PutnamCountyBank

Founded 1901
A Subsidiary Of Putnam Bancshares, Inc.

ANNUAL REPORT 2020

today.
together.
tomorrow.

www.putcobk.com

Member FDIC Equal Housing Lender

ANNUAL MEETING

THE ANNUAL MEETING OF SHAREHOLDERS
OF PUTNAM BANCSHARES, INC. WILL BE

THURSDAY, JUNE 10, 2021
10:30 AM

PUTNAM COUNTY BANK LOAN CENTER BOARDROOM
300 HURRICANE CREEK ROAD
HURRICANE, WEST VIRGINIA

VIA ZOOM AVAILABLE UPON REQUEST

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

TABLE OF CONTENTS

LETTER TO SHAREHOLDERS

The following is the financial results of Putnam Bancshares, Inc. and its wholly-owned subsidiary, Putnam County Bank, for 2020.

The Bank's earnings remained strong during 2020 with net earnings of $3.3 million compared with $4.6 million in 2019. During 2020, the Bank experienced a slight decrease within net income and this decrease was mainly a result of reduced rates.

The Company has been impacted by an increased level of nonperforming loans which caused an increase in loan provision expense during 2018, 2017, and 2016. During 2020 and 2019, the provision was much lower compared to the prior three years, which is an indication of an improved loan portfolio.

Net loans were $317 million at the end of 2020, which was a decline of $23 million during the year. The largest reduction within our loan portfolio during 2020 was within our mortgage loans as our mortgage portfolio accounted for 69.56% or $16 million of the overall decrease.

The Company's capital base was $91.9 million at the end of 2020, which was an increase of $1.6 million during the year. The Company's capital base continues to show considerable strength.

During the first quarter of 2020, the COVID-19 pandemic created disruptions in the local, national and global markets. The Bank closed lobbies, allowed employees to work remotely in shifts, and worked with loan customers on payment deferrals as allowed under the provision of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

During the first quarter of 2020, the Bank obtained approval to become a Small Business Administration (SBA) lender in order to originate loans under the Paycheck Protection Program (PPP) administered by the SBA under the provision of the CARES Act. This was a great program for companies that were adversely affected by the global pandemic and we were glad to help our customers through a difficult year.

LETTER TO SHAREHOLDERS

(continued)

As of the end of 2020, the unemployment rate for West Virginia was 6.70% which was an increase compared to the end of 2019 at 4.90%. During the month of April, West Virginia's unemployment rate was at 15.60% which is the highest it has been in years and this increase was due to the global pandemic. Putnam County's unemployment rate ended the year of 2020 at 4.90%. Putnam County's unemployment rate during April was slightly over 16% also due to the pandemic.

During June 2020, the Bank opened the new branch located at 101 Hurricane Creek Road. Shortly after opening the new branch, the Bank began renovations on the Interstate Office, which would become our new Loan Center. We are very excited to open the new branch to our customers as well as our new Loan Center.

In February of 2021, we lost Roger K. Randolph. Roger served on our Boards since 2008. His service to our Boards was valuable. Equally valuable was his service to the business community and non profit organizations. Our community is a better place because of Roger.

We also want to recognize Marsha Eggleton, a valued employee, who retired in 2020 after more than 23 years of service to Putnam County Bank. We thank Marsha for her dedicated work to the Bank and wish her and her family the best.

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

Jack Wilson

J. R. Wilson
Chair of the Board

John R. Wilson, Jr.

John R. Wilson, Jr
President / CEO

Selected Financial Summary

In Thousands of Dollars

FOUR - YEAR SUMMARY

	2020	2019	2018	2017
YEAR-END BALANCE SHEET SUMMARY				
Loans, Net	317,357	340,450	342,749	390,403
Investment Securities	168,810	161,821	166,992	156,353
Total Assets	637,462	591,033	588,200	621,158
Deposits	538,870	493,612	495,846	528,317
Shareholders' Equity	91,939	90,329	87,336	88,042
AVERAGE BALANCE SHEET SUMMARY				
Loans, Net	330,668	340,073	359,979	417,194
Investment Securities	166,690	163,984	160,434	126,659
Total Assets	618,720	591,813	609,701	654,984
Deposits	519,586	496,658	518,149	558,769
Shareholders' Equity	91,884	89,674	86,674	90,938
SELECTED RATIOS				
Return On Average Assets	0.54%	0.78%	0.17%	0.17%
Return On Average Equity	3.63%	5.17%	1.16%	1.26%
Dividends Declared As a Percentage Of Net Income	57.54%	38.81%	172.92%	151.97%
SUMMARY OF OPERATIONS				
Interest Income	19,488	22,832	22,616	23,924
Interest Expense	5,140	5,727	4,675	4,711
Net Interest Income	14,348	17,105	17,941	19,213
Provision for Loan Losses	254	788	5,807	6,032
Noninterest Income	464	470	129	628
Noninterest Expense	10,172	10,826	10,965	9,978
Net Income	3,337	4,638	1,006	1,145
PER SHARE DATA				
Net Income	5.56	7.73	1.68	1.91
Cash Dividends	3.20	3.00	2.90	2.90
Book Value	153.23	150.55	145.56	146.74

Analysis of Earning Assets and Interest Bearing Liabilities

In Thousands of Dollars

	2020			2019		
ASSETS	**Avg. Balance**	**Interest**	**Yield/Rate**	**Avg. Balance**	**Interest**	**Yield/Rate**
Loans						
Commercial	18,983	1,105	5.82%	18,820	1,110	5.90%
Real Estate	313,151	15,941	5.09%	320,393	16,247	5.07%
Consumer	4,776	406	8.50%	5,674	417	7.35%
Total Loans (1)	336,910	17,452	5.18%	344,887	17,774	5.15%
Securities (2)						
Taxable	161,627	1,764	1.09%	159,578	3,572	2.24%
Tax-Exempt (3)	2,816	111	3.95%	2,815	110	3.92%
Mutual Funds	1,500	27	1.77%	1,500	36	2.42%
Total Securities	165,943	1,901	1.15%	163,893	3,719	2.27%
Interest Bearing Deposit in Banks	10,701	31	0.29%	9,687	158	1.63%
Federal Funds Sold	90,203	101	0.11%	67,429	1,181	1.75%
Total Earning Assets	603,757	19,486	3.23%	585,897	22,832	3.90%
Cash and Due from Banks	13,785			4,824		
Premises and Equipment, Net	1,984			775		
Other Assets	5,437			5,130		
Allowance for Loan Losses	(6,242)			(4,814)		
Total Assets(4)	618,721			591,813		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest Bearing Deposits						
Super NOW and Business	127,139	178	0.14%	120,175	240	0.20%
Savings	37,897	34	0.09%	33,887	51	0.15%
Time	272,442	4,929	1.81%	274,045	5,436	1.98%
Total Interest Bearing Deposits	437,479	5,140	1.17%	428,106	5,726	1.34%
Long-Term Borrowings	0	0	0.00%	0	0	0.00%
Total Interest Bearing Liabilities	437,479	5,140	1.17%	428,106	5,726	1.34%
Noninterest Bearing Deposits	82,108			68,551		
Accrued Expenses and Other Liabilities	7,251			5,482		
Equity	91,884			89,674		
Total Liabilities and Equity	618,721			591,813		
Net Interest Margin	603,757	14,346	2.38%	585,897	17,105	2.92%

(1) Includes loans on nonaccrual status.
(2) Represents amortized value.
(3) Tax-exempt income converted to a fully tax-equivalent basis assuming a federal tax of 21% and a state tax of 6.25%
(4) Net of SFAS 107 Market Value.

