2013 Annual Report Contents

Letter to Shareholders

We present to you the financial results of Putnam Bancshares, Inc. and its wholly-owned subsidiary, Putnam County Bank, for 2013. The Bank's earnings showed significant improvement in 2013 over 2012. Improved credit quality resulting in lower net loan losses combined with significant savings in operational expenses helped earnings in 2013. The Company showed significant asset growth driven by deposit inflows which fund loan growth.

Net loans increased $25 million or 8% in 2013, in contrast to a increase of $6 million or 2% in 2012. The increase marks an effort to increase lending in our market while recognizing that credit quality is essential. Local decisions for our customer base and efficient turnaround has been what we maintain and has been popular with our customer base. The Company's capital base grew to $77 million in 2013.

Management will continue to focus serving its customer base and its community in a safe and profitable manner. Management remains highly cognizant of the practices which have allowed the Bank to prosper to this point and will strive to carry-forward these values in the future. As it is true with any business, we must use our available resources wisely and to the benefit of our customers and our community.

During 2013, the economy continued to recover with the effects of unemployment, low consumer and business spending, and declines in real estate values. While signs of recovery are evident, a consistent path is elusive. The banking industry has shown significant improvement. The bank failure rate in 2011 was 92 and 51 in 2012. In 2013, 24 banks failed. The FDIC's problem bank list dropped from 884 at the end of 2010 to 467 at the end of 2013.

While other areas of the nation have been hit hard, the extreme effects have not been as quite as dramatic in our state. Nonetheless, the effects of increased unemployment and reduced consumer spending have affected all areas of the nation. Additionally, while some improvement in available credit has been recognized, improvement in the local economy is progressing, but slowly.

The Bank saw two employees retire in 2013. Rita Thomasson retired with 15 years of experience and Barbara Wyant retired with 10 years of experience: both in our Bookkeeping area. In early 2014, three employees retired. Loraine Rappold retired with 14 years of experience in our Bookkeeping area, Clara Carmichael retired as an officer with 45 years of lending experience and Jerry Brown retired as an officer with 33 years of banking operations experience. These individuals have accumulated 117 years of banking experience. All of these people played significant roles in the success of this Company and their contribution will not be forgotten. We wish them the best in the future.

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 we provide 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 that 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

Selected Financial Summary

In Thousands of Dollars

Four-Year Summary

	2013	2012	2011	2010
YEAR-END BALANCE SHEET SUMMARY				
Loans, Net	$ 343,875	$ 318,516	$ 312,371	$ 330,223
Investment Securities	171,874	161,418	134,714	106,708
Total Assets	623,399	603,201	585,592	561,271
Deposits	544,589	525,406	508,914	487,653
Shareholders' Equity	77,352	76,078	75,375	72,261
AVERAGE BALANCE SHEET SUMMARY				
Loans, Net	$ 330,883	$ 315,837	$ 319,415	$ 346,939
Investment Securities	169,696	144,493	121,423	107,558
Total Assets	618,379	599,906	569,709	538,854
Deposits	538,720	520,806	492,739	464,080
Shareholders' Equity	77,196	76,060	74,322	72,086
SELECTED RATIOS				
Return On Average Assets	0.81%	0.42%	0.67%	0.63%
Return On Average Equity	6.50%	3.29%	5.13%	4.68%
Dividends Declared As a Percentage Of Net Income	29.89%	57.55%	37.78%	39.16%
SUMMARY OF OPERATIONS				
Interest Income	$ 20,933	$ 21,103	$ 22,099	$ 23,843
Interest Expense	5,466	6,485	6,490	6,572
Net Interest Income	15,468	14,618	15,609	17,271
Provision for Loan Losses	0	840	738	3,832
Noninterest Income	991	464	442	570
Noninterest Expense	8,752	10,500	9,481	8,859
Net Income	5,018	2,502	3,812	3,371
PER SHARE DATA				
Net Income	$ 8.36	$ 4.17	$ 6.35	$ 5.62
Cash Dividends	2.50	2.40	2.40	2.20
Book Value	128.92	126.80	125.62	120.44

Analysis Of Earning Assets And Interest Bearing Liabilities

In Thousands of Dollars

	2013			2012		
ASSETS	**Avg. Balance**	**Interest**	**Yield/Rate**	**Avg. Balance**	**Interest**	**Yield/Rate**
Loans						
Commercial	27,179	1,485	5.46%	22,706	1,279	5.63%
Real Estate	302,970	16,029	5.29%	291,680	16,310	5.59%
Consumer(2)	4,604	448	9.73%	5,466	516	9.44%
Total Loans (1)	334,753	17,962	5.37%	319,852	18,105	5.66%
Securities (3)						
Taxable	160,898	2,473	1.54%	135,066	2,466	1.83%
Tax-Exempt (4)	7,798	637	8.17%	8,406	670	7.97%
Mutual Funds	1,000	23	2.30%	1,021	31	3.04%
Total Securities	169,696	3,133	1.85%	144,493	3,167	2.19%
Interest Bearing Deposit in Banks	8,810	18	0.20%	9,696	16	0.17%
Federal Funds Sold	93,441	59	0.06%	115,147	69	0.06%
Total Earning Assets	606,700	21,172	3.49%	589,188	21,357	3.62%
Cash and Due from Banks	7,027			7,040		
Premises and Equipment, Net	593			636		
Other Assets	7,924			7,054		
Allowance for Loan Losses	(3,865)			(4,015)		
Total Assets(5)	618,379			599,903		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest Bearing Deposits						
Super NOW and MMDA	111,868	336	0.30%	106,391	378	0.36%
Savings	25,761	39	0.15%	24,727	37	0.15%
Time	344,438	5,091	1.48%	334,923	6,069	1.81%
Total Interest Bearing Deposits	482,067	5,466	1.13%	466,041	6,484	1.39%
Long-Term Borrowings	0	0	0.00%	0	0	0.00%
Total Interest Bearing Liabilities	482,067	5,466	1.13%	466,041	6,484	1.39%
Noninterest Bearing Deposits	56,653			54,767		
Accrued Expenses and Other Liabilities	2,463			3,035		
Equity	77,196			76,060		
Total Liabilities and Equity	618,379			599,903		
Net Interest Margin	606,700	15,706	2.59%	589,188	14,873	2.52%

(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 of 34% and a state tax of 7.75%

(5) Net of SFAS 107 Market Value.

RATE SENSITIVITY ANALYSIS AS OF DECEMBER 31, 2013

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)	41,417	18,498	37,671	58,511	117,126	71,960
Investment Securities (2)	25,998	38,503	21,355	77,003	1,527	6,516
Federal Funds Sold	104,000	0	0	0	0	0
Total Selected Assets	171,415	57,001	59,026	135,514	118,653	78,476
LIABILITIES						
Interest Bearing Deposits (3)	170,469	145,065	37,211	0	0	0
Borrowed Funds	0	0	0	0	0	0
Total Selected Liabilities	170,469	145,065	37,211	0	0	0
Differences	946	(88,064)	21,815	135,514	118,653	78,476
Cumulative Differences	946	(87,118)	(65,303)	70,211	188,864	267,340

(1) Does not include loans on nonaccrual status.

(2) Does not include Federal Reserve Stock or securities on nonaccrual status. Reported HTM securites at amortized cost and AFS securites 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 operate in a challenging economic environment during the year of 2013.

The national economy continues to recover from the effects of the financial crisis of 2008. The effects include greater regulation continues to affect banking products and services. Further, there have been aggressive moves to balance the federal budget through cuts in government jobs and services as well as tax reform. The Federal Reserve Board has taken steps to reduce buying of long-term bonds to hold-down long-term interest rates in an effort to encourage spending and investment. While many of the major economic statistics have illustrated improvement, at times there has been inconsistency in the indicators.

Statewide, the effects are similar to the national environment. Losses in government employment and spending continue to impact West Virginia. The coal industry continues to incur challenges as a result of national policy and environmental concerns. However, coal exports remain relevant. The effects of the Marcellus gas reserves to our economy are significant and will continue to grow in significance to the economy of the state. While there has been business downsizing in the state, redevelopment projects continue in some of the larger cities in the state. While highway building continues to be significant to the state's economy, funding continues to be challenging.

The average annual unemployment rate for West Virginia was 6.5% in 2013 compared to 7.2% in 2012. The monthly average of state unemployment in 2013 ranged from 6.8% in February to 6.0% in December. The unemployment rate for Putnam County was 6.3% for February of 2014. The national monthly unemployment rate during 2013 fell from 7.9% in January to 6.7% in December.

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- 41). 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, 2013 there were 1,220 banks in this group. 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 banking industry continues to operate in a low interest rate environment as declining net interest margins continue to be an industry concern in 2013. 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 decreased from 2.69% in 2012 to 2.59% in 2013. The peer's net interest margin was 3.83% in 2012 and 3.73% in 2013. Compression of the Bank's margin was a result of asset yields which declined at a greater rate than deposit costs. Among earning assets, investment yields were lower than peer and loan yields were priced closely to market. Greater funding moved into investments as deposits grew. While investment yields are generally lower than peer, they have 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 1.13% in 2013 compared with 1.39% in 2012. 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 declined from .71% in 2012 to .53% in 2013. The yield on earning assets declined to 3.50% in 2013 from 3.86% in 2012. Total loan yields declined from 5.68% in 2012 to 5.38% in 2013. The yield on investment securities declined from 2.88% in 2012 to 1.85% in 2013.

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

Interest Income

Interest income declined $170 thousand or .80% from year-end 2012 to year-end 2013. The Federal Open Market Committee (FOMC) has held the federal funds target rate between zero and .25% through 2013. The justification for the low target rate is current high unemployment picture, low utilization, and to control threats of inflation. The Bank had 10% of its loan portfolio indexed to the Wall Street Journal prime rate as of year-end 2013. The average total loans increased $15 million or 5% from year-end 2012 to year-end 2013. This compares with a decrease of $4 million or 1% during the year of 2012. The lending group continues to focus on providing effective credit services to our market area. Total income from loans decreased $143 thousand or .88% at year-end 2013 while decreasing nearly $1 million or 5% at year-end 2012. The decrease in loan income in 2013 was minimized by the increase in loan volume, however refinancing and lower market rates were responsible for the decline. The Company's average earning assets increased $18 million or 3% by year-end 2013 compared with a $22 million or 4% at year-end 2012. The income on average earning assets decreased $185 thousand from year-end 2012 to year-end 2013. Despite higher volume, low market rates during the year were responsible for the decline in income.

Average total real estate loans increased $8 million in 2013 compared with a decline of $5 million in 2012. Interest income on real estate loans decreased $310 thousand in 2013 compared with $1 million in 2012. The low rate environment combined with the competition in mortgage lending has resulted in a very competitive market. While residential development saw indications of recovering, it has not been consistent. The Bank promotes its mortgage lending through timely turnaround and closing. The Bank does not originate loans with the intent to sell in the secondary market.

