PutnamCountyBank

financial contents

Analysis Of Earning Assets And Interest Bearing Liabilities

In Thousands of Dollars

	2010			2009		
ASSETS	Avg. Balance	Interest	Yield/Rate	Avg. Balance	Interest	Yield/Rate
Loans						
Commercial	$ 25,822	$ 1,506	5.83%	$ 19,995	$ 1,066	5.33%
Real Estate	316,875	18,909	5.97%	310,291	18,634	6.01%
Installment (2)	8,106	589	7.27%	9,575	841	8.78%
Total Loans (1)	$ 350,803	$ 21,004	5.99%	$ 339,861	$ 20,541	6.04%
Securities (3)						
Taxable	96,033	2,335	2.43%	107,216	3,121	2.91%
Tax-Exempt (4)	8,296	659	7.94%	7,891	624	7.91%
Total Securities	$ 104,329	$ 2,994	2.87%	$ 115,107	$ 3,745	3.25%
Federal Funds Sold	60,858	81	0.13%	36,003	54	0.15%
Total Earning Assets	$ 515,990	$ 24,079	4.67%	$ 490,971	$ 24,340	4.96%
Cash and Due from Banks	15,884			15,480		
Premises and Equipment, Net	717			790		
Other Assets	6,897			3,836		
Allowance for Loan Losses	(3,864)			(2,780)		
Total Assets (5)	$ 535,624			$ 508,297		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest Bearing Deposits						
Super NOW and MMDA	$ 97,309	$ 555	0.57%	$ 91,095	$ 828	0.91%
Savings	25,500	79	0.31%	20,050	82	0.41%
Time	288,227	5,939	2.06%	278,874	8,165	2.93%
Total Interest Bearing Deposits	$ 411,036	$ 6,573	1.60%	$ 390,019	$ 9,075	2.33%
Long-Term Borrowings	0	0	0.00%	0	0	0.00%
Total Interest Bearing Liabilities	$ 411,036	$ 6,573	1.60%	$ 390,019	$ 9,075	2.33%
Noninterest Bearing Deposits	53,043			47,475		
Accrued Expenses and Other Liabilities	1,505			1,991		
Equity	70,040			68,812		
Total Liabilities and Equity	$ 535,624			$ 508,297		
Net Interest Margin	$ 515,990	$ 17,506	3.39%	$ 490,971	$ 15,265	3.11%

(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 federal tax rate of 34% and a state tax rate of 8.50%.
(5) Net of SFAS 107 Market Value

Rate Sensitivity Analysis As Of December 31, 2010

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)	$ 32,472	$ 24,903	$ 53,246	$ 76,724	$ 44,489	$ 99,520
Investment Securities (2)	25,994	18,589	23,495	35,475	242	0
Federal Funds Sold	101,000	0	0	0	0	0
Total Selected Assets	$ 159,466	$ 43,492	$ 76,741	$ 112,199	$ 44,731	$ 99,520
LIABILITIES						
Interest Bearing Deposits (3)	$ 195,477	$ 90,807	$ 28,396	$ 0	$ 0	$ 0
Borrowed Funds	0	0	0	0	0	0
Total Selected Liabilities	$ 195,477	$ 90,807	$ 28,396	$ 0	$ 0	$ 0
Differences	(36,011)	(47,315)	48,345	112,199	44,731	99,520
Cumulative Differences	$ (36,011)	$ (83,326)	$ (34,981)	$ 77,218	$ 121,949	$ 221,469

(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

Putnam Bancshares, Inc., and its wholly-owned subsidiary Putnam County Bank, continued to encounter a challenging economic environment in 2010.

While in 2010, Treasury was receiving repayments from those banks which participated in the Troubled Asset Relief Program also known as TARP (Putnam County Bank did not participate), this did not equate to a vastly improved economic environment. The nation continued to be under stress from unemployment and related effects of reduced business and consumer spending. In addition, real estate values continue to be depressed in many areas nationally.

Statewide, we feel the same effects as has been seen nationally. Job losses and depressed real estate values have been evident in West Virginia. In addition, rising gasoline and diesel prices have further derailed efforts to recover the economy. West Virginia continues to be fortunate in having large marketable coal and natural gas reserves. The state continues to promote "clean coal" technologies and the Marcellus gas reserves have been an economic boon to some areas in the state. Nonetheless, business downsizing in the state has increased vacant commercial property in some of the larger metropolitan areas. While highway building has also been a bright spot for the state, some highway funding has become difficult to acquire. While many portions of U. S. Route 35 have been completed, lack of funding and the inability to secure public support for tolls have placed further expansion on hold.

The average unemployment rate for West Virginia was 9.1% in 2010, ranging from 9.8% in January to 9.4% in December. This compared with a 7.9% average in 2009. The average unemployment rate for Putnam County was 7.6%.

The following description of the operating income 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 F-9 and ending on page F- 29). 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 supplement management's analysis.

The Federal Financial Institutions Examination Council (FFIEC) is a governmental organization comprised of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency. The federal regulatory bodies collect financial data from commercial banks through their quarterly Call Reports and Summary of Deposits reports. The compilation of this data and resulting statistical analysis is culminated in a Uniform Bank Performance Report ("UBPR") which also designates a national "peer group" based upon asset size and number of branches. The Bank's "peer group" consists of all commercial banks having assets between $300 million and $1 billion. As of December 31, 2010 there were 1,166 banks in the same group as the Bank. When analyzing peer group statistics, it is necessary to view each bank's economic environment and operating philosophy as well as other available information (such as their Annual Reports) which may indicate how their statistical information compares to peers. Uniform Bank Performance Reports may be obtained on any financial institution by accessing www.ffiec.gov.

Net Interest Margin

The challenge of declining net interest margins in a low interest rate environment was continually heard in the banking industry throughout 2010. Interest rates continued to be at record lows and competition among financial institutions for loans continued as demand declined and deposits rose. The net interest margin is the difference between the tax equivalent interest income and interest expense divided by the average earning assets and is a primary way to gauge profitability. The Company's net interest margin increased from 3.02% in 2009 to 3.30% in 2010. The peer's net interest margin was 3.70% in 2009 and 3.84% in 2010. The principal reason for this increase was led by the repricing of deposits at lower rates. The yield on earning assets also declined, but not at the same pace as the Bank's cost of funds. Among earning assets, investment yields were lower than peer and loan yields were priced closely to market. While investment yields are generally lower than peer, the Bank has a large composition in U. S Government and Agency securities which are generally higher quality and lower risk. The Company's cost of funds was 1.60% in 2010 compared with 2.33% in 2009. The cost of funds is calculated by dividing the interest expense by the annual average of total deposits. The peer group's cost of funds was 1.98% in 2009 and 1.40% in 2010. The yield on earning assets was 4.67% in 2010 and 4.96% in 2009. Total loan yields declined from 6.04% in 2009 to 5.99% in 2010. The yield on investment securities declined from 3.25% in 2009 to 2.87% in 2010.

