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Putnam County Bank

2014 Annual Report

Annual Meeting

The Annual Meeting of Shareholders of Putnam Bancshares, Inc. will be

Thursday June 11, 2015
10:30 a.m.
Putnam County Bank Boardroom
2767 Second Street
Hurricane, West Virginia

All Shareholders are invited to attend.

Shareholder Services

Please call (304) 562-9931
or write
Putnam Bancshares, Inc.
Shareholder Services
P.O. Box 308
Hurricane, WV 25526

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Letter to Shareholders

PutnamCountyBank

We are proud to present the financial results of Putnam Bancshares, Inc. and its wholly-owned subsidiary, Putnam County Bank, for 2014.

The Bank's earnings showed significant improvement in 2014 with net earnings of $6.3 million compared with $5 million in 2013. Loan growth during the year was significant in supporting the increase of earnings. In addition, a lower cost of funds combined with the continued trend of improved credit quality resulting in lower net loan losses and close control of expenses also helped earnings.

Net loans increased $60 million or 17% in 2014, in contrast to an increase of $25 million or 8% in 2013. The increase marks an improving local economy effort to increase lending in our market while recognizing that credit quality is essential. We take pride in providing local decisions for our customer base and efficient turnaround.

The Bank's capital base grew to $80 million in 2014. Our capital base continues to show considerable strength.

Management will continue to focus on net interest margin closely in the future and grow lending in a safe and profitable manner. The Bank will continue to demonstrate responsible care in its operating expenses while serving its community.

During 2014, the economy has illustrated some strength in recovering from the effects of high 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; 51 in 2012 and 24 in 2013. In 2014, 18 banks failed. The FDIC's problem bank list dropped from a peak of 884 in the first quarter of 2011 to 291 at the fourth quarter of 2014.

Our state continues to deal with unemployment and the effects upon the coal industry. While natural gas has continued to be significant, losses due to coal have affected many communities and the entire state. The local economy appears to be progressing as residential development appears to be increasing.

In 2014, Debra Casey retired from the Bank with over 44 years of bank operations experience. Debra had a significant role in the success of this Company and her contribution will not be forgotten. We wish Debra 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	Robert S. Duckworth	John R. Wilson, Jr.
Chairman of the Board	Chief Executive Officer	President

Selected Finanacial Summary

in Thousands of Dollars

	Four-Year Summary			
	2014	**2013**	**2012**	**2011**
YEAR-END BALANCE SHEET SUMMARY				
Loans, Net	$ 404,120	$ 343,875	$ 318,516	$ 312,371
Investment Securities	151,422	171,874	161,418	134,714
Total Assets	623,666	624,146	603,201	585,592
Deposits	538,435	544,589	525,406	508,914
Shareholders' Equity	80,520	76,928	76,078	75,375
AVERAGE BALANCE SHEET SUMMARY				
Loans, Net	$ 370,148	$ 330,883	$ 315,837	$ 319,415
Investment Securities	157,116	169,696	144,493	121,423
Total Assets	626,322	618,379	599,906	569,709
Deposits	543,821	538,720	520,806	492,739
Shareholders' Equity	80,221	77,196	76,060	74,322
SELECTED RATIOS				
Return On Average Assets	1.00%	0.81%	0.42%	0.67%
Return On Average Equity	7.79%	6.50%	3.29%	5.13%
Dividends Declared as a Percentage of Net Income	24.91%	29.89%	57.55%	37.78%
SUMMARY OF OPERATIONS				
Interest Income	$ 21,815	$ 20,933	$ 21,103	$ 22,099
Interest Expense	4,882	5,466	6,485	6,490
Net Interest Income	16,933	15,468	14,618	15,609
Provision for Loan Losses	0	0	840	738
Non Interest Income	735	592	462	442
Non Interest Expense	8,175	8,341	9,974	9,481
Net Income	6,304	5,026	2,834	3,812
PER SHARE DATA				
Net Income	$ 10.51	$ 8.38	$ 4.72	$ 6.35
Cash Dividends	2.60	2.50	2.40	2.40
Book Value	134.20	128.21	126.80	125.62

Analysis of Earning Assets and Interest Bearing Liabilities
in Thousands of Dollars

ASSETS	2014 Avg. Balance	2014 Interest	2014 Yield/Rate	2013 Avg. Balance	2013 Interest	2013 Yield/Rate
Loans						
Commercial	27,507	1,975	7.18%	27,179	1,485	5.46%
Real Estate	340,897	17,223	5.05%	302,970	16,029	5.29%
Consumer (2)	5,549	457	8.24%	4,604	448	9.73%
Total Loans (1)	373,953	9,655	5.26%	334,753	17,962	5.37%
Securities (3)						
Taxable	147,338	1,657	1.12%	160,898	2,473	1.54%
Tax-Exempt (4)	8,223	403	4.90%	7,798	637	8.17%
Mutual Funds	1,000	24	2.40%	1,000	23	2.30%
Total Securities	156,561	2,084	1.33%	169,696	3,133	1.85%
Interest Bearing Deposit in Banks	8,728	15	0.17%	8,810	18	0.20%
Federal Funds Sold	76,208	62	0.08%	93,441	59	0.06%
Total Earning Assets	615,450	21,816	3.54%	606,700	21,172	3.49%
Cash and Due from Banks	6,054			7,027		
Premises and Equipment, Net	587			593		
Other Assets	8,033			7,924		
Allowance for Loan Losses	(3,802)			(3,865)		
Total Assets(5)	**626,322**			**618,379**		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest Bearing Deposits						
Super NOW and MMDA	110,081	258	0.23%	111,868	336	0.30%
Savings	26,971	40	0.15%	25,761	39	0.15%
Time	347,577	4,584	1.32%	344,438	5,091	1.48%
Total Interest Bearing Deposits	484,629	4,882	1.01%	482,067	5,466	1.13%
Long-Term Borrowings	0	0	0.00%	0	0	0.00%
Total Interest Bearing Liabilities	484,629	4,882	1.01%	482,067	5,466	1.13%
Noninterest Bearing Deposits	59,193			56,653		
Accrued Expenses and Other Liabilities	2,279			2,463		
Equity	80,221			77,196		
Total Liabilities and Equity	626,322			618,379		
Net Interest Margin	615,450	16,934	2.75%	606,700	15,706	2.59%

(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 6.25%
(5) Net of SFAS 107 Market Value.

Rate Sensitivity Analysis As of December 31, 2014
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)	57,605	21,346	32,854	84,541	144,772	63,786
Investment Securities (2)	20,999	12,995	57,305	51,456	1,298	6,385
Federal Funds Sold	42,000	0	0	0	0	0
Total Selected Assets	120,604	34,942	90,159	135,997	146,070	70,172
LIABILITIES						
Interest Bearing Deposits (3)	160,820	151,638	29,874	0	0	0
Borrowed Funds	0	0	0	0	0	0
Total Selected Liabilities	160,820	151,638	29,874	0	0	0
Differences	(40,216)	(117,296)	60,285	135,997	146,070	70,172
Cumulative Differences	(40,216)	(157,512)	(97,227)	38,770	184,840	255,012

(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, through the year of 2014 enjoyed a successful year in light of a continued challenging economic environment.