Income on commercial lending grew $207 thousand in 2013. Average total commercial loans increased $7 million in 2013 compared with an increase of $218 thousand in 2012. The increase in average total loans reflects upturn in demand which is encouraging for the future.

Income on consumer lending increased $33 thousand in 2013 compared with a decline of $8 thousand in 2012. The average total of consumer loans in 2012 increased $130 thousand in 2013. Consumer lending continues to be highly competitive, especially with automotive finance units. The Bank continues to compete in this area through cross-selling existing customers and effective service.

Income on investments (on a tax effective basis) increased $35 thousand at year-end 2013 over 2012. In addition, average total investments increased $25 million. The increase in income was related to the volume of securities purchases combined with securities which matured and subsequent reinvestment occurring in a declining interest rate market. The Company's tax equivalent yield on investments declined from 2.19% in 2012 to 1.85% in 2013. The Bank's yield on investments continues to be lower than peer institutions. At year-end 2012, the investment portfolio was 94% 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 presents lower credit risk and higher safety of principal, it also results in lower investment yields. The income on Federal Funds Sold at year-end 2013 declined $10 thousand with average balances decreasing $22 million. 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 2013, all municipal investments are West Virginia securities. The Bank held two municipal issues of the Putnam County Building Commission with a carrying value of $1.45 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. These issues are non-rated. In addition, the investment in this project represents an opportunity for the Bank to assist with community needs, as mandated in the federal Community Reinvestment Act of 1977. The Bank held a municipal security issue of Ohio County, West Virginia Commission with a carrying value of $2 million at the end of the year. This security is non-rated. During 2013, the Bank acquired a municipal security of the Putnam Public Service District with a carrying value of $1.8 million as of year-end. This security is non-rated. While the Bank has invested in non-rated municipal securities, all are closely monitored by management on an ongoing basis to confirm repayment ability and creditworthiness. The remaining municipal securities ($3.3 million) are considered to be rated investment grade by Moody's and/or Standard and Poor's ratings services.

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Interest Expense

Interest expense on deposits decreased $1 million or 16% from year-end 2012 to 2013, in contrast to a decrease of $5 thousand from year-end 2011 to 2012. The cost on total deposits was 1.13% for 2013 representing a decrease of 26 basis points from 2012. For our peer group, the cost is .58% for 2013 representing a decrease of 18 basis points from 2012. 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 $16 million or 3% in 2013 compared with an increase of $29 million or 6% in the previous year. The low market rate environment has dropped bank deposit rates to near zero in some accounts. This has been necessary to offer competitive loans rates and prevent declines in net interest margins. The Bank has historically paid higher interest rates on deposits, understanding the effects upon net interest margins and monitoring its strategy on a monthly basis. The Bank has elected its deposit pricing strategy for its local market and 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) meets on a monthly basis and is comprised of three 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. 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 F-2) 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 63% in 2013 and 61% in 2012. The peer group ratio was 76% in 2013 and 74% in 2012. 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 solicit 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 2013, the ratio was 22% compared with 15% at year-end 2012. The ratio is above the peer group ratio of 15% in 2013 and comparable to the peer at 14%, respectively. While higher in 2013, ample sources of liquidity exist to fund lending.

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 2013 was $1.9 million or .55% of total loans compared with $5.7 million or 1.76% of total loans at year-end 2012. This compares with peer ratios of 1.47% and 2.06% respectively. A significant reduction in nonperforming loans was a result of the transfer of a commercial real estate development in Winston-Salem, NC ($2.5 million) to other real estate owned.

The Bank had a balance of $4.9 million in other real estate owned at year-end 2013 compared with $1.3 million in 2012. The most significant portion of the increase was from the transfer of ownership of a commercial real estate development in Winston-Salem, NC ($2.5 million) to the Bank. This property is being managed by a professional company and the Bank is confident in its future prospects.

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

Provision and Allowance for Loan Losses

The Bank made no provisions to the allowance for loan losses in 2013 in contrast to provisions totaling $840 thousand in 2012. Significantly lower loan losses were a principal reason. The majority of the provision in 2012 was related to a write-down of a local real estate development to market value. Loan loss recoveries in 2013 totaled $98 thousand compared with $77 thousand in 2012. A single recovery during 2013 in the amount of $89 thousand was attributed to the sale of real estate collateral which yielded proceeds in excess of the loan balance. Gross loan losses decreased to $161 thousand in 2013 from $1.5 million in 2012. The highest single loss in 2013 was on a residential rental property involving a bankruptcy which totaled $59 thousand. Net loan losses were $63 thousand in 2013 and $1.5 million in 2012. The Bank's ratio of net loss to average total loans was .02% for 2013 compared to .29% for the peer group. As of year-end 2013, the allowance for loan loss was $3.8 million or 1.10% of total loans compared to $3.9 million or 1.20% of total loans at year-end 2012. The peer ratios of allowance to total loans were 1.60% in 2013 and 1.74% in 2012. While the Bank's ratios are lower than peer, the allowance level is reflective of many factors which can substantiate its level including loss history, underwriting practices and local economic conditions. 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 including all 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 auditor, external auditors, Federal Reserve Bank, and the West Virginia Division of Financial Institutions.

Noninterest Income

Total noninterest income (excluding gross securities gains) totaled $587 thousand representing an increase of $123 thousand or 26% in 2013 over 2012. Income from the rental of other real estate owned of $151 thousand was responsible for the increase. This involved the commercial property in Winston-Salem, NC which was acquired as other real estate owned during 2014. Income from VISA debit transactions increased by $9 thousand and offset a decline in ATM network interchange income. It appears consumers are using the VISA purchase function at a greater rate than ATM usage. In 2011, the Dodd-Frank amendment called for changes in interchange fees which had the potential of substantially reducing VISA debit card income. The Bank has not seen a significant reduction at this time. Additionally, service charges on deposit accounts and overdraft fees declined $9 thousand in 2013. Other sources of noninterest income remained relatively unchanged

The Bank continues to be a low-cost provider of banking services. In 2013, the percentage of noninterest income to average assets for the Bank is .09% compared to the peer ratio of .78%. In 2012, the Bank's ratio was .012 with the peer ratio being .78%.

Equity in earnings of the subsidiary increased from $38 thousand in 2012 to $58 thousand in 2013. This relates to the 51% investment in Putnam County Title Insurance Agency LLC by Putnam Bancshares, Inc., which was formed in 2008.

Noninterest Expense

Total noninterest expense (excluding gross securities losses) decreased $2.1 million or 20% from year-end 2012 to year-end 2013 compared with an increase of $1 million or 11% between years ending 2011 and 2012. Noninterest expenses are composed of expenses relating to personnel, occupancy, and other operating expenses. Total noninterest expense to average assets was 1.35% in 2012 compared with 1.80% in 2012. The peer group ratios showed 2.92% in 2013 and 2.93% in 2012. Earnings historically have benefitted from lower noninterest expenses, relative to the Bank's size.

Total personnel expenses decreased by $1.6 million in 2013 compared with an increase of $907 thousand in 2012. The most significant personnel expense increases were found in employee retirement funding. Retirement expense decreased by $1.3 million in 2013 compared with an increase of $831 thousand in 2012. In 2012, with guidance from the plan administrator, the noncontributory pension plan was frozen and a 401-K plan was introduced on January 1, 2013. In the first full year, management has seen significant savings and at the same time offering flexibility for the employee. Management continues to be responsible for the maintenance of the frozen plan and continues to monitor closely the retirement plans. The next highest decrease was health insurance with a decrease of $244 thousand in 2013 as a result of improved claims experience. Salary expense declined $185 thousand in 2013. This expense was recognized as several positions changed during the year. The Bank's personnel costs as a percentage of average assets compare favorably. At the end of 2013, the Bank's ratio was .68% compared with the peer bank ratio of 1.59%.

Total occupancy expense includes the costs to maintain the Bank's premises and equipment. These expenses declined $99

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thousand in 2013 compared with a decline of $93 thousand in 2012. The decline in 2013 was found primarily in maintenance and repairs as a result of remodeling of the Loan Center in 2012. Additional decline was found in depreciation expense. The Bank's occupancy expense as a percentage of average assets was .06% in 2013 compared with .36% for peer banks. The Bank continues to operate facilities at 2761 Main Street (including the Loan Center at 2767 Main Street), 300 Hurricane Creek Road and 3058 Mount Vernon Road and has a building housing lending support personnel at 2762 Second Street.

Total other operating expense (expenses other than personnel and occupancy expenses) declined $403 thousand in 2013 in contrast to an increase of $203 thousand in 2012. Many categories within operating expense illustrated significant change. The most significant declines were noted in FDIC insurance expense ($339 thousand); other real estate expense ($321 thousand) and loss on the sale of other real estate ($197 thousand). FDIC ended their prepaid insurance assessment in June of 2013 and produced a refund to the Bank. Savings in other real estate expenses was due to unusually high expenses in 2012 involving the payment of multiple years' property taxes on the Winston-Salem, NC property and construction expenses to bring three local properties to a condition to sell. Increased losses on the sale of other real estate in 2012 and lower activity in 2013 were responsible for the decline. The most significant increases included losses on fraudulent checks ($297 thousand) and advertising expense ($75 thousand). A single check fraud was perpetrated in 2013 amounting in a loss of $297 thousand and a recovery of $250 was recognized in 2014. Increased advertising expense was a result of an increased commitment to the local county fair 4-H livestock programs. The Bank has always valued its participation in these programs and has built many long-term relationships as a result. The Bank's largest single expense item is data processing. Data processing expenses to our core provider declined $34 thousand or 5% from 2012 to 2013. Savings in data processing are related to the Bank's use cost effective technology offerings to process data. With respect to operating expenses, the Bank still performs favorably in comparison to peers. At the end of 2013, the Bank's ratio of other operating expenses to average assets was .61% compared with the peer's ratio of .95%.

The Bank reported $4,928 in net gains on the sale of securities held as available for sale in 2013 compared with net losses of $1,908 in 2012. 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 to $2.6 million in 2013 from $1.2 million in 2012. The increase was due to lower taxable income.

The Bank invests in municipal securities issued in West Virginia which are "bank qualified" and are exempt from federal and state taxation, with the exception of one Putnam County, WV Building Commission Revenue Bond with a par value of $110 thousand, which is taxable.