Management's Discussion and Analysis Of Financial Condition And Results Of Operation

Interest Income

Interest income declined $280 thousand or 1% from year-end 2009 to year-end 2010. The Federal Open Market Committee (FOMC) has held the federal funds target rate between zero and .25% through 2010. The justification for the low target rate is the current high unemployment picture, low utilization, and to control threats of inflation. The Bank had 21% of its loan portfolio indexed to the Wall Street Journal prime rate as of year-end 2010. The average total loans increased nearly $10 million or 3% from year-end 2009 to year-end 2010. This compares with nearly $19 million or 6% during the prior year. The lending group continues in its efforts to provide credit in an efficient manner with a focus on customer needs. Total income from loans increased $464 thousand or 2% at year-end 2010 while declining by $876 thousand or 4% between 2008 and 2009. The Company's average earning assets increased $25 million or 5% from year-end 2009 to year-end 2010. The income on average earning assets decreased $261 thousand from year-end 2009 to year-end 2010. Despite higher average volume, low market rates during the year were responsible for the decline in income.

Real estate lending continues to be a very viable business in our market. Average total real estate loans grew $7 million or 2% during 2010 compared with growth of $19 million or 7% in 2009. Interest income on real estate loans increased $275 thousand or 1% in 2010 compared with a decline of $721 thousand or 4% in 2009. Declines in the local real estate market have been noticeable. While demand may have declined to a degree in 2010, it remains very competitive for those desiring financing. The Bank continues to market its efficient turnaround and closing. The Bank does not book their loans with the intent to sell them in the secondary market.

Income on commercial lending increased $440 thousand or 41% in 2010, compared with a decline of $82 thousand or 7% in 2009. Average total commercial loans increased $5.8 million or 29% in 2010 compared with $1.6 million or 9% in 2009. A consistent growth in commercial lending is evident with a related increase in yield, as well.

Income on consumer lending declined $252 thousand in 2010 compared with a decline of $73 thousand in 2009. The average total of consumer loans in 2010 decreased nearly $1.5 million or 16%. In 2009, the average total decreased nearly $2 million or 16%. The decline in this area of lending may be indicative of consumer sentiment given the present economic situation. Nonetheless, automotive finance units have been aggressive in marketing low rate financing with cash back options to incent consumers to purchase new automobiles.

Income on investments (on a tax effective basis) declined $751 thousand or 20% from year-end 2009 to year-end 2010. In addition, average total investments declined nearly $11 million or 9% in the same period. This is in contrast to 2009 showing a decline in investment income of $673 thousand or 15%. Also during this period, average total investments increased over $3 million or 3%. The decline in income was related to securities which matured and subsequent reinvestment in a declining interest rate market combined with a lower volume of investments during the year. The Company's tax equivalent yield on investments declined from 3.25% in 2009 to 2.87% in 2010. The Bank's yield on investments continues to be lower than peer institutions. Lower yields in investments is generally a result of the conservative investment philosophy of management as the portfolio continues to be highly composed of U. S. Treasury and U. S. Federal Agency securities. The Bank continues to invest in three- and six-month Treasury Bills in the Treasury's weekly auction. While this strategy results in lower investment yields, it is also reflective of generally lower credit risk. The income on Federal Funds Sold at year-end 2010 increased $27 thousand with average total balances increasing $25 million over 2009. This is in contrast to year-end 2009 where income on Federal Funds Sold declined $697 thousand with average total balances declining $2 million or 5%. The yield on Federal Funds Sold dropped dramatically between the years of 2008 and 2009. These yields in the peer group have dropped almost 200 basis points between 2008 and 2009. Federal Funds Sold yields have remained relatively flat during 2010. While the percentage of funds sold to average assets remains high in comparison to peers, the level is due to increasing deposits combined with a decline in lending volume. Federal funds represent excess liquidity which the Bank is able to sell to correspondent banks at an interest rate which is subject to daily change. At year-end 2010, all municipal investments are West Virginia securities. In 2010, the Bank held two municipal issues of the Putnam County Building Commission with a carrying value of $1.3 million at the end of the year. These issues are revenue securities to fund the refinance and improvements to Teays Valley Manor, a home for low-income senior citizens and those with disabilities in Scott Depot. While these revenue securities are non-rated, they still meet the Bank's tests for creditworthiness. In addition, the investment in this project represents an opportunity for the Bank to address community needs, as mandated in the federal Community Reinvestment Act of 1977. In 2010, the Bank

Management's Discussion and Analysis Of Financial Condition And Results Of Operation

held a municipal security issue of Ohio County, West Virginia Commission with a carrying value of $1.8 million at the end of the year. Despite being non-rated, this security complied with the Bank's measures for creditworthiness. The remaining municipal securities ($4.6 million) are rated investment grade by Moody's and/or Standard and Poor's ratings services. Of the municipal securities portfolio, 7% are general obligations with the remainder being revenue obligations.

Interest Expense

Interest expense on deposits decreased $2.5 million or 28% from year-end 2009 to 2010. This compares to a similar decrease in the previous one-year period. The yield on total deposits was 1.60% for 2010 representing a decrease of 73 basis points from 2009. For our peer group, the yield is 1.40% for 2010 representing a decrease of 58 basis points. The Bank's cost of funds compare higher than peer, primarily due to higher rates paid on deposit accounts. The average total of deposits increased $27 million or 6% in the current year compared with $18 million or 5% in the previous year. The competitive pricing of deposits during the year has resulted in net interest margin concerns in many financial institutions nationwide. While management has made adjustments in an effort to better control deposit pricing, the Bank continues to pay higher rates to depositors. The Bank does not actively solicit deposits from outside its market area and does not solicit brokered deposits.

Asset and Liability Management (Interest Rate Sensitivity and Liquidity)

Putnam County Bank's Asset/Liability Committee (ALCO) is scheduled for quarterly meetings and is comprised of four outside directors and members of senior management. Reports are presented depicting historical and projected findings concerning profitability and risk, such as market risk, credit risk and liquidity risk. The experience and views of outside directors bring a perspective of how the customer may view pricing strategies. In addition, an officers' ALCO meets on a monthly basis to analyze similar data and discussions are forwarded to the board's ALCO. Some of the items on the agenda for discussion include projected loan and deposit growth or decline, the impact of rate changes, liquidity maintenance, and trends in the economy and competition.