Rate Sensitivity Analysis As of December 31, 2020

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)	13,168	25,266	47,176	62,367	143,978	26,896
Investment Securities (2)	67,133	61,520	35,818	0	2,839	0
Federal Funds Sold	114,000	0	0	0	0	0
Total Selected Assets	194,301	86,787	82,995	62,367	146,817	26,896
LIABILITIES						
Interest Bearing Deposits (3)	80,669	87,990	59,665	39,414	0	0
Borrowed Funds	0	0	0	0	0	0
Total Selected Liabilities	80,669	87,990	59,665	39,414	0	0
Differences	113,632	(1,203)	23,330	22,954	146,817	26,896
Cumulative Differences	113,632	112,429	135,758	158,712	305,529	332,425

(1) Does not include loans on nonaccrual status.
(2) Does not include Federal Reserve Stock. Reported HTM securites at amortized cost and AFS securities at fair values.
(3) Does not include Super NOW, Business Checking Accounts or traditional savings deposits.

HESS, STEWART & CAMPBELL, PLLC

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 1060
HUNTINGTON, WEST VIRGINIA 25713

JOHN G. HESS, CPA
RICHARD M. STEWART, CPA
ROBERT C. CAMPBELL, CPA
TOMI J. WEBER, CPA
CHARLES A. COOK, CPA
JEFFREY M. MOLLOHAN, CPA
ELLIOT R. WILSON, CPA, CFF, ABV, CVA
TODD A. ROBINSON, CPA

DARRELL D. TUCKER, CPA
CHARLES "MATT" MORRIS, CPA
JASON S. KELLEY, CPA
TIFFANY D. MILLER, CPA
ANDREW G. REED, CPA, CFE
RENICK D. PERRY, II, CPA
MATTHEW "MATT" EDMUNDS, CPA
KALIE M. ZAFERATOS, CPA
AUSTIN L. GUNNOE, CPA
CHASE T. CALDWELL, CPA
LEANNE T. IMPERI, EA

940 Fourth Avenue
Suite 250, Frederick Bldg.

(304) 523-6464
Fax (304) 523-4395

Email: hsccpa@hsc-cpa.com
Web Site: hsc-cpa.com

122 E. MAIN STREET
BECKLEY, WV 25801
(304) 255-1978
(304) 255-1971 FAX

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
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, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, 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 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 audit 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, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hess, Stewart & Campbell, PLLC

Huntington, West Virginia
March 17, 2021

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

ASSETS	**2020**	**2019**
Cash and due from banks	$ 29,308,297	$ 17,375,152
Federal funds sold	114,000,000	66,669,340
Cash and cash equivalents	143,308,297	84,044,492
Investment debt securities available-for-sale, at fair value	53,746,071	43,298,961
Investment debt securities held-to-maturity, at amortized cost	113,564,914	117,055,402
Investment equity securities, at fair value	1,498,849	1,467,076
Federal Reserve Bank stock, at cost	39,000	39,000
Loans	324,618,157	345,398,805
Allowance for loan losses	(7,260,701)	(4,948,597)
Net loans	317,357,456	340,450,208
Bank premises and equipment, net	3,722,657	888,532
Other real estate owned	74,045	15,000
Accrued interest receivable	1,149,734	1,016,865
Other assets	3,001,416	2,757,380
TOTAL ASSETS	$ 637,462,439	$ 591,032,916
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 89,678,893	$ 69,479,203
Interest-bearing	449,190,611	424,132,341
Total deposits	538,869,504	493,611,544
Accrued interest payable	1,316,773	1,645,098
Other liabilities	5,336,821	5,446,823
TOTAL LIABILITIES	545,523,098	500,703,465
STOCKHOLDERS' EQUITY		
Common stock, $0.50 par value, 1,200,000 shares authorized, 600,000 shares issued and outstanding	300,000	300,000
Additional paid-in capital	1,000,000	1,000,000
Retained earnings	93,181,286	91,764,665
Accumulated other comprehensive income	(2,541,945)	(2,735,214)
TOTAL STOCKHOLDERS' EQUITY	91,939,341	90,329,451
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 637,462,439	$ 591,032,916

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
INTEREST INCOME		
Interest and fees on loans	$ 17,451,905	$ 17,774,082
Interest and dividends on investment securities:		
Available-for-sale	975,956	805,312
Held-to-maturity	925,440	2,911,232
Federal Reserve Bank	33,794	160,115
Interest on federal funds sold	100,941	1,181,123
Total interest income	19,488,036	22,831,864
INTEREST EXPENSE		
Interest on deposits	5,139,885	5,726,515
NET INTEREST INCOME	14,348,151	17,105,349
PROVISION FOR LOAN LOSSES	254,025	788,216
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	14,094,126	16,317,133
NONINTEREST INCOME		
Service fees	435,812	447,896
Securities gains (losses)	(1,151)	-
Rental income	30,800	13,000
Other income (loss)	(1,259)	9,129
Total noninterest income	464,202	470,025
NONINTEREST EXPENSES		
Salaries and employee benefits	6,156,796	6,171,515
Equipment and occupancy expenses	580,076	483,068
Data processing	1,082,249	1,020,702
Insurance	205,873	343,456
Professional fees	618,953	916,805
Other real estate operational losses	31,020	674,204
Directors' fees	351,000	264,000
Other expenses	1,146,328	952,282
Total noninterest expenses	10,172,295	10,826,032
INCOME BEFORE INCOME TAX	4,386,033	5,961,126
INCOME TAX EXPENSE	1,049,412	1,323,143
NET INCOME	$ 3,336,621	$ 4,637,983

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Net income	$ 3,336,621	$ 4,637,983
Other comprehensive income:		
Unrealized (losses) gains on available-for-sale securities, net of income taxes of ($80,832) in 2020 and ($149,571) in 2019	253,736	469,515
Change in underfunded pension liability, net of income taxes (benefit) of ($19,263) in 2020 and ($99,999) in 2019	(60,467)	(313,903)
Other comprehensive income, net of tax	193,269	155,612
Comprehensive income	$ 3,529,890	$ 4,793,595

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2020 AND 2019

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
BALANCE, December 31, 2018	$ 300,000	$ 1,000,000	$ 88,926,682	$ (2,890,826)	$ 87,335,856
Net income	-	-	4,637,983	-	4,637,983
Other comprehensive income	-	-	-	155,612	155,612
Dividends, $3.00 per share	-	-	(1,800,000)	-	(1,800,000)
BALANCE, December 31, 2019	300,000	1,000,000	91,764,665	(2,735,214)	90,329,451
Net income	-	-	3,336,621	-	3,336,621
Other comprehensive income	-	-	-	193,269	193,269
Dividends, $3.20 per share	-	-	(1,920,000)	-	(1,920,000)
BALANCE, December 31, 2020	$ 300,000	$ 1,000,000	$ 93,181,286	$ (2,541,945)	$ 91,939,341

