

A Solid Foundation

2010 Annual Report



pco ★
PutnamCountyBank

Annual Meeting

The annual meeting of shareholders of Putnam Bancshares, Inc. will be

Thursday, June 9, 2011

10:30 a.m.

Putnam County Bank Boardroom

2761 Main Street

Hurricane, West Virginia

All shareholders are invited to attend.

Shareholder Services

Please call (304) 562-9931

or write

Putnam Bancshares, Inc.

Shareholder Services

P. O. Box 308

Hurricane, WV 25526



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2010 Financial Report

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Officers and Employees

Board of Directors



While the future holds many challenges, there continues to be a place for a local, community-minded institution which works hard every day to satisfy its customers.

We present to you the financial results of Putnam Bancshares, Inc. and its wholly-owned subsidiary, Putnam County Bank, for 2010. The Bank's earnings showed marked improvement in 2010. Improved earnings were recognized as a result of an improved net interest margin combined with a decline in operating expenses. The Company showed significant asset growth driven by deposit inflows. While asset quality has come under some stress in 2010, our percentages are within those of our peer banks.

Net loans declined \$14 million or 4% in 2010, in contrast to an advance of \$12 million or 4% in 2009. The decline is indicative of lower demand brought about by current economic factors, combined with greatly increased competitive pressures in other institutions to make loans. The pricing of these loans is highly competitive given the low rate environment that exists. The Company's capital base grew to over \$72 million at the end of 2010.

Our earnings benefitted from a lower cost of funds as interest rates declined in 2010. Management will continue to focus on net interest margins closely in 2011, in light of declining loan demand. Additionally, operating expenses were an area which the Company was able to recognize earnings gains, principally in FDIC insurance premium expense and personnel expense. While FDIC

insurance premiums are largely outside of our control, we have worked to be more responsible in how we manage personnel expenses, with respect to insurance and retirement costs. For a second year, provisions to the allowance for loan loss have been in excess of \$3 million. While the provision is high, it compares to the median of our peer group.

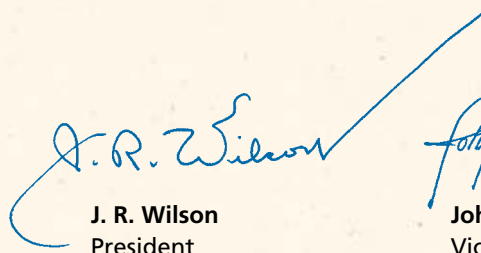
During 2010, we continued to deal with lingering effects of high unemployment, low consumer and business spending, and declines in real estate values. Stress on the banking industry has been evident. The bank failure rate rose from 25 in 2008 to 140 in 2009 and 157 in 2010. In the first quarter of 2011, 26 banks have failed. The FDIC moved aggressively to ensure necessary funds were maintained in the deposit insurance fund and at this point, it is believed the failure rate may not surpass that of 2010. Nonetheless, lawmakers continue to work to reform banking regulations to address causal effects of the banking crisis.

While other areas of the nation have been hit hard, the extreme effects have not been quite as dramatic in our state. Nonetheless, the effects of increased unemployment and reduced consumer spending have affected all areas of the nation. Additionally, economic conditions have led to a tightening of available credit throughout the nation.

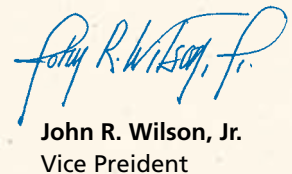
Putnam County Bank will continue to serve its customers with the products and services they have come to expect. While the Bank may not provide every service imaginable, we feel the services provided are cost-effective and secure.

We continue to be confident of the future of Putnam Bancshares, Inc. and Putnam County Bank. While the future holds many challenges, there continues to be a place for a local, community-minded institution which works hard every day to satisfy its customers. We expect to meet these challenges with a helpful and knowledgeable staff of professionals that provide services which are timely and meet customer expectations.

If you should any questions or comments, please call us at (304) 562-9931.