In an effort to monitor interest rate sensitivity, management must gauge interest rate risk and its effects upon financial statements. The variables include the maturities of instruments, repricing characteristics, and the imprecise effects of prepayments on loans and withdrawals on deposits. The Rate Sensitivity Report (See page F2) provides for the maturity of instruments and takes into consideration the repricing characteristics, but not possible repayment or withdrawal scenarios. Assumptions related to changes in interest rates will affect prepayments and withdrawals and are discussed in the ALCO meetings.

There exist several sources of liquidity. The Bank's loan-to-deposit ratio was 68% in 2010 and 77% in 2009. The peer group ratio was 79% in 2010 and 83% in 2009. Federal Funds sold and short-term investments remain the primary areas for liquidity. The Bank continues to be comparatively conservative with regards to investments as it invests in U. S. Treasury and Government Agency securities and West Virginia municipal securities. The Bank does not participate in brokered deposits.

Another measure of liquidity is the Bank's net non-core funding dependence ratio. This measures how much of the Bank's long-term assets are funded with non-core funding. Non-core funding is characterized as time deposits in excess of $100,000 which are considered to be more sensitive to rate changes than other deposits. As of year-end 2010, the ratio was 11% compared with 17% at year-end 2009. This is well below the peer group ratios of 21% and 25%, respectively.

Nonperforming Assets

Nonperforming assets include 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 are in default for ninety days or more, unless the loan is well secured and in process of collection. Loans are in nonaccrual status due to loss of the primary source of repayment and all payments are reflected on a cash basis. The total of nonperforming loans at the end of 2010 was $2.8 million or .83% of total loans compared with $11.1 million or 3.19% at year-end 2009. This compares with peer ratios of 3.22% and 3.18% respectively. The decrease in nonperforming loans was related to a multifamily residential real estate project in Winston-Salem, NC ($5 million) and a local real estate development ($3 million). The Winston-Salem project incurred a loss of $1.7 million during 2010 with the remainder placed back to accrual status. The local real estate development incurred a loss of $2.1 million during 2010. The remaining amount in nonaccrual status appears to be well secured and in process of collection.

The Bank had a balance of $1.4 million in other real estate owned at year-end 2010 compared with $655 thousand in 2009. The increase was related to two properties: one is a residential property in Hurricane for $515 thousand and

Management's Discussion and Analysis
Of Financial Condition And Results Of Operation

the other represents the investment in commercial property in Wilmington, NC for $409 thousand. The Bank has been working to liquidate the residential property. The Bank is working with the Trustee to complete construction of the commercial property to improve its marketability.

Provision and Allowance for Loan Losses

The Bank made total provisions to the allowance for loan losses totaling $3.8 million in 2010 compared to a provision of $3.2 million in 2009. The high levels of provisions in 2010 were primarily related to losses incurred in a local residential real estate development ($2.1 million) and a multifamily residential real estate project in Winston-Salem, NC ($1.7 million). Loan loss recoveries in 2010 totaled $634 thousand compared with $81 thousand in 2009. Recoveries in 2010 were principally due to the liquidation of properties of a local museum. Gross loan losses increased from $1.5 million in 2009 to $4 million in 2010. The highest single loss was to a local residential real estate development which is operating under Bankruptcy protection. The second highest single loss involved a multifamily residential real estate project in Winston-Salem, NC.

Net loan losses were $3.4 million in 2010 and $1.4 million in 2009. The Bank's ratio of net loss to average total loans was .96% compared to .98% for the peer group. As of year-end 2010, the allowance for loan loss was $4.5 million or 1.33% of total loans compared to $4 million or 1.15% of total loans at year-end 2009. The peer ratios of allowance to total loans were 1.92% in 2010 and 1.85% in 2009. While the Bank's ratios are lower than peer, the allowance level is reflective of many factors which include underwriting practices, local economic conditions, and quality of collateral evaluations. While many factors must be assessed in determining the adequacy of the allowance, each institution's evaluation is specialized to its own unique characteristics. Along with a well-qualified loan staff, the Bank also has a Loan Committee composed of outside Directors meeting with senior officers to discuss topics involving the loan portfolio on a monthly basis. 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 income (excluding gross securities gains and equity in earnings of subsidiary) totaled $534 thousand representing an increase of $84 thousand or 19% in 2010 over 2009. The Bank recognized a $47 thousand increase to other operating income as a result of the termination of the Vested Health savings plan in 2009. This plan involved the Bank setting aside amounts for covered persons for items such as health insurance, medications, and any other items covered under the health savings plan. In addition, income on VISA debit cards increased $27 thousand or 17% from year-end 2009 to 2010. This increase offsets declines in nonsufficient check, overdraft charges, and ATM surcharge fees. Other sources of noninterest income remained relatively unchanged. In 2011, there is a threat that VISA debit card income may be reduced by as much as 75% as a result of federal regulation which would significantly lower interchange rates.

The Bank continues to be a low-cost provider of banking services. In 2010, the percentage of noninterest income to average assets for the Bank is .10% compared to the peer ratio of .72%. In 2009, the Bank's ratio was .09% with the peer ratio being .74%.

Equity in earnings of the subsidiary declined from $63 thousand in 2009 to $36 thousand. This relates to the 51% investment in Putnam County Title Insurance Agency LLC by Putnam Bancshares, Inc., which was formed in 2008. While the Agency benefitted from a full year of operation in 2009 and a robust local real estate market, the year of 2010 was profitable, however not at the same pace as 2009.

Noninterest Expense

Total noninterest expense (excluding gross securities losses) declined $1.1 million or 11% from year-end 2009 to year-end 2010 compared with an increase of $1.3 million or 15% between years ending 2008 and 2009. Noninterest expenses are composed of expenses relating to personnel, occupancy, and other operating expenses. Total noninterest expense to average assets was 1.64% in 2010 compared with 1.93% in 2009. The peer group ratios showed 2.93% in 2010 and 2.97% in 2009. Earnings historically have benefitted from lower noninterest expenses, relative to the Bank's size.