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,336,621	$ 4,637,983
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	189,557	130,762
Deferred income taxes (benefits)	(445,165)	357,129
Provision for loan losses	254,025	788,216
Equity in earnings of unconsolidated subsidiary, net of distributions	1,678	(4,932)
Net premium amortization on investment securities	(791,508)	(2,794,697)
Change in unrealized loss on equity securities	1,151	-
Loss on sale of OREO	9,892	879,746
Change in carrying value in OREO	64,672	-
(Increase) decrease in:		
Interest receivable	(132,869)	1,807
Other assets	137,882	483,885
Increase (decrease) in:		
Interest payable	(328,325)	399,282
Other liabilities	(189,732)	1,260,865
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	2,107,879	6,140,046
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of available-for-sale securities	10,011,535	14,907,486
Purchases of available-for-sale securities	(20,290,934)	(30,048,042)
Proceeds from maturities of held-to-maturity securities	273,500,000	267,500,000
Purchases of held-to-maturity securities	(269,084,072)	(243,775,149)
Purchases of bank premises and equipment	(3,023,682)	(411,285)
Proceeds from sale of other real estate owned	470,235	1,222,699
Net (increase) decrease in loans	22,234,883	402,658
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	13,817,965	9,798,367

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits	$ 50,142,637	$ 7,848,414
Net increase (decrease) in time deposits	(4,884,676)	(10,083,085)
Cash dividends paid	(1,920,000)	(1,800,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	43,337,961	(4,034,671)
NET CHANGE IN CASH AND CASH EQUIVALENTS	59,263,805	11,903,742
CASH AND CASH EQUIVALENTS, BEGINNING	84,044,492	72,140,750
CASH AND CASH EQUIVALENTS, ENDING	$ 143,308,297	$ 84,044,492
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest on deposits and borrowings	$ 5,468,210	$ 5,327,233
Cash paid for income taxes	$ 1,429,158	$ 420,300
SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES		
Loans transferred to foreclosed properties	$ 603,844	$ 1,107,782

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF OPERATIONS AND 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 commercial, real estate and consumer loans and deposit services principally to individuals and 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 statements include the accounts of Putnam Bancshares, Inc. and its wholly-owned subsidiary, Putnam County Bank. All significant intercompany balances and transactions have been eliminated.

Use of estimates: The preparation of consolidated 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 the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, the fair value of financial instruments and defined benefit plan obligations and expenses. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

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

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

Cash and cash equivalents: For purposes of the consolidated statements of cash flows, cash and due from banks includes cash on hand, cash items in process of clearing, federal funds sold, and amounts due from correspondent banks.

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 positive intent and ability to hold to maturity are reported at cost, 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

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Securities available-for-sale: Debt 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.

Equity securities not using the equity method are carried at estimated fair value based on information provided by a third party pricing service with changes in fair value and realized gains or losses reported in noninterest income. If fair value is not readily determinable, the equity security is carried at cost subject to adjustments for any observable market transactions on the same or similar instruments of the investee. All equity securities are evaluated at least annually for impairment. The Company's equity securities have readily determinable fair values. Because changes in fair value are recorded as they occur, there is no expectation of a gain or loss on the sale of equity securities.

Any security that has experienced a decline in value, which management deems other-than-temporary, is reduced to its estimated fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. 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.

Investment in limited liability company: The Company entered into an agreement with other individuals 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 16 for additional information.

Loans: The Bank's primary market is Putnam County, West Virginia and surrounding areas. The Bank grants commercial, real estate and consumer loans to its customers, most of whom are located within the Bank's primary market. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the Bank's primary market economic conditions, particularly in the real estate sector. The concentration of credit in the regional economy is taken into consideration by management in determining the allowance for loan losses.

Loans are either secured or unsecured based on the type of loan and the financial condition of the borrower. The loans are generally expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrower; however, the Bank is exposed to risk of loss on any or all loans due to the borrower's difficulties, which can arise from any number of factors including problems within the respective industry or economic conditions within the Bank's primary market.

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

Generally, loans are placed on nonaccrual 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 nonaccrual if repayment in full of principal and/or interest is in doubt. Interest on nonaccrual loans is recognized primarily using the cost-recovery method.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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

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

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

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.

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

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 included in current operations.

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.

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.

Advertising costs: Advertising costs are expensed as incurred and included in other operating expenses. Advertising expense was $100,158 and $133,077 for the years ended December 31, 2020 and 2019, respectively.

Compensated absences: Compensated absences have not been accrued since they cannot be reasonably estimated due to restrictions on usage. The Bank recognizes the cost of compensated absences when actually paid.

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.

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, unfunded pension liability and unrealized gains/losses on available-for-sale securities. 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.

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. The components of other comprehensive income and related tax effects are presented within the Consolidated Statements of Comprehensive Income. It is the Company's policy to release stranded tax effects from accumulated other comprehensive income to tax expense (benefit) on an individual item basis.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

	2020	2019
Net income	$ 3,336,621	$ 4,637,983
Earnings per common share	$ 5.56	$ 7.73
Divdends paid per common share	$ 3.20	$ 3.00

Reclassifications: Certain reclassifications have been made to prior year's financial statements to place them on a basis comparable with the current year.

Date of management's review of subsequent events: Management has evaluated subsequent events through March 17, 2021, the date which the financial statements were available to be issued.

The COVID-19 pandemic, which has created disruptions in the local, national and global markets and communities, began during the 1st quarter of 2020 and has continued into the 1st quarter of 2021. In response to this pandemic, and in accordance with all state and CDC guidelines, the Bank's management closed lobbies, allowed employees to work remotely in shifts, and worked with loan customers on payment deferrals as allowed under the provision of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). Vaccine programs are beginning to be implemented at this time. However, if the effects of the pandemic continue for a prolonged period or result in sustained economic stress or recession, the effects could have a material adverse impact on the Bank in a number of ways related to credit, collateral, customer demand, funding, operations, inherent rate risk, human capital and self-insurance, as well as the related risk associated with critical accounting estimates such as the allowance for credit losses or valuation impairments.

Accounting pronouncements adopted: The following is a summary of authoritative pronouncements that the Company adopted in 2020.

In April 2019, the FASB issued Accounting Standards Update No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments* ("ASU 2019-04"). ASU 2019-04 clarifies certain aspects of previously issued accounting standards such as ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"), in areas of remeasurement of equity securities under ASC 820, Fair Value Measurement, when using the measurement alternative and remeasurement of equity securities at historical exchange rates. Since the Company has already adopted ASU 2016-01, the related amendments in ASU 2019-04 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted in any interim period. The amendments to ASU 2016-01 are required to be applied using a modified-retrospective adoption approach with a cumulative-effect adjustment to retained earnings as of the date of adoption of ASU 2016-01, except for those related to equity securities without readily determinable fair values that are measured using the measurement alternative, which are required to be applied prospectively.

