2018 Annual Report

Contents

Letter to Shareholders

pcb PutnamCountyBank

The following is the financial results of Putnam Bancshares, Inc. and its wholly-owned subsidiary, Putnam County Bank, for 2018.

The Bank's earnings declined slightly in 2018 with net earnings of $1.0 million compared with $1.1 million in 2017. Loan loss provisions totaling $5.8 million were recognized due to elevated nonperforming loans.

The Company has been impacted by an increased level of nonperforming loans. This has been caused by several situations including a softening of the local real estate market and related bankruptcies of our borrowers. Management has worked diligently to address the increased level of nonperforming loans.

Net loans were $343 million at the end of 2018, a decline of $47 million. This decline suggests a tightening in the local economy and growing competition for loans. We continue to provide local decisions for our customer base and efficient turnaround.

The Company's capital base was $87.3 million in 2018. The Company's capital base continues to show considerable strength.

During 2018, West Virginia had a net gain in jobs of over 4,300 and the unemployment rate improved from 5.40% to 5.10%. Putnam County's unemployment rate ended the year of 2018 slightly better than the State at 4.60%. Although the coal industry accounted for a large number of job declines in recent years the industry has shown signs of improvement lately. The demand for natural gas has continued to increase, which has benefited the State.

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

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

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

J. R. Wilson
Chairman of the Board

John R. Wilson, Jr.
President

Selected Finanacial Summary
In Thousands of Dollars

	2018	2017	2016	2015
YEAR-END BALANCE SHEET SUMMARY				
Loans, Net	342,749	390,403	435,870	433,200
Investment Securities	166,992	156,353	118,143	122,151
Total Assets	588,200	621,158	651,874	638,294
Deposits	495,846	528,317	557,788	547,616
Shareholders' Equity	87,336	88,042	88,930	86,114
AVERAGE BALANCE SHEET SUMMARY				
Loans, Net	359,979	417,194	439,966	421,063
Investment Securities	160,434	126,659	125,063	120,114
Total Assets	609,701	654,984	649,941	634,448
Deposits	518,149	558,769	556,263	544,681
Shareholders' Equity	86,674	90,938	88,193	84,328
SELECTED RATIOS				
Return On Average Assets	0.17%	0.17%	0.69%	1.11%
Return On Average Equity	1.16%	1.26%	5.09%	8.36%
Dividends Declared As a Percentage Of Net Income	172.92%	151.97%	37.42%	22.98%
SUMMARY OF OPERATIONS				
Interest Income	22,616	23,924	24,928	23,882
Interest Expense	4,675	4,711	4,848	4,428
Net Interest Income	17,941	19,213	20,080	19,454
Provision for Loan Losses	5,807	6,032	4,831	200
Noninterest Income	129	628	630	710
Noninterest Expense	10,965	9,978	8,971	8,546
Net Income	1,006	1,145	4,489	7,048
PER SHARE DATA				
Net Income	1.68	1.91	7.48	11.75
Cash Dividends	2.90	2.90	2.80	2.70
Book Value	145.56	146.74	148.22	143.52

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

	2018			2017		
ASSETS	**Avg. Balance**	**Interest**	**Yield/Rate**	**Avg. Balance**	**Interest**	**Yield/Rate**
Loans						
Commercial	26,354	1,682	6.38%	43,120	2,234	5.18%
Real Estate	332,974	16,264	4.88%	373,901	18,815	5.03%
Consumer(2)	6,795	523	7.70%	6,967	521	7.48%
Total Loans (1)	366,123	18,469	5.04%	423,988	21,570	5.09%
Securities (3)						
Taxable	156,585	2,923	1.87%	122,495	1,576	1.29%
Tax-Exempt (4)	2,815	110	3.91%	2,695	116	4.32%
Mutual Funds	1,500	33	2.20%	1,256	29	2.35%
Total Securities	160,900	3,066	1.91%	126,446	1,722	1.36%
Interest Bearing Deposit in Banks	10,514	86	0.82%	10,460	86	0.82%
Federal Funds Sold	64,964	546	0.84%	83,953	546	0.65%
Total Earning Assets	602,501	22,167	3.68%	644,847	23,924	3.71%
Cash and Due from Banks	5,052			6,539		
Premises and Equipment, Net	612			549		
Other Assets	7,680			9,843		
Allowance for Loan Losses	(6,144)			(6,794)		
Total Assets(5)	609,701			654,984		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest Bearing Deposits						
Super NOW and MMDA	123,398	247	0.20%	124,555	249	0.20%
Savings	31,791	47	0.15%	29,466	44	0.15%
Time	298,287	4,381	1.47%	338,844	4,418	1.30%
Total Interest Bearing Deposits	453,476	4,675	1.03%	492,866	4,711	0.96%
Long-Term Borrowings	0	0	0.00%	0	0	0.00%
Total Interest Bearing Liabilities	453,476	4,675	1.03%	492,866	4,711	0.96%
Noninterest Bearing Deposits	64,672			65,903		
Accrued Expenses and Other Liabilities	4,878			4,860		
Equity	86,674			90,938		
Total Liabilities and Equity	609,701			654,567		
Net Interest Margin	602,501	17,491	2.90%	644,847	19,213	2.98%

(1) Includes loans on nonaccrual status.