Total personnel expenses decreased by $783 thousand or 14% in 2010 compared with an increase of $634 thousand or a 13% increase in 2009. The most significant personnel expense decrease was found in employee retirement funding. While the expense was $820 thousand in 2009, it declined to $559 thousand in 2010. In July of 2009, the Bank made a special assessment of $560 thousand required to maintain a fully funded plan, as required by the plan managers. The Bank's retirement plan was administered by the West Virginia Bankers Association, but in 2010 administration of the plan was changed to a new company. The existing plan is a noncontributory pension plan with independent actuaries making the

Management's Discussion and Analysis Of Financial Condition And Results Of Operation

determination of contributions made by its members. With the new administration, the Bank hopes to offer 401-K plans and other cost effective measures for the retirement planning of our employees. The next highest decrease in personnel expense was found in group health and life insurance. After an increase of $236 thousand for the year of 2009, this expense decreased $235 thousand in 2010. The Bank's medical insurance is a self-funded plan and higher expense has been a result of increased utilization. Management has initiated several strategies to cut costs in coverage, such as elimination of a plan option, raising deductibles and copayments, elimination of the Bank's health reimbursement account, and selection of a new third-party administrator. Employee salary increases were frozen in 2009 and 2010 and will be reconsidered in 2011. The Bank's personnel costs as a percentage of average assets compare favorably. At the end of 2010, the Bank's ratio was .89% compared with the peer bank ratio of 1.47%

Total occupancy expense includes the costs to maintain the Bank's premises and equipment. These expenses declined from $523 thousand in 2009 to $498 thousand in 2010. This was led by a decline in depreciation expense of $41 thousand. Additionally, a decline in maintenance expense ($21 thousand) offset increases in equipment service contracts ($14 thousand) and taxes on bank premises ($11 thousand). The Bank continues to operate facilities at 2761 Main Street (including the Loan Center at 2762 Main Street), 300 Hurricane Creek Road and 3058 Mount Vernon Road.

Total other operating expense declined from $3.8 million in 2009 to $3.5 million in 2010. The most significant decrease is found in FDIC insurance premiums. In 2010, these premiums declined by $301 thousand over 2009. A special assessment (in addition to regular assessments) was placed on all FDIC institutions because of stress on the insurance fund from bank failures and the Bank was assessed $221 thousand in June of 2009. In addition that year, the FDIC proposed that Banks prepay their next three years of premiums and the resulting effect was a cash payment to the FDIC of $2.3 million at year-end 2009. With continued concern over bank failures and their impact upon the FDIC insurance fund, this expense category holds several unknowns as we look to the future. Several areas which saw declines resulted in correspondent increases in other areas. Examples are: decreases in office supplies ($29 thousand) are offset by increases in computer supplies and software ($37 thousand); decreases in charitable donations ($21 thousand) are offset by increases in advertising/sponsorships ($27 thousand). Expenses related to our core data processing provider represents the second largest expense item in this category and expenses in this area rose less than 2% from 2009 to 2010. Our provider continues to provide cost effective solutions to the Bank and we continue to explore additional options which are available. As an industry, we continue to utilize efficiencies that electronic options provide as opposed to paper, and we expect to continue to see these effects upon expense. With respect to operating expenses, the Bank still performs favorably in comparison to peers. At the end of 2010, the Bank's ratio of other operating expenses to average assets was .65% compared with the peer's ratio of 1.06%

The Bank reported $1,356 in net losses on the sale of securities held as available for sale in 2010 compared with net losses of $3,912 in 2009. Gains and losses are derived from the sale of securities classified as "available for sale" which are reflected on the financial statements at the fair market value and may be sold at any time at the discretion of management. Management considers several factors before making a 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 evaluated by management and reviewed by the Board. All of the Company's investment in U. S. Treasury Bills is classified as "held to maturity" and the remainder of the portfolio is classified as "available for sale". 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.

Taxes

The Company's federal and state tax provision increased from $803 thousand in 2009 to nearly $1.8 million in 2010. The increase was due to higher taxable income and a lower level of deferred tax benefit.

The Bank invests in municipal securities issued in West Virginia which are "bank qualified" and are exempt from federal and state taxation.

Equity and Capital Ratios

Putnam Bancshares' equity increased nearly $2.5 million or 4% to $72 million. The change in equity during 2010 was reflective of $3.4 million in net income less $1.3 million in dividends and an increase of $420 thousand in comprehensive income. The book value per outstanding share increased from $116.32 in 2009 to $120.44 in 2010. The Company's net income as a percentage of average equity was 4.68% in 2010. Peer banks in 2010 posted net income as a percentage of average equity of 4.21%.

Management's Discussion and Analysis Of Financial Condition And Results Of Operation

Banking regulatory bodies mandate the risk-weighting of 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 capital plus the allowable portion of the allowance for loan losses) comprise two vital measures of capital adequacy. As of year-end 2010, the Bank's Tier 1 risk-based capital-to-total risk-weighted assets were 23.01% compared to 21.98% in 2009. The peer bank ratios were 13.05% and 11.90% in 2010 and 2009 respectively. As of year-end 2010, the Bank's total risk-based capital-to-total risk-weighted assets were 24.26% compared to 23.23% in 2009. The peer bank ratios were 14.32% and 13.17% in 2010 and 2009 respectively. Both measures rank the Bank in the 96th percentile in comparison with peers. Using the federal guidelines for capital adequacy, these ratios indicate the Bank is well-capitalized.

Dividends

The Company paid dividends of $1.3 million in 2010 and 2009. This equates to a dividend payout (dividends to net income) ratio of 39% in 2010 and 79% in 2009. The peer Bank ratio for 2010 was 34% and 49% in 2009. Regular dividends were paid in June and December of 2010.

For a further discussion of dividends, please refer to "Note 13 – Regulatory Matters" 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 are the responsibility of the management of Putnam Bancshares, Inc. and its sole subsidiary, Putnam County Bank. 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 quarterly 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, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the three years in the period ended December 31, 2010. 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, 2010 and 2009, and the results of its operations and its cash flows for the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Rollins, Cleavenger and Rollins

Certified Public Accountants

March 14, 2011

Consolidated Balance Sheets

DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
Cash and Due from Banks	$ 16,992,085	$ 15,927,143
Federal Funds Sold	101,000,000	38,000,000
Available for Sale Securities	67,727,255	72,065,259
Held to Maturity Securities	38,985,087	38,986,503
Loans - Less Allowance for Credit Losses of $4,458,996 and $4,002,286, Respectively	330,222,847	344,611,528
Bank Premises and Equipment	681,891	747,811
Federal Reserve Bank Stock, at Cost	39,000	39,000
Investment in Unconsolidated Subsidiary	(4,052)	9,808
Other Assets	5,626,839	5,530,926
Total Assets	$ 561,270,952	$ 515,917,978
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest Bearing	$ 53,766,487	$ 47,396,205
Interest Bearing	433,886,901	397,338,965
Total Deposits	$ 487,653,388	$ 444,735,170
Other Liabilities	1,356,526	1,393,374
Total Liabilities	$ 489,009,914	$ 446,128,544
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	69,112,811	67,061,609
Accumulated Other Comprehensive Income	1,848,227	1,427,825
Total Shareholders' Equity	$ 72,261,038	$ 69,789,434
Total Liabilities and Shareholders' Equity	$ 561,270,952	$ 515,917,978

