capital-to-risk weight assets was 25.75% in 2004 and 24.88% in 2003. This compares with peer bank ratios of 13.04% in 2004 and 13.21% in 2003. Using the federal guidelines, the Company is considered well capitalized (see Note 13).

Dividends

The Company paid dividends totaling \$855 thousand in 2004 compared with \$856 thousand in 2003. This equates to a dividend to net operating income payout ratio of 16.43% in 2004 and 17.24% in 2003. This compares with peer ratios of 37.77% in 2004 and 41.06% in 2003. This conservative dividend policy has enhanced retained earnings. Regular dividends to

shareholders are paid on a semi-annual basis: June and December.

For further discussion of dividend, 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 various issues relating to audit, including coverage, findings and responses. The selection of Rollins, Cleavenger and Rollins as the Company's external auditors is recommended by the Board of Directors and ratified by the shareholders of Putnam Bancshares, Inc.

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, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the three years in the period ended December 31, 2004. 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, 2004 and 2003, and the results of its operations and its cash flows for the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.



Certified Public Accountants

January 10, 2005

Consolidated Balance Sheets**DECEMBER 31, 2004 AND 2003**

	2004	2003
ASSETS		
Cash and Due from Banks	\$ 24,074,647	\$ 23,278,507
Federal Funds Sold	72,000,000	75,000,000
Available for Sale Securities	97,907,911	110,213,084
Held to Maturity Securities	38,819,674	38,922,476
Loans - Less Allowance for Credit Losses of \$4,206,248 and \$4,000,000, Respectively	229,814,160	219,316,282
Bank Premises and Equipment	1,002,161	1,031,809
Federal Reserve Bank Stock, at Cost	39,000	39,000
Other Assets	2,877,707	2,657,801
Total Assets	<u>\$ 466,535,260</u>	<u>\$ 470,458,959</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest Bearing	\$ 43,628,493	\$ 37,224,171
Interest Bearing	369,013,647	381,226,077
Total Deposits	\$ 412,642,140	\$ 418,450,248
Other Liabilities	1,000,027	1,625,480
Total Liabilities	<u>\$ 413,642,167</u>	<u>\$ 420,075,728</u>
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	50,642,401	46,294,145
Accumulated Other Comprehensive Income	950,692	2,789,086
Total Shareholders' Equity	<u>\$ 52,893,093</u>	<u>\$ 50,383,231</u>
Total Liabilities and Shareholders' Equity	<u>\$ 466,535,260</u>	<u>\$ 470,458,959</u>

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

Consolidated Statements Of Income**FOR YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002**

	2004	2003	2002
INTEREST INCOME:			
Interest and Fees on Loans	\$ 15,365,450	\$ 16,731,385	\$ 20,029,976
Interest on Available for Sale Securities	4,345,682	4,238,959	4,161,110
Interest on Held to Maturity Securities	501,653	444,646	719,183
Interest on Federal Funds Sold	952,805	822,360	1,135,792
Total Interest Income	<u>\$ 21,165,590</u>	<u>\$ 22,237,350</u>	<u>\$ 26,046,061</u>
INTEREST EXPENSE:			
Interest on Deposits	<u>\$ 6,610,483</u>	<u>\$ 7,782,843</u>	<u>\$ 12,414,676</u>
Net Interest Income	\$ 14,555,107	\$ 14,454,507	\$ 13,631,385
Provision for Possible Credit Losses	-0-	867,965	1,869,569
Net Interest Income after Provision for Possible Credit Losses	<u>\$ 14,555,107</u>	<u>\$ 13,586,542</u>	<u>\$ 11,761,816</u>
OTHER INCOME:			
Service Charges and Commissions	\$ 236,754	\$ 211,080	\$ 211,768
Net Realized Gains on Sales of Available for Sale Securities	534,000	-0-	239,517
Other Operating Income	14,781	17,474	20,527
Total Other Income	<u>\$ 785,535</u>	<u>\$ 228,554</u>	<u>\$ 471,812</u>
OTHER EXPENSES:			
Salaries and Employee Benefits	\$ 3,807,420	\$ 3,273,416	\$ 2,934,916
Expenses of Premises and Equipment	536,537	492,140	443,516
Net Realized Losses on Sales of Available for Sale Securities	492,009	-0-	329,882
Other Operating Expenses	2,376,987	2,314,850	1,936,913
Total Other Expenses	<u>\$ 7,212,953</u>	<u>\$ 6,080,406</u>	<u>\$ 5,645,227</u>
Income before Income Taxes	\$ 8,127,689	\$ 7,734,690	\$ 6,588,401
Provision for Income Taxes	<u>2,939,433</u>	<u>2,781,893</u>	<u>2,325,329</u>
Net Income	<u>\$ 5,188,256</u>	<u>\$ 4,952,797</u>	<u>\$ 4,263,072</u>