J. R. Wilson
President



John R. Wilson, Jr.
Vice President

4 Selected Financial Summary

Four-Year Summary

	2010	2009	2008	2007
YEAR-END BALANCE SHEET SUMMARY				
Loans, Net	\$ 330,223	\$ 344,612	\$ 332,596	\$ 309,509
Investment Securities	106,708	111,062	121,175	107,093
Total Assets	561,271	515,918	493,762	474,575
Deposits	487,653	444,735	421,163	407,038
Shareholders' Equity	72,261	69,789	69,926	65,057
AVERAGE BALANCE SHEET SUMMARY				
Loans, Net	\$ 346,939	\$ 337,081	\$ 317,911	\$ 300,557
Investment Securities	107,558	117,694	111,538	112,806
Total Assets	538,854	510,885	487,971	466,570
Deposits	464,080	437,495	418,402	400,834
Shareholders' Equity	72,086	70,451	67,092	63,237
SELECTED RATIOS				
Return On Average Assets	0.63%	0.33%	1.00%	0.87%
Return On Average Equity	4.68%	2.37%	7.24%	6.39%
Dividends Declared As a Percentage Of Net Income	39.16%	79.05%	27.17%	29.71%
SUMMARY OF OPERATIONS				
Interest Income	\$ 23,843	\$ 24,123	\$ 26,376	\$ 28,552
Interest Expense	6,572	9,075	11,737	13,815
Net Interest Income	17,271	15,048	14,639	14,737
Provision for Loan Losses	3,832	3,164	(1,138)	1,120
Noninterest Income	570	513	366	405
Noninterest Expense	8,859	9,923	8,626	7,751
Net Income	3,371	1,670	4,858	4,039
PER SHARE DATA				
Net Income	\$ 5.62	\$ 2.78	\$ 8.10	\$ 6.73
Cash Dividends	2.20	2.20	2.20	2.00
Book Value	120.44	116.32	116.54	108.43