Equity and Capital Ratios

Putnam Bancshares' equity increased $1.2 million to $77 million. The change in equity during 2013 was reflective of $5 million in net income less $1.5 million in dividends and a decrease of $2.2 million in comprehensive income. The decrease in comprehensive income was the result of the change in unrealized gains and losses on available for sale securities from year-end 2012 to 2013. The book value per outstanding share increased from $128.92 in 2013 to $126.80 in 2012. The Company's net income as a percentage of average equity was 6.54% in 2013. Peer banks in 2013 posted net income as a percentage of average equity of 9.27%

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

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

adequacy. As of year-end 2013, the Bank's Tier 1 risk-based capital-to-total risk-weighted assets were 24.41% compared to 24.97% in 2012. The peer bank ratios were 14.57% and 14.41% in 2013 and 2012 respectively. As of year-end 2013, the Bank's total risk-based capital-to-total risk-weighted assets were 25.61% compared to 26.22% in 2012. The peer bank ratios were 15.76% and 15.62% in 2013 and 2012 respectively. Both measures rank the Bank in the 95th 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 $1.5 million in 2013 and $1.4 million in 2012. This equates to a dividend payout (dividends to net income) ratio of 58% in 2012 and 38% in 2011. The peer Bank ratio for 2013 was 30% and 58% in 2012. Regular dividends were paid in June and December of 2013.

For a further discussion of dividends, please refer to "Note 14 – 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 AUDITOR'S REPORT

To the Board of Directors and Shareholders
Putnam Bancshares, Inc. and Subsidiaries
Hurricane, West Virginia

We have audited the accompanying consolidated financial statements of Putnam Bancshares, Inc. and Subsidiaries (a West Virginia corporation), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income/(loss), changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements; whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Subsidiaries as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

Rollins Cleavenger and Rollins

Certified Public Accountants

Charleston, West Virginia
March 27, 2014

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
Cash and due from banks	$ 14,865,033	$ 15,107,465
Federal funds sold	85,000,000	104,000,000
Securities available for sale, at fair value	132,879,928	122,424,686
Securities held to maturity, at amortized cost (estimated fair value of $38,995,944 and $38,994,537, respectively)	38,993,666	38,989,705
Loans, less allowance for loan losses of $3,816,559 and $3,879,299, respectively	343,874,616	318,515,839
Bank premises and equipment, net	601,763	606,312
Federal reserve bank stock, at cost	39,000	39,000
Investment in unconsolidated subsidiary	7,867	3,821
Other real estate owned	3,546,850	1,277,204
Other assets	3,589,839	2,236,949
Total assets	$ 623,398,562	$ 603,200,981
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest bearing	$ 56,374,964	$ 53,420,355
Interest bearing	488,214,336	471,985,424
Total deposits	$ 544,589,300	$ 525,405,779
Other liabilities	1,456,638	1,717,699
Total liabilities	$ 546,045,938	$ 527,123,478
SHAREHOLDERS' EQUITY:		
Common stock, $0.50 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	76,064,988	72,546,659
Accumulated other comprehensive income/(loss)	(12,364)	2,230,844
Total shareholders' equity	$ 77,352,624	$ 76,077,503
Total liabilities and shareholders' equity	$ 623,398,562	$ 603,200,981

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011

	2013	2012	2011
INTEREST INCOME:			
Loans (including fees)	$ 17,962,422	$ 18,104,935	$ 19,130,308
Securities available for sale	2,858,174	2,873,121	2,813,319
Securities held to maturity	34,889	39,576	44,075
Federal funds sold	59,357	68,959	91,243
Federal reserve bank	18,396	16,203	20,408
Total interest income	$ 20,933,238	$ 21,102,794	$ 22,099,353
INTEREST EXPENSE:			
Interest on deposits	$ 5,465,591	$ 6,485,372	$ 6,490,305
Net interest income	$ 15,467,647	$ 14,617,422	$ 15,609,048
Provision for loan losses	0	840,195	737,860
Net interest income after provision for loan losses	$ 15,467,647	$ 13,777,227	$ 14,871,188
OTHER INCOME:			
Service charges and fees	$ 351,533	$ 361,851	$ 364,462
Realized gains on sales of securities	403,641	0	0
Equity in earnings of subsidiary	57,621	38,393	27,110
Other operating income	178,026	63,853	50,644
Total other income	$ 990,821	$ 464,097	$ 442,216
OTHER EXPENSES:			
Salaries and employee benefits	$ 4,226,898	$ 5,869,172	$ 4,961,641
Occupancy and equipment expense	390,963	490,099	583,309
Data processing expense	687,024	721,453	748,991
FDIC insurance expense	413,134	752,919	615,194
Net cost of operations of other real estate	190,954	400,932	478,649
Realized losses on sales of securities	398,713	1,908	731
Legal and professional fees	353,245	357,886	202,377
Realized losses - fraudulent checks	300,874	4,345	1,602
Other operating expenses	1,790,638	1,901,184	1,888,101
Total other expenses	$ 8,752,443	$ 10,499,898	$ 9,480,595
Income before income taxes	$ 7,706,025	$ 3,741,426	$ 5,832,809
Provision for income taxes	2,687,696	1,239,442	2,020,945
Net income	$ 5,018,329	$ 2,501,984	$ 3,811,864

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
FOR YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011

	2013	2012	2011
Net income	$ 5,018,329	$ 2,501,984	$ 3,811,864
Other comprehensive income:			
Unrealized gains/(losses) on securities arising during the period	$ (3,535,488)	$ (568,633)	$ 1,169,872
Adjustments for income tax (expense) benefit	1,295,402	208,347	(428,641)
	$ (2,240,086)	$ (360,286)	$ 741,231
Less: Reclassification adjustment for (gains)/ losses included in net income	$ (4,928)	$ 1,908	$ 731
Adjustment for income tax expense (benefit)	1,806	(699)	(268)
	$ (3,122)	$ 1,209	$ 463
Other comprehensive income/(loss), net of tax	$ (2,243,208)	$ (359,077)	$ 741,694
Comprehensive income	$ 2,775,121	$ 2,142,907	$ 4,553,558

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
BALANCES - December 31, 2010	$ 300,000	$ 1,000,000	$ 69,112,811	$ 1,848,227	$ 72,261,038
Net income			3,811,864		3,811,864
Other comprehensive income/(loss)				741,694	741,694
Cash dividends ($2.40 per share)			(1,440,000)		(1,440,000)
BALANCES - December 31, 2011	$ 300,000	$ 1,000,000	$ 71,484,675	$ 2,589,921	$ 75,374,596
Net income			2,501,984		2,501,984
Other comprehensive income/(loss)				(359,077)	(359,077)
Cash dividends ($2.40 per share)			(1,440,000)		(1,440,000)
BALANCES - December 31, 2012	$ 300,000	$ 1,000,000	$ 72,546,659	$ 2,230,844	$ 76,077,503
Net Income			5,018,329		5,018,329
Other comprehensive income/(loss)				(2,243,208)	(2,243,208)
Cash dividends ($2.50 per share)			(1,500,000)		(1,500,000)
BALANCES - December 31, 2013	$ 300,000	$ 1,000,000	$ 76,064,988	$ (12,364)	$ 77,352,624

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011

	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 5,018,329	$ 2,501,984	$ 3,811,864
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	55,152	102,792	238,928
Provision for loan losses	0	840,195	737,860
Provision for deferred income tax expense (benefit)	39,377	95,911	(108,624)
Change in carrying value in other real estate	49,715	(79,287)	0
Equity in earnings of unconsolidated subdiidiary, net of distributions	(4,046)	(3,713)	(4,160)
(Gain)/loss on sale of OREO	59,208	(51,907)	360,639
(Gain)/loss on sale of fixed assets	0	(15,465)	0
(Gain)/loss on sale of securities	(4,928)	1,908	731
Cash surrender value life insurance	39,716	(5,621)	(8,781)
Net (accretion)/amortization on securities	1,283,771	956,588	507,136
(Increase)/decrease in other assets	(134,772)	1,291,134	450,910
Increase/(decrease) in other liabilities	(261,062)	414,499	(53,325)
Net cash provided by operating activities	$ 6,140,460	$ 6,049,018	$ 5,933,178
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net (increase)/decrease in federal funds sold	$ 19,000,000	$ 9,000,000	$ (12,000,000)
Proceeds from sales and maturities of available for sale securities	32,156,563	10,690,000	5,695,000
Proceeds from maturities of held to maturity securities	103,965,111	103,960,424	103,955,925
Purchases of available for sale securities	(47,431,063)	(38,921,843)	(33,023,074)
Purchases of held to maturity securities	(103,969,073)	(103,953,855)	(103,967,112)
Proceeds from sale of equipment	0	43,666	0
Purchases of bank premises and equipment	(50,604)	(94,076)	(200,265)
Net (increase)/decrease in loans	(28,277,992)	(7,356,482)	14,884,109
Proceeds from sales of other real estate owned	540,646	2,147,915	400,462
Net cash used in investing activities	$ (24,066,412)	$ (24,484,251)	$ (24,254,955)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011
(Continued)

	2013	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase/(decrease) in demand deposits	$ 8,541,445	$ (3,375,005)	$ 13,773,344
Net increase/(decrease) in time deposits	10,642,077	19,866,293	7,487,758
Dividends paid	(1,500,000)	(1,440,000)	(1,440,000)
Net cash provided by financing activities	$ 17,683,522	$ 15,051,288	$ 19,821,102
Net increase/(decrease) in cash and cash equivalents	$ (242,430)	$ (3,383,945)	$ 1,499,325
Cash and cash equivalents at beginning of year	15,107,465	18,491,410	16,992,085
Cash and cash equivalents at end of year	$ 14,865,035	$ 15,107,465	$ 18,491,410
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest on deposits and borrowings	$ 5,566,887	$ 6,412,019	$ 6,392,168
Income taxes	$ 2,608,417	$ 736,000	$ 2,284,000
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH ACTIVITIES:			
Loans transferred to other real estate owned	$ 2,919,215	$ 371,170	$ 2,230,155

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011

Note 1 – Summary of Significant Accounting Policies:

Nature of Operations

Putnam Bancshares, Inc. (the "Company") is a West Virginia corporation headquartered in Hurricane, West Virginia. The Company owns all of the outstanding shares of common stock of Putnam County Bank. Putnam County Bank (the "Bank") is a West Virginia state-chartered commercial bank that provides consumer and commercial loans and deposit services principally to individuals and small businesses in Putnam County, West Virginia, and the surrounding areas. The Bank has three banking offices, all located in Hurricane, West Virginia.

Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

Principles of Consolidation

The consolidated financial 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, the Company entered into an agreement with other entities to form Putnam County Title Insurance Agency, LLC. The Company has a controlling interest in the LLC, owning 51%. The consolidation method was used in accounting for the LLC. (See Note 10 for additional information.)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expense during the reported period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan 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 allowance for loan losses and other real estate owned, the Company obtains independent appraisals for significant collateral.