(2) Net of unearned interest.

(3) Represents amortized value.

(4) Tax-exempt income converted to a fully tax-equivalent basis assuming a federal tax of 21% and a state tax of 6.25%

(5) Net of SFAS 107 Market Value.

Rate Sensitivity Analysis As of December 31, 2018

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)	28,971	16,105	38,509	55,422	165,901	26,736
Investment Securities (2)	62,322	90,603	4,934	4,967	0	2,741
Federal Funds Sold	56,318	0	0	0	0	0
Total Selected Assets	147,612	106,708	43,443	60,390	165,901	29,477
LIABILITIES						
Interest Bearing Deposits (3)	116,755	91,035	63,449	11,469	0	0
Borrowed Funds	0	0	0	0	0	0
Total Selected Liabilities	116,755	91,035	63,449	11,469	0	0
Differences	30,857	15,672	(20,006)	48,921	165,901	29,477
Cumulative Differences	30,857	46,529	26,522	75,443	241,344	270,821

(1) Does not include loans on nonaccrual status.

(2) Does not include Federal Reserve Stock or securities on nonaccrual status. Reported HTM securites at amortized cost and AFS securites at fair value.

(3) Does not include Super NOW, Money Market Deposit Accounts or traditional savings deposits.

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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, 2018 and 2017, 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, 2018 and 2017, 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 18, 2019

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

ASSETS	2018	2017
Cash and due from banks	$ 15,822,270	$ 19,139,217
Federal funds sold	56,318,480	47,600,000
Cash and cash equivalents	72,140,750	66,739,217
Investment securities available-for-sale, at fair value	29,122,929	64,811,453
Investment securities held-to-maturity, at amortized cost	137,869,021	91,541,459
Federal Reserve Bank stock, at cost	39,000	39,000
Loans	348,014,621	396,214,375
Allowance for loan losses	(5,265,757)	(5,811,612)
Net loans	342,748,864	390,402,763
Bank premises and equipment, net	608,009	580,239
Other real estate owned	1,009,663	1,738,269
Accrued interest receivable	1,018,672	1,429,607
Other assets	3,643,034	3,876,333
TOTAL ASSETS	$ 588,199,942	$ 621,158,340
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 62,852,494	$ 67,069,056
Interest-bearing	432,993,721	461,248,124
Total deposits	495,846,215	528,317,180
Accrued interest payable	1,245,816	1,055,710
Other liabilities	3,772,055	3,743,248
TOTAL LIABILITIES	500,864,086	533,116,138
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	88,926,682	89,660,461
Accumulated other comprehensive income	(2,890,826)	(2,918,259)
TOTAL STOCKHOLDERS' EQUITY	87,335,856	88,042,202
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 588,199,942	$ 621,158,340

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

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
INTEREST INCOME		
Interest and fees on loans	$ 18,470,589	$ 21,570,419
Interest and dividends on investment securities:		
Available-for-sale	985,736	1,136,125
Held-to-maturity	2,080,248	583,397
Federal Reserve Bank	151,335	88,385
Interest on federal funds sold	928,449	545,511
Total interest income	22,616,357	23,923,837
INTEREST EXPENSE		
Interest on deposits	4,675,422	4,711,200
NET INTEREST INCOME	17,940,935	19,212,637
PROVISION FOR LOAN LOSSES	5,807,258	6,031,602
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	12,133,677	13,181,035
NONINTEREST INCOME		
Service fees	412,739	397,336
Securities gains (losses)	(338,145)	-
Rental income	51,348	214,592
Other income	3,465	15,582
Total noninterest income	129,407	627,510
NONINTEREST EXPENSES		
Salaries and employee benefits	5,999,653	5,957,449
Equipment and occupancy expenses	471,475	437,727
Data processing	1,104,291	1,067,302
Insurance	244,706	437,718
Professional fees	869,606	674,994
Other real estate operational losses	928,333	232,408
Other expenses	1,347,206	1,170,080
Total noninterest expenses	10,965,270	9,977,678
INCOME BEFORE INCOME TAX	1,297,814	3,830,867
INCOME TAX EXPENSE	291,593	2,685,165
NET INCOME	$ 1,006,221	$ 1,145,702