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

Consolidated Statements Of Changes In Shareholders' Equity

FOR YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
BALANCES—					
January 1, 2002	\$ 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
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
COMPREHENSIVE INCOME					
Net Income			4,952,797		4,952,797
Other Comprehensive Income - Net of Tax:					
Change in Unrealized Gain (Loss) on Securities Available for Sale, Net of Deferred Income Tax (Benefit) of (\$556,014)				(961,492)	(961,492)
Add: Reclassification Adjustment				-0-	-0-
Total Comprehensive Income					3,991,305
Cash Dividends (\$1.40 Per Share)			(840,000)		(840,000)
BALANCES—					
December 31, 2003	\$ 300,000	\$ 1,000,000	\$ 46,294,145	\$ 2,789,086	\$ 50,383,231
COMPREHENSIVE INCOME					
Net Income			5,188,256		5,188,256
Other Comprehensive Income - Net of Tax:					
Change in Unrealized Gain (Loss) on Securities Available for Sale, Net of Deferred Income Tax (Benefit) of (\$1,063,112)				(1,838,394)	(1,838,394)
Add: Reclassification Adjustment				-0-	-0-
Total Comprehensive Income					3,349,862
Cash Dividends (\$1.40 Per Share)			(840,000)		(840,000)
BALANCES -					
December 31, 2004	\$ 300,000	\$ 1,000,000	\$ 50,642,401	\$ 950,692	\$ 52,893,093

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

Consolidated Statements Of Cash Flows

FOR YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 5,188,256	\$ 4,952,797	\$ 4,263,072
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation	195,699	155,268	158,553
Provision for Credit Losses	-0-	867,965	1,869,569
Provision for Deferred Taxes	11	(264,205)	947,332
Net Realized (Gains) Losses on Available for Sale Securities	(41,992)	-0-	90,365
Net (Gains) Losses on Sale of Other Real Estate	127,610	118,979	-0-
Increase in Cash Value - Life Insurance	(7,698)	(10,383)	(10,564)
Amortization of Premiums and (Accretion) of Discounts on Available for Sale Securities - Net	982,761	911,877	452,566
(Increase) Decrease in Interest Receivable	73,468	199,922	410,110
(Increase) Decrease in Prepaid Expenses	13,496	(54,964)	150,313
Increase (Decrease) in Other Assets	(18,221)	-0-	-0-
Increase (Decrease) in Accrued Interest	(73,219)	(230,479)	(1,539,000)
Increase (Decrease) in Other Liabilities	39,858	(11,687)	61,633
	<u> </u>	<u> </u>	<u> </u>
Net Cash Provided by Operating Activities	<u>\$ 6,480,029</u>	<u>\$ 6,635,090</u>	<u>\$ 6,853,949</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net (Increase) Decrease in Federal Funds Sold	\$ 3,000,000	\$ 3,000,000	(\$ 1,000,000)
Proceeds from Sales and Maturities of Available for Sale Securities	45,802,929	255,000	41,854,900
Proceeds from Maturities of Held to Maturity Securities	105,498,350	103,555,354	103,280,817
Proceeds from Sales of Other Real Estate	280,000	663,268	230,000
Purchases of Available for Sale Securities	(37,340,030)	(20,583,744)	(37,803,383)
Purchases of Held to Maturity Securities	(105,395,547)	(103,588,380)	(103,342,830)
Purchase of Bank Premises and Equipment	(166,051)	(94,911)	(111,358)
Net (Increase) Decrease in Loans	(10,715,428)	25,700,239	13,034,780
	<u> </u>	<u> </u>	<u> </u>
Net Cash Provided by Investing Activities	<u>\$ 964,223</u>	<u>\$ 8,906,826</u>	<u>\$ 16,142,926</u>