Cash and Due from Banks

For purposes of reporting cash flows, cash and due from banks includes cash on hand, cash items, and amounts due from correspondent banks. Cash flows from demand deposits, money market accounts, savings accounts, and federal funds sold are reported net since their original maturities are less than three months. Cash flows from loans, certificates of deposit, and other time deposits are reported net.

Securities

Debt securities are classified as "held to maturity", "available for sale", or "trading" according to Management's intent. The appropriate classification is determined at the time of purchase of each security and re-evaluated at each reporting date.

Securities held to maturity: Debt securities for which the Bank has the intent and ability to hold to maturity are reported at cost and adjusted for amortization of premiums and accretion of discounts using methods approximating the interest method

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011
(Continued)

Securities (continued)

Securities available for sale: Securities not classified as "held to maturity" or as "trading" are classified as "available for sale". Securities classified as "available for sale" are those securities the Bank intends to hold for an indefinite period of time, but not necessarily to maturity. "Available for sale" securities are reported at fair value, net of unrealized gains or losses, which are adjusted for applicable income taxes and reported as other comprehensive income.

Trading securities: There are no securities classified as "trading" in the accompanying financial statements.

Any security that has experienced a decline in value, which management believes is deemed other-than-temporary, is reduced to its estimated fair value. This determination requires significant judgment. 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. Realized gains and losses on sales of securities are recognized using the specific-identification method. Amortization of premiums and accretion discounts are computed using the effective interest rate method.

Loans

Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Interest is accrued daily on the outstanding balance.

Generally, loans are placed on non-accrual status when principal or interest is greater than 90 days past due based upon the loan's contractual terms, unless such loans are well secured and in the process of collection. Loans that are on a current payment status or past due less than 90 days may also be classified as non-accrual if repayment in full of principal and/or interest is in doubt. Interest is accrued daily on impaired loans unless the loan is placed on non-accrual status. Impaired loans are placed on non-accrual status upon change of the loan's risk grade to impaired status. Interest recognized on impaired loans is reviewed on a loan basis and typically would only be recognized when a change in risk grade to a pass classification is imminent. Interest on non-accrual loans is recognized primarily using the cost-recovery method.

Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower, in accordance with the contractual terms of interest and principal.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. Management reviews the allowance for loan losses regularly. The Bank makes continuous credit reviews of the loan portfolio and considers current economic conditions, historical loan loss experience, review of specific problem loans, and other factors in determining the adequacy of the allowance for loan losses. An unallocated component is also computed to cover the 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. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. While Management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. There were no material changes to the accounting policy or methodology related to the allowance for loan losses in 2013.

Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses. When a loan or a portion of a loan is identified to contain a loss, a charge-off recommendation is directed to Management to charge-off all or a portion of that loan.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011
(Continued)

Allowance for Loan Loss (continued)

A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement. Risk 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. Impaired loans, other than certain large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, are required to be reported at the present value of expected future cash flows discounted using the loan's original effective interest rate or, alternatively, at the loan's observable market price, or at the fair value of the loan's collateral less any associated selling costs if the loan is collateral dependent. The method selected to measure impairment is made on a loan-by-loan basis, unless foreclosure is deemed to be probable, in which case the fair value of the collateral method is used.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily on the straight-line method for Bank premises and equipment over the estimated useful lives of the respective assets as follows:

• Buildings and improvements	10 – 40 years
• Equipment, fixtures and vehicles	3 – 10 years

Repairs, maintenance and minor improvements are charged to occupancy and equipment expense as incurred. Major improvements and additions to premises and equipment are capitalized. Gains or losses on disposition, if any, are recorded in the Consolidated Statements of Income.

Other Real Estate Owned

Other real estate owned consists of real estate held for sale which was acquired through foreclosure on loans secured by such real estate. At the time of acquisition, these properties are recorded at the lower of cost or appraised market value with any write down being charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by Management and the assets are carried at the lower of carrying amount or fair value less estimated selling costs. Revenues and expenses incurred in connection with operating these properties and any direct write downs are included in net cost of operations of other real estate in the Consolidated Statements of Income.

Advertising

Advertising costs are expensed as incurred and included in other operating expenses. Advertising expense was $203,372, $128,786, and $118,121 for the years ended December 31, 2013, 2012, and 2011, respectively.

Income Taxes

Putnam Bancshares, Inc. and its subsidiary file a consolidated federal income tax return. 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 bases of the allowances for loan losses. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the deferred tax assets or liabilities are expected to be settled or realized. Valuation allowances are established when deemed necessary to reduce deferred tax assets to the amount expected to be realized within a short term.

Bank-Owned Life Insurance

The Bank purchased a life insurance policy on a key executive. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011
(Continued)

Employee Benefit Plans

The Bank accounts for its defined benefit plan in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 715, *Employer's Accounting for Pensions.* See Note 9 for additional information.

The Bank adopted a 401(k) plan effective January 1, 2013, and its defined benefit pension plan was frozen as of October 31, 2012. The Bank will still be accountable for past pension obligations and will continue to fund the pension plan as needed.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank enters 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 consolidated financial statements when they are funded or related fees are incurred or received.

Other Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, and gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of other comprehensive income/(loss). The components of other comprehensive income/(loss) and related tax effects are presented in the Statements of Comprehensive Income/(Loss).

Earnings Per Share

Earnings per share represent income available to common shareholders divided by the weighted average number of common shares outstanding during the period.

	2013	2012	2011
Net income	$ 5,018,329	$ 2,501,984	$ 3,811,864
Average shares outstanding	600,000	600,000	600,000
Earnings per common share	$ 8.36	$ 4.17	$ 6.35
Dividends paid per common share	$ 2.50	$ 2.40	$ 2.40

Reclassifications

Certain items in the notes have been reclassified to conform to current year classifications.

Note 2 – Cash and Due from Banks:

Certain reserves are required to be maintained at the Federal Reserve Bank. The requirement as of December 31, 2013 and 2012, was $6,254,000 and $5,503,000, respectively. At December 31, 2013 and 2012, the Bank had accounts at correspondent banks, excluding the Federal Reserve Bank, which exceeded the FDIC insurable limit of $250,000 by $1,660,135 and $2,872,343, respectively.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011
(Continued)

Note 3 – Securities:

The amortized gains, unrealized losses and estimated fair values of securities at December 31, 2013 and 2012, are summarized as follows:

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for Sale Securities				
U.S. Government agencies	$ 123,339,944	$ 1,016,164	$ (860,863)	$ 123,495,245
Municipal bonds	8,559,497	83,720	(229,754)	8,413,463
Mutual funds	1,000,000	0	(28,780)	971,220
Totals	$ 132,899,441	$ 1,099,884	$ (1,119,397)	$ 132,879,928
Held to Maturity Securities				
U.S. Government agencies	$ 38,993,666	$ 2,458	$ (180)	$ 38,995,944

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for Sale Securities				
U.S. Government agencies	$ 110,345,239	$ 3,297,457	$ (35,691)	$ 113,607,005
Municipal bonds	7,558,545	268,227	(26,820)	7,799,952
Mutual funds	1,000,000	19,070	(1,341)	1,017,729
Totals	$ 118,903,784	$ 3,584,754	$ (63,852)	$ 122,424,686
Held to Maturity Securities				
U.S. Government agencies	$ 38,989,705	$ 4,900	$ (68)	$ 38,994,537

The following table shows the proceeds from maturities, sales, and calls of available for sale securities and the gross realized gains and losses on those sales. Gains and losses are computed using the specific-identification method.

	2013	2012	2011
Proceeds from maturities, sales, and calls	$ 32,156,563	$ 10,690,000	$ 5,695,000
Gross realized gains	$ 403,641	$ 0	$ 0
Gross realized losses	$ 398,713	$ 1,908	$ 731

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011
(Continued)

Note 3 – Securities: (continued)

The scheduled maturities of securities at December 31, 2013, by contractual maturity, 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 prepayment penalties.

	Available for Sale Securities		Held to Maturity Securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$ 27,572,571	$ 28,005,641	$ 38,993,666	$ 38,995,944
Due after one year through five years	102,166,870	101,944,042	0	0
Due after five years through 10 years	1,820,000	1,691,817	0	0
Due after 10 years	1,340,000	1,238,428	0	0
Totals	$ 132,899,441	$ 132,879,928	$ 38,993,666	$ 38,995,944

At December 31, 2013 and 2012, the carrying value of securities pledged to secure public funds totaled $65,599,999 and $59,499,999, respectively. The estimated fair values totaled $66,999,874 and $63,140,753, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

Impairment is evaluated considering numerous factors, and their relative significance varies from case to case. Factors considered include the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in market value. If, based on the analysis, it is determined that the impairment is other-than-temporary, the security is written down to fair value, and a loss is recognized through earnings. There were no other-than-temporary impairment losses for the years ended December 31, 2013, 2012, and 2011.

The Bank had 17 available for sale securities and 4 held to maturity securities with an unrealized loss position at December 31, 2013. These securities are predominately rated investment grade securities and the unrealized losses are due to overall market interest rate fluctuations and not due to any underlying credit concerns of the issuers. The Bank has the intent and ability to hold such investments until maturity or market price recovery. Accordingly, the Bank has concluded that none of the securities in its investment portfolio are other-than-temporarily impaired at December 31, 2013.

The following is a summary of securities which were in an unrealized loss position at December 31, 2013 and 2012:

	Less Than 12 Months		12 Months or More		Total	
December 31, 2013	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Available for Sale Securities						
U.S. Government agencies	$ 0	$ 0	$ 66,646,355	$ (860,863)	$ 66,646,355	$ (860,863)
Municipal bonds	0	0	2,930,245	(229,754)	2,930,245	(229,754)
Mutual funds	971,220	(28,780)	0	0	971,220	(28,780)
Totals	$ 971,220	$ (28,780)	$ 69,576,600	$(1,090,617)	$ 70,547,820	$(1,119,397)
Held to Maturity Securities						
U.S. Government agencies	$ 3,999,465	$ (180)	$ 0	$ 0	$ 3,999,465	$ (180)

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Note 3 – Securities: (continued)

	Less Than 12 Months		12 Months or More		Total	
December 31, 2012	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Available for Sale Securities						
U.S. Government agencies	$ 0	$ 0	$10,977,535	$ (35,691)	$ 10,977,535	$ (35,691)
Municipal bonds	0	0	758,640	(26,820)	758,640	(26,820)
Mutual funds	498,660	(1,341)	0	0	498,660	(1,341)
Totals	$ 498,660	$ (1,341)	$11,736,175	$ (62,511)	$ 12,234,835	$ (63,852)
Held to Maturity Securities						
U.S. Government agencies	$ 999,507	$ (68)	$ 0	$ 0	$ 999,507	$ (68)

Note 4 – Loans:

The following table summarizes the components of the Company's loan portfolio as of December 31, 2013 and 2012:

	2013	2012
Commercial	$ 121,413,384	$ 120,563,055
Real estate	183,884,967	176,146,484
Construction	29,441,585	20,017,517
Other	12,955,406	5,675,387
Gross loans	$ 347,695,342	$ 322,402,443
Less: Unearned interest on installment loans	(4,167)	(7,305)
Total loans	$ 347,691,175	$ 322,395,138
Less: allowance for loan losses	(3,816,559)	(3,879,299)
Loans, net	$ 343,874,616	$ 318,515,839

A summary of risk characteristics by loan portfolio classification follows:

Commercial: This portfolio consists of nonresidential improved real estate, which includes shopping centers, office buildings, etc. New loans in this portfolio are typically balloon loans with initial fixed rate terms of five years and generally have an original loan-to-value ("LTV") of 85% or less. These properties are generally located in the Bank's normal lending area.