The national economy showed moderate economic gains in 2014 as it continued to recover from the effects of the financial crisis of 2008. Close scrutiny over the federal budget was evident during the year as lawmakers closely examined tax reform and government employment. The Federal Reserve Board ended its buying of long-term bonds to hold-down long-term interest rates in 2014 as economic statistics illustrated sufficient data to support the move. 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 economy. Losses in government employment and spending continue to impact West Virginia. The coal industry has suffered as a result of national policy and environmental concerns. However, coal exports remain relevant. While coal has declined, the natural gas industry has flourished, however job replacement has resulted in a net loss. Additionally, coal mining communities have suffered not only from job loss but also from loss of coal severance revenue. Further, several area coal-burning power plants have been targeted for conversion to natural gas or shutdown. The State continues to look for creative ways to advance highway building, however funding continues to be challenging.

The average annual unemployment rate for West Virginia was 6.5% in 2014 compared to 6.7% in 2013. The monthly average of state unemployment in 2014 ranged from 6.8% in April to 5.9% in December. The unemployment rate for Putnam County ranged from was 6.3% in February to 4.4% in June. The national monthly unemployment rate during 2014 fell from 6.7% in February to 5.6% 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-1 and ending on page F- 44). References also will be made to Putnam Bancshares' wholly-owned subsidiary, Putnam County Bank ("the Bank"). In addition, various 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 annual 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, 2014 there were 1,255 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 in 2014. The net interest margin is the difference between the tax equivalent interest income and interest expense divided by the average earning assets and is a primary way to gauge profitability. The Company's net interest margin increased from 2.53% in 2013 to 2.74% in 2014. The peer's net interest margin was 3.49% in 2013 and 3.53% in 2014. The improvement in margin was a result of increased volume in lending combined with a decline in deposit costs. Among other earning assets, investment yields continued to be lower than peer yields due to the investment portfolio's composition of U. S Government and Agency securities which are generally higher quality and lower risk. The Company's cost of funds was 1.01% in 2014 compared with 1.13% in 2013. 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 .58% in 2013 to .51% in 2014. The yield on earning assets declined to 3.60% in 2014 from 3.48% in 2013. Total loan yields declined from 5.37% in 2013 to 5.26% in 2014. The yield on investment securities declined from 1.85% in 2013 to 1.33% in 2014.

Interest Income

Interest income increased $882 thousand from year-end 2013 to year-end 2014. The Federal Reserve Open Market Committee (FOMC) has continued to hold the federal funds target rate between zero and .25% through 2014 to help improve unemployment and low utilization and to control threats of inflation. The Bank had 13% of its loan portfolio indexed to the Wall Street Journal prime rate as of year-end 2014. The average total loans increased $40 million during 2014. This compares with an increase of $15 million during the year of 2013. The lending group continues to focus on providing effective credit services to our market area. Total income from loans increased $1.7 million in 2014 compared with a decrease of $143 thousand in 2013. The increase is largely driven by increased volume and previous decline was a result of refinancing at lower market rates. The Company's average earning assets increased $7 million in 2014 compared with an increase of $18 million in 2013. The income on average earning assets increased $644 thousand in 2014 contrasting a decline in 2013 of $185 thousand. Refinancing activity in 2013 was largely responsible for the decline.

Average total real estate loans increased nearly $40 million in 2014 compared with an increase of $8 million in 2013. Interest income on real estate loans increased $1.2 million in 2014 compared with a decrease of $310 thousand in 2013. The increase is reflective of volume increase in lending as the previous year decline is reflective of refinancing. Local residential development has shown signs of growth. The Bank continues to promote 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 $490 thousand in 2014 compared with $207 thousand in 2013. Average total commercial loans increased $320 thousand in 2014 compared with $7 million in 2013. The earnings on commercial lending grew as the pace of growth declined.

Income on consumer lending increased $9 thousand in 2014. The average total of consumer loans increased $945 thousand in 2014. 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) declined $1 million in 2014 compared to a decline of $35 thousand in 2013. In addition, average total investments declined $13 million in 2014 compared with an increase of $25 million in 2013. The decline in income is related to the allocation of funding from investments to lending as the proceeds of maturing securities and securities sold to manage market losses were not immediately reinvested to securities but used to provide liquidity for lending. The Company's tax equivalent yield on investments declined from 1.85% in 2013 to 1.33% in 2014. The Bank's yield on investments continues to be lower than peer institutions. At year-end 2014, the investment portfolio was 94% composed of U. S. Treasury and U. S. Federal Agency securities. The Bank invested in three- and six-month Treasury Bills in the Treasury's weekly auction, however in late 2014, the Bank invested only in six-month Bills to provide additional liquidity. 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 2014 increased $2 thousand compared with a decline of $10 thousand at the end of 2013 with average balances decreasing $17 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 2014, all municipal investments are West Virginia securities. The Bank held two municipal issues of the Putnam County Building Commission with a carrying value of $1.41 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. 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. While the Bank has invested in non-rated municipal securities, and some which were rated, all are reviewed at least annually by an independent analyst to confirm repayment ability and creditworthiness. As of December 31, 2014, no issues are known to be financially impaired

Interest Expense

Interest expense on deposits decreased $584 thousand from year-end 2013 to 2014 compared with a decline of $1 million from year-end 2012 to 2013. The cost on total deposits was 1.01% for 2014 representing a decrease of 12 basis points from 2013. For our peer group, the cost is .51% for 2014 representing a decrease of seven basis points from 2013. 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 $5 million in 2014 compared with $16 million in 2013. The low market rate environment has dropped bank deposit rates to near zero in some accounts. Effective deposit pricing is important to ensure funding for lending and investment purposes, while also maintaining adequate margins. Management continues to monitor the effects of its strategies with net interest margins on a regular 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 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 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-3) 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 74% in 2014 and 63% in 2013. The peer group ratio was 78% in 2014 and 76% in 2013. 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 2014, the ratio was 32% compared with 22% at year-end 2013. The ratio is above the peer group ratio of 15% in 2014 and 2013. While the ratio tends to be high, the Bank maintains ample sources of liquidity.

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 2014 was $2.2 million or .54% of total loans compared with $1.9 million or .55% of total loans at year-end 2013. This compares with peer ratios of 1.06% and 1.47% respectively. Approximately half of the nonperforming total relates to a borrower in Charleston who is operating under the Bankruptcy court. The Bank maintains first liens on real estate securing its loans.

The Bank had a balance of $4.5 million in other real estate owned at year-end 2014 compared with $4.9 million in 2013. The most significant portion is a commercial real estate development in Winston-Salem, NC ($2.5 million). This property is being managed by a professional company and the Bank is confident in its future prospects. Another portion of other real estate is a local residential construction development project ($1.9 million). The project has been taken over by an experienced, local builder who is making progress in developing the property.

Provision and Allowance for Loan Losses

The Bank made no provisions to the allowance for loan losses in 2014 or 2013. Lower net loan losses and improved asset quality were principal reasons for the lack of a provision. Loan loss recoveries in 2014 totaled $145 thousand compared with $104 thousand in 2013. A single recovery during 2014 in the amount of $58 thousand was a court-ordered distribution to the Bank related to a loss on a residential real estate project. Gross loan losses were $189 thousand in 2014 from $166 thousand in 2013. The highest single loss in 2014 was on two residential properties involving a bankruptcy which totaled $45 thousand. Net loan losses were $43 thousand in 2014 and $63 thousand in 2013. The Bank's ratio of net loss to average total loans was .01% for 2014 compared to .18% for the peer group. As of year-end 2014, the allowance for loan loss was $3.8 million or .93% of total loans compared to $3.8 million or 1.10% of total loans at year-end 2012. The peer ratios of allowance to total loans were 1.44% in 2014 and 1.60% in 2013. 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 West Virginia Division of Financial Institutions.