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

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Net income	$ 1,006,221	$ 1,145,702
Other comprehensive income:		
Unrealized (losses) gains on available-for-sale securities, net of income taxes of $125,045 in 2018 and $73,338 in 2017	(392,525)	(230,214)
Reclassification adjustment for (gains) losses realized, net of income taxes (benefit) of $(81,696) in 2018 and $0 in 2017	256,449	-
Change in underfunded pension liability, net of income taxes (benefit) of $52,088 in 2018 and $(20,313) in 2017	163,509	(63,762)
Other comprehensive income, net of tax	27,433	(293,976)
Comprehensive income	$ 1,033,654	$ 851,726

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
BALANCE, December 31, 2016	$ 300,000	$ 1,000,000	$ 90,254,759	$ (2,624,283)	$ 88,930,476
Net income	-	-	1,145,702	-	1,145,702
Other comprehensive income	-	-	-	(293,976)	(293,976)
Dividends, $2.90 per share	-	-	(1,740,000)	-	(1,740,000)
BALANCE, December 31, 2017	300,000	1,000,000	89,660,461	(2,918,259)	88,042,202
Net income	-	-	1,006,221	-	1,006,221
Other comprehensive income	-	-	-	27,433	27,433
Dividends, $2.90 per share	-	-	(1,740,000)	-	(1,740,000)
BALANCE, December 31, 2018	$ 300,000	$ 1,000,000	$ 88,926,682	$ (2,890,826)	$ 87,335,856

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,006,221	$ 1,145,702
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	126,687	105,969
Deferred income taxes (benefits)	60,467	1,398,783
Provision for loan losses	5,807,258	6,031,602
Equity in earnings of unconsolidated subsidiary, net of distributions	16,600	267
Net premium amortization on investment securities	(2,186,387)	(182,946)
Gain on sale of bank premises and equipment	(13,711)	-
Gain on sale of securities	338,145	-
Loss on sale of OREO	686,961	100,239
Change in carrying value in OREO	204,823	-
(Increase) decrease in:		
Interest receivable	410,935	308,217
Other assets	147,493	(644,340)
Increase (decrease) in:		
Interest payable	190,106	(141,482)
Other liabilities	244,404	(298,509)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	7,040,002	7,823,502
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of available-for-sale securities	35,277,093	16,315,000
Purchases of available-for-sale securities	-	(11,604,938)
Proceeds from maturities of held-to-maturity securities	212,000,000	103,000,000
Purchases of held-to-maturity securities	(256,247,314)	(146,074,742)
Proceeds from sale of equipment	58,000	-
Purchases of bank premises and equipment	(198,746)	(119,007)
Proceeds from sale of other real estate owned	4,550,610	3,872,154
Purchases of other real estate owned	(58,249)	(138,720)
Net (increase) decrease in loans	37,191,102	37,777,430
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	32,572,496	3,027,177

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits	$ (6,998,435)	$ 13,143,053
Net increase (decrease) in time deposits	(25,472,530)	(42,614,220)
Cash dividends paid	(1,740,000)	(1,740,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(34,210,965)	(31,211,167)
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,401,533	(20,360,488)
CASH AND CASH EQUIVALENTS, BEGINNING	66,739,217	87,099,705
CASH AND CASH EQUIVALENTS, ENDING	$ 72,140,750	$ 66,739,217
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest on deposits and borrowings	$ 4,485,316	$ 4,852,682
Cash paid for income taxes	$ -	$ 2,432,806
SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES		
Loans transferred to foreclosed properties	$ 4,655,539	$ 1,658,387

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

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

Any security that has experienced a decline in value, which management 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 15 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 unearned discount and 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.

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.

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

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

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

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.

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

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

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 $140,063 and $115,307 for the years ended December 31, 2018 and 2017, 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.

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.

	2018	2017
Net income	$ 1,006,221	$ 1,145,702
Earnings per common share	$ 1.68	$ 1.91
Divdends paid per common share	$ 2.90	$ 2.90

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 18, 2019, the date which the financial statements were available to be issued.

Recent accounting pronouncements: The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting and/or disclosure of financial information by the Company.

In July 2018, the FASB issued Accounting Standards Update 2018-11, Leases – Targeted Improvements. The amendments in this Update provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption consistent with preparers' requests. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP (Topic 840, Leases). An entity that elects this additional (and optional) transition method must provide the required Topic 840 disclosures for all periods that continue to be in accordance with Topic 840. The amendments do not change the existing disclosure requirements in Topic 840 (for example, they do not create interim disclosure requirements that entities previously were not required to provide).