NOTE 2. RESTRICTIONS ON CASH AND DUE FROM BANKS

Certain reserves are required to be maintained at the Federal Reserve Bank. The requirement as of December 31, 2020 and 2019 was $0 and $7,903,000, respectively. At December 31, 2020 and 2019, the Bank had accounts at correspondent banks, excluding the Federal Reserve Bank, which exceeded the FDIC insurable limit of $250,000 by $9,209,226 and $2,307,466, respectively.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. SECURITIES

The amortized costs, unrealized gains and losses, and estimated fair values of securities at December 31, 2020 and 2019 are as follows:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government treasuries	$ 5,002,061	$ -	$ (1,671)	$ 5,000,390
U.S. Government agencies	45,282,431	624,394	(15)	45,906,810
Municipal bonds	2,815,795	23,076	-	2,838,871
Total available-for-sale	$ 53,100,287	$ 647,470	$ (1,686)	$ 53,746,071
Held-to-maturity:				
U.S. Government treasuries	$ 113,564,914	N/A	N/A	N/A
Equity:				
Mutual funds	$ 1,500,000	$ -	$ (1,151)	$ 1,498,849

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government treasuries	$ -	$ -	$ -	$ -
U.S. Government agencies	40,139,264	302,731	(23,959)	40,418,036
Municipal bonds	2,815,557	65,368	-	2,880,925
Total available-for-sale	$ 42,954,821	$ 368,099	$ (23,959)	$ 43,298,961
Held-to-maturity:				
U.S. Government treasuries	$ 117,055,402	N/A	N/A	N/A
Equity:				
Mutual funds	$ 1,500,000	$ -	$ (32,924)	$ 1,467,076

The following table shows the proceeds from sales 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.

	2020	2019
Proceeds from sales of available-for-sale securities	$ -	$ -
Gross realized gains	$ -	$ -
Gross realized losses	$ -	$ -

The scheduled maturities of securities at December 31, 2020, 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.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. SECURITIES (continued)

	Available-for-sale securities		Held-to-maturity securities
	Amortized Cost	Fair Value	Amortized Cost
Due within one year	$ 15,008,528	$ 15,088,768	$ 113,564,914
Due after one year through five years	35,275,964	35,818,432	-
Due after five years through ten years	-	-	-
Due after ten years	2,815,795	2,838,871	-
Totals	$ 53,100,287	$ 53,746,071	$ 113,564,914

At December 31, 2020 and 2019, the carrying value of securities pledged to secure public funds totaled $80,775,000 and $75,625,000, respectively. At December 31, 2020 and 2019, the estimated fair values totaled $81,671,179 and $75,730,307, respectively, and 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, 2020 and 2019.

The Bank had three available-for-sale securities, one held-to-maturity security, and one equity security with an unrealized loss position at December 31, 2020. 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, 2020.

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, 2020						
Available-for-sale:						
U.S. Government treasuries	$ 5,000,390	$ (1,671)	$ -	$ -	$ 5,000,390	$ (1,671)
U.S. Government agencies	4,999,985	(15)	-	-	4,999,985	(15)
Municipal bonds	979,650	(16,145)	-	-	979,650	(16,145)
Total available-for-sale	$ 10,980,025	$ (17,831)	$ -	$ -	$ 10,980,025	$ (17,831)
Held-to-maturity:						
U.S. Government treasuries	$ 4,997,765	$ (219)	$ -	$ -	$ 4,997,765	$ (219)
Equity:						
Mutual funds	$ -	$ -	$ 484,808	$ (15,192)	$ 484,808	$ (15,192)

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2019						
Available-for-sale:						
U.S. Government treasuries	$ -	$ -	$ -	$ -	$ -	$ -
U.S. Government agencies	5,078,545	(23,959)	-	-	5,078,545	(23,959)
Municipal bonds	-	-	-	-	-	-
Total available-for-sale	$ 5,078,545	$ (23,959)	$ -	$ -	$ 5,078,545	$ (23,959)
Held-to-maturity:						
U.S. Government treasuries	$ 2,482,825	$ (75)	$ -	$ -	$ 2,482,825	$ (75)
Equity:						
Mutual funds	$ -	$ -	$ 1,467,076	$ (32,924)	$ 1,467,076	$ (32,924)

Restricted investments, at cost

Federal Reserve Bank stock, which represents a required investment in the common stock of the Federal Reserve Bank (FRB), is carried at cost as a restricted long-term investment at December 31, 2020 and 2019. The balance for FRB stock at December 31, 2020 and 2019 totaled $39,000.

NOTE 4. LOANS

The following table summarizes the components of the Bank's loan portfolio as of December 31, 2020 and 2019:

	2020	2019
Loans		
Commercial	$ 111,847,076	$ 110,361,853
Real estate	190,100,911	208,897,614
Construction	15,029,112	16,631,182
Other	7,641,058	9,508,156
Total loans	324,618,157	345,398,805
Less allowance for loan losses	(7,260,701)	(4,948,597)
Loans, net	$ 317,357,456	$ 340,450,208

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 term of 10 years and generally have an original LTV of 90% or less.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. LOANS (continued)

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.

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, 2020 and 2019:

	December 31, 2020						
	Past due						Recorded investment >90 days and accruing
Dollars in thousands	30-59 Days	60-89 Days	> 90 Days	Total	Current	Total loans	
Commercial	$ -	$ -	$ 520	$ 520	$ 111,327	$ 111,847	$ -
Real estate	2,173	478	277	2,928	187,173	190,101	-
Construction	111	-	-	111	14,918	15,029	-
Other	5	-	73	78	7,563	7,641	-
Totals	$ 2,289	$ 478	$ 870	$ 3,637	$ 320,981	$ 324,618	$ -

	December 31, 2019						
	Past due						Recorded investment >90 days and accruing
Dollars in thousands	30-59 Days	60-89 Days	> 90 Days	Total	Current	Total loans	
Commercial	$ 224	$ 434	$ 3,866	$ 4,524	$ 105,838	$ 110,362	$ -
Real estate	1,310	257	453	2,020	206,877	208,897	-
Construction	-	119	165	284	16,347	16,631	-
Other	109	14	-	123	9,385	9,508	-
Totals	$ 1,643	$ 824	$ 4,484	$ 6,951	$ 338,447	$ 345,398	$ -

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. LOANS (continued)

The following table presents the non-accrual loans included in the net balance of loans at December 31, 2020 and 2019, respectively.

	2020	2019
Commercial	$ 2,484,152	$ 5,772,386
Real estate	1,410,131	2,443,980
Construction	141,229	213,013
Other	125,950	618
Totals	$ 4,161,462	$ 8,429,997

If interest on non-accrual loans had been accrued, such income would have approximated $520,672 and $776,559 for the years December 31, 2020 and 2019, 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.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. LOANS (continued)

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

	December 31, 2020				
	Commercial	Real estate	Construction	Other	Total
Pass	$ 79,981,761	$ 174,122,450	$ 13,560,909	$ 7,327,307	$ 274,992,427
Special mention	9,221,088	2,508,921	610,783	139,579	12,480,371
Substandard	22,644,227	13,469,540	857,420	174,172	37,145,359
Doubtful	-	-	-	-	-
Totals	$ 111,847,076	$ 190,100,911	$ 15,029,112	$ 7,641,058	$ 324,618,157

	December 31, 2019				
	Commercial	Real estate	Construction	Other	Total
Pass	$ 82,930,050	$ 192,961,978	$ 13,373,297	$ 9,181,689	$ 298,447,014
Special mention	15,694,785	3,543,674	764,374	28,648	20,031,481
Substandard	11,737,018	12,391,962	2,493,511	297,819	26,920,310
Doubtful	-	-	-	-	-
Totals	$ 110,361,853	$ 208,897,614	$ 16,631,182	$ 9,508,156	$ 345,398,805

In the normal course of business, the Bank makes loans to directors, executive officers, stockholders and their affiliates on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers and did not, in the opinion of management, involve more than the normal credit risk.