Noninterest Income

Total noninterest income (excluding gross securities gains) totaled $634 thousand in 2014 representing an increase of $92 thousand over 2013. Income from rental of other real estate increased by $108 thousand by virtue of income received from the Winston-Salem, NC other real estate project. Declines in nonsufficient check and overdraft charges were offset by increases in VISA debit card income. 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.

The Bank continues to be a low-cost provider of banking services. In 2014, the percentage of noninterest income to average assets for the Bank is .10% compared to the peer ratio of .75%. In 2013, the Bank's ratio was .09% with the peer ratio being .78%.

Equity in earnings of the subsidiary was $52 thousand in 2014 and $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) declined $166 thousand from year-end 2013 to year-end 2014 compared with a decrease of $1.6 million between years ending 2012 and 2013. Noninterest expenses are composed of expenses relating to personnel, occupancy, and other operating expenses. Total noninterest expense to average assets was 1.30% in 2014 compared with 1.35% in 2013. The peer group ratios showed 2.88% in 2014 and 2.93% in 2013. Earnings historically have benefited from lower noninterest expenses, relative to the Bank's size.

Total personnel expenses increased by $395 thousand in 2014 compared with a decline of $1.1 million in 2013. The most significant personnel expense increase was found in group health insurance and a claim is pending for stop-gap coverage which should be recognized in 2015. While salary expense increased $25 thousand, retirement expense declined $13 thousand. Retirement expense previously had a history of increases. The Bank's retirement plan was administered by the West Virginia Bankers Association, but in 2010 administration of the plan was changed to a new company. This plan was a noncontributory pension plan with independent actuaries making the determination of contributions made by its members. In 2012, with guidance from the new administrator, the noncontributory pension plan was frozen and a 401-K plan was introduced on January 1, 2013. Management is confident with new administration and a new retirement plan which can provide flexibility for the employee and provide greater cost effectiveness for the Bank. The Bank's personnel costs as a percentage of average assets compare favorably. At the end of 2014, the Bank's ratio was .73% 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 $3 thousand in 2014. The Bank's occupancy expense as a percentage of average assets was .06% in 2014 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.

Total other operating expense (expenses other than personnel and occupancy expenses) declined $612 thousand from 2013 to 2014. The most significant declines included a recovery on a check fraud loss from 2013 of $242 thousand and decline in legal expenses of $270 thousand. Legal expenses were a result of defending the Bank in Bankruptcy cases and principally involving a real estate development in Winston-Salem, NC. FDIC insurance expense increased by $306 thousand in 2014. It is expected that this expense will decline significantly in 2015. Expenses related to our core data processing provider represents the second largest expense item in this category and expenses in this area increased 2% from 2013 to 2014. Savings in data processing are related to the Bank's use of more efficient technology offerings to process data. With respect to operating expenses, the Bank still performs favorably in comparison to peers. At the end of 2014, the Bank's ratio of other operating expenses to average assets was .50% compared with the peer's ratio of .92%.

The Bank recognized $56 thousand in 2014 from the sale of securities compared with $5 thousand in 2013. 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 income tax increased $496 thousand from 2013 to 2014. This increase was due to significantly higher 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 $70 thousand, which is taxable.

Equity and Capital Ratios

Putnam Bancshares' equity increased $3.6 million or 5% from year-end 2013 to year-end 2014. The change in equity during 2014 was reflective of $6.3 million in net income less $1.6 million in dividends and a decrease of $1.1 million in comprehensive income. The decrease in comprehensive income was caused by the pension liability net of the increase in gains on available for sale securities. The book value per outstanding share increased from $128.21 in 2013 to $134.20 in 2014. The Company's net income as a percentage of average equity was 7.80% in 2014. Peer banks in 2014 posted net income as a percentage of average equity of 9.83%

Banking regulatory bodies mandate the risk-weighting of assets and off-balance sheet items to more accurately assess capital adequacy. Tier 1 capital (equity capital less the tax equivalent of unrealized gains or losses on available for sale securities) and total risk-based capital (Tier 1 capital plus the allowable portion of the allowance for loan losses) comprise two vital measures of capital adequacy. As of year-end 2014, the Bank's Tier 1 risk-based capital-to-total risk-weighted assets were 21.66% compared to 24.38% in 2013. The peer bank ratios were 14.58% and 14.57% in 2014 and 2013 respectively. As of year-end 2014, the Bank's total risk-based capital-to-total risk-weighted assets were 22.72% compared to 25.58% in 2013. The peer bank ratios were 15.74% and 15.75% in 2014 and 2013 respectively. In 2014, both measures rank the Bank in the 91st 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 $1.6 million in 2014 and $1.5 million in 2013. This equates to a dividend payout (dividends to net operating income) ratio of 25% in 2014 and 30% in 2013. The peer Bank ratio for 2014 and 2013 was 36%. Regular dividends were paid in June and December of 2014.

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. In 2014, the selection of Rollins, Cleavenger and Rollins as the Company's external auditors was 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, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, 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, 2014, 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, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As further discussed in Note 16 to the financial statements, the Bank had previously not recorded the defined benefit pension plan prior to the year ending December 31, 2013. This adjustment was made resulting in a restatement of the 2012 and 2013 financial statements. Our opinion is not modified with respect to that matter.

Rollins, Cleavenger and Rollins

Certified Public Accountants

Charleston, West Virginia
March 23, 2015

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

	2014	Restated 2013
ASSETS		
Cash and due from banks	$ 17,728,586	$ 14,865,033
Federal funds sold	42,000,000	85,000,000
Securities available for sale, at fair value	117,426,938	132,879,928
Securities held to maturity, at amortized cost (estimated fair value of $33,996,449 and $38,995,944, respectively)	33,995,509	38,993,666
Loans, less allowance for loan losses of $3,773,239 and $3,816,559, respectively	404,119,764	343,874,616
Bank premises and equipment, net	556,101	601,763
Federal reserve bank stock, at cost	39,000	39,000
Accrued interest receivable	1,727,060	1,522,366
Other real estate owned	2,684,940	3,546,850
Other assets	3,387,894	2,822,313
Total assets	$ 623,665,792	$ 624,145,535
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest bearing	$ 58,547,318	$ 56,374,964
Interest bearing	479,755,331	488,214,336
Total deposits	538,302,649	544,589,300
Accrued interest payable	944,270	1,017,759
Other liabilities	3,898,519	1,610,027
Total liabilities	543,145,438	547,217,086
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	82,017,169	77,272,310
Accumulated other comprehensive income/(loss), net	(2,796,815)	(1,643,861)
Total shareholders' equity	80,520,354	76,928,449
Total liabilities and shareholders' equity	$ 623,665,792	$ 624,145,535