Fig. 1

TOTAL ASSETS

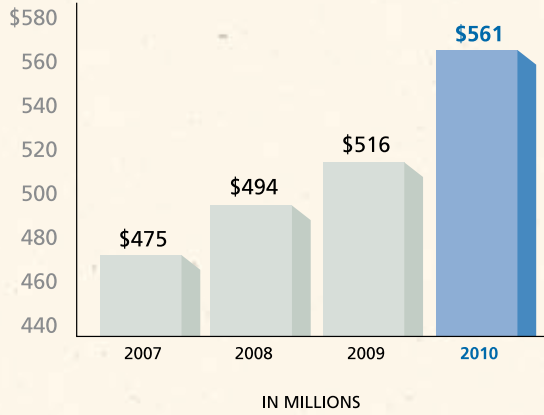


Fig. 2

TOTAL DEPOSITS

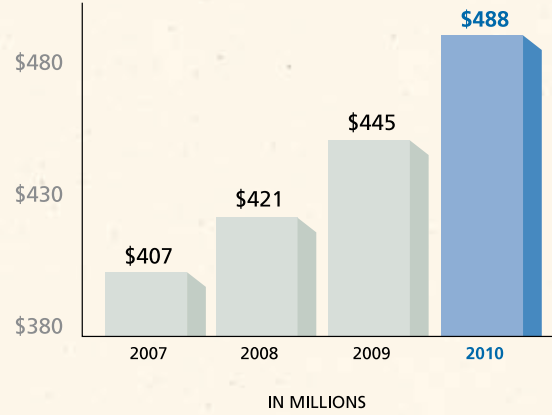


Fig. 3

TOTAL SHAREHOLDERS' EQUITY

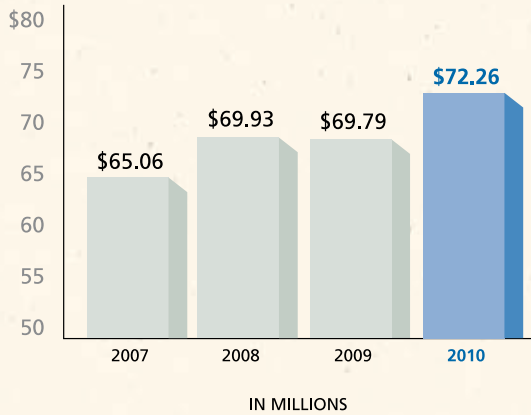


Fig. 4

NET INCOME

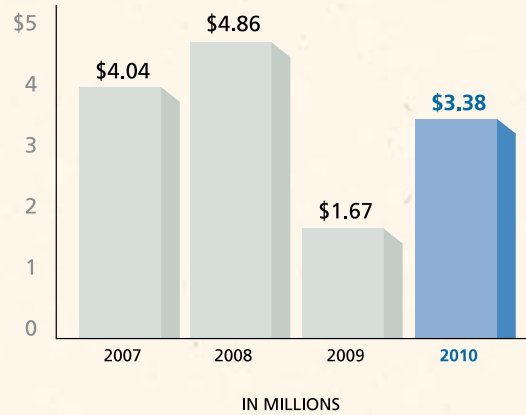


Fig. 5

DIVIDENDS PAID

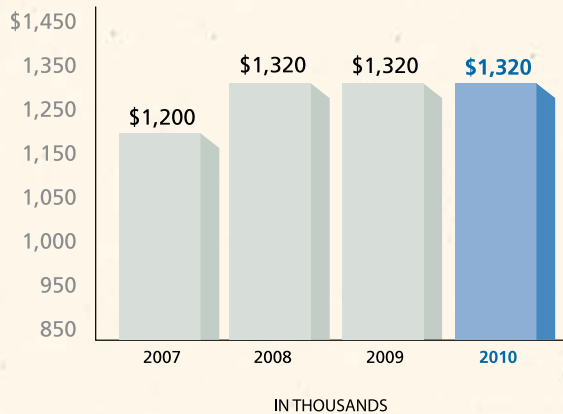
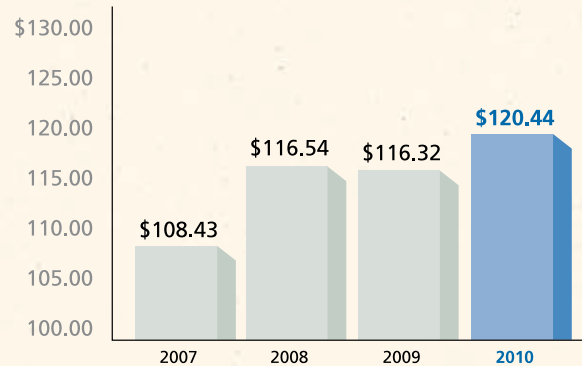


Fig. 6

BOOK VALUE PER SHARE



A white line drawing of a stylized building or structure on a blue grid background. The drawing consists of several intersecting lines forming a complex geometric shape. It features a central vertical line, a horizontal line, and several diagonal lines that create a sense of depth and structure. The overall appearance is that of a technical or architectural sketch.