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

Consolidated Statements Of Cash Flows**FOR YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002 (Continued)**

	2004	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net Increase (Decrease) in Demand and Savings Deposits	\$ 131,691	(\$ 7,920,950)	(\$ 636,725)
Net Increase (Decrease) in Certificates of Deposit	(5,939,803)	(4,896,254)	(22,297,580)
Dividends Paid	<u>(840,000)</u>	<u>(840,000)</u>	<u>(840,000)</u>
Net Cash Used in Financing Activities	(\$ <u>6,648,112</u>)	(\$ <u>13,657,204</u>)	(\$ <u>23,774,305</u>)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 796,140	\$ 1,884,712	(\$ 777,430)
Cash and Cash Equivalents at Beginning of Year	<u>23,278,507</u>	<u>21,393,795</u>	<u>22,171,225</u>
Cash and Cash Equivalents at End of Year	<u>\$ 24,074,647</u>	<u>\$ 23,278,507</u>	<u>\$ 21,393,795</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash Paid During the Year for:			
Interest	<u>\$ 6,683,702</u>	<u>\$ 8,013,323</u>	<u>\$ 13,953,677</u>
Income Taxes	<u>\$ 2,900,000</u>	<u>\$ 3,196,062</u>	<u>\$ 1,137,000</u>
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH ACTIVITIES:			
Transfer from Loans to Other Real Estate Owned	<u>\$ 122,610</u>	<u>\$ 839,830</u>	<u>\$ 264,389</u>

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

Notes To Consolidated Financial Statements For Years Ended December 31, 2004, 2003, And 2002

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, 2004, 2003, and 2002.

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, 2004, 2003, And 2002 (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 \$8,577,000 and \$9,370,000 for the years ended December 31, 2004 and 2003, respectively.

Notes To Consolidated Financial Statements For Years Ended December 31, 2004, 2003, And 2002 (Continued)

Note 3 Investment Securities:

The carrying amounts and approximate market values of investment securities at December 31, 2004 and 2003, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2004				
Available for Sale Securities -				
U.S. Government and Agency Securities	\$ 91,422,085	\$ 1,611,762	(\$ 174,472)	\$ 92,859,375
State and Municipal Securities	4,985,365	68,255	(5,084)	5,048,536
Totals	<u>\$ 96,407,450</u>	<u>\$ 1,680,017</u>	<u>(\$ 179,556)</u>	<u>\$ 97,907,911</u>
Held to Maturity Securities -				
U.S. Government and Agency Securities	<u>\$ 38,819,673</u>	<u>\$ 3,501</u>	<u>(\$ 8,799)</u>	<u>\$ 38,814,375</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2003				
Available for Sale Securities -				
U.S. Government and Agency Securities	\$102,753,728	\$ 4,305,647	\$ -0-	\$107,059,375
State and Municipal Securities	3,057,389	96,320	-0-	3,153,709
Totals	<u>\$105,811,117</u>	<u>\$ 4,401,967</u>	<u>\$ -0-</u>	<u>\$110,213,084</u>
Held to Maturity Securities -				
U.S. Government and Agency Securities	<u>\$ 38,922,476</u>	<u>\$ 5,943</u>	<u>\$ 607</u>	<u>\$ 38,927,812</u>

Investment securities with carrying amounts of \$34,108,099 and \$33,865,540 and market values of \$35,292,198 and \$35,728,318, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law at December 31, 2004 and 2003.