The following presents the activity with respect to loans to related parties for 2020 and 2019:

	2020	2019
Balances - January 1,	$ 9,798,747	$ 11,860,723
New loans	571,330	983,364
Repayments	(3,242,416)	(3,045,340)
Balances - December 31,	$ 7,127,661	$ 9,798,747

Beginning in the 1st quarter of 2020, the Bank obtained approval to become a Small Business Administration ("SBA") lender. This allowed the Bank to originate loans to its customers under the Paycheck Protection Program ("PPP") administered by the SBA under the provision of the CARES Act. Loans covered by the PPP may be eligible for loan forgiveness. The remaining loan balances, if any, after this forgiveness, are fully guaranteed by the SBA. As of December 31, 2020, the Bank has funded approximately $6,168,000 of SBA-approved PPP loans to 114 customers. Under the terms of the program, the SBA will pay the lender a processing fee tiered by the size of the loan (5% for loans less than $350,000, 3% for loans greater than $350,000 but less than $2.0 million, and 1% for loans greater than $2.0 million). During the year ended December 31, 2020, the Bank earned $268,205 in PPP loan related processing fees and incurred expenses of $53,925.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. LOANS (continued)

The following is a summary of impaired loans by class at December 31, 2020 and 2019:

	December 31, 2020		
	Unpaid principal balance	Related allowance	Interest income recognized
With a related allowance			
Commercial	$ 18,247,755	$ 2,734,322	$ 680,908
Real estate	4,571,701	1,091,520	142,022
Construction	107,101	12,478	-
Other	166,503	58,675	2,561
Totals	$ 23,093,060	$ 3,896,995	$ 825,491
With no related allowance			
Commercial	$ 805,695	$ -	$ 41,942
Real estate	602,742	-	28,870
Construction	-	-	-
Other	-	-	-
Totals	$ 1,408,437	$ -	$ 70,812
Total			
Commercial	$ 19,053,450	$ 2,734,322	$ 722,850
Real estate	5,174,443	1,091,520	170,892
Construction	107,101	12,478	-
Other	166,503	58,675	2,561
Totals	$ 24,501,497	$ 3,896,995	$ 896,303

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. LOANS (continued)

	December 31, 2019		
	Unpaid principal balance	Related allowance	Interest income recognized
With a related allowance			
Commercial	$ 11,514,665	$ 773,584	$ 422,468
Real estate	2,749,007	512,200	53,980
Construction	1,599,650	175,516	90,638
Other	44,800	44,800	2,773
Totals	$ 15,908,122	$ 1,506,100	$ 569,859
With no related allowance			
Commercial	$ 3,007,499	$ -	$ 62,671
Real estate	683,789	-	17,626
Construction	280,112	-	10,511
Other	9,253	-	669
Totals	$ 3,980,653	$ -	$ 91,477
Total			
Commercial	$ 14,522,164	$ 773,584	$ 485,139
Real estate	3,432,796	512,200	71,606
Construction	1,879,762	175,516	101,149
Other	54,053	44,800	3,442
Totals	$ 19,888,775	$ 1,506,100	$ 661,336

NOTE 5. ALLOWANCE FOR LOAN LOSSES

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.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. ALLOWANCE FOR LOAN LOSSES (continued)

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) effects of any changes in the quality of the loan review system and findings, (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 such as competition and legal and regulatory requirements, (8) effects of changes in credit concentrations, and (9) effects of changes in the value of underlying collateral.

Activity in the allowance for loan losses by loan class for the years ended December 31, 2020 and 2019 is as follows:

2020	Commercial	Real estate	Construction	Other	Total
Allowance for loan loss					
Beginning balance	$ 2,821,021	$ 700,930	$ 1,353,501	$ 73,145	$ 4,948,597
Charge-offs	(61,390)	(220,026)	(64,672)	(22,217)	(368,305)
Recoveries	2,360,983	46,021	17,887	1,492	2,426,383
Provision	(716,622)	38,238	890,896	41,514	254,026
Ending balance	$ 4,403,992	$ 565,163	$ 2,197,612	$ 93,934	$ 7,260,701
Allowance related to:					
Loans individually evaluated for impairment	$ 2,734,322	$ 1,091,520	$ 12,478	$ 58,675	$ 3,896,995
Loans collectively evaluated for impairment	1,669,670	(526,357)	2,185,134	35,259	3,363,706
Totals	$ 4,403,992	$ 565,163	$ 2,197,612	$ 93,934	$ 7,260,701
Loans					
Loans individually evaluated for impairment	$ 19,053,450	$ 5,174,443	$ 107,101	$ 166,503	$ 24,501,497
Loans collectively evaluated for impairment	92,793,626	184,926,468	14,922,011	7,474,555	300,116,660
Totals	$ 111,847,076	$ 190,100,911	$ 15,029,112	$ 7,641,058	$ 324,618,157

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. ALLOWANCE FOR LOAN LOSSES (continued)

2019	Commercial	Real estate	Construction	Other	Total
Allowance for loan loss					
Beginning balance	$ 2,628,982	$ 875,833	$ 1,740,725	$ 20,217	$ 5,265,757
Charge-offs	(641,126)	(806,312)	(288,195)	(75,850)	(1,811,483)
Recoveries	502,873	104,103	37,055	62,076	706,107
Provision	330,292	527,306	(136,084)	66,702	788,216
Ending balance	$ 2,821,021	$ 700,930	$ 1,353,501	$ 73,145	$ 4,948,597
Allowance related to:					
Loans individually evaluated for impairment	$ 773,584	$ 512,200	$ 175,516	$ 44,800	$ 1,506,100
Loans collectively evaluated for impairment	2,047,437	188,730	1,177,985	28,345	3,442,497
Totals	$ 2,821,021	$ 700,930	$ 1,353,501	$ 73,145	$ 4,948,597
Loans					
Loans individually evaluated for impairment	$ 14,522,164	$ 3,432,796	$ 1,879,762	$ 54,053	$ 19,888,775
Loans collectively evaluated for impairment	95,839,689	205,464,818	14,751,420	9,454,103	325,510,030
Totals	$ 110,361,853	$ 208,897,614	$ 16,631,182	$ 9,508,156	$ 345,398,805

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 for the years ended December 31, 2020 and 2019 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.

The following tables present TDRs, modified by class at December 31, 2020 and 2019:

2020	Number of contracts	Unpaid principal balance
Commercial	8	$ 6,270,414
Real estate	13	1,610,779
Construction	1	51,023
Other	1	40,553
Totals	23	$ 7,972,769

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. ALLOWANCE FOR LOAN LOSSES (continued)

2019	Number of contracts	Unpaid principal balance
Commercial	9	$ 6,770,896
Real estate	12	1,489,238
Construction	2	599,036
Other	1	44,800
Totals	24	$ 8,903,970

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 year ended December 31, 2020, there was one restructured commercial loan that subsequently was deeded to the Bank in lieu of foreclosure with a principal balance of $439,172. For the year ended December 31, 2019, there was one restructured commercial loan that subsequently defaulted resulting in a principal charge-off of $85,565 and one restructured mortgage loan that subsequently defaulted resulting in a principal charge-off of $158,120.