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

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, 2018 and 2017 was $8,015,000 and $8,276,000, respectively. At December 31, 2018 and 2017, the Bank had accounts at correspondent banks, excluding the Federal Reserve Bank, which exceeded the FDIC insurable limit of $250,000 by $1,492,797 and $3,010,008, respectively.

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

NOTE 3. SECURITIES

The amortized gains, unrealized losses and estimated fair values of securities at December 31, 2018 and 2017, are as follows:

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government treasuries	$ 4,999,269	$ -	$ (13,329)	$ 4,985,940
U.S. Government agencies	20,116,204	-	(144,304)	19,971,900
Municipal bonds	2,815,327	15,597	(90,087)	2,740,837
Mutual funds	1,500,000	-	(75,748)	1,424,252
Total available-for-sale	$ 29,430,800	$ 15,597	$ (323,468)	$ 29,122,929
Held-to-maturity:				
U.S. Government treasuries	$ 137,869,021	$ 9,868	$ (53,414)	$ 137,825,475

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government treasuries	$ 10,095,206	$ -	$ (54,386)	$ 10,040,820
U.S. Government agencies	50,529,588	5,784	(95,781)	50,439,591
Municipal bonds	2,815,105	59,913	-	2,875,018
Mutual funds	1,500,000	-	(43,976)	1,456,024
Total available-for-sale	$ 64,939,899	$ 65,697	$ (194,143)	$ 64,811,453
Held-to-maturity:				
U.S. Government treasuries	$ 91,541,459	$ 589	$ (64,259)	$ 91,477,789

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

	2018	2017
Proceeds from maturities, sales and calls	$ 14,985,430	$ 1,308,275
Gross realized gains	$ -	$ -
Gross realized losses	$ 338,145	$ -

The scheduled maturities of securities at December 31, 2018, 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	Fair Value
Due within one year	$ 15,104,150	$ 15,056,225	$ 137,869,021	$ 137,825,475
Due after one year through five years	10,011,323	9,901,615	-	-
Due after five years through ten years	-	-	-	-
Due after ten years	4,315,327	4,165,089	-	-
Totals	$ 29,430,800	$ 29,122,929	$ 137,869,021	$ 137,825,475

At December 31, 2018 and 2017, the carrying value of securities pledged to secure public funds totaled $76,650,000 and $76,650,000, respectively. At December 31, 2018 and 2017, the estimated fair values totaled $76,039,569 and $76,999,077, 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, 2018 and 2017.

The Bank had 9 available-for-sale securities and 28 held-to-maturity securities with an unrealized loss position at December 31, 2018. 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, 2018.

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, 2018						
Available-for-sale:						
U.S. Government treasuries	$ -	$ -	$ 4,985,940	$ (13,329)	$ 4,985,940	$ (13,329)
U.S. Government agencies	4,934,215	(30,329)	15,037,685	(113,975)	19,971,900	(144,304)
Municipal bonds	905,240	(90,087)	-	-	905,240	(90,087)
Mutual funds	-	-	1,424,252	(75,748)	1,424,252	(75,748)
Total available-for-sale	$ 5,839,455	$ (120,416)	$ 21,447,877	$ (203,052)	$ 27,287,332	$ (323,468)
Held-to-maturity:						
U.S. Government treasuries	$ 72,835,309	$ (53,414)	$ -	$ -	$ 72,835,309	$ (53,414)

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, 2017						
Available-for-sale:						
U.S. Government treasuries	$ 4,984,570	$ (12,502)	$ 5,056,250	$ (41,884)	$ 10,040,820	$ (54,386)
U.S. Government agencies	35,397,350	(95,782)	-	-	35,397,350	(95,782)
Municipal bonds	-	-	-	-	-	-
Mutual funds	494,836	(5,164)	961,189	(38,811)	1,456,025	(43,975)
Total available-for-sale	$ 40,876,756	$ (113,448)	$ 6,017,439	$ (80,695)	$ 46,894,195	$ (194,143)
Held-to-maturity:						
U.S. Government treasuries	$ 80,526,151	$ (64,259)	$ -	$ -	$ 80,526,151	$ (64,259)

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, 2018 and 2017. The balance for FRB stock at December 31, 2018 and 2017 totaled $39,000.