Gross realized gains and gross realized losses on sales of available for sale securities for the years ended December 31, 2004, 2003, and 2002, are as follows:

	2004	2003	2002
Gross Realized Gains:			
U.S. Government and Agency Securities	<u>\$ 534,000</u>	<u>\$ -0-</u>	<u>\$ 239,517</u>
Gross Realized Losses:			
U.S. Government and Agency Securities	<u>\$ 492,009</u>	<u>\$ -0-</u>	<u>\$ 329,882</u>

The amortized cost and estimated market value of debt securities at December 31, 2004, by contractual maturities, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or repayment penalties.

	Available for Sale Securities		Held to Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	\$ 10,779,497	\$ 10,804,362	\$ 38,819,674	\$ 38,814,375
Due from One Year to Five Years	81,272,396	82,698,438	-0-	-0-
Due from Five Years to Ten Years	1,658,885	1,677,509	-0-	-0-
Due after Ten Years	<u>2,696,672</u>	<u>2,727,602</u>	<u>-0-</u>	<u>-0-</u>
Totals	<u>\$ 96,407,450</u>	<u>\$ 97,907,911</u>	<u>\$ 38,819,674</u>	<u>\$ 38,814,375</u>

Notes To Consolidated Financial Statements For Years Ended December 31, 2004, 2003, And 2002 (Continued)

Note 4 Loans:

Total loans at December 31, 2004 and 2003, by major loan categories are summarized as follows:

	2004	2003
Commercial	\$ 10,433,547	\$ 12,244,326
Real Estate - Construction and Mortgage	211,036,890	196,905,639
Installment	<u>13,160,595</u>	<u>15,449,274</u>
Gross Loans	\$ 234,631,032	\$ 224,599,239
Unearned Discount	<u>(610,624)</u>	<u>(1,282,957)</u>
Total Loans	\$ 234,020,408	\$ 223,316,282
Allowance for Credit Losses	<u>(4,206,248)</u>	<u>(4,000,000)</u>
Loans, Net	<u>\$ 229,814,160</u>	<u>\$ 219,316,282</u>

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

	2004	2003	2002
Beginning Balances - January 1,	\$ 4,000,000	\$ 3,600,000	\$ 5,603,699
Loans Charged Off	(703,437)	(1,297,614)	(4,499,817)
Recoveries of Loans			
Previously Charged Off	909,685	829,649	626,549
Provision to Expense for			
Credit Losses	<u>-0-</u>	<u>867,965</u>	<u>1,869,569</u>
Ending Balances - December 31,	<u>\$ 4,206,248</u>	<u>\$ 4,000,000</u>	<u>\$ 3,600,000</u>

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

The following summarizes impaired loan information at December 31, 2004, 2003, and 2002:

	2004	2003	2002
Impaired Loans with Related Allowance	\$ 268,484	\$ -0-	\$ 3,129,322
Impaired Loans with no Related Allowance	<u>770,809</u>	<u>575,641</u>	<u>-0-</u>
Total Impaired Loans	<u>\$ 1,039,293</u>	<u>\$ 575,641</u>	<u>\$ 3,129,322</u>
Allowance on Impaired Loans	<u>\$ 109,306</u>	<u>\$ 86,346</u>	<u>\$ 469,398</u>
Average Impaired Loans	<u>\$ 867,123</u>	<u>\$ 1,520,789</u>	<u>\$ 4,048,421</u>
Interest Income Recognized on Impaired Loans	<u>\$ 22,465</u>	<u>\$ 10,696</u>	<u>\$ 65,439</u>

Notes To Consolidated Financial Statements For Years Ended December 31, 2004, 2003, And 2002 (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 2004 and 2003:

	2004	2003
Balances - January 1,	\$ 6,619,353	\$ 6,627,048
New Loans	2,800,333	6,715,571
Repayments	<u>(1,171,503)</u>	<u>(6,723,266)</u>
Balances - December 31,	<u>\$ 8,248,183</u>	<u>\$ 6,619,353</u>

Note 5 Bank Premises and Equipment:

Major classifications of bank premises and equipment at December 31, 2004 and 2003, are summarized as follows:

	2004	2003
Buildings and Improvements	\$ 1,856,589	\$ 1,856,589
Furniture and Fixtures	<u>1,346,522</u>	<u>1,405,530</u>
	\$ 3,203,111	\$ 3,262,119
Less: Accumulated Depreciation	<u>2,401,410</u>	<u>2,430,770</u>
	\$ 801,701	\$ 831,349
Land	<u>200,460</u>	<u>200,460</u>
Bank Premises and Equipment, Net	<u>\$ 1,002,161</u>	<u>\$ 1,031,809</u>

Depreciation expense for the years ended December 31, 2004, 2003, and 2002, was \$195,699, \$155,268, and \$158,553, 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, 2004, is as follows:

Year	Amount
2005	\$ 48,896
2006	50,548
2007	<u>47,767</u>
Total	<u>\$ 147,211</u>

Notes To Consolidated Financial Statements For Years Ended December 31, 2004, 2003, And 2002 (Continued)

Note 6 Deposits:

The major categories of deposits at December 31, 2004 and 2003, are as follows:

	2004	2003
Noninterest Bearing	\$ <u>43,628,493</u>	\$ <u>37,224,171</u>
Interest Bearing:		
Money Market	\$ 118,494,626	\$ 126,085,000
Savings	21,584,071	20,269,120
Time and Certificates of Deposit	113,250,007	120,679,068
Certificates of Deposit over \$100,000	<u>115,684,943</u>	<u>114,192,889</u>
Total Interest Bearing Deposits	\$ <u>369,013,647</u>	\$ <u>381,226,077</u>
Total Deposits	\$ <u>412,642,140</u>	\$ <u>418,450,248</u>

Scheduled maturities of time and certificates of deposits at December 31, 2004, are as follows:

2005	\$ 187,751,932
2006	37,390,835
2007	3,086,218
2008 and Thereafter	<u>705,965</u>
Total	\$ <u>228,934,950</u>

The Bank has received deposits in the normal course of business from directors and officers of the Bank and their associates. Such related party deposits were accepted on substantially the same terms including interest rates and maturities as those prevailing at the time for comparable transactions with unrelated parties. The aggregate dollar amount of these deposits was approximately \$47,003,295 and \$27,638,863 at December 31, 2004 and 2003, respectively.

Note 7 Income Taxes:

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

	2004	2003	2002
Currently Payable:			
Federal	\$ 2,597,055	\$ 2,676,895	\$ 1,197,251
State	<u>342,367</u>	<u>369,203</u>	<u>180,746</u>
Totals	\$ <u>2,939,422</u>	\$ <u>3,046,098</u>	\$ <u>1,377,997</u>
Deferred (Benefit):			
Federal	\$ 10	(\$ 235,362)	\$ 843,912
State	<u>1</u>	<u>(28,843)</u>	<u>103,420</u>
Totals	\$ <u>11</u>	(\$ <u>264,205</u>)	\$ <u>947,332</u>
Total Applicable Income Taxes	\$ <u>2,939,433</u>	\$ <u>2,781,893</u>	\$ <u>2,325,329</u>

Notes To Consolidated Financial Statements

For Years Ended December 31, 2004, 2003, And 2002 (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):

	2004	2003	2002
Bad Debts	\$ -0-	(\$ 263,481)	\$ 947,235
Discount on Investment Securities	<u>11</u>	<u>(724)</u>	<u>97</u>
Totals	<u>\$ 11</u>	<u>(\$ 264,205)</u>	<u>\$ 947,332</u>

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

	2004		2003		2002	
	Amount	%	Amount	%	Amount	%
Tax on Income before Income Tax at the Top Statutory Income Tax Rate	\$2,763,414	34.00%	\$2,629,794	34.00%	\$2,240,056	34.00%
Increase (Decrease) Resulting from:						
State Income Tax, Net of Federal Benefit	225,963	2.78	224,638	2.90	187,550	2.85
Nontaxable Interest Income	(59,756)	(.73)	(80,141)	(1.04)	(115,508)	(1.75)
Nondeductible Interest Expense	3,895	.05	4,960	.06	10,993	.16
Other Items	<u>5,917</u>	<u>.07</u>	<u>2,642</u>	<u>.03</u>	<u>2,238</u>	<u>.03</u>
Tax on Income	<u>\$2,939,433</u>	<u>36.17%</u>	<u>\$2,781,893</u>	<u>35.95%</u>	<u>\$2,325,329</u>	<u>35.29%</u>