NOTE 6. BANK PREMISES AND EQUIPMENT

Major classifications of bank premises and equipment and the total accumulated depreciation are as follows:

	2020	2019
Buildings and improvements	$ 3,801,451	$ 2,157,173
Furniture and fixtures	1,975,848	1,829,013
Vehicles	239,909	239,909
	6,017,208	4,226,095
Less: accumulated depreciation	(3,727,579)	(3,538,023)
	2,289,629	688,072
Land	200,460	200,460
Construction in progress	1,232,568	-
Bank premises and equipment, net	$ 3,722,657	$ 888,532

Depreciation expense for the years ended December 31, 2020 and 2019, totaled $165,089 and $130,762, respectively, and is included in equipment and occupancy expense in the Consolidated Statements of Income.

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 $73,437 and $73,437 for the years ended December 31, 2020 and 2019, respectively. The minimum annual rental commitment under this lease, exclusive of taxes and other charges, payable by the lessee at December 31, 2020, is as follows:

Year	Amount
2021	$ 73,437
2022	67,317
2023	-
2024	-
2025 and thereafter	-
Total	$ 140,754

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. DEPOSITS

The following is a summary of major categories of deposits at December 31, 2020 and 2019:

	2020	2019
Non-interest bearing	$ 89,678,893	$ 69,479,203
Interest bearing:		
Time deposits under $250,000	178,675,135	187,854,415
Time deposits greater than or equal to $250,000	89,059,252	84,764,648
Total time deposits	267,734,387	272,619,063
Money market	139,739,813	116,795,330
Savings	41,716,411	34,717,948
Total interest bearing deposits	449,190,611	424,132,341
Total deposits	$ 538,869,504	$ 493,611,544

Scheduled maturities of time and certificates of deposit at December 31, 2020, are as follows:

Year	Amount
2021	$ 121,963,862
2022	40,770,234
2023	18,894,974
2024	86,105,317
Total	$ 267,734,387

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 $61,549,841 and $54,564,168 at December 31, 2020 and 2019, respectively.

NOTE 8. INCOME TAXES

The components of applicable income tax expense (benefit) for the years ended December 31, 2020 and 2019, are summarized as follows:

	2020	2019
Current expense:		
Federal	$ 1,328,691	$ 865,796
State	165,886	100,218
Total current	1,494,577	966,014
Deferred expense (benefit):		
Federal	(374,473)	293,455
State	(70,692)	63,674
Total deferred	(445,165)	357,129
Income tax expense	$ 1,049,412	$ 1,323,143

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. INCOME TAXES (continued)

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, 2020 and 2019, are as follows:

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 1,754,185	$ 1,195,580
Defined benefit plan	892,684	880,989
Nonaccrual interest	125,794	187,617
Unrealized loss on available-for-sale securities	-	-
OREO write-downs	15,625	-
Total deferred tax assets	2,788,288	2,264,186
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	(156,021)	(75,190)
Depreciation and amortization	(114,283)	-
Total deferred tax liabilities	(270,304)	(75,190)
Net deferred tax assets	$ 2,517,984	$ 2,188,996

No valuation allowance for deferred tax assets was recorded at December 31, 2020 and 2019, 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:

	2020	2019
Federal statutory rate	$ 921,067	$ 1,251,836
Increase (decrease) resulting from:		
State income tax, net of federal tax benefit	131,050	79,172
Tax exempt interest income	(18,493)	(18,493)
Nondeductible expense	9,035	3,457
Other items, net	6,753	7,171
Income tax expense	$ 1,049,412	$ 1,323,143

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 $89,276 and $87,490 for the years ended December 31, 2020 and 2019, respectively.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. EMPLOYEE BENEFIT PLANS (continued)

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 2020 and 2019:

	2020	2019
Change in fair value of plan assets:		
Fair value at beginning of measurement period	$ 5,880,507	$ 5,271,890
Actual gain/(loss) on plan assets	864,739	819,822
Contributions	387,300	232,550
Benefits paid	(451,071)	(440,689)
Settlements	-	(3,066)
Fair value at end of measurement periods	6,681,475	5,880,507
Change in benefit obligation:		
Benefit obligation at beginning of measurement period	(9,526,985)	(8,461,044)
Interest cost	(297,512)	(345,872)
Actuarial gain/(loss)	(1,002,933)	(1,163,824)
Benefits paid	451,071	440,689
Settlements	-	3,066
Benefit obligation at end of measurement period	(10,376,359)	(9,526,985)
Funded status	$ (3,694,884)	$ (3,646,478)
Weighted-average assumptions for balance sheet liability at end of year:		
Discount rate	2.50%	3.20%
Expected long-term rate of return	7.00%	7.00%
Weighted-average assumptions for benefit cost at beginning of year:		
Discount rate	3.20%	4.20%
Expected long-term rate of return	7.00%	7.00%

The unfunded status of the plan as of December 31, 2020 is included within Other Liabilities on the Consolidated Balance Sheets. At December 31, 2020, Accumulated Other Comprehensive Income includes a balance of $3,031,707, net of tax, related to the underfunded pension liability.

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

	2020	2019
Components of net periodic benefit:		
Interest cost	$ 297,512	$ 345,872
Expected return on plan assets	(403,316)	(398,072)
Amortization of unrecognized (gain)/loss	461,780	328,172
Net periodic pension cost	$ 355,976	$ 275,972

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. EMPLOYEE BENEFIT PLANS (continued)

The Bank anticipates making contributions of $340,000 to the plan for the year ending December 31, 2021. 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
2021	$ 466,497
2022	465,525
2023	500,460
2024	499,303
2025	487,601
2026 through 2030	2,488,568
Total	$ 4,907,954

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

Plan Assets	Target Allocation 2020	Allowable allocation range	Percentage of plan assets at December 31, 2020	Percentage of plan assets at December 31, 2019
Equities	50%	40-60%	55%	49%
Fixed income	50%	40-60%	44%	50%
Other		0-3%	1%	1%
Totals			100%	100%

The primary long-term objective for the plan is to maintain assets at a level that will sufficiently cover future beneficiary obligations. The plan is overseen by Pentegra Retirement Services, who will invest the assets of the plan in a diversified combination of asset classes, investment strategies, and pooled vehicles. The asset allocation guidelines displayed in the table above reflect the Bank's risk tolerance and long-term objectives and is reviewed periodically to meet the above target allocations. The expected long-term rate of return for the plan's 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 14 for fair value hierarchy).

The following tables present the balances of the plan assets, by fair value, as of December 31, 2020 and 2019:

December 31, 2020	Fair Value Measurement Using Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 54,699	$ -	$ -	$ 54,699
Fixed income mutual funds	2,950,435	-	-	2,950,435
Common/collective trusts	-	402,052	-	402,052
Equity mutual funds	3,274,289	-	-	3,274,289
Totals	$ 6,279,423	$ 402,052	$ -	$ 6,681,475

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. EMPLOYEE BENEFIT PLANS (continued)

December 31, 2019	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 43,272	$ -	$ -	$ 43,272
Fixed income mutual funds	2,945,644	-	-	2,945,644
Common/collective trusts	-	350,167	-	350,167
Equity mutual funds	2,541,424	-	-	2,541,424
Totals	$ 5,530,340	$ 350,167	$ -	$ 5,880,507

NOTE 10. 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 as discussed in Notes 4, 6 and 7. In the opinion of management, such transactions are consistent with prudent banking practices and are within applicable banking regulations.

NOTE 11. 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.