Real Estate: This portfolio primarily consists of owner-occupied, full documentation loans secured by properties in the Bank's normal lending area. New loans in this portfolio are typically balloon mortgages with an initial fixed rate terms of 15 years and generally have an original LTV of 90% or less.

Construction: This portfolio consists of residential and commercial construction loans. Loans in this portfolio are typically set for an interest only period of 12 months, during construction phase. Rates are typically prime plus 2% and usually have a set floor of 5%.

Other: This portfolio consists of loans that are unsecured, secured by automobiles, or secured by deposit accounts. This portfolio is generally granted to local customers only.

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Note 4 – Loans: (continued)

The following table summarizes loans by contractual maturity as of December 31, 2013, unadjusted for scheduled principal payments, prepayments, or re-pricing opportunities. The average life of the loan portfolio may be substantially less than the contractual terms when these adjustments are considered.

	Within One Year	After One Year But Within Five Years	After Five Years
Commercial	$ 21,881,772	$ 75,418,843	$ 24,112,769
Real estate	7,310,754	23,004,666	153,569,547
Construction	12,240,839	6,466,415	10,734,330
Other	8,705,112	3,533,428	716,867
Total loans	$ 50,138,477	$ 108,423,352	$ 189,133,513

Management monitors the credit quality of its loans on an ongoing basis. Any loan that is 30 days past payment is considered past due and is included in the past due table below. Past due loans are examined to identify loans for non-accrual status, which are normally loans that are 90 days past due, unless special circumstances exist. Loans may be returned to accrual status when repayment is reasonably assured and there has been demonstrated performance under the terms of the loan.

The following tables present the contractual aging of the recorded investment in past due loans as of December 31, 2013 and 2012:

	At December 31, 2013						
	Past Due						Recorded Investment
Dollars in Thousands	30-59 Days	60-89 Days	> 90 Days	Total	Current	Total Loans	>90 Days and Accruing
Commercial	$ 539	$ 11	$ 0	$ 550	$ 120,863	$ 121,413	$ 0
Real estate	898	576	1,052	2,526	181,359	183,885	781
Construction	0	0	843	843	28,599	29,442	0
Other	54	4	15	73	12,878	12,951	15
Totals	$ 1,491	$ 591	$ 1,910	$ 3,992	$ 343,699	$ 347,691	$ 796

	At December 31, 2012						
	Past Due						Recorded Investment
Dollars in Thousands	30-59 Days	60-89 Days	> 90 Days	Total	Current	Total Loans	>90 Days and Accruing
Commercial	$ 6,415	$ 450	$ 5,022	$ 11,887	$ 108,676	$ 120,563	$ 14
Real estate	1,205	0	108	1,313	174,833	176,146	108
Construction	0	252	558	810	19,208	20,018	0
Other	31	0	0	31	5,637	5,668	0
Totals	$ 7,651	$ 702	$ 5,688	$ 14,041	$ 308,354	$ 322,395	$ 122

Note 4 – Loans: (continued)

The following table presents the non-accrual loans included in the net balance of loans at December 31, 2013 and 2012, respectively.

	2013	2012
Commercial	$ 0	$ 5,007,964
Real estate	270,566	0
Construction	843,295	557,980
Other	0	0
Totals	$ 1,113,861	$ 5,565,944

If interest on non-accrual loans had been accrued, such income would have approximated $389,613, $244,717, and $390,969 for the years ended December 31, 2013, 2012, and 2011, respectively.

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank assigns credit quality indicators of pass, special mention, substandard, and doubtful to its loans. The following definitions are used for risk grades:

Pass: Loans in this category are characterized by borrowers with an average to strong financial condition, sufficient cash flows to service the debt, and repayment history is satisfactory.

Special Mention: Special mention loans have potential weaknesses that deserve Management's attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects.

Substandard: A substandard loan is inadequately protected by the sound worth and paying capacity of the borrower or the collateral pledged. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual assets. They require more intensive supervision by Management.

Doubtful: Doubtful loans have all the weaknesses inherent in substandard loans, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. These are poor quality loans in which neither the collateral, if any, nor the financial condition of the borrower ensure collectability in full. Loans classified as doubtful are considered impaired.

The following tables present loans based upon the internal risk ratings by class::

December 31, 2013

	Commercial	Real Estate	Construction	Other	Total
Pass	$ 108,809,475	$ 175,129,312	$ 24,249,669	$ 12,607,591	$ 320,796,047
Special mention	10,484,023	6,376,971	4,348,621	296,062	21,505,677
Substandard	2,119,886	2,378,684	843,295	47,586	5,389,451
Doubtful	0	0	0	0	0
Totals	$ 121,413,384	$ 183,884,967	$ 29,441,585	$ 12,951,239	$ 347,691,175

December 31, 2012

	Commercial	Real Estate	Construction	Other	Total
Pass	$ 102,611,412	$ 165,374,101	$ 15,261,868	$ 5,603,011	$ 288,850,392
Special mention	4,117,092	2,048,476	139,822	13,916	6,319,306
Substandard	13,834,551	8,723,907	4,615,827	51,155	27,225,440
Doubtful	0	0	0	0	0
Totals	$ 120,563,055	$ 176,146,484	$ 20,017,517	$ 5,668,082	$ 322,395,138

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Note 4 – Loans: (continued)

In the normal course of business, the Bank make loans to executive officers and directors and related business interest 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 collectability.

The following presents the activity with respect to loans to related parties for 2013, 2012, and 2011:

	2013	2012	2011
Balances - January 1,	$ 11,880,084	$ 14,784,511	$ 19,478,036
New loans	2,025,899	1,953,859	3,133,990
Repayments	(1,527,555)	(4,858,286)	(7,827,515)
Balances - December 31,	$ 12,378,428	$ 11,880,084	$ 14,784,511

The following is a summary of impaired loan by class at December 31, 2013 and 2012:

	December 31, 2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized While Impaired
With a Related Allowance					
Commercial	$ 0	$ 0	$ 0	$ 396,564	$ 170,585
Real estate	548,500	546,370	36,322	725,574	33,303
Construction	285,315	285,315	46,635	876,569	133,113
Other	0	0	0	31,938	3,663
Totals with a related allowance	$ 833,815	$ 831,685	$ 82,957	$ 2,030,645	$ 340,664
With No Related Allowance					
Commercial	$ 2,291,570	$ 2,108,657	$ 0	$ 8,095,542	$ 942,474
Real estate	2,978,500	2,598,280	0	4,727,213	358,922
Construction	1,425,000	557,980	0	1,469,928	150,051
Other	0	0	0	0	0
Totals with no related allowance	$ 6,695,070	$ 5,264,917	$ 0	$ 14,292,683	$ 1,451,447
Total					
Commercial	$ 2,291,570	$ 2,108,657	$ 0	$ 8,492,106	$ 1,113,059
Real estate	3,527,000	3,144,650	36,322	5,452,787	392,225
Construction	1,710,315	843,295	46,635	2,346,497	283,164
Other	0	0	0	31,938	3,663
Totals	$ 7,528,885	$ 6,096,602	$ 82,957	$ 16,323,328	$ 1,792,111

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(Continued)

Note 4 – Loans: (continued)

	December 31, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized While Impaired
With a Related Allowance					
Commercial	$ 3,200,000	$ 1,229,000	$ 205,700	$ 777,980	$ 0
Real estate	294,000	294,027	15,820	292,130	42,898
Construction	0	0	0	654,171	0
Other	0	0	0	0	0
Totals with a related allowance	$ 3,494,000	$ 1,523,027	$ 221,520	$ 1,724,281	$ 42,898
With No Related Allowance					
Commercial	$ 8,452,999	$ 5,629,577	$ 0	$ 6,994,975	$ 258,470
Real estate	1,469,000	1,232,055	0	1,104,644	78,287
Construction	1,425,000	557,980	0	552,418	31,764
Other	0	0	0	0	0
Totals with no related allowance	$ 11,346,999	$ 7,419,612	$ 0	$ 8,652,037	$ 368,521
Total					
Commercial	$ 11,652,999	$ 6,858,577	$ 205,700	$ 7,772,955	$ 258,470
Real estate	1,763,000	1,526,082	15,820	1,396,774	121,185
Construction	1,425,000	557,980	0	1,206,589	31,764
Other	0	0	0	0	0
Totals	$ 14,840,999	$ 8,942,639	$ 221,520	$ 10,376,318	$ 411,419

Note 5 – Allowance for Loan Losses:

An analysis of the allowance for loan losses for the years ended December 31, 2013, 2012, and 2011, is below:

	2013	2012	2011
Beginning Balance	$ 3,879,299	$ 4,492,337	$ 4,458,996
Charge-offs:			
Commercial	(5,190)	(726,537)	(458,165)
Real estate	(160,078)	(57,605)	(17,943)
Construction	0	(743,140)	(289,897)
Other	(1,101)	(2,937)	(16,745)
Total charge-offs	$ (166,369)	$ (1,530,219)	$ (782,750)
Recoveries:			
Commercial	$ 103,354	$ 73,940	$ 68,611
Real estate	275	896	300
Construction	0	1,750	7,802
Other	0	400	1,518
Total recoveries	$ 103,629	$ 76,986	$ 78,231
Provision for loan losses	$ 0	$ 840,195	$ 737,860
Ending balance	$ 3,816,559	$ 3,879,299	$ 4,492,337

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Note 5 – Allowance for Loan Losses: (continued)

The allowance is comprised of three distinct reserve components: (1) specific reserves related to loans individually evaluated, (2) quantitative reserves related to loans collectively evaluated, and (3) qualitative reserves related to loans collectively evaluated. A summary of the methodology the Bank employs on a quarterly basis with respect to each of these components in order to evaluate the overall adequacy of the allowance for loan losses is as follows:

Specific Reserve for Loans Individually Evaluated

To identify loans considered for impairment evaluation, Management will begin with a review of the Loan Portfolio Watch List. A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. "All amounts due, according to the contractual terms", means that both the contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement. However, an insignificant delay or insignificant shortfall in amount of payments on the loan does not mean the loan is impaired.