The approximate tax (benefit) effects of the net investment securities gains (losses) were \$15,117, \$-0-, and (\$33,110) for the years 2004, 2003, and 2002, respectively.

Notes To Consolidated Financial Statements

For Years Ended December 31, 2004, 2003, And 2002 (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, 2004 and 2003:

	2004	2003
Accumulated Pension Benefit Obligation:	\$ 2,851,745	\$ 2,719,288
Value of Future Salary Projections	<u>327,838</u>	<u>299,899</u>
Total Projected Pension Benefit Obligation	\$ 3,179,583	\$ 3,019,187
Fair Value of Plan Assets	<u>2,081,758</u>	<u>1,813,277</u>
Plan Assets in Excess (Deficient) of Projected Benefit Obligation	(\$ 1,097,825)	(\$ 1,205,910)
Unrecognized Prior Service Cost	(11,960)	(16,955)
Unrecognized Net Loss or (Gain)	1,162,548	1,106,275
Unrecognized Net Transition Liability or (Asset)	(2,697)	(10,256)
Accumulated Other Comprehensive Income	<u>(820,053)</u>	<u>(779,165)</u>
Unfunded (Accrued) or Prepaid Pension Cost	<u>(\$ 769,987)</u>	<u>(\$ 906,011)</u>

The components of pension (expense) income for the years ended December 31, 2004, 2003, and 2002, are as follows:

	2004	2003	2002
Service Cost-Benefits Earned			
During Year	(\$ 119,931)	(\$ 107,009)	(\$ 91,140)
Interest Cost on Projected Benefit Obligation	(193,575)	(185,365)	(179,202)
Actual Return on Assets	190,912	185,358	183,803
Amortization of Net Gain (Loss)	(35,765)	(12,097)	-0-
Net Amortization and Deferral	<u>12,554</u>	<u>12,554</u>	<u>12,554</u>
Net Periodic Pension (Cost) Benefit	<u>(\$ 145,805)</u>	<u>(\$ 106,559)</u>	<u>(\$ 73,985)</u>
Actuarial Assumptions:			
Weighted Average Discount Rate for Projected Benefit Obligation	6.50%	6.50%	7.00%
Weighted Average Rate of Compensation Increase	3.50%	3.50%	4.00%
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, 2004, 2003, And 2002 (Continued)

Note 9
Parent Company Condensed Financial Information:

	CONDENSED BALANCE SHEETS	
	December 31,	
	2004	2003
ASSETS		
Investment in Subsidiary	\$ 51,938,607	\$ 47,589,145
Cash	<u>3,794</u>	<u>5,000</u>
Total Assets	<u>\$ 51,942,401</u>	<u>\$ 47,594,145</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total Liabilities	<u>\$ -0-</u>	<u>\$ -0-</u>
Shareholders' Equity	<u>\$ 51,942,401</u>	<u>\$ 47,594,145</u>
Total Liabilities and Shareholders' Equity	<u>\$ 51,942,401</u>	<u>\$ 47,594,145</u>

	CONDENSED STATEMENTS OF INCOME		
	For Years Ended December 31,		
	2004	2003	2002
INCOME			
	<u>\$ 854,794</u>	<u>\$ 855,936</u>	<u>\$ 849,747</u>
EXPENSES:			
Operating Expenses	<u>\$ 26,640</u>	<u>\$ 18,208</u>	<u>\$ 16,229</u>
Income before Income Tax Benefit and Equity in Undistributed Earnings of Subsidiary	\$ 828,154	\$ 837,728	\$ 833,518
Applicable Income Taxes (Benefit)	<u>(10,640)</u>	<u>(7,272)</u>	<u>(6,482)</u>
Income before Equity in Undistributed Earnings of Subsidiary	\$ 838,794	\$ 845,000	\$ 840,000
Equity in Undistributed Earnings of Subsidiary	<u>4,349,462</u>	<u>4,107,797</u>	<u>3,423,072</u>
Net Income	<u>\$ 5,188,256</u>	<u>\$ 4,952,797</u>	<u>\$ 4,263,072</u>