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

Consolidated Statements Of Income

FOR YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

	2010	2009	2008
INTEREST INCOME:			
Interest and Fees on Loans	$ 21,004,555	$ 20,540,639	$ 21,416,380
Interest on Available for Sale Securities	2,675,126	3,354,438	3,323,470
Interest on Held to Maturity Securities	67,710	154,584	872,246
Interest Income on Federal Funds Sold	80,668	53,679	751,113
Interest Income on Federal Reserve Bank	14,727	19,661	12,314
Total Interest Income	$ 23,842,786	$ 24, 123,001	$ 26,375,523
INTEREST EXPENSE:			
Interest on Deposits	$ 6,572,258	$ 9,075,325	$ 11,737,145
Net Interest Income	$ 17,270,528	$ 15,047,676	$ 14,638,378
Provision for Possible Credit Losses	3,832,370	3,163,967	(1,138,341)
Net Interest Income after Provision for Possible Credit Losses	$ 13,438,158	$ 11,883,709	$ 15,776,719
OTHER INCOME:			
Service Charges and Commissions	$ 365,920	$ 339,241	$ 336,187
Realized Gains on Sales of Available for Sale Securities	0	0	811
Equity in Earnings of Subsidiary	36,121	62,837	(2,029)
Other Operating Income	168,083	110,440	31,320
Total Other Income	$ 570,124	$ 512,518	$ 366,289
OTHER EXPENSES:			
Salaries and Employee Benefits	$ 4,817,800	$ 5,600,555	$ 4,966,623
Expenses of Premises and Equipment	497,764	523,300	732,251
Realized Losses on Sales of Available for Sale Securities	1,356	3,912	0
Other Operating Expenses	3,542,388	3,795,643	2,927,446
Total Other Expenses	$ 8,859,308	$ 9,923,410	$ 8,626,320
Income before Income Taxes	$ 5,148,974	$ 2,472,817	$ 7,516,688
Provision for Income Taxes	1,777,772	802,989	2,658,321
Net Income	$ 3,371,202	$ 1,669,828	$ 4,858,367

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

Consolidated Statements Of Changes In Shareholders' Equity

FOR YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
BALANCES – JANUARY 1, 2008	$ 300,000	$ 1,000,000	$63,173,414	$ 583,453	$ 65,056,867
COMPREHENSIVE INCOME:					
Net Income			4,858,367		4,858,367
Other Comprehensive Income - Net of Tax: Change in Unrealized Gain (Loss) on Securities Available for Sale, Net of Deferred Income Tax of $769,773				1,331,137	1,331,137
Less: Reclassification Adjustment, Net of Income Tax of ($297)				(514)	(514)
Total Comprehensive Income					6,188,990
Cash Dividends ($2.20 Per Share)			(1,320,000)		(1,320,000)
BALANCES – DECEMBER 31, 2008	$ 300,000	$ 1,000,000	$66,711,781	$ 1,914,076	$ 69,925,857
COMPREHENSIVE INCOME:					
Net Income			1,669,828		1,669,828
Other Comprehensive Income - Net of Tax: Change in Unrealized Gain (Loss) on Securities Available for Sale, Net of Deferred Income Tax (Benefit) of ($282,623)				(488,730)	(488,730)
Add: Reclassification Adjustment, Net of Income Tax Benefits of $1,433				2,479	2,479
Total Comprehensive Income					1,183,577
Cash Dividends ($2.20 Per Share)			(1,320,000)		(1,320,000)
BALANCES – DECEMBER 31, 2009	$ 300,000	$ 1,000,000	$67,061,609	$ 1,427,825	$ 69,789,434
COMPREHENSIVE INCOME:					
Net Income			3,371,202		3,371,202
Other Comprehensive Income - Net of Tax: Change in Unrealized Gain (Loss) on Securities Available for Sale, Net of Deferred Income Tax of $242,614				419,543	419,543
Add: Reclassification Adjustment, Net of Income Tax Benefits of $497				859	859
Total Comprehensive Income					3,791,604
Cash Dividends ($2.20 Per Share)			(1,320,000)		(1,320,000)
BALANCES – DECEMBER 31, 2010	$ 300,000	$ 1,000,000	$69,112,811	$ 1,848,227	$ 72,261,038

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

Consolidated Statements Of Cash Flows

FOR YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 3,371,202	$ 1,669,828	$ 4,858,367
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation	91,056	134,824	190,123
Provision for Credit Losses	3,832,370	3,163,967	(1,138,341)
Provision for Deferred Taxes	(231,719)	(665,613)	410,183
Undistributed (Earnings) Loss of Affiliate	(36,121)	(62,837)	2,029
Net (Gain) Loss on Sale of OREO	(5,375)	(89,770)	0
Net Realized (Gains) Losses			
on Available for Sale Securities	1,356	3,912	(811)
Increase in Cash Value - Life Insurance	(9,101)	(9,407)	(9,673)
Amortization of Premiums and			
(Accretion) of Discounts on			
Available for Sale Securities - Net	338,662	351,377	250,933
Decrease in Interest Receivable	219,718	110,865	6,333
(Increase) Decrease in Prepaid Expense	526,107	(1,975,675)	8,186
(Increase) Decrease in Other Assets	(45,452)	0	2,862
Increase (Decrease) in Accrued Interest	(250,085)	(543,895)	(330,474)
Increase (Decrease) in Other Liabilities	213,238	(138,311)	(74,383)
Net Cash Provided by Operating Activities	$ 8,015,856	$ 1,949,265	$ 4,175,334
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase) Decrease in Federal Funds Sold	$ (63,000,000)	$ (19,000,000)	$ 16,000,000
Proceeds from Sales and Maturities			
of Available for Sale Securities	10,670,000	20,210,000	26,440,000
Proceeds from Maturities of			
Held to Maturity Securities	103,932,290	105,845,416	103,127,754
Proceeds from Sales of Other Real Estate	987,011	724,119	90,000
Purchases of Available for Sale Securities	(6,008,500)	(11,175,657)	(38,422,255)
Purchase of Held to Maturity Securities	(103,930,874)	(105,902,466)	(103,354,190)
Investment in (Payments from)			
Unconsolidated Subsidiary	49,980	76,500	(25,500)
Reclassification of Construction in Progress	0	0	189,000
Purchase of Bank Premises and Equipment	(25,136)	(59,887)	(100,627)
Net Increase in Loans	8,776,097	(16,469,452)	(21,948,101)
Net Cash Used in Investing Activities	$ (48,549,132)	$ (25,751,427)	$ (18,003,919)

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

Consolidated Statements Of Cash Flows

FOR YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008 (continued)