Once determined to be impaired, impairment will be measured by the present value of expected cash flow at the loan's effective interest rate, less the fair value of the loans' collateral and costs to sell.

Loans determined to be impaired will be identified and listed individually with the impairment measurement amount (even if the amount is zero). These loans will be deducted from the appropriate loan pool when calculating the estimated loss under ASC 450-10.

Quantitative Reserve for Loans Collectively Evaluated

Under ASC 450-10, loss estimates are calculated for groups of loans with similar risk characteristics. The Bank identifies the similar loan groups as; Commercial, Real Estate, Construction, and Other. Charge-off amounts are compared to average loans outstanding to calculate a 2-Year Historic Average Loan Loss Percentage. This percentage is applied to the current loans outstanding for each loan pool, less the impaired loans for each loan pool. The result is the required general reserves amount.

Qualitative Reserve for Loans Collectively Evaluated

The Bank also considers the necessity to adjust the average historical net loan charge-off rates relative to each of the above loan pools for potential risk factors that could result in actual losses deviating from prior loss experience. Such qualitative risk factors considered are: (1) levels of and trends in delinquencies and impaired loans, (2) levels of and trends in charge-offs and recoveries, (3) trends in volume and term of loans, (4) effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures, and practice, (5) experience, ability, and depth of lending management and other relevant staff, (6) national and local economic trends and conditions, (7) industry conditions, and (8) effects of changes in credit concentrations.

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Note 5 – Allowance for Loan Losses: (continued)

Activity in the allowance for loan losses by loan class for the years ended December 31, 2013 and 2012, is as follows:

2013	Commercial	Real Estate	Construction	Other	Total
Allowance for Loan Loss					
Beginning balance	$ 2,509,849	$ 571,740	$ 775,482	$ 22,228	$ 3,879,299
Charge-offs	(5,190)	(160,078)	0	(1,101)	(166,369)
Recoveries	103,354	275	0	0	103,629
Provision	0	0	0	0	0
Ending balance	$ 2,608,013	$ 411,937	$ 775,482	$ 21,127	$ 3,816,559
Allowance Related to:					
Loans individually evaluated for impairment	$ 0	$ 36,322	$ 46,635	$ 0	$ 82,957
Loans collectively evaluated for impairment	2,608,013	375,615	728,847	21,127	3,733,602
Totals	$ 2,608,013	$ 411,937	$ 775,482	$ 21,127	$ 3,816,559
Loans					
Loans individually evaluated for impairment	$ 2,108,657	$ 3,144,650	$ 843,295	$ 0	$ 6,096,602
Loans collectively evaluated for impairment	119,304,727	180,740,317	28,598,290	12,951,239	341,594,573
Totals	$ 121,413,384	$ 183,884,967	$ 29,441,585	$ 12,951,239	$ 347,691,175

2012	Commercial	Real Estate	Construction	Other	Total
Allowance for Loan Loss					
Beginning balance	$ 818,436	$ 2,235,850	$ 1,375,196	$ 62,855	$ 4,492,337
Charge-offs	(726,537)	(57,605)	(743,140)	(2,937)	(1,530,219)
Recoveries	73,940	896	1,750	400	76,986
Provision	2,344,010	(1,607,401)	141,676	(38,090)	840,195
Ending balance	$ 2,509,849	$ 571,740	$ 775,482	$ 22,228	$ 3,879,299
Allowance Related to:					
Loans individually evaluated for impairment	$ 205,700	$ 15,820	$ 0	$ 0	$ 221,520
Loans collectively evaluated for impairment	2,304,149	555,920	775,482	22,228	3,657,779
Totals	$ 2,509,849	$ 571,740	$ 775,482	$ 22,228	$ 3,879,299
Loans					
Loans individually evaluated for impairment	$ 6,858,577	$ 1,526,082	$ 557,980	$ 0	$ 8,942,639
Loans collectively evaluated for impairment	113,704,478	174,620,402	19,459,537	5,668,082	313,452,499
Totals	$ 120,563,055	$ 176,146,484	$ 20,017,517	$ 5,668,082	$ 322,395,138

Both commercial and consumer loans are deemed impaired upon being contractually modified in a troubled debt restructuring ("TDR"). TDRs typically result from loss mitigation activities and occur when the Bank grants a concession to a borrower who is experiencing financial difficulty in order to minimize the loss. The modifications to the Company's TDRs were concessions on the interest rate charged. The effect of the modifications to the Company was a reduction in interest income. Once restructured in a TDR, a loan is generally considered impaired until its maturity, regardless of whether the borrower performs under the modified terms. Although such a loan may be returned to accrual status if all principal and interest are paid to date, the loan would continue to be evaluated for an asset-specific allowance for loan losses.

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Note 5 – Allowance for Loan Losses: (continued)

The following tables present TDRs, modified by class at December 31, 2013 and 2012:

2013	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	0	$ 0	$ 0
Real estate	6	1,268,142	1,227,529
Construction	1	1,202,432	557,980
Other	0	0	0
Totals	7	$ 2,470,574	$ 1,785,509

2012	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	2	$ 8,466,180	$ 4,544,582
Real estate	6	1,268,142	1,255,517
Construction	1	1,202,432	557,980
Other	0	0	0
Totals	9	$ 10,936,754	$ 6,358,079

Default occurs when payments are not received in accordance with terms specified in the loan document, which may result in the loan being fully or partially charged-off. For the years ended December 31, 2013 and 2012, there were no restructured loans that subsequently defaulted resulting in a principal charge-off.

Two of the Bank's TDRs as of December 31, 2011, were paid off in 2012 and an additional two in 2013. No loans were placed into TDR in 2012 or 2013. The Bank had commitments of $11,547 and $71,418 to advance funds to loans that were considered to be TDRs as of December 31, 2013, and December 31, 2012, respectively.

Note 6 - Bank Premises and Equipment:

Major classifications of bank premises and equipment at December 31, 2013 and 2012, are as follows:

	2013	2012
Buildings and improvements	$ 1,856,589	$ 1,856,589
Furniture and fixtures	1,675,386	1,624,783
	$ 3,531,975	$ 3,481,372
Less: accumulated depreciation	3,130,672	3,075,520
	$ 401,303	$ 405,852
Land	200,460	200,460
Bank premises and equipment, net	$ 601,763	$ 606,312

Depreciation expense for the years ended December 31, 2013, 2012, and 2011, totaled $55,152, $102,792, and $238,928, respectively, and is included in occupancy and equipment expense in the Consolidated Statements of Income.

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Note 6 – Bank Premises and Equipment: (continued)

The Bank has entered into a noncancelable lease agreement with a related party, consummated at arm's length, for its Teays Valley branch. Rent expense for the operating lease approximated $64,080, $61,911 and $59,826 for the years ended December 31, 2013, 2012, and 2011, respectively. The minimum annual rental commitment under this lease, exclusive of taxes and other charges, payable by the lessee at December 31, 2013, for the next five years is as follows:

Year	Amount
2014	$ 66,335
2015	68,680
2016	71,120
2017 and thereafter	67,318
Total	$ 273,453

Note 7 – Deposits:

The following is a summary of major categories of deposits at December 31, 2013 and 2012:

	2013	2012
Non-interest bearing	$ 56,374,964	$ 53,420,355
Interest bearing:		
Time deposits under $100,000	$ 95,263,770	$ 114,948,242
Time deposits over $100,000	257,412,779	227,154,095
Total time deposits	$ 352,676,549	$ 342,102,337
Money market	109,991,977	104,989,718
Savings	25,545,810	24,893,369
Total interest bearing deposits	$ 488,214,336	$ 471,985,424
Total deposits	$ 544,589,300	$ 525,405,779

Scheduled maturities of time and certificates of deposit at December 31, 2013, are as follows:

Year	Amount
2014	$ 315,466,239
2015	30,944,547
2016	6,265,763
Total	$ 352,676,549

The Bank has, and expects to have in the future, banking transactions in the ordinary course of business with 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. Aggregate deposit transactions with related parties approximated $52,367,324 and $52,168,438 at December 31, 2013 and 2012, respectively.

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Note 8 – Income Taxes:

The components of applicable income tax expense (benefit) for the years ended December 31, 2013, 2012, and 2011, are summarized as follows:

	2013	2012	2011
Current expense:			
Federal	$ 2,419,190	$ 1,014,773	$ 1,867,950
State	229,129	128,758	261,619
Totals	$ 2,648,319	$ 1,143,531	$ 2,129,569
Deferred expense (benefit):			
Federal	$ 35,078	$ 85,440	$ (96,764)
State	4,299	10,471	(11,860)
Totals	$ 39,377	$ 95,911	$ (108,624)
Total applicable income taxes	$ 2,687,696	$ 1,239,442	$ 2,020,945

Deferred taxes are recorded based upon differences between the financial statement and tax basis of assets and liabilities and available tax credit carryforwards. Temporary differences between the financial statement and tax values of assets and liabilities give rise to deferred tax assets (liabilities). The significant components of deferred tax assets and liabilities classified in the Company's Consolidated Balance Sheets as other assets (liabilities) at December 31, 2013 and 2012, are as follows:

	2013	2012
Deferred tax assets:		
Allowance for loan losses	$ 22,988	$ 95,313
Discount on investment securities	626	598
Total deferred tax assets	$ 23,614	$ 95,911
Deferred tax liabilities:		
Depreciation and amortization	$ (15,763)	$ 0
Total deferred tax liabilities	$ (15,763)	$ 0
Totals	$ 7,851	$ 95,911

The difference between income taxes computed by applying the statutory federal income tax rate and the provision for income taxes in the financial statements is reconciled as follows:

	2013		2012		2011	
	Amount	%	Amount	%	Amount	%
Income tax expense at federal statutory rate	$ 2,620,049	34.00%	$ 1,272,085	34.00%	$ 1,983,155	34.00%
Increase/(decrease) resulting from:						
State income tax	154,063	2.00	91,891	2.46	184,842	2.83
Tax exempt income	(129,734)	(1.68)	(135,287)	(3.62)	(139,032)	(2.38)
Nondeductible expenses	4,668	0.06	5,975	0.16	6,575	0.11
Depreciation	14,627	0.19	0	0.00	0	0.00
Other items	24,023	0.31	4,778	0.13	5,405	0.09
Tax on income	$ 2,687,696	34.88%	$ 1,239,442	33.13%	$ 2,020,945	34.65%

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Note 8 – Income Taxes: (continued)

The approximate tax (benefit) effects of the net investment securities gains (losses) were $1,806, ($699), and ($268) for the years 2013, 2012, and 2011, respectively.