NOTE 4. LOANS

The following table summarizes the components of the Bank's loan portfolio as of December 31, 2018 and 2017:

	2018	2017
Loans		
Commercial	$ 95,745,975	$ 118,436,442
Real estate	212,337,449	221,689,185
Construction	24,299,855	40,346,721
Other	15,631,342	15,742,027
Gross loans	348,014,621	396,214,375
Less unearned interest on installment loans	-	-
Total loans	348,014,621	396,214,375
Less allowance for loan losses	(5,265,757)	(5,811,612)
Loans, net	$ 342,748,864	$ 390,402,763

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, 2018 and 2017:

	December 31, 2018						
	Past due						
Dollars in thousands	30-59 Days	60-89 Days	> 90 Days	Total	Current	Total loans	Recorded investment >90 days and accruing
Commercial	$ 25	$ -	$ 1,965	$ 1,990	$ 93,756	$ 95,746	$ -
Real estate	992	112	2,370	3,474	208,863	212,337	-
Construction	-	-	1,209	1,209	23,091	24,300	-
Other	6	7	-	13	15,618	15,631	-
Totals	$ 1,023	$ 119	$ 5,544	$ 6,686	$ 341,328	$ 348,014	$ -

	December 31, 2017						
	Past due						
Dollars in thousands	30-59 Days	60-89 Days	> 90 Days	Total	Current	Total loans	Recorded investment >90 days and accruing
Commercial	$ 2,473	$ 1,292	$ 7,267	$ 11,032	$ 107,404	$ 118,436	$ -
Real estate	2,183	2,726	4,759	9,668	212,021	221,689	49
Construction	2,901	683	5,795	9,379	30,968	40,347	-
Other	222	3	131	356	15,386	15,742	-
Totals	$ 7,779	$ 4,704	$ 17,952	$ 30,435	$ 365,779	$ 396,214	$ 49

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, 2018 and 2017, respectively.

	2018	2017
Commercial	$ 6,760,196	$ 11,479,048
Real estate	7,512,924	9,227,634
Construction	1,700,950	7,470,477
Other	26,442	184,748
Totals	$ 16,000,512	$ 28,361,907

If interest on non-accrual loans had been accrued, such income would have approximated $1,889,541 and $1,786,564 for the years December 31, 2018 and 2017, 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, 2018				
	Commercial	Real estate	Construction	Other	Total
Pass	$ 71,384,498	$ 197,709,414	$ 21,241,266	$ 12,096,978	$ 302,432,156
Special mention	8,853,570	1,392,107	197,096	3,215,149	13,657,922
Substandard	15,507,907	13,235,928	2,861,493	319,215	31,924,543
Doubtful	-	-	-	-	-
Totals	$ 95,745,975	$ 212,337,449	$ 24,299,855	$ 15,631,342	$ 348,014,621

	December 31, 2017				
	Commercial	Real estate	Construction	Other	Total
Pass	$ 61,883,920	$ 194,905,469	$ 27,903,808	$ 11,379,619	$ 296,072,816
Special mention	31,211,793	8,295,041	2,268,579	3,683,268	45,458,681
Substandard	25,340,729	18,488,675	10,174,334	679,140	54,682,878
Doubtful	-	-	-	-	-
Totals	$ 118,436,442	$ 221,689,185	$ 40,346,721	$ 15,742,027	$ 396,214,375

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 2018 and 2017:

	2018	2017
Balances - January 1,	$ 11,812,749	$ 12,174,003
New loans	1,353,213	456,848
Repayments	(1,305,239)	(818,102)
Balances - December 31,	$ 11,860,723	$ 11,812,749

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, 2018 and 2017:

	December 31, 2018		
	Unpaid principal balance	Related allowance	Interest income recognized
With a related allowance			
Commercial	$ 8,489,340	$ 391,755	$ 171,290
Real estate	8,662,124	1,343,538	87,880
Construction	1,446,218	131,467	-
Other	5,865	643	-
Totals	$ 18,603,547	$ 1,867,403	$ 259,170
With no related allowance			
Commercial	$ 2,991,869	$ -	$ 113,327
Real estate	705,716	-	1,198
Construction	326,707	-	17,684
Other	1,102	-	-
Totals	$ 4,025,394	$ -	$ 132,209
Total			
Commercial	$ 11,481,209	$ 391,755	$ 284,617
Real estate	9,367,840	1,343,538	89,078
Construction	1,772,925	131,467	17,684
Other	6,967	643	-
Totals	$ 22,628,941	$ 1,867,403	$ 391,379

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

NOTE 4. LOANS (continued)

	December 31, 2017		
	Unpaid principal balance	Related allowance	Interest income recognized
With a related allowance			
Commercial	$ 4,792,174	$ 1,843,801	$ 370,297
Real estate	5,632,570	673,865	236,500
Construction	10,054	10,054	887
Other	-	-	-
Totals	$ 10,434,798	$ 2,527,720	$ 607,684
With no related allowance			
Commercial	$ 12,481,969	$ -	$ 728,665
Real estate	23,902,457	-	1,013,970
Construction	725,985	-	54,542
Other	28,303	-	1,122
Totals	$ 37,138,714	$ -	$ 1,798,299
Total			
Commercial	$ 17,274,143	$ 1,843,801	$ 1,098,962
Real estate	29,535,027	673,865	1,250,470
Construction	736,039	10,054	55,429
Other	28,303	-	1,122
Totals	$ 47,573,512	$ 2,527,720	$ 2,405,983