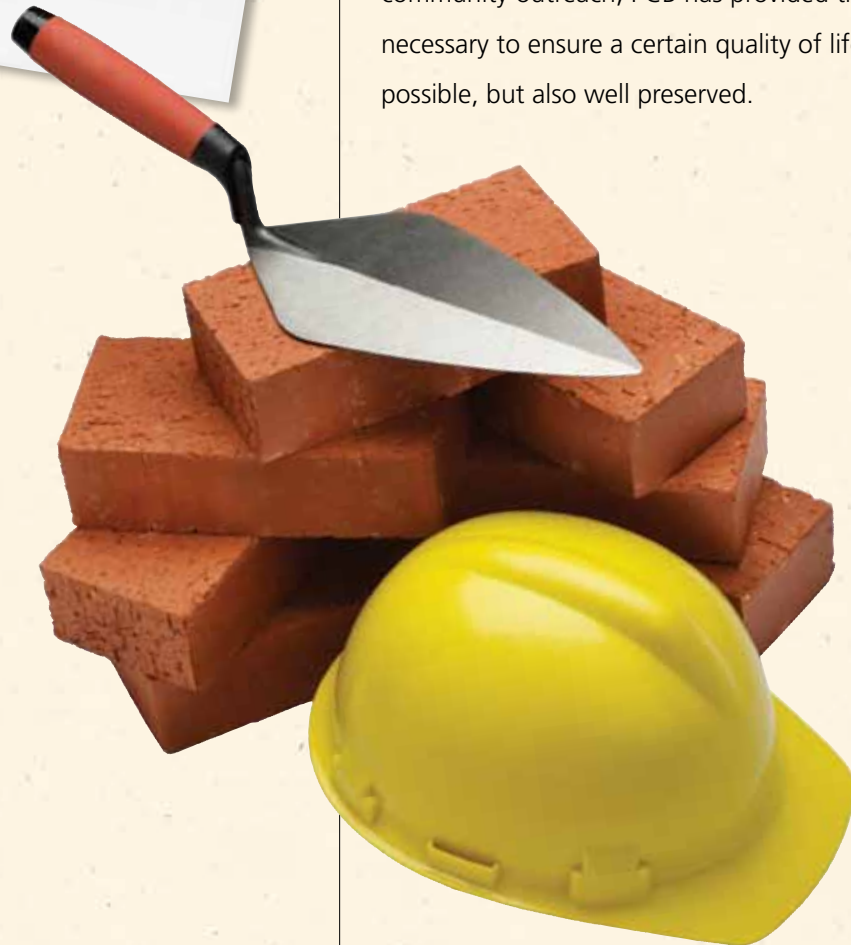
A Solid **Foundation**

foundation



Putnam County Bank opened its doors for service in 1901, just over a decade after the City of Hurricane was incorporated. Other than the location of the railroad and Main Street itself, few entities can claim such an association with a place or a community.

For 110 years, Putnam County Bank has been a solid foundation for area folks to build upon. From home mortgage loans and simple savings accounts to investments in economic development and community outreach, PCB has provided the resources necessary to ensure a certain quality of life is not only possible, but also well preserved.



security

Long before the creation of the Federal Deposit Insurance Corporation (FDIC) in 1933, the secure protection and management of our customers' financial interests have been of paramount importance. Such federal insurance certainly provides peace of mind, but Putnam County Bank takes an approach that further enhances security.

PCB is a true community bank, owned and operated by folks who live and work in Putnam County. All financial decisions, from those regarding an affordable mortgage to a new car purchase or small business loan, are made in our bank by our employees. There is no substitute for experience, expedience and local decision-making when it comes to securing your money.



confidence



Just as one cannot have faith in a house built on sand, a solid foundation is necessary to earn the trust of those you serve. Putnam County Bank has a very successful and storied past that exists due to hard work, dedication and unrivaled customer service.

We believe in the creed that states trust is earned, not given, and we value every opportunity to earn yours. PCB brings a level of personal service and attention to detail that is unrivaled in this market. It is a commitment that we take very seriously and one that builds confidence in what we do.



accountability

Putnam County Bank has witnessed the ups and downs of the financial industry for over a century. And all along the way, we've been able to weather any financial storms with sensible leadership, clear focus and commitment to our obligations.

Responsible banking is a hallmark of PCB. It is the welfare and prosperity of our customers that we focus on, not high-risk, unreliable schemes that turn a quick buck.

Solid, accountable practices are why we did not need to accept, let alone apply for, monies from the Troubled Asset Relief Program (TARP), also known as the "bail-out" of 2008. We could not be more proud of this fact.



community



When it comes to Putnam County, the bank fully realizes that its people are the community's greatest asset. That's why we value the opportunity to provide loans to potential homebuyers or business owners. We're not here to freeze credit, hoard assets and inflate our balance sheets. Rather, PCB is in the business of investing in the community it calls home.

And because we live where we work, Putnam County Bank takes great pride in its investments to community service. Our volunteer work with groups such as 4-H, Habitat for Humanity and the Community Cupboard has been publicly recognized by, among others, the Putnam County Chamber of Commerce, the Putnam County Commission and the Putnam County Development Authority.



prosperity

Putnam County Bank is the biggest in the county, with a remarkable 49% market share and over \$500 million in assets. We provide jobs to over 70 full and part-time employees. In its recent Book of Lists, *The State Journal* ranked Putnam County Bank in the top ten in the State of West Virginia in terms of deposits in state.

Such achievements would not be possible without the solid foundation created over our 110-year history. We've watched our community flourish and been an active participant in its prosperity. Putnam County Bank continually looks for ways to further develop our local community.