Notes To Consolidated Financial Statements
For Years Ended December 31, 2004, 2003, And 2002 (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For Years Ended December 31,

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 5,188,256	\$ 4,952,797	\$ 4,263,072
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Equity in Undistributed Earnings of Subsidiary	<u>(4,349,462)</u>	<u>(4,107,797)</u>	<u>(3,423,072)</u>
Net Cash Provided by Operating Activities	<u>\$ 838,794</u>	<u>\$ 845,000</u>	<u>\$ 840,000</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends Paid	<u>(\$ 840,000)</u>	<u>(\$ 840,000)</u>	<u>(\$ 840,000)</u>
Net Cash Used in Financing Activities	<u>(\$ 840,000)</u>	<u>(\$ 840,000)</u>	<u>(\$ 840,000)</u>
Net Change in Cash and Cash Equivalents	(\$ 1,206)	\$ 5,000	\$ -0-
Cash and Cash Equivalents at Beginning of Year	<u>5,000</u>	<u>-0-</u>	<u>-0-</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,794</u>	<u>\$ 5,000</u>	<u>\$ -0-</u>

Note 10
Related Party Transactions:

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

Notes To Consolidated Financial Statements For Years Ended December 31, 2004, 2003, And 2002 (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, 2004, is as follows:

	Notional Amount
Commitments to Extend Credit	\$ 26,102,399
Commercial Letters of Credit	-0-
Standby Letters of Credit	955,369

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, 2004, 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 \$9,776,000 at December 31, 2004. 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 Regulatory Matters:

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, 2004, that the Bank could declare without the approval of the West Virginia Division of Banking and the Federal Reserve Board, amounted to approximately \$8,461,000.

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, 2004 and 2003, 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, 2004, 2003, And 2002 (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:

	Ratios	Capital Amounts		
		Actual	Minimum	Well Capitalized
As of December 31, 2004:				
Tier 1 Risk-Based Capital	24.48%	\$ 51,938,000	\$ 8,483,120	\$ 12,724,680
Total Risk-Based Capital	25.75	54,608,000	16,966,240	20,207,800
Tier 1 Leverage Capital	11.12	51,938,000	18,687,680	23,359,600
As of December 31, 2003:				
Tier 1 Risk-Based Capital	23.63%	\$ 47,609,000	\$ 8,059,000	\$ 12,089,000
Total Risk-Based Capital	24.89	50,146,000	16,119,000	20,149,000
Tier 1 Leverage Capital	10.03	47,609,000	18,988,000	23,735,000

The Bank executed a written agreement on November 19, 2003, with the Federal Reserve Bank of Richmond and the West Virginia Division of Banking to take corrective measures to enhance and improve its programs and procedures for complying with the Bank Secrecy Act of the U.S. Department of the Treasury and with the anti-money laundering provisions of the Board of Governors of the Federal Reserve System.

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 market 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, 2004, 2003, And 2002 (Continued)

The estimated fair values of the Bank's financial instruments at December 31, 2004 and 2003, are as follows:

	2004		2003	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Financial Assets:				
Cash and Due from Banks	\$ 24,074,646	\$ 24,074,646	\$ 23,278,507	\$ 23,278,507
Federal Funds Sold	72,000,000	72,000,000	75,000,000	75,000,000
Investment Securities	136,727,585	136,722,286	149,135,560	149,140,896
Loans	234,133,569	238,816,240	223,316,282	226,949,284
Financial Liabilities:				
Deposits	412,642,140	412,806,656	418,450,248	418,667,272