As of December 31, 2013 and 2012, there were no net operating loss carryforwards for income tax purposes.

In accordance with ASC Topic 740-10, *Income Taxes*, the Bank has concluded that there were no significant uncertain tax positions requiring recognition in the consolidated financial statements for the tax years ended 2010, 2011, 2012, and 2013. The Bank is subject to U.S. Federal income tax examinations for the returns filed after December 31, 2010. The Company and its subsidiaries state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2010 through 2013. There were no unrecognized tax benefits at December 31, 2013 or 2012.

The Bank recognizes interest and penalties accrued related to unrecognized tax benefits, if applicable, in other operating expenses. During the years ended December 31, 2013, 2012, and 2011, the Bank recognized $0, $4,850, and $7,239 in interest or penalties.

Note 9 – Employee Benefit Plans:

The Bank is a participant in a non-contributory defined benefit pension plan that covers former and current employees. It is the policy of the Company to fund the normal cost of the plan on an annual basis. Pension benefits are based on length of service and the employee's compensation during his/her tenure. Contributions by the Bank are intended to provide only for benefits attributed as of October 31, 2012, the date the plan was frozen. It is the intention of the Company to fund benefit amounts when assets of the plan are sufficient. The Bank switched to a defined contribution plan effective January 1, 2013.

The following table summarizes activity within the defined benefit plan in 2013 and 2012:

	2013	2012
Total projected benefit obligation	$ (6,710,541)	$ (6,875,998)
Fair value of plan assets	5,539,393	5,077,147
Funded status	$ (1,171,148)	$ (1,798,851)
Accumulated other comprehensive income/(loss)	(2,574,964)	(3,190,259)
Accrued benefit cost	$ (3,746,112)	$ (4,989,110)

The following table presents the components of the net periodic pension cost of the defined benefit plan:

	2013	2012	2011
Service cost	$ 0	$ (391,676)	$ (260,276)
Interest cost	(268,252)	(280,921)	(327,296)
Expected return on assets	411,932	363,324	319,224
Amortization of unrecognized gain/(loss)	(231,272)	(217,624)	(130,428)
Net periodic pension cost	$ (87,592)	$ (526,897)	$ (398,776)
Other comprehensive income/(loss)	$ 615,295	$ 193,715	$ (305,270)
Total recognized in net periodic pension cost and accumulated other comprehensive income/(loss)	$ 527,703	$ (333,182)	$ (704,046)

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Note 9 – Employee Benefit Plans: (continued)

Actuarial assumptions:			
Discount rate	4.00%	4.50%	5.54%
Rate of compensation increase	0.00%	0.00%	3.00%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.00%

The estimated future benefit payments expected in each of the next five fiscal years and thereafter at December 31, 2013, are as follows:

Year	Amount
2014	$ 375,509
2015	373,530
2016	367,693
2017	357,679
2018	362,372
2019 and thereafter	1,902,219
Total	$ 3,739,002

Benefits paid totaled $345,178 and $313,708 for the years ended December 31, 2013 and 2012, respectively. Estimated contributions expected to be made in 2014 approximated $89,668.

Asset allocation for the pension plan as of the measurement date, by asset category, is as follows:

Plan Assets	Target Allocation 2013	Allowable Allocation Range	Percentage of Plan Assets at December 31, 2013	Percentage of Plan Assets at December 31, 2012
Equity securities	50%	40-60%	51%	50%
Debt securities	50%	40-60%	47%	49%
Other		0-3%	2%	1%
Totals			100%	100%

The primary long-term objective for the plan is to maintain assets at a level that will sufficiently cover future beneficiary obligations. The plan is overseen by Pentegra Retirement Services, who will invest the assets of the plan in a diversified combination of asset classes, investment strategies, and pooled vehicles. The asset allocation guidelines displayed in the table above reflect the Bank's risk tolerance and long-term objectives and is reviewed periodically to meet the above target allocations. The expected long-term rate of return for the plan's total assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation for each class.

In accordance with ASC Topic 715, the following is a description of the valuation methodologies used to measure the plan assets at fair value. See Note 16 for additional information.

Cash and Cash Equivalents: These underlying assets are of highly liquid U.S. Government obligations. The fair value of cash and cash equivalents approximates cost (Level 1).

Debt Securities: These securities of the U.S. Government, municipalities, private issuers and corporations are valued at the closing price reported in the active market in which the individual security is traded (Level 1).

Common Stock: These securities are valued at the closing price on the respective stock exchange (Level 1). However, certain equities are valued by the fund administrator using pricing models that considers observable market data (Level 2).

Mutual Funds: Generally, these securities are valued at the closing price reported in the active market in which the individual mutual fund is traded (Level 1).

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(Continued)

Note 9 – Employee Benefit Plans: (continued)

The following tables present the balances of the plan assets, by fair value, as of December 31, 2013 and 2012:

	Fair Value Measurement Using			
December 31, 2013:	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 79,879	$ -	$ -	$ 79,879
Fixed income mutual funds:				
Domestic	870,750	-	-	870,750
Alternative	1,741,952	-	-	1,741,952
Equity securities:				
Common stock	-	284,378	-	284,378
Equity mutual funds:				
Domestic equity large cap	1,308,685	-	-	1,308,685
Domestic equity small cap	572,624	-	-	572,624
International equity	681,125	-	-	681,125
Totals	$ 5,255,015	$ 284,378	$ -	$ 5,539,393

	Fair Value Measurement Using			
December 31, 2012:	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 43,787	$ -	$ -	$ 43,787
Fixed income mutual funds:				
Domestic	1,110,436	-	-	1,110,436
Alternative	1,399,259	-	-	1,399,259
Equity securities:				
Common stock	-	525,707	-	525,707
Equity mutual funds:				
Domestic equity large cap	873,552	-	-	873,552
Domestic equity small cap	502,947	-	-	502,947
International equity	621,459	-	-	621,459
Totals	$ 4,551,440	$ 525,707	$ -	$ 5,077,147

The Company provides retirement benefits to its employees through the Putnam County Bank 401(k) Plan, which is intended to be compliant with Employee Retirement Income Security Act (ERISA) Section 404(c). The Company's total expense associated with the retirement benefit plan approximated $44,584 for the year ended December 31, 2013.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
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(Continued)

Note 10 – Putnam Bancshares, Inc. (Parent Company Only) Financial Information:

CONDENSED BALANCE SHEETS

	December 31, 2013	December 31, 2012
ASSETS		
Cash	$ 87,512	$ 69,118
Investment in Putnam County Bank	77,262,637	76,006,171
Investment in Putnam County Title Insurance Agency	7,867	3,821
Total assets	$ 77,358,016	$ 76,079,110
LIABILITIES AND SHAREHOLDERS' EQUITY		
Income taxes payable	$ 8,647	$ 1,607
Total liabilities	$ 8,647	$ 1,607
Shareholders' equity	$ 77,349,369	$ 76,077,503
Total liabilities and shareholders' equity	$ 77,358,016	$ 76,079,110

CONDENSED STATEMENTS OF INCOME

	For Years Ended December 31, 2013	2012	2011
INCOME	$ 1,500,000	$ 1,440,000	$ 1,440,000
EXPENSES:			
Operating expenses	$ 33,575	$ 33,983	$ 37,913
Income before income tax benefit and equity in undistributed earnings of subsidiaries	$ 1,466,425	$ 1,406,017	$ 1,402,087
Applicable income taxes (benefit)	8,647	1,607	(3,976)
Income before equity in undistributed earnings of subsidiaries	$ 1,457,778	$ 1,404,410	$ 1,406,063
Equity in undistributed earnings of subsidiaries	3,560,551	1,097,574	2,405,801
Net income	$ 5,018,329	$ 2,501,984	$ 3,811,864

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011
(Continued)

Note 10 – Putnam Bancshares, Inc. (Parent Company Only) Financial Information: (continued)

CONDENSED STATEMENTS OF CASH FLOWS

	For Years Ended December 31,		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 5,018,329	$ 2,501,984	$ 3,811,864
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed earnings of subsidiaries	(3,560,551)	(1,097,574)	(2,405,801)
(Increase)/decrease in prepaid expenses	0	5,167	(3,976)
Increase/(decrease) in income taxes payable	7,040	1,607	0
Rounding	1	0	0
Net cash provided by operating activities	$ 1,464,819	$ 1,411,184	$ 1,402,087
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in subsidiary	$ 53,575	$ 34,680	$ 22,950
Net cash provided by investing activities	$ 53,575	$ 34,680	$ 22,950
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid	$ (1,500,000)	$ (1,440,000)	$ (1,440,000)
Net cash used in financing activities	$ (1,500,000)	$ (1,440,000)	$ (1,440,000)
Net change in cash	$ 18,394	$ 5,864	$ (14,963)
Cash at beginning of year	69,118	63,254	78,217
Cash at end of year	$ 87,512	$ 69,118	$ 63,254

Note 11 – Related Party Transactions:

In the normal course of business, the Company and its subsidiary, Putnam County Bank, have loans, deposits and other transactions with its executive officers, directors and certain business organizations and individuals with which such persons are associated. In the opinion of Management, such transactions are consistent with prudent banking practices and are within applicable banking regulations.

Note 12 – Commitments and Contingencies:

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, commercial letters of credit, and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

Note 12 – Commitments and Contingencies: (continued)

A summary of the notional amounts of the financial instruments with off-balance sheet risk at December 31, 2013 and 2012, is as follows:

Contract Amount	2013	2012
Commitments to extend credit	$ 24,154,972	$ 25,271,761
Commercial and standby letters of credit	25,512	15,512
Totals	$ 24,180,484	$ 25,287,273

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and commercial and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on Management's credit evaluation of the counterpart. Collateral requirements vary but may include accounts receivable, inventory, property, plant and equipment, or real estate.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans.

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Based upon information currently available, Management believes that such loss contingencies, in the aggregate, will not have a material adverse effect on the Bank's business, financial position, or results of operations.

Note 13 – Concentrations of Credit Risk:

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. Others have since relocated, but continue to be depositors of the Bank. Investments in state and municipal securities and loans to governmental entities are within the Bank's home state. The concentrations of credit by type of loan are set forth in Note 4. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers.

Note 14 – Regulatory Matters:

Putnam Bancshares, Inc.'s principal source of funds for future dividend payments to shareholders is 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 Financial Institutions as well as the Federal Reserve Board. Under such restrictions, the Bank may not, without the prior approval of the West Virginia Division of Financial Institutions and the Federal Reserve Board, declare dividends in excess of the sum of the current year's net income, as defined, plus the retained net profits from the two preceding years. The Bank normally restricts dividends to a lesser amount. The dividends as of December 31, 2013, that the Bank could declare without the approval of the West Virginia Division of Financial Institutions and the Federal Reserve Board amounted to approximately $4,580,313.