2010 Officers & Employees

Jack R. Wilson	President & Chief Executive Officer
John R. Wilson, Jr.	Vice President & Chief Operations Officer
Daniel M. Roberts	Vice President & Senior Lending Officer
David B. Sampson	Vice President & Chief Financial Officer
Jerry P. Brown	Cashier
Joni M. Cavender	Auditor
Richard M. Jordan	Assistant Vice President & Security Officer
Gayle M. Berry	Assistant Cashier & Proof Operations Manager
Clara B. Carmichael	Assistant Cashier & Loan Officer
Phyllis J. Canterbury	Assistant Vice President
Lora Virginia Hart	Branch Manager
Floyd L. Reynolds	Credit Review Officer
George E. Wallace	Collections Officer
Don C. Chapman	Bank Secrecy Officer
Karolee K. Burton	Compliance Officer
Joyce A. Weiskircher	Human Resource Officer
Allison W. Jones	Controller
Leigh A. Shirkey	Assistant Auditor
George E. Woodward	Branch Manager
Tyrone Y. Perry	Information Technology Manager
Angela G. Melton	Assistant Branch Manager
Debra G. Casey	Paying & Receiving
Rebecca L. Foster	Vault Manager
Tina M. Leadmon	Paying & Receiving
Claudia S. Leadman	Loan Operations
Denise D. Edwards	Electronic Banking
Linda M. Barnett	Loan Operations Manager
Teresa K. White	Paying & Receiving
Marilou McKinney	Paying & Receiving
Hope A. Story	Paying & Receiving
Jeffrey R. Davis	Loan Officer
Linda L. Bird	Paying & Receiving
Arnold L. Rollins	Accounting
Rhonda L. Cunningham	Electronic Banking
Penny L. Collier	Proof Operations
Diana L. Handley	Paying & Receiving
Deborah R. Milton	Paying & Receiving
Toni L. Davis	Paying & Receiving
John B. Lawman	Operations
Donna J. Stowers	Paying & Receiving
Marsha D. Eggleton	Paying & Receiving
Rebecca J. Foster	Paying & Receiving
Tammy J. Sovine	Data Process Verification
Tina M. Ellison	Bank Secrecy Assistant
Kelly L. Shaw	Paying & Receiving
Joy M. Persinger	Paying & Receiving
Rita K. Thomasson	Bookkeeping Manager
Betty J. Morris	Paying & Receiving
Loraine S. Rappold	Bookkeeping
Suzanne A. Craigo	Proof Operations
Margie M. Shirkey	Electronic Banking
Gregory M. Mick	Paying & Receiving
Beth J. Carnefix	Paying & Receiving
Barbara G. Estep	Bookkeeping
Thomas P. Schmadler, IV	Loan Officer
John E. Childers	Building Manager
Carrie M. Hale	Paying & Receiving
Kera D. Taylor	Proof Operations
Sherry L. McClure	Paying & Receiving
Cheryl L. Halstead	Paying & Receiving
Trisa K. Radcliffe	Accounting
Bryan J. McCallister	Bookkeeping
Robin C. Nicely	Loan Assistant
Retha A. Lemon	Paying & Receiving
Keisha B. Dunn	Paying & Receiving
Kimberly M. Helper	Paying & Receiving
Cathy M. Lippert	Loan Operations
Amanda A. Hodges	Paying and Receiving
Sandra S. Engle	Paying and Receiving
Whitney B. Fewell	Paying and Receiving
Tabatha K. Rexroad	Loan Operations
A. Kaye Turley	Proof Operations
Darlena F. Meadows	Paying and Receiving
Terri S. Manley	Credit Analyst
Jill R. Rice	Paying and Receiving
Roberta A. Marazo	Loan Review
Wesley K. Crist	Loan Officer

2010 Board of Directors



Standing, left to right

Gary D. Young

G & G Builders, Inc.

John R. Wilson, Jr.

Vice President and Chief Operations Officer

Tim Hayslett

Hayslett Construction Company

Stephen Hodges, Jr.

Stephen Hodges Home Builders, Inc.

Boyd Meadows

Half-Way Markets.

Roger K. Randolph

Randolph Engineering Company, Inc.

Seated, left to right

J.R. Wilson

President and Chief Executive Officer

Robert F. Hatfield

Hatfield Enterprises, Inc.

Okey M. Landers, Jr.

A & C Corporation

Robert S. Duckworth

RSD, Inc.





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www.bryanboyd.com

Printing

The Chapman Printing Company