A summary of the notional amounts of the financial instruments with off-balance sheet risk at December 31, 2020 and 2019 is as follows:

Contract Amount	2020	2019
Commitments to extend credit	$ 14,715,345	$ 12,156,365
Commercial and standby letters of credit	39,000	33,000
Totals	$ 14,754,345	$ 12,189,365

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.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. COMMITMENTS AND CONTINGENCIES (continued)

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 12. CONCENTRATION 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. Investments in state and municipal securities and loans to governmental entities are within the Bank's home state. The concentrations of credit by type of loan are set forth in Note 4. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers.

NOTE 13. REGULATORY MATTERS

Putnam Bancshares, Inc.'s principal source of funds for future dividend payments to shareholders 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, 2020, that the Bank could declare without the approval of the West Virginia Division of Financial Institutions and the Federal Reserve Board amounted to approximately $5,440,000.

The Bank is also subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet the minimum capital requirements can initiate certain actions by regulators that, if undertaken, could have a material effect on the Bank and the consolidated financial statements. Capital adequacy guidelines require minimum ratios of 6% 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 8%, 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, 2020 and 2019, 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. As of December 31, 2020, 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.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. REGULATORY MATTERS (continued)

The Bank's actual ratios as well as a comparison of the period-end capital balances with the related amounts established by the regulatory agencies are as follows:

		Capital amounts		
	Ratios	Actual	Minimum	Well capitalized
December 31, 2020				
Total risk-based capital				
(to risk-weighted assets)	34.42%	$ 98,058,000	$ 22,788,000	$ 28,485,000
Tier 1 capital				
(to risk-weighted assets)	33.16%	94,452,000	17,091,000	22,788,000
Tier 1 leverage capital				
(to adjusted average assets)	14.88%	94,452,000	25,396,000	31,745,000
December 31, 2019				
Total risk-based capital				
(to risk-weighted assets)	33.49%	$ 96,573,000	$ 23,067,000	$ 28,833,000
Tier 1 capital				
(to risk-weighted assets)	32.24%	92,953,000	17,300,000	23,067,000
Tier 1 leverage capital				
(to adjusted average assets)	15.77%	92,953,000	23,584,000	29,481,000

NOTE 14. FAIR VALUES OF FINANCIAL INSTRUMENTS

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.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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, 2020, are determined by sales agreements or appraisals, and costs to sell are based on estimation per the terms and conditions of the sales agreements or amounts commonly used in real estate transactions. Inputs include appraisal values on the properties or recent sales activity for similar assets in the property's market, and thus OREO measured at fair value would be classified within Level 2 of the hierarchy.

Assets at Fair Value on a Recurring Basis

	Fair Value Measurement Using			
December 31, 2020	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
U.S. Government treasuries	$ -	$ 5,000,390	$ -	$ 5,000,390
U.S. Government agencies	-	45,906,810	-	45,906,810
Municipal bonds	-	2,838,871	-	2,838,871
Totals	$ -	$ 53,746,071	$ -	$ 53,746,071
Equity securities				
Mutual funds	$ 1,498,849	$ -	$ -	$ 1,498,849

	Fair Value Measurement Using			
December 31, 2019	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
U.S. Government treasuries	$ -	$ -	$ -	$ -
U.S. Government agencies	-	40,418,036	-	40,418,036
Municipal bonds	-	2,880,925	-	2,880,925
Totals	$ -	$ 43,298,961	$ -	$ 43,298,961
Equity securities				
Mutual funds	$ 1,467,076	$ -	$ -	$ 1,467,076

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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, 2020 and 2019:

	Fair Value Measurement Using			
December 31, 2020	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ 24,501,497	$ -	$ 24,501,497
OREO	$ -	$ 74,045	$ -	$ 74,045

	Fair Value Measurement Using			
December 31, 2019	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ 19,888,775	$ -	$ 19,888,775
OREO	$ -	$ 15,000	$ -	$ 15,000

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, 2020.

NOTE 15. REVENUE FROM CONTRACTS WITH CUSTOMERS

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligation, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

The following is a description of the Company's revenue streams accounted for under ASC 606:

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance. For the years ended December 31, 2020 and 2019, service charges and fees on deposit accounts was $91,374 and $113,649, respectively.

Interchange Income: Interchange income represents fees earned when a debit card issued by the Company is used. The Company earns interchange fees from debit cardholder transactions through a payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income. For the years ended December 31, 2020 and 2019, interchange income was $344,437 and $334,247, respectively.

Gains/Losses on Sales of OREO: Gains and losses on the sale of OREO are included in non-interest expense. The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. For the years ended December 31, 2020 and 2019, the net gain (loss) on the sale of OREO was ($9,891) and ($613,821), respectively.

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. PARENT COMPANY FINANCIAL INFORMATION

Condensed financial information of Putnam Bancshares, Inc. (Parent Company) is presented below.

BALANCE SHEETS	December 31, 2020	December 31, 2019
ASSETS		
Cash	$ 150,932	$ 156,942
Investment in Putnam County Bank	91,792,901	90,175,324
Investment in Putnam County Title Insurance Agency	(4,492)	(2,815)
TOTAL ASSETS	$ 91,939,341	$ 90,329,451
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ -	$ -
Income taxes payable	-	-
TOTAL LIABILITIES	-	-
STOCKHOLDERS' EQUITY	91,939,341	90,329,451
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 91,939,341	$ 90,329,451

STATEMENTS OF INCOME	Years Ended 2020	Years Ended 2019
INCOME	$ 3,323,438	$ 1,800,000
EXPENSES:		
Operating expenses	6,010	10,479
Income before income tax benefit and equity in undistributed earnings of subsidiaries	3,317,428	1,789,521
Applicable income taxes	-	-
Income before equity in undistributed earnings of subsidiaries	3,317,428	1,789,521
Equity in undistributed earnings of subsidiaries	19,193	2,848,462
Net income	$ 3,336,621	$ 4,637,983

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. PARENT COMPANY FINANCIAL INFORMATION (continued)

STATEMENTS OF CASH FLOWS	Years Ended	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,336,621	$ 4,637,983
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(19,193)	(2,848,462)
Increase/(decrease) in accounts payable	-	-
Increase/(decrease) in income taxes payable	-	5,663
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,317,428	1,795,184
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(3,323,438)	(1,800,000)
NET CASH USED IN FINANCING ACTIVITIES	(3,323,438)	(1,800,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(6,010)	(4,816)
CASH AND CASH EQUIVALENTS, BEGINNING	156,942	161,758
CASH AND CASH EQUIVALENTS, ENDING	$ 150,932	$ 156,942