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, 2014, 2013, AND 2012

	2014	Restated 2013	Restated 2012
INTEREST INCOME:			
Loans (including fees)	$ 19,654,448	$ 17,962,422	$ 18,104,935
Securities available for sale	2,061,597	2,858,174	2,873,121
Securities held to maturity	22,280	34,889	39,576
Federal funds sold	61,682	59,357	68,959
Federal reserve bank	15,365	18,396	16,203
Total interest income	21,815,372	20,933,238	21,102,794
INTEREST EXPENSE:			
Interest on deposits	4,882,297	5,465,591	6,485,372
Net interest income	16,933,075	15,467,647	14,617,422
Provision for loan losses	0	0	840,195
Net interest income after provision for loan losses	16,933,075	15,467,647	13,777,227
NONINTEREST INCOME:			
Service charges and fees	338,960	351,533	361,851
Realized gains/(losses) on sale of securities	56,309	4,928	(1,908)
Equity in earnings of subsidiary	51,643	57,621	38,393
Rental income	265,440	150,920	32,400
Other operating income	22,484	27,107	31,453
Total noninterest income	734,836	592,109	462,189
NONINTEREST EXPENSES:			
Salaries and employee benefits	4,608,593	4,214,490	5,345,297
Occupancy and equipment expense	387,209	390,963	490,099
Data processing expense	947,107	927,815	939,079
FDIC insurance expense	719,866	413,134	752,919
Net cost of operations of other real estate	293,200	190,954	400,932
Legal and professional fees	263,191	538,355	551,120
Other operating expenses	955,904	1,665,612	1,494,669
Total noninterest expenses	8,175,070	8,341,323	9,974,115
Income before income taxes	9,492,841	7,718,433	4,265,301
Provision for income taxes	3,187,982	2,692,242	1,431,390
Net income	$ 6,304,859	$ 5,026,191	$ 2,833,911

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, 2014, 2013, AND 2012

	2014	Restated 2013	Restated 2012
Net income	$ 6,304,859	$ 5,026,191	$ 2,833,911
Other comprehensive income:			
Unrealized gains/(losses) on available-for-sale securities arising during the period	645,208	(3,535,488)	(568,633)
Adjustments for income tax (expense) benefit	(236,403)	1,295,402	208,347
	408,805	(2,240,086)	(360,286)
Change in underfunded pension liability	(2,409,377)	615,295	193,715
Adjustments for income tax (expense) benefit	883,296	(225,444)	(70,977)
	(1,526,081)	389,851	122,738
Less: Reclassification adjustment for (gains)/ losses included in net income	(56,309)	(4,928)	1,908
Adjustment for income tax expense (benefit)	20,631	1,806	(699)
	(35,678)	(3,122)	1,209
Other comprehensive income/(loss), net of tax	(1,152,954)	(1,853,357)	(236,339)
Comprehensive income, net of tax	$ 5,151,905	$ 3,172,834	$ 2,597,572

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR YEARS ENDED DECEMBER 31, 2014, 2013, AND 2012

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
BALANCES - December 31, 2011, as previously reported	$ 300,000	$ 1,000,000	$ 71,484,675	$ 2,589,921	$ 75,374,596
Prior Period Adjustment			867,533	(2,144,086)	(1,276,553)
BALANCES, as restated	300,000	1,000,000	72,352,208	445,835	74,098,043
Net income			2,833,911		2,833,911
Other comprehensive income/(loss)				(236,339)	(236,339)
Cash dividends ($2.40 per share)			(1,440,000)		(1,440,000)
BALANCES - December 31, 2012 (restated)	300,000	1,000,000	73,746,119	209,496	75,255,615
Net income			5,026,191		5,026,191
Other comprehensive income/(loss)				(1,853,357)	(1,853,357)
Cash dividends ($2.50 per share)			(1,500,000)		(1,500,000)
BALANCES - December 31, 2013 (restated)	300,000	1,000,000	77,272,310	(1,643,861)	76,928,449
Net Income			6,304,859		6,304,859
Other comprehensive income/(loss)				(1,152,954)	(1,152,954)
Cash dividends ($2.60 per share)			(1,560,000)		(1,560,000)
BALANCES - December 31, 2014	$ 300,000	$ 1,000,000	$ 82,017,169	$ (2,796,815)	$ 80,520,354

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, 2014, 2013, AND 2012

	2014	Restated 2013	Restated 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 6,304,859	$ 5,026,191	$ 2,833,911
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	66,870	55,152	102,792
Provision for loan losses	0	0	840,195
Change in defined benefit plan	(1,526,081)	389,851	122,738
Deferred income tax expense (benefit)	(37,147)	43,923	287,859
Change in carrying value in OREO	11,509	49,715	(79,287)
Equity in earnings of unconsolidated subsidiary, net of distributions	11,160	(4,046)	(3,713)
(Gain)/loss on sale of OREO	185,229	59,208	(51,907)
(Gain)/loss on sale of fixed assets	(3,000)	0	(15,465)
(Gain)/loss on sale of securities	(56,309)	(4,928)	1,908
Net (accretion)/amortization on securities	1,013,290	1,283,771	956,588
(Increase)/decrease in interest receivable	(204,695)	(117,503)	129,366
(Increase)/decrease in other assets	(755,366)	247,889	(12,764)
Increase/(decrease) in interest payable	(73,489)	(101,296)	73,353
Increase/(decrease) in other liabilities	2,288,492	(787,469)	863,444
Net cash provided by operating activities	7,225,322	6,140,458	6,049,018
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net (increase)/decrease in federal funds sold	43,000,000	19,000,000	9,000,000
Proceeds from sales and maturities of available for sale securities	35,944,125	32,156,563	10,690,000
Proceeds from maturities of held to maturity securities	103,977,720	103,965,111	103,960,424
Purchases of available for sale securities	(20,859,217)	(47,431,063)	(38,921,843)
Purchases of held to maturity securities	(98,979,563)	(103,969,073)	(103,953,855)
Proceeds from sale of equipment	3,000	0	43,666
Purchases of bank premises and equipment	(21,207)	(50,604)	(94,076)
Net (increase)/decrease in loans	(60,755,157)	(28,277,992)	(7,356,482)
Proceeds from sales of other real estate owned	1,176,181	540,646	2,147,915
Net cash provided by (used in) investing activities	3,485,882	(24,066,412)	(24,484,251)

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, 2014, 2013, AND 2012
(Continued)

	2014	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase/(decrease) in demand deposits	4,143,791	8,541,445	(3,375,005)
Net increase/(decrease) in time deposits	(10,431,442)	10,642,077	19,866,293
Dividends paid	(1,560,000)	(1,500,000)	(1,440,000)
Net cash provided by (used in) financing activities	(7,847,651)	17,683,522	15,051,288
Net increase/(decrease) in cash and cash equivalents	2,863,553	(242,432)	(3,383,945)
Cash and cash equivalents at beginning of year	14,865,033	15,107,465	18,491,410
Cash and cash equivalents at end of year	$ 17,728,586	$ 14,865,033	$ 15,107,465
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest on deposits and borrowings	$ 4,955,786	$ 5,566,887	$ 6,412,019
Income taxes	$ 3,153,573	$ 2,608,417	$ 736,000
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH ACTIVITIES:			
Loans transferred to other real estate owned	$ 510,009	$ 2,919,215	$ 371,170

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

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2014, 2013, AND 2012

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

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 equity 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 as of the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the adequacy of the allowance for loan losses, determination of fair value for financial instruments and benefit plan obligations and expenses.

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, 2014, 2013, AND 2012
(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 2014.

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, 2014, 2013, AND 2012
(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 \$203,826, \$203,372, and \$128,786 for the years ended December 31, 2014, 2013, and 2012, 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, 2014, 2013, AND 2012
(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 and amortization of deferred gains and losses associated with the Company's pension plan, 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 within 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.