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Note 14 – Regulatory Matters: (continued)

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% for Tier 1 capital, 8% for total risk-based capital, and 4% for Tier 1 leverage capital. To be well capitalized under the regulatory framework for prompt corrective actions, the ratios must be at least 6%, 10%, and 5%, 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, 2013 and 2012, the Bank exceeded all capital adequacy requirements to which it is subject and had regulatory capital ratios in excess of the levels established for well capitalized institutions. Management believes, as of December 31, 2013 and 2012, that the Company and the Bank met all capital adequacy requirements to which they were subject.

As of December 31, 2012, the most recent notification from the Bank's primary regulatory agency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events since the notification that management believes have changed the Bank's category.

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		
December 31, 2013	Ratios	Actual	Minimum	Well Capitalized
Tier 1 capital (to risk-weighted assets)	24.41%	$ 77,365,000	$ 12,678,000	$ 19,017,000
Total risk-based capital (to risk-weighted assets)	25.61%	81,182,000	25,355,000	31,694,000
Tier 1 leverage capital (to average assets)	12.29%	77,365,000	25,172,000	31,465,000
December 31, 2012				
Tier 1 capital (to risk-weighted assets)	24.97%	$ 73,846,000	$ 11,831,000	$ 17,747,000
Total risk-based capital (to risk-weighted assets)	26.22%	77,546,000	23,662,000	29,578,000
Tier 1 leverage capital (to average assets)	12.12%	73,846,000	24,371,000	30,464,000

Note 15 – Fair Value of Financial Instruments:

ASC Topic 825, *Financial Instruments*, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or nonrecurring basis. The following summarizes the methods and significant assumptions used by the Bank in estimating its fair value disclosures for financial instruments:

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Note 15 – Fair Value of Financial Instruments: (continued)

Cash and Due from Banks: The carrying values of cash and due from banks approximate their estimated fair value (Level 1).

Federal Funds Sold: The carrying values of federal funds sold approximate their fair value (Level 1).

Investment Securities: Estimated fair values of investment securities are based on quoted market prices, where available (Level 1). If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities (Level 2).

Loans: The estimated fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms to borrowers of similar credit risks and terms (Level 2).

Accrued Interest Receivable and Accrued Interest Payable: The carrying values of accrued interest receivable on the Bank's investment securities and loans is assumed to approximate fair value. Likewise, the carrying value of accrued interest payable on the Bank's interest-bearing deposits is assumed to approximate fair values (Level 1).

Bank-owned Life Insurance: Fair value of insurance policy owned is based on the insurance contract's cash surrender value (Level 2).

Deposits: The estimated fair values of demand deposits are equal to their carrying values. Fair values for time deposits are estimated using a discounted cash flow calculation at rates currently offered for deposits with similar remaining maturities (Level 2).

The carrying values and estimated fair values of the Bank's financial instruments at December 31, 2013 and 2012, are summarized as follows:

	2013		2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash and due from banks	$ 14,865,033	$ 14,865,033	$ 15,107,465	$ 15,107,465
Federal funds sold	85,000,000	85,000,000	104,000,000	104,000,000
Securities available for sale	132,879,928	132,879,928	122,424,686	122,424,686
Securities held to maturity	38,993,666	38,995,944	38,989,705	38,994,537
Loans	343,874,616	363,633,855	318,515,839	321,394,720
Accrued interest receivable	1,522,366	1,522,366	1,404,863	1,404,863
Totals	$ 617,135,609	$ 636,897,126	$ 600,442,558	$ 603,326,271
Financial Liabilities:				
Deposits	$ 544,589,300	$ 545,820,036	$ 525,405,779	$ 525,651,132
Accrued interest payable	1,017,759	1,017,759	1,119,055	1,119,055
Totals	$ 545,607,059	$ 546,837,795	$ 526,524,834	$ 526,770,187

Note 15 – Fair Value of Financial Instruments: (continued)

ASC Topic 820, *Fair Value Measurement and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Accordingly, securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record other assets at fair value on a nonrecurring basis. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

A description of the valuation methodologies used for assets and liabilities recorded at fair value follows, as well as the classification of such instruments within the valuation hierarchy:

Securities Available for Sale: Securities are classified within Level 1 where quoted market prices are available in an active market. Inputs include securities that have quoted prices in active markets for identical assets. If quoted market prices are not available, fair value is estimated using quoted prices of securities with similar characteristics, at which point the securities would be classified with Level 2 of the hierarchy. Level 2 securities include mortgage-backed securities issued by government sponsored entities, mortgage-backed securities and municipal bonds.

Impaired Loans: Loans are measured for impairment using the methods permitted by ASC Topic 310, *Receivables*. Fair value of impaired loans is measured by either the loans obtainable market price, if available (Level 1), the fair value of the collateral if the loan is collateral dependent (Level 2), or the present value of expected future cash flows, discounted at the loan's effective interest rate (Level 3). Fair value of the collateral is determined by appraisals or by independent valuation.

Other Real Estate Owned: Properties are recorded at the balance of the loan or at estimated fair value less estimated selling costs, whichever is less, at the date acquired. Fair values of other real estate owned ("OREO") at December 31, 2013, are determined by sales agreements or appraisals, and costs to sell are based on estimation per the terms and conditions of the sales agreements or amounts commonly used in real estate transactions. Inputs include appraisal values on the properties or recent sales activity for similar assets in the property's market, and thus OREO measured at fair value would be classified within Level 2 of the hierarchy.

Assets at Fair Value on a Recurring Basis

	Fair Value Measurement Using			
December 31, 2013	Level 1	Level 2	Level 3	Total
Available for Sale Securities				
U.S. Government and agency securities	$ -	$ 123,495,245	$ -	$ 123,495,245
State and municipal securities	-	8,413,463	-	8,413,463
Mutual funds	-	971,220	-	971,220
Totals	$ -	$ 132,879,928	$ -	$ 132,879,928

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Note 15 – Fair Value of Financial Instruments: (continued)

	Fair Value Measurement Using			
December 31, 2012	Level 1	Level 2	Level 3	Total
Available for Sale Securities				
U.S. Government and agency securities	$ -	$ 113,607,005	$ -	$ 113,607,005
State and municipal Securities	-	7,799,952	-	7,799,952
Mutual funds	-	1,017,729	-	1,017,729
Totals	$ -	$ 122,424,686	$ -	$ 122,424,686

Assets Recorded at Fair Value on a Nonrecurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The following table measures financial assets measured at fair value on a nonrecurring basis as of December 31, 2013 and 2012:

	Fair Value Measurement Using			
December 31, 2013	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ 6,875,062	$ -	$ 6,875,062
OREO	$ -	$ 3,546,850	$ -	$ 3,546,850

	Fair Value Measurement Using			
December 31, 2012	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ 9,382,102	$ -	$ 9,382,102
OREO	$ -	$ 1,277,204	$ -	$ 1,277,204

ASC Topic 825 provides the Company with an option to report selected financial assets and liabilities at fair value. The fair value option established by this statement permits the Company to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each reporting date subsequent to implementation.

The Company has chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with U.S. GAAP and, as such, has not included any gains or losses in earnings for the year ended December 31, 2013.

Note 16 – Subsequent Events:

The Bank has evaluated subsequent events through March 27, 2014, in connection with the preparation of these consolidated financial statements, which is the date the consolidated financial statements were available to be issued.

Officers and Employees

Jack Wilson	President & Chief Executive Officer
Robert S. Duckworth	Executive Vice President
John R. Wilson, Jr.	Vice President & Chief Operations Officer
Jeffrey R. Davis	Vice President of Loans
Allison W. Jones	Vice President & Chief Financial Officer
Mark R. Billotti	Credit Administrator
Greg M. Mick	Customer Service Manager
Leigh A. Shirkey	Auditor
A. Kaye Turley	Deposit Operations Manager
Phyllis J. Canterbury	Assistant Vice President
Don C. Chapman	Bank Secrecy & Security Officer
Claudia S. Leadman	Loan Operations Manager
Karolee K. Burton	Compliance Officer
George E. Woodward	Branch Manager
Tyrone Y. Perry	Information Technology Manager
Angela G. Melton	Assistant Branch Manager
Diana L. Handley	Assistant Cashier
Tommy P. Schmader, IV	Loan Officer
Debra G. Casey	Paying & Receiving
Rebecca L. Foster	Vault Manager
Tina M. Leadmon	Paying & Receiving
Denise D. Edwards	Electronic Banking
Teresa K. White	Paying & Receiving
Linda L. Bird	Paying & Receiving
Rhonda L. Cunningham	Electronic Banking
Penny L. Collier	Proof Operations
Deborah R. Milton	Paying & Receiving
Donna J. Stowers	Paying & Receiving
Marsha D. Eggleton	Paying & Receiving
Tammy J. Sovine	Data Process Verification
Tina M. Ellison	Bank Secrecy Assistant
Kelly L. Shaw	Paying & Receiving
Joy M. Persinger	Paying & Receiving
Betty J. Morris	Paying & Receiving
Suzanne A. Craigo	Proof Operations
Margie M. Shirkey	Loan Operations
Beth J. Carnefix	Paying & Receiving
John E. Childers	Building Manager
Kera D. Taylor	Proof Operations
Cheryl L. Halstead	Paying & Receiving
Trisa K. Radcliffe	Accounting
Bryan J. McCallister	Research and Records
Retha A. Lemon	Paying & Receiving
Kimberly M. Helper	Paying & Receiving
Cathy M. Lippert	Loan Operations
Amanda A. McCallister	Paying and Receiving
Whitney B. Harris	Paying and Receiving
Jill R. Rice	Paying and Receiving
Darlena F. Meadows	Paying and Receiving
Mary E. Huff	Paying and Receiving
Ashley M. Johnson	Bookkeeping
Jonathan S. Fisher, II	Bookkeeping
Cameron T. Collins	Credit Analyst
Kelley A. Lanning	Loan Operations
Tiffani J. Stewart	Loan Assistant
James S. Coniff	Credit Analyst
Holly M. Rooper	Paying and Receiving
Janet F. Benjamin	Paying and Receiving
Mary B. Jordan	Bookkeeping
Elizabeth H. Handley	Paying and Receiving
Katie M. Allen	Loan Assistant
Clifton D. Gibson	Credit Analyst
Kelly L. Hunt	Staff Accountant
Jeremy G. Heslep	Loan Operations
Tessa M. Shadrick	Loan Receptionist
Anndrea D. Bishop	Bookkeeping

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