	2010	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net Increase (Decrease) in Demand and Savings Deposits	$ 12,950,948	$ 7,680,158	$ 4,872,976
Increase in Certificates of Deposit	29,967,270	15,891,655	9,252,491
Dividends Paid	(1,320,000)	(1,320,000)	(1,320,000)
Net Cash Provided by Financing Activities	$ 41,598,218	$ 22,251,813	$ 12,805,467
Net Increase (Decrease) in Cash and Cash Equivalents	$ 1,064,942	$ (1,550,349)	$ (1,023,118)
Cash and Cash Equivalents at Beginning of Year	15,927,143	17,477,492	18,500,610
Cash and Cash Equivalents at End of Year	$ 16,992,085	$ 15,927,143	$ 17,477,492
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash Paid During the Year for:			
Interest	$ 6,822,344	$ 9,619,220	$ 12,067,619
Income Taxes	$ 2,013,000	$ 1,441,000	$ 2,425,000
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH ACTIVITIES:			
Transfer from Loans to Other Real Estate Owned	$ 1,780,214	$ 1,289,471	$ 0

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

Notes To Consolidated Financial Statements

For Years Ended December 31, 2010, 2009, And 2008

Note 1

Summary of Significant Accounting Policies:

The accounting and reporting policies of Putnam Bancshares, Inc. and its subsidiaries 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 is a member of the Federal Reserve System providing full banking services, with the exception of trust services. As such, 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.

Investment in Limited Liability Company

During the year ended December 31, 2008, Putnam Bancshares, Inc. entered into an agreement with other entities to form Putnam County Title Insurance Agency, LLC. Putnam Bancshares, Inc. has a controlling interest in the LLC, owning 51% of the units. The equity method was used in accounting for the LLC. This is reflected in Note 9.

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.

The determination of the adequacy of the allowance for credit losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgements about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Investment Securities

Debt securities are classified as held-to-maturity when the Bank has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on sales of securities are determined on the specific-indentification method.

Notes To Consolidated Financial Statements
For Years Ended December 31, 2010, 2009, And 2008 (continued)

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. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The Bank had no such losses for the years ended December 31, 2010, 2009, and 2008.

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. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. 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.

Allowance for Credit Losses
The allowance for credit losses is established as losses are estimated to have occurred through a provision for credit losses charged to earnings. Credit losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for credit losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Notes To Consolidated Financial Statements
For Years Ended December 31, 2010, 2009, And 2008 (continued)

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 properties acquired through or in lieu of loan foreclosure are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for credit losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Income Taxes
Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the allowances for credit losses. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Putnam Bancshares, Inc. files consolidated income tax returns with its subsidiary.

Pension Plan
The Bank accounts for its pension plan in accordance with FASB Accounting Standards Codification 715-20, "Employer's Accounting for Pensions." Pension accounting information is disclosed in Note 8 to the consolidated financial statements.

Cash and Cash Equivalents
For the purpose of presentation in the statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "Cash and Due from Banks."

Off-Balance Sheet Financial Instruments
In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Note 2
Restrictions on Cash and Due from Banks:
Federal Reserve regulations require depository institutions to maintain cash reserves with the Federal Reserve Bank. The average amounts of required reserve balances were approximately $6,991,000 and $5,949,000 for the years ended December 31, 2010 and 2009, respectively.

Notes To Consolidated Financial Statements

For Years Ended December 31, 2010, 2009, And 2008 (continued)

Note 3

Investment Securities:

The carrying amounts and approximate market values of investment securities at December 31, 2010 and 2009, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2010				
Available for Sale Securities -				
U.S. Government and Agency Securities	$ 55,857,825	$ 3,508,116	$ (3,440)	$ 59,362,501
State and Municipal Securities	8,952,405	11,358	(599,009)	8,364,754
Totals	$ 64,810,230	$ 3,519,474	$ (602,449)	$ 67,727,255
Held to Maturity Securities -				
U.S. Government and Agency Securities	$ 38,985,087	$ 3,741	$ 0	$ 38,988,828

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2009				
Available for Sale Securities -				
U.S. Government and Agency Securities	$ 61,228,627	$ 2,911,583	$ (64,169)	$ 64,076,041
State and Municipal Securities	8,583,120	28,883	(622,785)	7,989,218
Totals	$ 69,811,747	$ 2,940,466	$ (686,954)	$ 72,065,259
Held to Maturity Securities -				
U.S. Government and Agency Securities	$ 38,986,503	$ 5,314	$ (400)	$ 38,991,417

Investment securities with carrying amounts of $60,080,704 and $54,790,136 and market values of $63,435,800 and $57,238,107, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law at December 31, 2010 and 2009.

Gross realized gains and gross realized losses on sales of available for sale securities for the years ended December 31, 2010, 2009, and 2008, are as follows:

	2010	2009	2008
Gross Realized Gains: U.S. Government and Agency Securities	$ 0	$ 0	$ 0
Gross Realized Gains: Municipal Securities	$ 0	$ 0	$ 811
Gross Realized Losses: U.S. Government and Agency Securities	$ 1,356	$ 3,912	$ 0

The amortized cost and estimated market value of debt securities at December 31, 2010, by contractual maturities, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or repayment penalties.

	Available for Sale Securities		**Held to Maturity Securities**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in One Year or Less	$ 5,598,161	$ 5,744,851	$ 38,985,087	$ 38,988,828
Due from One Year to Five Years	51,248,242	54,614,268	0	0
Due from Five Years to Ten Years	789,762	791,714	0	0
Due after Ten Years	7,174,065	6,576,422	0	0
Totals	$ 64,810,230	$ 67,727,255	$ 38,985,087	$ 38,988,828

Notes To Consolidated Financial Statements
For Years Ended December 31, 2010, 2009, And 2008 (continued)

Information pertaining to securities with gross unrealized losses at December 31, 2010 and 2009, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	Less Than 12 Month		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2010:						
U.S. Government and Agency Securities	$ 4,956,250	$ (3,440)	$ 0	$ 0	$ 4,956,250	$ (3,440)
State and Municipal Governments	3,460,310	(139,263)	3,662,050	(459,746)	7,122,360	(599,009)
Total	$ 8,416,560	$ (142,703)	$ 3,662,050	$ (459,746)	$12,078,610	$ (602,449)
December 31, 2009:						
U.S. Government and Agency Securities	$11,074,138	$ (64,569)	$ 0	$ 0	$11,074,138	$ (64,569)
State and Municipal Governments	0	0	5,519,173	(622,785)	5,519,173	(622,785)
Total	$11,074,138	$ (64,569)	$ 5,519,173	$ (622,785)	$16,593,311	$ (687,354)

Notes To Consolidated Financial Statements

For Years Ended December 31, 2010, 2009, And 2008 (continued)