	2014	2013	2012
Net income	$ 6,304,859	$ 5,026,191	$ 2,833,911
Earnings per common share	$ 10.51	$ 8.38	$ 4.72
Dividends paid per common share	$ 2.60	$ 2.50	$ 2.40

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

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, 2014 and 2013, was $7,271,000 and $6,254,000, respectively. At December 31, 2014 and 2013, the Bank had accounts at correspondent banks, excluding the Federal Reserve Bank, which exceeded the FDIC insurable limit of $250,000 by $1,842,264 and $1,660,135, respectively.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2014, 2013, AND 2012
(Continued)

Note 3 − Securities:

The amortized gains, unrealized losses and estimated fair values of securities at December 31, 2014 and 2013, are summarized as follows:

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for Sale Securities				
U.S. Government treasuries	$ 4,990,828	$ 26,362	$ 0	$ 5,017,190
U.S Government agencies	103,072,615	591,200	(247,750)	103,416,065
Municipal bonds	7,794,109	217,411	0	8,011,520
Mutual funds	1,000,000	930	(18,767)	982,163
Totals	$ 116,857,552	$ 835,903	$ (266,517)	$ 117,426,938
Held to Maturity Securities				
U.S. Government treasuries	$ 33,995,509	$ 984	$ (44)	$ 33,996,449

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 treasuries	$ 38,993,666	$ 2,458	$ (180)	$ 38,995,944

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.

	2014	2013	2012
Proceeds from maturities, sales, and calls	$ 35,944,125	$ 32,156,563	$ 10,690,000
Gross realized gains	$ 242,929	$ 403,641	$ 0
Gross realized losses	$ 186,620	$ 398,713	$ 1,908

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2014, 2013, AND 2012
(Continued)

Note 3 – Securities: (continued)

The scheduled maturities of securities at December 31, 2014, 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	$ 9,535,157	$ 9,647,537	$ 33,995,509	$ 33,996,449
Due after one year through five years	105,206,277	105,657,733	0	0
Due after five years through ten years	0	0	0	0
Due after ten years	2,116,118	2,121,668	0	0
Totals	$ 116,857,552	$ 117,426,938	$ 33,995,509	$ 33,996,449

At December 31, 2014 and 2013, the carrying value of securities pledged to secure public funds totaled $67,920,000 and $65,599,999, respectively. The estimated fair values totaled $69,994,815 and $66,999,874, 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, 2014, 2013, and 2012.

The Bank had 11 available-for-sale securities and 5 held-to-maturity securities with an unrealized loss position at December 31, 2014. 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, 2014.

The following table summarizes the fair value and gross unrealized losses of securities, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
December 31, 2014						
Available for Sale Securities						
U.S. Government treasuries	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
U.S. Government agencies	31,236,485	(55,844)	20,821,455	(191,906)	52,057,940	(247,750)
Municipal bonds	0	0	0	0	0	0
Mutual funds	0	0	481,233	(18,767)	481,233	(18,767)
Totals	$31,236,485	$ (55,844)	$21,302,688	$ (210,673)	$ 52,539,173	$ (266,517)
Held to Maturity Securities						
U.S. Government treasuries	$ 4,999,152	$ (44)	$ 0	$ 0	$ 4,999,152	$ (44)

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Note 3 – Securities: (continued)

	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
December 31, 2013						
Available for Sale Securities						
U.S. Government agencies	$61,780,820	$ (728,346)	$ 4,865,535	$ (132,517)	$ 66,646,355	$ (860,863)
Municipal bonds	2,930,245	(229,754)	0	0	2,930,245	(229,754)
Mutual funds	495,349	(4,651)	475,871	(24,129)	971,220	(28,780)
Totals	$65,206,414	$ (962,751)	$ 5,341,406	$ (156,646)	$ 70,547,820	$(1,119,397)
Held to Maturity Securities						
U.S. Government treasuries	$ 3,999,465	$ (180)	$ 0	$ 0	$ 3,999,465	$ (180)

Note 4 − Loans:

The following table summarizes the components of the Company's loan portfolio as of December 31, 2014 and 2013:

	2014	2013
Commercial	$ 139,623,034	$ 121,413,384
Real estate	209,875,933	183,884,967
Construction	41,672,269	29,441,585
Other	16,723,830	12,955,406
Gross loans	407,895,066	347,695,342
Less: Unearned interest on installment loans	(2,063)	(4,167)
Total loans	407,893,003	347,691,175
Less: allowance for loan losses	(3,773,239)	(3,816,559)
Loans, net	$ 404,119,764	$ 343,874,616

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, 2014, 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	$ 32,200,614	$ 87,164,897	$ 20,257,523
Real estate	9,892,563	28,497,980	171,485,390
Construction	16,368,872	8,678,091	16,625,306
Other	4,980,021	7,545,555	4,196,191
Total loans	$ 63,442,070	$ 131,886,523	$ 212,564,410

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, 2014 and 2013:

At December 31, 2014

Dollars in Thousands	Past Due 30-59 Days	Past Due 60-89 Days	Past Due > 90 Days	Past Due Total	Current	Total Loans	Recorded Investment >90 Days and Accruing
Commercial	$ 359	$ 48	$ 695	$ 1,102	$ 138,521	$ 139,623	$ 0
Real estate	1,663	415	927	3,005	206,871	209,876	842
Construction	0	0	558	558	41,114	41,672	0
Other	33	1	0	34	16,688	16,722	0
Totals	$ 2,055	$ 464	$ 2,180	$ 4,699	$ 403,194	$ 407,893	$ 842

At December 31, 2013

Dollars in Thousands	Past Due 30-59 Days	Past Due 60-89 Days	Past Due > 90 Days	Past Due Total	Current	Total Loans	Recorded Investment >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

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Note 4 – Loans: (continued)

The following table presents the non-accrual loans included in the net balance of loans at December 31, 2014 and 2013, respectively.

	2014	2013
Commercial	$ 695,119	$ 0
Real estate	85,214	270,566
Construction	557,980	843,295
Other	0	0
Totals	$ 1,338,313	$ 1,113,861

If interest on non-accrual loans had been accrued, such income would have approximated $80,120, $389,613, and $244,717 for the years ended December 31, 2014, 2013, and 2012, 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, 2014

	Commercial	Real Estate	Construction	Other	Total
:					
Pass	$ 122,966,766	$ 200,646,892	$ 35,389,972	$ 16,364,489	$ 375,368,119
Special mention	11,673,591	6,444,213	5,705,849	320,371	24,144,024
Substandard	4,982,677	2,784,828	576,448	36,907	8,380,860
Doubtful	0	0	0	0	0
Totals	$ 139,623,034	$ 209,875,933	$ 41,672,269	$ 16,721,767	$ 407,893,003

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

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Note 4 – Loans: (continued)

In the normal course of business, the Bank makes 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 2014, 2013, and 2012:

	2014	2013	2012
Balances - January 1,	$ 12,378,428	$ 11,880,084	$ 14,784,511
New loans	1,660,911	2,025,899	1,953,859
Repayments	(1,827,000)	(1,527,555)	(4,858,286)
Balances - December 31,	$ 12,212,339	$ 12,378,428	$ 11,880,084

The following is a summary of impaired loans by class at December 31, 2014 and 2013:

	December 31, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized While Impaired
With a Related Allowance					
Commercial	$ 510,000	$ 410,552	$ 86,552	$ 310,735	$ 26,485
Real estate	571,500	571,437	45,749	585,098	16,230
Construction	0	0	0	285,315	0
Other	0	0	0	0	0
Totals with a related allowance	$ 1,081,500	$ 981,989	$ 132,301	$ 1,181,148	$ 42,715
With No Related Allowance					
Commercial	$ 7,604,719	$ 7,027,557	$ 0	$ 7,209,124	$ 357,968
Real estate	2,959,094	2,543,221	0	3,321,797	155,490
Construction	1,425,000	557,980	0	557,980	0
Other	0	0	0	0	0
Totals with no related allowance	$ 11,988,813	$ 10,128,758	$ 0	$ 11,088,901	$ 513,458
Total					
Commercial	$ 8,114,719	$ 7,438,109	$ 86,552	$ 7,519,859	$ 384,453
Real estate	3,530,594	3,114,658	45,749	3,906,895	171,720
Construction	1,425,000	557,980	0	843,295	0
Other	0	0	0	0	0
Totals	$ 13,070,313	$ 11,110,747	$ 132,301	$ 12,270,049	$ 556,173

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(Continued)

Note 4 – Loans: (continued)

	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

Note 5 – Allowance for Loan Losses:

An analysis of the allowance for loan losses for the years ended December 31, 2014, 2013, and 2012, is below:

	2014	2013	2012
Beginning Balance	$ 3,816,559	$ 3,879,299	$ 4,492,337
Charge-offs:			
Commercial	(15,000)	(5,190)	(726,537)
Real estate	(82,846)	(160,078)	(57,605)
Construction	(60,675)	0	(743,140)
Other	(30,137)	(1,101)	(2,937)
Total charge-offs	(188,658)	(166,369)	(1,530,219)
Recoveries:			
Commercial	4,500	103,354	73,940
Real estate	57,855	275	896
Construction	60,675	0	1,750
Other	22,308	0	400
Total recoveries	145,338	103,629	76,986
Provision for loan losses	0	0	840,195
Ending balance	$ 3,773,239	$ 3,816,559	$ 3,879,299

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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, 2014 and 2013, is as follows:

2014	Commercial	Real Estate	Construction	Other	Total
Allowance for Loan Loss					
Beginning balance	$ 2,608,013	$ 411,937	$ 775,482	$ 21,127	$ 3,816,559
Charge-offs	(15,000)	(82,846)	(60,675)	(30,137)	(188,658)
Recoveries	4,500	57,855	60,675	22,308	145,338
Provision	0	0	0	0	0
Ending balance	$ 2,597,513	$ 386,946	$ 775,482	$ 13,298	$ 3,773,239
Allowance Related to:					
Loans individually evaluated for impairment	$ 86,552	$ 45,749	$ 0	$ 0	$ 132,301
Loans collectively evaluated for impairment	2,510,961	341,197	775,482	13,298	3,640,938
Totals	$ 2,597,513	$ 386,946	$ 775,482	$ 13,298	$ 3,773,239
Loans					
Loans individually evaluated for impairment	$ 7,438,109	$ 3,114,658	$ 557,980	$ 0	$ 11,110,747
Loans collectively evaluated for impairment	132,184,925	206,761,275	41,114,289	16,721,767	396,782,256
Totals	$ 139,623,034	$ 209,875,933	$ 41,672,269	$ 16,721,767	$ 407,893,003

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

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 and paying real estate taxes. 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 is 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, 2014 and 2013:

2014	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	3	$ 3,824,692	$ 3,791,994
Real estate	6	1,308,488	1,283,817
Construction	1	1,202,432	557,980
Other	0	0	0
Totals	10	$ 6,335,612	$ 5,633,791

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

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, 2014, 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 2013, and one TDR as of December 31, 2013, was paid-off in 2014. No loans were placed into TDR in 2013, but four were placed into TDR in 2014 due to the Bank paying real estate taxes. The Bank had commitments of $77,494 and $11,547 to advance funds to pay taxes for loans that were considered to be TDRs as of December 31, 2014 and 2013, respectively.

Note 6 - Bank Premises and Equipment:

Major classifications of bank premises and equipment at December 31, 2014 and 2013, are as follows:

	2014	2013
Buildings and improvements	$ 1,856,589	$ 1,856,589
Furniture and fixtures	1,518,328	1,497,120
Vehicles	165,007	178,266
	3,539,924	3,531,975
Less: accumulated depreciation	3,184,283	3,130,672
	355,641	401,303
Land	200,460	200,460
Bank premises and equipment, net	$ 556,101	$ 601,763

Depreciation expense for the years ended December 31, 2014, 2013, and 2012, totaled $66,870, $55,152, and $102,792, 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 $66,335, $64,080 and $61,911 for the years ended December 31, 2014, 2013, and 2012, respectively. The minimum annual rental commitment under this lease, exclusive of taxes and other charges, payable by the lessee at December 31, 2014, for the next five years is as follows:

Year	Amount
2015	$ 68,680
2016	71,120
2017	67,318
2018 and thereafter	0
Total	$ 207,118

Note 7 − Deposits:

The following is a summary of major categories of deposits at December 31, 2014 and 2013:

	2014	2013
Non-interest bearing	$ 58,547,318	$ 56,374,964
Interest bearing:		
Time deposits under $100,000	96,165,549	95,263,770
Time deposits over $100,000	246,079,558	257,412,779
Total time deposits	342,245,107	352,676,549
Money market	109,421,214	109,991,977
Savings	28,089,010	25,545,810
Total interest bearing deposits	479,755,331	488,214,336
Total deposits	$ 538,302,649	$ 544,589,300

Scheduled maturities of time and certificates of deposit at December 31, 2014, are as follows:

Year	Amount
2015	$ 312,370,782
2016	29,874,325
2017	0
Total	$ 342,245,107

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 $50,224,716 and $52,367,324 at December 31, 2014 and 2013, respectively.

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Note 8 – Income Taxes:

The components of applicable income tax expense (benefit) for the years ended December 31, 2014, 2013, and 2012, are summarized as follows:

	2014	2013	2012
Current expense:			
Federal	$ 2,972,922	$ 2,419,190	$ 1,014,773
State	252,207	229,129	128,758
Total current	3,225,129	2,648,319	1,143,531
Deferred expense:			
Federal	(33,091)	39,128	256,433
State	(4,056)	4,795	31,426
Total deferred	(37,147)	43,923	287,859
Income tax expense	$ 3,187,982	$ 2,692,242	$ 1,431,390

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2014 and 2013, are as follows:

	2014	2013
Deferred tax assets:		
Allowance for loan losses	$ 1,420,426	$ 1,398,387
Defined benefit plan	1,574,622	746,973
Available-for-sale securities	0	7,150
Total deferred tax assets	2,995,048	2,152,510
Deferred tax liabilities:		
Available-for-sale securities	(208,623)	0
Discount on investment securities	(2,902)	(2,247)
Depreciation and amortization	0	(15,763)
Total deferred tax liabilities	(211,525)	(18,010)
Net deferred tax assets	$ 2,783,523	$ 2,134,500

No valuation allowance for deferred tax assets was recorded at December 31, 2014 and 2013, as the Company believes it is more likely than not that all of the deferred tax assets will be realized because they were supported by recoverable taxes paid in prior years.

A reconciliation of the significant differences between the federal statutory income tax rate and the Company's effective income tax rate is as follows:

	2014		2013		2012	
	Amount	%	Amount	%	Amount	%
Federal statutory rate	$ 3,227,566	34.00%	$ 2,624,267	34.00%	$ 1,450,202	34.00%
Increase/(decrease) resulting from:						
State income tax	163,780	1.72	154,390	2.00	105,721	2.48
Tax exempt income	(136,684)	(1.44)	(129,734)	(1.68)	(135,287)	(3.17)
Nondeductible expenses	4,383	0.05	4,668	0.06	5,975	0.14
Depreciation	885	0.01	14,627	0.19	0	0.00
Other items	(71,948)	(0.76)	24,024	0.31	4,779	0.11
Income tax expense	$ 3,187,982	33.58%	$ 2,692,242	34.88%	$ 1,431,390	33.56%

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Note 8 – Income Taxes: (continued)

The approximate tax (benefit) effects of the net investment securities gains (losses) were $20,631, $1,806, and ($699) for the years 2014, 2013, and 2012, respectively.