OFFICERS AND EMPLOYEES

Jack Wilson
Chair of the Board of Directors

John R. Wilson, Jr.
President/ CEO

Allison W. Jones
Executive Vice President

Matthew B. Call
Vice President/Chief Loan Officer

Michelle M. Daugherty
Vice President/
Chief Credit Officer

Greg M. Mick
Vice President/
Chief Operations Officer

Phillip J. Ball
Vice President/
Chief Financial Officer

Leigh A. Shirkey
Senior Auditor/
Compliance Officer

Phyllis J. Canterbury
Assistant Vice President

A. Kaye Turley
Deposit Operations Manager

Don C. Chapman
Bank Secrecy Officer

William T. Capehart
Information Technology Manager

Claudia S. Leadman
Loan Operations Manager

Whitney B. Harris
HMDA / CRA Officer

Beth J. Carnefix
Branch Manager

Gary L. Fletcher
Branch Manager

Thomas P. Schmader, IV
Commercial Loan Officer

Katie M. Allen
Consumer Loan Officer

Danny G. Morris
Consumer Loan Officer

Margie M. White
Consumer Loan Officer

Cory B. Kidder
Commercial Loan Officer

Rebecca L. Foster
Vault Manager

Tina M. Leadmon
Paying and Receiving

Denise D. Edwards
Accounting

Teresa K. White
Paying and Receiving

Rhonda L. Fairchild
Electronic Banking

Penny L. Collier
Proof Operations

Deborah R. Milton
Loan Operations

Donna J. Stowers
Paying and Receiving

Tammy J. Sovine
Data Process Verification

Tina M. Ellison
Bank Secrecy Assistant

Kelly L. Shaw
Paying and Receiving

Joy M. Persinger
Paying and Receiving

Betty J. Morris
Paying and Receiving

OFFICERS AND EMPLOYEES

Suzanne A. Craigo
Proof Operations

Kera D. Taylor
Audit Clerk

Cheryl L. Halstead
Paying and Receiving

Bryan J. McCallister
Research and Records

Retha A. Lemon
Paying and Receiving

Cathy M. Lippert
Loan Operations

Darlena F. Meadows
Bookkeeping

Jill R. Rice
Paying and Receiving

Jonathan S. Fisher, II
Credit Analyst

James S. Coniff
Evaluations / Appraisal Review

Janet F. Benjamin
Paying and Receiving

Mary B. Jordan
Bookkeeping Manager

Elizabeth H. Handley
Paying and Receiving

Bruce A. Scarberry
Building Maintenance

Patricia J. Thomasson
Accounting Clerk

Devyn L. Smith
Loan Operations

Ashley R. Fain
Bookkeeping

Michelle R. Jividen
Paying and Receiving

Shanna N. Wickline
Loan Operations

Ryan W. Ramey
Commercial Loan Administrator

Clayton E. Willis
Construction Loan Manager

D. Eric Hayslett
Special Assets Manager

Charles H. Peak III
Credit Administrator

Amanda G. Henderson
Paying and Receiving

Dawn R. Morgan
Paying and Receiving

Anndrea D. Spangler
Paying and Receiving

Ryan L. Eary
Paying and Receiving

Penny L. McKinley
Loan Receptionist

Lacey G. Gillespie
Credit Analyst

Sheila M. Young
Loan Operations

Joseph E. Henson
Bookkeeping

Sarah E. Shirkey
Electronic Banking

Michelle L. Vance
Bookkeeping

Alexander F. Bock
Credit Analyst

BOARD OF DIRECTORS

TIM HAYSLETT
Hayslett Construction Company

STEPHEN HODGES, JR.
Stephen Hodges Home Builders, Inc.

ROGER K. RANDOLPH
Randolph Engineering Company, Inc.

GARY D. YOUNG
G & G Builders, Inc.

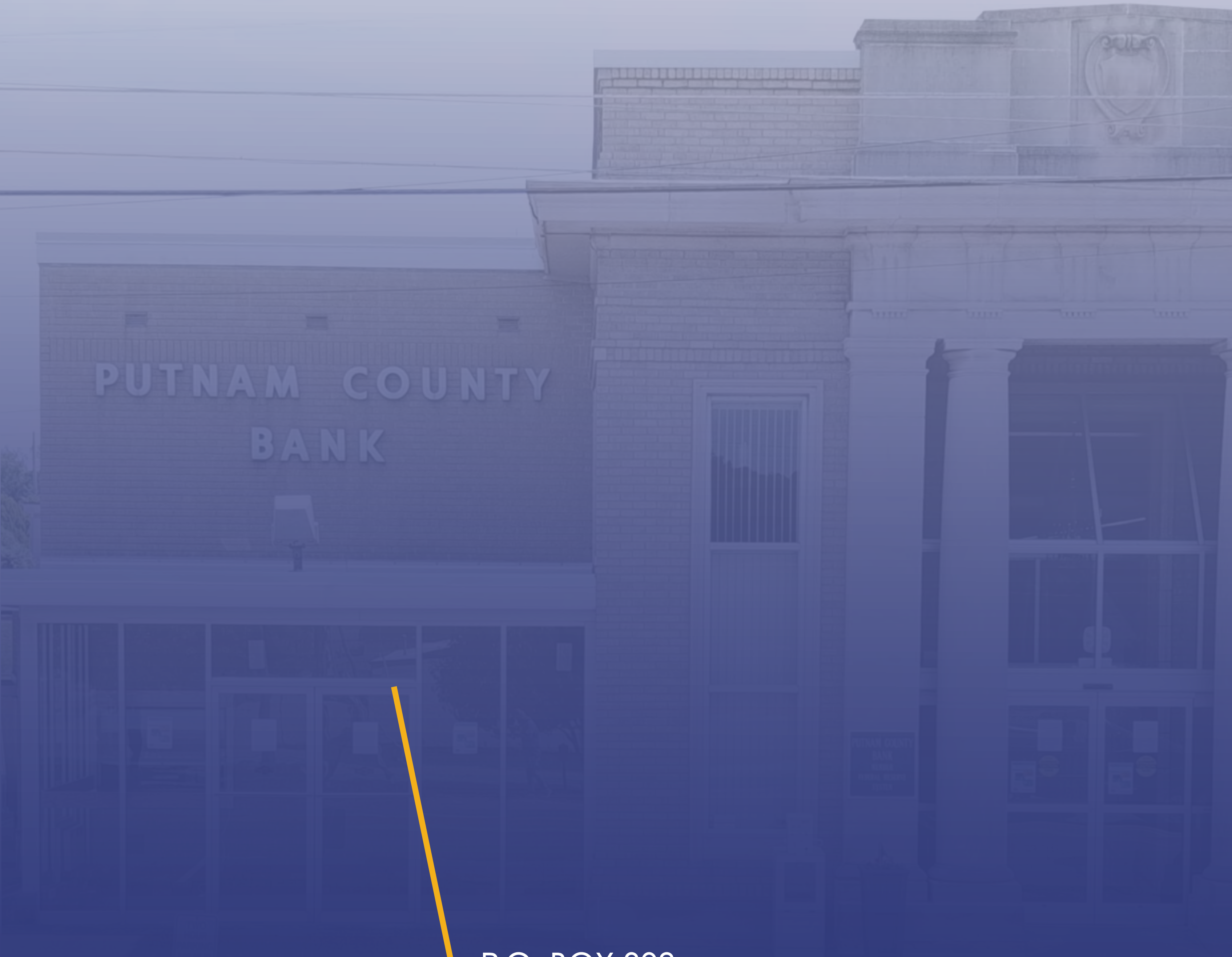
JACK WILSON
Chair of the Board of Directors

JOHN R. WILSON, JR.
President / Chief Executive Officer

ALLISON W. JONES
Executive Vice President

GLEN YEAGER
Yeager Land, LLC

ROGER HAYSLETT
Hayslett Construction Company



P.O. BOX 308
HURRICANE, WV 25526

PHONE: 304.562.9931
FAX: 304.562.2642

WWW.PUTCOBK.COM

MEMBER FDIC

pcb
PutnamCountyBank