Note 4

Loans:

Total loans at December 31, 2010 and 2009, by major loan categories are summarized as follows:

	2010	2009
Commercial	$ 23,995,807	$ 22,581,327
Real Estate - Construction and Mortgage	305,081,251	316,562,555
Installment	5,622,940	9,499,365
Gross Loans	$ 334,699,998	$ 348,643,247
Unearned Discount	(18,155)	(29,433)
Total Loans	$ 334,681,843	$ 348,613,814
Allowance for Credit Losses	(4,458,996)	(4,002,286)
Loans, Net	$ 330,222,847	$ 344,611,528

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

	2010	2009	2008
Beginning Balances - January 1,	$ 4,002,286	$ 2,267,273	$ 3,401,326
Loans Charged Off	(4,009,102)	(1,510,016)	(404,986)
Recoveries of Loans Previously Charged Off	633,442	81,062	409,274
Provision to Expense for Credit Losses	3,832,370	3,163,967	(1,138,341)
Ending Balances - December 31,	$ 4,458,996	$ 4,002,286	$ 2,267,273

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 FASB Accounting Standards Codification 310-10, "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. FASB Accounting Standards Codification 310 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, 2010, 2009, and 2008:

	2010	2009	2008
Impaired Loans with Related Allowance	$ 5,660,094	$ 12,554,389	$ 5,658,399
Impaired Loans with No Related Allowance	1,312,702	5,214,041	2,159,910
Total Impaired Loans	$ 6,972,796	$ 17,768,430	$ 7,818,309
Allowance on Impaired Loans	$ 665,160	$ 3,677,919	$ 889,023
Average Impaired Loans	$ 8,253,813	$ 15,521,157	$ 8,056,271
Interest Income Recognized on Impaired Loans	$ 210,756	$ 295,049	$ 599,144

Notes To Consolidated Financial Statements

For Years Ended December 31, 2010, 2009, And 2008 (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 2010 and 2009:

	2010	2009
Balances - January 1,	$ 15,732,671	$ 17,865,825
New Loans	8,621,439	3,654,656
Repayments	(4,876,074)	(5,787,810)
Balances - December 31,	$ 19,478,036	$ 15,732,671

Note 5

Bank Premises and Equipment:

Major classifications of bank premises and equipment at December 31, 2010 and 2009, are summarized as follows:

	2010	2009
Buildings and Improvements	$ 1,856,589	$ 1,856,589
Furniture and Fixtures	1,645,551	1,620,415
	$ 3,502,140	$ 3,477,004
Less: Accumulated Depreciation	3,020,709	2,929,653
	$ 481,431	$ 547,351
Land	200,460	200,460
Bank Premises and Equipment, Net	$ 681,891	$ 747,811

Depreciation expense for the years ended December 31, 2010, 2009, and 2008, was $91,056, $134,824, and $190,123, respectively, and is included in expenses of premises and equipment on the statements of income.

Putnam County Bank has entered into a noncancellable 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, 2010, is as follows:

Year	Amount
2011	$ 59,826
2012	56,587
2013	0
2014	0
2015	0
Total	$ 116,413

Notes To Consolidated Financial Statements

For Years Ended December 31, 2010, 2009, And 2008 (continued)

Note 6

Deposits:

The major categories of deposits at December 31, 2010 and 2009, are as follows:

	2010	2009
Noninterest Bearing	$ 53,766,487	$ 47,396,205
Interest Bearing:		
Money Market	$ 97,173,073	$ 92,326,546
Savings	21,963,160	20,223,297
Time and Certificates of Deposit	115,312,023	117,111,297
Certificates of Deposit over $100,000	199,438,645	167,677,825
Total Interest Bearing Deposits	$ 433,886,901	$ 397,338,965
Total Deposits	$ 487,653,388	$ 444,735,170

Scheduled maturities of time and certificates of deposits at December 31, 2010, are as follows:

2011	$ 286,354,400
2012	24,375,476
2013	4,020,792
2014 and Thereafter	0
Total	$ 314,750,668

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 $34,387,546 and $44,143,907 at December 31, 2010 and 2009, respectively.

Note 7

Income Taxes:

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

	2010	2009	2008
Currently Payable:			
Federal	$ 1,762,001	$ 1,290,116	$ 1,978,564
State	247,490	178,486	269,574
Totals	$ 2,009,491	$ 1,468,602	$ 2,248,138
Deferred (Benefit):			
Federal	$ (206,423)	$ (596,162)	$ 375,031
State	(25,296)	(69,451)	35,152
Totals	$ (231,719)	$ (665,613)	$ 410,183
Total Applicable Income Taxes	$ 1,777,772	$ 802,989	$ 2,658,321

Notes To Consolidated Financial Statements
For Years Ended December 31, 2010, 2009, And 2008 (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):

	2010	2009	2008
Bad Debts	$ (231,991)	$ (665,749)	$ 410,240
Discount on Investment Securities	272	136	(57)
Totals	$ (231,719)	$ (665,613)	$ 410,183

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

	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Tax on Income before Income Tax at the Top Statutory Income Tax Rate	$ 1,750,651	34.00%	$ 840,758	34.00%	$ 2,555,675	34.00%
Increase (Decrease) Resulting from:						
State Income Tax, Net of Federal Benefit	146,648	2.85	71,963	2.91	201,119	2.68
Nontaxable Interest Income	(130,973)	(2.54)	(123,386)	(4.99)	(115,767)	(1.54)
Nondeductible Interest Expense	6,876	.13	10,251	.41	13,130	.17
Other Items	4,570	.09	3,403	.14	4,164	.06
Tax on Income	$ 1,777,772	34.53%	$ 802,989	32.47%	$ 2,658,321	35.37%

The approximate tax (benefit) effects of the net investment securities gains (losses) were ($497), ($1,433), and $297 for the years 2010, 2009, and 2008, respectively.