As of December 31, 2014 and 2013, 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 2011 through 2014. The Bank is subject to U.S. Federal income tax examinations for the returns filed after December 31, 2011. The Company and its subsidiaries state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2011 through 2014. There were no unrecognized tax benefits at December 31, 2014 or 2013.

The Bank recognizes interest and penalties accrued related to unrecognized tax benefits, if applicable, in other operating expenses. During the years ended December 31, 2014, 2013, and 2012, the Bank recognized $149, $0, and $4,850 in interest or penalties.

Note 9 – Employee Benefit Plans:

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 $46,380 and $44,584 for the years ended December 31, 2014 and 2013, respectively.

The Company also maintains a defined benefit pension plan ("the Defined Benefit Plan"). The Defined Benefit Plan was frozen as of October 31, 2012. The Defined Benefit Plan maintains a December 31 year-end for purposes of computing its benefit obligations.

The following table sets summarizes activity with the frozen Defined Benefit Plan in 2014 and 2013:

	2014	2013
Change in fair value of plan assets:		
Fair value at beginning of measurement period	$ 5,539,393	$ 5,077,147
Actual gain/(loss) on plan assets	268,278	707,424
Contributions	245,000	100,000
Benefits paid	(386,052)	(345,178)
Fair value at end of measurement period	5,666,619	5,539,393
Change in benefit obligation:		
Benefit obligation at beginning of measurement period	(6,710,541)	(6,875,998)
Interest cost	(319,616)	(268,252)
Actuarial gain/(loss)	(2,451,163)	88,531
Benefits paid	386,052	345,178
Benefit obligation at end of measurement period	(9,095,268)	(6,710,541)
Funded status	$ (3,428,649)	$ (1,171,148)
Weighted-average assumptions for balance sheet liability at end of year:		
Discount rate	4.90%	4.00%
Expected long-term rate of return	8.00%	8.00%
Weighted-average assumptions for benefit cost at beginning of year:		
Discount rate	4.00%	4.50%
Expected long-term rate of return	8.00%	8.00%

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Note 9 – Employee Benefit Plans: (continued)

The funded status of the plan was a liability as of December 31, 2014, and is included within Other Liabilities within the Consolidated Balance Sheets, and a $3,157,578, net of tax, underfunded pension liability in Accumulated Other Comprehensive Income within Shareholders' Equity at December 31, 2014.

The following table presents the components of the net periodic pension cost of the Defined Benefit Plan:

	2014	2013	2012
Components of net periodic benefit:			
Service cost	$ 0	$ 0	$ 391,676
Interest cost	319,616	268,252	280,921
Expected return on plan assets	(425,392)	(411,932)	(363,324)
Net amortization and deferral	198,900	231,272	217,624
Net periodic pension cost	$ 93,124	$ 87,592	$ 526,897

The Bank anticipates making contributions of $245,000 to the plan for the year ending December 31, 2015. The following table summarizes the expected benefits to be paid in each of the next five years and in the aggregate for the five years thereafter:

Plan Year Ending December 31,	Expected Benefits to be Paid
2015	$ 404,773
2016	399,716
2017	394,100
2018	395,464
2019	409,282
2020 through 2024	2,150,094
Total	$ 4,153,429

Asset allocation for the Defined Benefit Pension Plan as of the measurement date, by asset category, is as follows:

Plan Assets	Target Allocation 2014	Allowable Allocation Range	Percentage of Plan Assets at December 31, 2014	Percentage of Plan Assets at December 31, 2013
Equity securities	50%	40-60%	52%	51%
Debt securities	50%	40-60%	47%	47%
Other		0-3%	1%	2%
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 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.
The major categories of assets in the Company's Defined Benefit Plan as of year-end are presented in the following table. Assets are segregated by the level of the valuation inputs within the fair value hierarchy established by ASC Topic 820 utilized to measure fair value (See Note 15 for fair value hierarchy).

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Note 9 – Employee Benefit Plans: (continued)

The following tables present the balances of the plan assets, by fair value, as of December 31, 2014 and 2013:

	Fair Value Measurement Using			
December 31, 2014:	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 48,055	$ -	$ -	$ 48,055
Fixed income mutual funds:				
Domestic	895,483	-	-	895,483
Alternative	1,778,541	-	-	1,778,541
Equity securities:				
Common stock	-	288,996	-	288,996
Equity mutual funds:				
Domestic equity large cap	1,416,777	-	-	1,416,777
Domestic equity small cap	607,459	-	-	607,459
International equity	631,308	-	-	631,308
Totals	$ 5,377,623	$ 288,996	$ -	$ 5,666,619

	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

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

CONDENSED BALANCE SHEETS

	December 31, 2014	December 31, 2013
ASSETS		
Cash	$ 132,201	$ 87,512
Investment in Putnam County Bank	80,412,114	76,841,717
Investment in Putnam County Title Insurance Agency	(3,293)	7,867
Total assets	$ 80,541,022	$ 76,937,096
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	$ 8,647	$ 0
Income taxes payable	12,021	8,647
Total liabilities	20,668	8,647
Shareholders' equity	80,520,354	76,928,449
Total liabilities and shareholders' equity	$ 80,541,022	$ 76,937,096

CONDENSED STATEMENTS OF INCOME

	For Years Ended December 31, 2014	2013	2012
INCOME	$ 1,560,000	$ 1,500,000	$ 1,440,000
EXPENSES:			
Operating expenses	18,114	33,575	33,983
Income before income tax benefit and equity in undistributed earnings of subsidiaries	$ 1,541,886	$ 1,466,425	$ 1,406,017
Applicable income taxes (benefit)	12,021	8,647	1,607
Income before equity in undistributed earnings of subsidiaries	$ 1,529,865	$ 1,457,778	$ 1,404,410
Equity in undistributed earnings of subsidiaries	4,774,994	3,568,413	1,429,501
Net income	$ 6,304,859	$ 5,026,191	$ 2,833,911

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
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Note 10 − Putnam Bancshares, Inc. (Parent Company Only) Financial Information: (continued)

CONDENSED STATEMENTS OF CASH FLOWS

	For Years Ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 6,304,859	$ 5,026,191	$ 2,833,911
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(4,774,994)	(3,568,413)	(1,429,501)
(Increase)/decrease in prepaid expenses	0	0	5,167
Increase/(decrease) in accounts payable	8,647	0	0
Increase/(decrease) in income taxes payable	3,374	7,041	1,607
Net cash provided by operating activities	1,541,886	1,464,819	1,411,184
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in subsidiary	62,803	53,575	34,680
Net cash provided by investing activities	62,803	53,575	34,680
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid	(1,560,000)	(1,500,000)	(1,440,000)
Net cash used in financing activities	(1,560,000)	(1,500,000)	(1,440,000)
Net change in cash	44,689	18,394	5,864
Cash at beginning of year	87,512	69,118	63,254
Cash at end of year	$ 132,201	$ 87,512	$ 69,118

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. In 2014, the Company had an agreement with a related-party for their insurance. They paid $73,509 in 2014 and are under contract to pay $73,509 and $22,629 for the years ended December 31, 2015 and 2016, respectively.