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, 2010 and 2009:

	2010	2009
Accumulated Pension Benefit Obligation	$ 5,395,171	$ 4,654,765
Value of Future Salary Projections	641,987	520,601
Total Projected Pension Benefit Obligation	$ 6,037,158	$ 5,175,366
Fair Value of Plan Assets	3,608,675	3,696,426
Plan Assets in Excess (Deficient) of Projected Benefit Obligation	$ (2,428,483)	$ (1,478,940)
Accumulated Other Comprehensive Income	3,078,704	2,335,058
Unfunded (Accrued) or Prepaid Pension Cost	$ 650,221	$ 856,118

Notes To Consolidated Financial Statements

For Years Ended December 31, 2010, 2009, And 2008 (continued)

The components of pension (expense) income for the years ended December 31, 2010, 2009, and 2008, are as follows:

	2010	2009	2008
Service Cost-Benefits Earned During Year	$ (229,896)	$ (203,259)	$ (180,481)
Interest Cost on Projected Benefit Obligation	(303,048)	(273,761)	(252,640)
Actual Return on Assets	320,545	287,966	273,651
Amortization of Net Gain (Loss)	(130,153)	(93,142)	(69,652)
Adjustment Due to Change in Measurement Date	0	0	(38,187)
Total Recognized in Other Comprehensive Income	(743,646)	39,776	(1,368,957)
Total Recognized in Net Benefit Cost and Other Comprehensive Income	$ (1,086,198)	$ (242,420)	$ (1,636,266)
Actuarial Assumptions:			
Weighted Average Discount Rate for Projected Benefit Obligation	6.00%	6.25%	6.25%
Weighted Average Rate of Compensation Increase	3.00%	3.00%	3.00%
Expected Long-Term Rate of Return on Plan Assets	8.00%	8.00%	8.50%

Note 9

Parent Company Condensed Financial Information:

CONDENSED BALANCE SHEETS

	December 31, 2010	December 31, 2009
ASSETS		
Investment in Subsidiary	$ 72,185,682	$ 69,712,034
Investment in Putnam County Title Insurance Agency	(4,052)	9,808
Cash	78,217	73,756
Prepaid Expenses	1,191	0
Total Assets	$ 72,261,038	$ 69,795,598
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total Liabilities	$ 0	$ 6,164
Shareholders' Equity	$ 72,261,038	$ 69,789,434
Total Liabilities and Shareholders' Equity	$ 72,261,038	$ 69,795,598

Notes To Consolidated Financial Statements

For Years Ended December 31, 2010, 2009, And 2008 (continued)

CONDENSED STATEMENTS OF INCOME

	For Years Ended December 31,		
	2010	2009	2008
INCOME	$ 1,320,000	$ 1,360,000	$ 1,375,850
EXPENSES:			
Operating Expenses	$ 39,355	$ 46,055	$ 48,635
Income before Income Tax Benefit and Equity in Undistributed Earnings of Subsidiaries	$ 1,280,645	$ 1,313,945	$ 1,327,215
Applicable Income Taxes (Benefit)	(1,191)	6,164	(20,150)
Income before Equity in Undistributed Earnings of Subsidiaries	$ 1,281,836	$ 1,307,781	$ 1,347,365
Equity in Undistributed Earnings of Subsidiaries	2,089,366	362,047	3,511,002
Net Income	$ 3,371,202	$ 1,669,828	$ 4,858,367

CONDENSED STATEMENTS OF CASH FLOWS

	For Years Ended December 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 3,371,202	$ 1,669,828	$ 4,858,367
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Equity in Undistributed Earnings of Subsidiary	(2,089,366)	(362,047)	(3,511,002)
Increase in Prepaid Expenses	(1,191)	0	0
Increase (Decrease) in Income Taxes Payable	(6,164)	6,164	0
Net Cash Provided by Operating Activities	$ 1,274,481	$ 1,313,945	$ 1,347,365
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in Subsidiary	$ 49,980	$ 76,500	$ (25,500)
Net Cash Provided by (Used in) Investing Activities	$ 49,980	$ 76,500	$ (25,500)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends Paid	$ (1,320,000)	$ (1,320,000)	$ (1,320,000)
Net Cash Used in Financing Activities	$ (1,320,000)	$ (1,320,000)	$ (1,320,000)
Net Change in Cash and Cash Equivalents	$ 4,461	$ 70,445	$ 1,865
Cash and Cash Equivalents at Beginning of Year	73,756	3,311	1,446
Cash and Cash Equivalents at End of Year	$ 78,217	$ 73,756	$ 3,311

Notes To Consolidated Financial Statements

For Years Ended December 31, 2010, 2009, And 2008 (continued)

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.

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, 2010, is as follows:

	Notional Amount
Commitments to Extend Credit	$ 16,547,205
Commercial Letters of Credit	0
Standby Letters of Credit	919,160

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, 2010, 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 $1,437,678 at December 31, 2010. 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.

Notes To Consolidated Financial Statements

For Years Ended December 31, 2010, 2009, And 2008 (continued)

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, 2010, that the Bank could declare without the approval of the West Virginia Division of Banking and the Federal Reserve Board, amounted to approximately $2,390,000.

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, 2010 and 2009, 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 Federal Reserve's request for the Bank's prompt corrective actions.

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, 2010:				
Tier 1 Risk-Based Capital	23.04%	$ 70,413,000	$ 12,224,000	$ 18,336,000
Total Risk-Based Capital	24.29	74,241,000	24,447,000	30,559,000
Tier 1 Leverage Capital	12.80	70,413,000	22,009,000	27,511,000
As of December 31, 2009:				
Tier 1 Risk-Based Capital	22.00%	$ 68,362,000	$ 12,428,000	$ 18,642,000
Total Risk-Based Capital	23.25	72,247,000	24,856,000	31,069,000
Tier 1 Leverage Capital	13.06	68,362,000	20,930,000	26,163,000

Notes To Consolidated Financial Statements

For Years Ended December 31, 2010, 2009, And 2008 (continued)

Note 14

Disclosures about Fair Value of Financial Instruments:

At December 31, 1995, the Bank adopted FASB Accounting Standards Codification 825-10, 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. ASC 825 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.

The estimated fair values of the Bank's financial instruments at December 31, 2010 and 2009, are as follows:

	2010		2009	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Financial Assets:				
Cash and Due from Banks	$ 16,992,084	$ 16,992,084	$ 15,927,143	$ 15,927,143
Federal Funds Sold	101,000,000	101,000,000	38,000,000	38,000,000
Investment Securities	106,712,341	106,716,083	111,051,762	111,056,676
Loans	334,681,843	332,897,803	348,613,814	343,537,018
Financial Liabilities:				
Deposits	$ 487,653,387	$ 488,530,980	$ 444,735,170	$ 445,922,926

Notes To Consolidated Financial Statements

For Years Ended December 31, 2010, 2009, And 2008 (continued)

Fair values of assets and liabilities measured on a recurring basis at December 31, 2010 and 2009, are as follows:

Available For Sale Securities

	December 31, 2010	December 31, 2009
Fair Value	$ 67,727,255	$ 72,065,259
Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	$ 67,727,255	$ 72,065,259
Significant Other Observable Inputs (Level 2)	$ 0	$ 0
Significant Unobservable Inputs (Level 3)	$ 0	$ 0

Note 15

Subsequent Events:

In preparing these financial statements, the company has evaluated events and transactions for potential recognition or disclosure through March 14, 2011, the date the financial statements were issued.