Note 12 − Commitments and Contingencies:

The Bank is a party to certain 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.

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Note 12 – Commitments and Contingencies: (continued)

A summary of the notional amounts of the financial instruments with off-balance sheet risk at December 31, 2014 and 2013, is as follows:

Contract Amount	2014	2013
Commitments to extend credit	$ 26,832,280	$ 24,154,972
Commercial and standby letters of credit	28,262	25,512
Totals	$ 26,860,542	$ 24,180,484

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, 2014, that the Bank could declare without the approval of the West Virginia Division of Financial Institutions and the Federal Reserve Board amounted to approximately $8,263,188.

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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, 2014 and 2013, 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, 2014 and 2013, that the Company and the Bank met all capital adequacy requirements to which they were subject.

As of December 31, 2013, 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, 2014	Ratios	Actual	Minimum	Well Capitalized
Tier 1 capital (to risk-weighted assets)	23.28%	$ 83,317,000	$ 14,314,000	$ 21,471,000
Total risk-based capital (to risk-weighted assets)	24.34%	87,090,000	28,629,000	35,786,000
Tier 1 leverage capital (to average assets)	13.32%	83,317,000	25,019,000	31,274,000
December 31, 2013				
Tier 1 capital (to risk-weighted assets)	24.79%	$ 78,570,000	$ 12,678,000	$ 19,017,000
Total risk-based capital (to risk-weighted assets)	25.99%	82,387,000	25,355,000	31,694,000
Tier 1 leverage capital (to average assets)	12.49%	78,570,000	25,172,000	31,465,000

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, 2014 and 2013, are summarized as follows:

	2014		2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash and due from banks	$ 17,728,586	$ 17,728,586	$ 14,865,033	$ 14,865,033
Federal funds sold	42,000,000	42,000,000	85,000,000	85,000,000
Securities available for sale	117,426,938	117,426,938	132,879,928	132,879,928
Securities held to maturity	33,995,509	33,996,449	38,993,666	38,995,944
Loans	404,119,764	429,099,406	343,874,616	363,633,855
Accrued interest receivable	1,727,060	1,727,060	1,522,366	1,522,366
Totals	$ 616,997,857	$ 641,978,439	$ 617,135,609	$ 636,897,126
Financial Liabilities:				
Deposits	$ 538,302,649	$ 539,013,494	$ 544,589,300	$ 545,820,036
Accrued interest payable	944,270	944,270	1,017,759	1,017,759
Totals	$ 539,246,919	$ 539,957,764	$ 545,607,059	$ 546,837,795

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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 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 ("OREO"): 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 OREO at December 31, 2014, 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

December 31, 2014	Fair Value Measurement Using Level 1	Level 2	Level 3	Total
Available for Sale Securities				
U.S. Government treasuries	$ -	$ 5,017,190	$ -	$ 5,017,190
U.S. Government agencies	-	103,416,065	-	103,416,065
Municipal bonds	-	8,011,520	-	8,011,520
Mutual funds	-	982,163	-	982,163
Totals	$ -	$ 117,426,938	$ -	$ 117,426,938

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

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

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, 2014 and 2013:

December 31, 2014	Fair Value Measurement Using Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ 12,679,856	$ -	$ 12,679,856
OREO	$ -	$ 2,684,940	$ -	$ 2,684,940

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

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, 2014.

Note 16 – Prior Period Adjustment:

It was observed in 2014 that the frozen defined benefit pension plan was not being recorded on the books. This was done in 2014 and is now recorded through December 31, 2014. The 2012 and 2013 financial statements and applicable notes were restated to show the results of the defined benefit plan as if it were recorded in the earliest reporting period.

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Note 16 - Prior Period Adjustment: (continued)

December 31, 2013	As Previously Reported	Consolidated Balance Sheet	Consolidated Statement of Income	Consolidated Statement of Comprehensive Income	Consolidated Statements of Changes in Shareholders' Equity	As Restated
Other assets	$ 3,589,839	$ 746,973	$	$	$	$ 4,336,812
Other liabilities	1,456,638	1,171,148				2,627,786
Salaries and employee benefits	4,226,898		(12,408)			4,214,490
Provision for income taxes	2,687,696		4,546			2,692,242
Net Income	5,018,329		7,862			5,026,191
Defined benefit pension plan:						
Net gains/ (losses) arising during the period	-			615,295		615,295
Tax effect	-			(225,444)		(225,444)
Other comprehensive income/ (loss), net of tax	(2,243,208)			389,851		(1,853,357)
Comprehensive income	2,775,121			397,713		3,172,834
Retained earnings:						
Beginning of year	72,546,659				1,199,460	73,746,119
End of year	76,064,988				1,207,322	77,272,310
Accumulated other comprehensive income:						
Beginning of year	2,230,844				(2,021,348)	209,496
End of year	(12,364)				(1,631,497)	(1,643,861)

December 31, 2012	As Previously Reported	Consolidated Balance Sheet	Consolidated Statement of Income	Consolidated Statement of Comprehensive Income	Consolidated Statements of Changes in Shareholders' Equity	As Restated
Other assets	$ 2,236,949	$ 976,963	$	$	$	$ 3,213,912
Other liabilities	1,717,699	1,798,851				3,516,550
Salaries and employee benefits	5,869,172		(523,875)			5,345,297
Provision for income taxes	1,239,442		191,948			1,431,390
Net Income	2,501,984		331,927			2,833,911
Defined benefit pension plan:						
Net gains/ (losses) arising during the period	-			193,715		193,715
Tax effect	-			(70,977)		(70,977)
Other comprehensive income/ (loss), net of tax	(359,077)			122,738		(236,339)
Comprehensive income	2,142,907			454,665		2,597,572
Retained earnings:						
Beginning of year	71,484,675				867,533	72,352,208
End of year	72,546,659				1,199,460	73,746,119
Accumulated other comprehensive income:						
Beginning of year	2,589,921				(2,144,086)	445,835
End of year	2,230,844				(2,021,348)	209,496

Officers and Employees

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Tyrone Y. Perry	Information Technology Manager
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Teresa K. White	Paying & Receiving
Linda L. Bird	Paying & Receiving
Rhonda L. Fairchild	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
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Joy M. Persinger	Paying & Receiving
Betty J. Morris	Paying & Receiving
Suzanne A. Craigo	Proof Operations
Margie M. Shirkey	Loan Operations
Beth J. Carnefix	Head Teller
Kera D. Taylor	Proof Operations
Cheryl L. Halstead	Paying & Receiving
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	Loan Operations
Jill R. Rice	Paying and Receiving
Darlena F. Meadows	Paying and Receiving
Ashley M. Johnson	Bookkeeping
Jonathan S. Fisher, II	Bookkeeping
Kelley A. Lanning	Loan Operations
Tiffani J. Stewart	Loan Assistant
James S. Coniff	Credit Analyst
Janet F. Benjamin	Paying and Receiving
Mary B. Jordan	Bookkeeping
Elizabeth H. Handley	Paying and Receiving
Katie M. Allen	Loan Assistant
Kelly L. Hunt	Staff Accountant
Tessa M. Shadrick	Loan Assistant
Anndrea D. Bishop	Paying and Receiving
Tamara L. Epperly	Bookkeeping
Bruce A. Scarberry	Janitorial
Patricia J. Thomasson	Accounting Clerk
Devyn L. Taylor	Loan Operations
Sharon R. Guild	Loan Receptionist
Ashley R. Fain	Paying and Receiving

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