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, 2018 and 2017 is as follows:

2018	Commercial	Real estate	Construction	Other	Total
Allowance for loan loss					
Beginning balance	$ 3,733,625	$ 478,785	$ 1,580,529	$ 18,673	$ 5,811,612
Charge-offs	(5,327,285)	(203,851)	(2,681,021)	(178,459)	(8,390,616)
Recoveries	1,423,457	54,543	327,505	231,998	2,037,503
Provision	2,799,185	546,356	2,513,712	(51,995)	5,807,258
Ending balance	$ 2,628,982	$ 875,833	$ 1,740,725	$ 20,217	$ 5,265,757
Allowance related to:					
Loans individually evaluated for impairment	$ 391,755	$ 1,343,538	$ 131,467	$ 643	$ 1,867,403
Loans collectively evaluated for impairment	2,237,227	(467,705)	1,609,258	19,574	3,398,354
Totals	$ 2,628,982	$ 875,833	$ 1,740,725	$ 20,217	$ 5,265,757
Loans					
Loans individually evaluated for impairment	$ 11,481,209	$ 9,367,840	$ 1,772,925	$ 6,967	$ 22,628,941
Loans collectively evaluated for impairment	84,264,766	202,969,609	22,526,930	15,624,375	325,385,680
Totals	$ 95,745,975	$ 212,337,449	$ 24,299,855	$ 15,631,342	$ 348,014,621

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

NOTE 5. ALLOWANCE FOR LOAN LOSSES (continued)

2017	Commercial	Real estate	Construction	Other	Total
Allowance for loan loss					
Beginning balance	$ 5,420,770	$ 632,430	$ 1,143,250	$ 54,558	$ 7,251,008
Charge-offs	(3,564,797)	(631,315)	(3,135,115)	(505,770)	(7,836,997)
Recoveries	285,210	36,191	-	44,597	365,998
Provision	1,592,442	441,479	3,572,394	425,288	6,031,603
Ending balance	$ 3,733,625	$ 478,785	$ 1,580,529	$ 18,673	$ 5,811,612
Allowance related to:					
Loans individually evaluated for impairment	$ 1,843,801	$ 673,865	$ 10,054	$ -	$ 2,527,720
Loans collectively evaluated for impairment	1,889,824	(195,080)	1,570,475	18,673	3,283,892
Totals	$ 3,733,625	$ 478,785	$ 1,580,529	$ 18,673	$ 5,811,612
Loans					
Loans individually evaluated for impairment	$ 17,274,143	$ 29,535,027	$ 736,039	$ 28,303	$ 47,573,512
Loans collectively evaluated for impairment	101,162,299	192,154,158	39,610,682	15,713,724	348,640,863
Totals	$ 118,436,442	$ 221,689,185	$ 40,346,721	$ 15,742,027	$ 396,214,375

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, 2018 and 2017 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, 2018 and 2017:

2018	Number of contracts	Unpaid principal balance
Commercial	9	$ 6,510,203
Real estate	13	2,125,062
Construction	1	67,398
Other	-	-
Totals	23	$ 8,702,663

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

NOTE 5. ALLOWANCE FOR LOAN LOSSES (continued)

2017	Number of contracts	Unpaid principal balance
Commercial	7	$ 6,174,394
Real estate	13	2,315,780
Construction	-	-
Other	-	-
Totals	20	$ 8,490,174

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, 2018, there were two restructured commercial loans that subsequently defaulted resulting in principal charge-offs of $90,556. For the year ended December 31, 2017, there were three restructured mortgage loans that subsequently defaulted resulting in principal charge-offs of $29,300, and two restructured commercial loans that subsequently defaulted resulting in principal charge-offs of $56,000.

NOTE 6. BANK PREMISES AND EQUIPMENT

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

	2018	2017
Buildings and improvements	$ 1,869,786	$ 1,856,589
Furniture and fixtures	1,748,937	1,604,791
Vehicles	228,865	242,307
	3,847,588	3,703,687
Less: accumulated depreciation	(3,440,039)	(3,323,908)
	407,549	379,779
Land	200,460	200,460
Bank premises and equipment, net	$ 608,009	$ 580,239

Depreciation expense for the years ended December 31, 2018 and 2017, totaled $126,687 and $105,969, 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, 2018 and 2017, respectively. The minimum annual rental commitment under this lease, exclusive of taxes and other charges, payable by the lessee at December 31, 2018, is as follows:

Year	Amount
2019	$ 73,437
2020	73,437
2021	73,437
2022	67,317
2023 and thereafter	-
Total	$ 287,628

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, 2018 and 2017:

	2018	2017
Non-interest bearing	$ 62,852,494	$ 67,069,056
Interest bearing:		
Time deposits under $250,000	199,160,986	221,248,740
Time deposits greater than or equal to $250,000	83,541,162	86,925,938
Total time deposits	282,702,148	308,174,678
Money market	117,855,306	122,945,369
Savings	32,436,267	30,128,077
Total interest bearing deposits	432,993,721	461,248,124
Total deposits	$ 495,846,215	$ 528,317,180

Scheduled maturities of time and certificates of deposit at December 31, 2018, are as follows:

Year	Amount
2019	$ 157,094,693
2020	52,271,538
2021	11,177,801
2022 and thereafter	62,158,116
Total	$ 282,702,148

The Bank has, and expects to have in the future, banking transactions in the ordinary course of business with directors and officers of the Bank and their associates. Such related party deposits were accepted on substantially the same terms including interest rates and maturities as those prevailing at the time for comparable transactions with unrelated parties. Aggregate deposit transactions with related parties approximated $50,243,274 and $52,352,957 at December 31, 2018 and 2017, respectively.

NOTE 8. INCOME TAXES

The components of applicable income tax expense (benefit) for the years ended December 31, 2018 and 2017, are summarized as follows:

	2018	2017
Current expense:		
Federal	$ 205,654	$ 1,184,736
State	25,472	101,646
Total current	231,126	1,286,382
Deferred expense:		
Federal	50,420	1,399,640
State	10,047	(857)
Total deferred	60,467	1,398,783
Income tax expense	$ 291,593	$ 2,685,165

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, 2018 and 2017, are as follows:

	2018	2017
Deferred tax assets:		
Allowance for loan losses	$ 1,272,207	$ 1,404,085
Defined benefit plan	770,500	797,996
Nonaccrual interest	456,513	431,634
Unrealized loss on available-for-sale securities	74,381	31,033
OREO write-downs	49,485	-
Total deferred tax assets	2,623,086	2,664,748
Deferred tax liabilities:		
Depreciation and amortization	(27,500)	-
Total deferred tax liabilities	(27,500)	-
Net deferred tax assets	$ 2,595,586	$ 2,664,748

No valuation allowance for deferred tax assets was recorded at December 31, 2018 and 2017, 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. For the year ended December 31, 2017, the reduction in net deferred tax assets consists primarily of a $1.4 million non-cash charge due to the Company's corporate rate being reduced from 35% to 21% under the Tax Cuts and Jobs Act of 2017. Therefore, the deferred tax assets and liabilities were remeasured at the lower rate.

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

	2018	2017
Federal statutory rate	$ 272,541	$ 1,302,495
Increase (decrease) resulting from:		
State income tax, net of federal tax benefit	20,123	67,086
Tax exempt interest income	(18,493)	(33,312)
Nondeductible expense	4,516	7,870
Rate change for remeasured deferred tax assets	-	1,376,490
Other items, net	12,906	(35,464)
Income tax expense	$ 291,593	$ 2,685,165

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 $77,131 and $61,212 for the years ended December 31, 2018 and 2017, 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 2018 and 2017:

	2018	2017
Change in fair value of plan assets:		
Fair value at beginning of measurement period	$ 5,773,356	$ 5,383,586
Actual gain/(loss) on plan assets	(275,141)	628,071
Contributions	214,000	189,000
Benefits paid	(440,325)	(427,301)
Fair value at end of measurement periods	5,271,890	5,773,356
Change in benefit obligation:		
Benefit obligation at beginning of measurement period	(9,076,315)	(8,513,018)
Interest cost	(318,884)	(340,316)
Actuarial gain/(loss)	493,830	(650,282)
Benefits paid	440,325	427,301
Benefit obligation at end of measurement period	(8,461,044)	(9,076,315)
Funded status	$ (3,189,154)	$ (3,302,959)
Weighted-average assumptions for balance sheet liability at end of year:		
Discount rate	4.20%	3.60%
Expected long-term rate of return	7.00%	7.00%
Weighted-average assumptions for benefit cost at beginning of year:		
Discount rate	3.60%	4.10%
Expected long-term rate of return	7.00%	7.00%

The unfunded status of the plan as of December 31, 2018 is included within Other Liabilities on the Consolidated Balance Sheets. At December 31, 2018, Accumulated Other Comprehensive Income includes a balance of $2,657,337, 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:

	2018	2017
Components of net periodic benefit:		
Interest cost	$ 318,884	$ 340,316
Expected return on plan assets	(401,772)	(394,104)
Amortization of unrecognized (gain)/loss	398,680	332,240
Net periodic pension cost	$ 315,792	$ 278,452

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

NOTE 9. EMPLOYEE BENEFIT PLANS (continued)

The Bank anticipates making contributions of $209,919 to the plan for the year ending December 31, 2019. 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
2019	$ 452,091
2020	447,347
2021	445,521
2022	444,389
2023	472,913
2024 through 2028	2,386,987
Total	$ 4,649,248

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

Plan Assets	Target Allocation 2018	Allowable allocation range	Percentage of plan assets at December 31, 2018	December 31, 2017
Equities	50%	40-60%	45%	51%
Fixed income	50%	40-60%	54%	48%
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, 2018 and 2017:

December 31, 2018	Fair Value Measurement Using Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 37,256	$ -	$ -	$ 37,256
Fixed income mutual funds	2,870,317	-	-	2,870,317
Common/collective trusts	-	289,523	-	289,523
Equity mutual funds	2,074,794	-	-	2,074,794
Totals	$ 4,982,367	$ 289,523	$ -	$ 5,271,890

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

NOTE 9. EMPLOYEE BENEFIT PLANS (continued)

December 31, 2017	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 44,696	$ -	$ -	$ 44,696
Fixed income mutual funds	2,798,558	-	-	2,798,558
Common/collective trusts	-	305,993	-	305,993
Equity mutual funds	2,624,109	-	-	2,624,109
Totals	$ 5,467,363	$ 305,993	$ -	$ 5,773,356

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, 2018 and 2017 is as follows:

Contract Amount	2018	2017
Commitments to extend credit	$ 17,209,328	$ 17,511,601
Commercial and standby letters of credit	120,750	415,750
Totals	$ 17,330,078	$ 17,927,351

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, 2018, that the Bank could declare without the approval of the West Virginia Division of Financial Institutions and the Federal Reserve Board amounted to approximately $3,221,220.

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, 2018 and 2017, the Bank exceeded all capital adequacy requirements to which it is subject and had regulatory capital ratios in excess of the levels established for well capitalized institutions. Management believes, as of December 31, 2018 and 2017, that the Company and the Bank met all capital adequacy requirements to which they were subject. As of December 31, 2018, 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, 2018				
Total risk-based capital				
(to risk-weighted assets)	31.67%	$ 93,734,000	$ 23,676,000	$ 29,595,000
Tier 1 capital				
(to risk-weighted assets)	30.42%	90,016,000	17,757,000	23,676,000
Tier 1 leverage capital				
(to adjusted average assets)	15.15%	90,016,000	23,762,000	29,703,000
December 31, 2017				
Total risk-based capital				
(to risk-weighted assets)	27.06%	$ 94,579,000	$ 27,966,000	$ 34,958,000
Tier 1 capital				
(to risk-weighted assets)	25.80%	90,192,000	20,975,000	27,966,000
Tier 1 leverage capital				
(to adjusted average assets)	13.90%	90,192,000	25,948,000	32,435,000

NOTE 14. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

NOTE 14. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

The carrying values and estimated fair values of the Bank's financial instruments at December 31, 2018 and 2017, are summarized as follows:

	2018		2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 15,822,270	$ 15,822,270	$ 19,139,217	$ 19,139,217
Federal funds sold	56,318,480	56,318,480	47,600,000	47,600,000
Securities available-for-sale	29,122,929	29,122,929	64,811,453	64,811,453
Securities held-to-maturity	137,869,021	137,825,475	91,541,459	91,477,789
Loans	342,748,864	342,748,864	390,402,763	390,402,763
Accrued interest receivable	1,018,672	1,018,672	1,429,607	1,429,607
Totals	$ 582,900,236	$ 582,856,690	$ 614,924,499	$ 614,860,829
Financial liabilities:				
Deposits	$ 495,846,215	$ 495,846,215	$ 528,317,180	$ 528,317,180
Accrued interest payable	1,245,816	1,245,816	1,055,710	1,055,710
Totals	$ 497,092,031	$ 497,092,031	$ 529,372,890	$ 529,372,890

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, 2018, 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, 2018	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
U.S. Government treasuries	$ -	$ 4,985,940	$ -	$ 4,985,940
U.S. Government agencies	-	19,971,900	-	19,971,900
Municipal bonds	-	2,740,837	-	2,740,837
Mutual funds	1,424,252	-	-	1,424,252
Totals	$ 1,424,252	$ 27,698,677	$ -	$ 29,122,929

	Fair Value Measurement Using			
December 31, 2017	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
U.S. Government treasuries	$ -	$ 10,040,820	$ -	$ 10,040,820
U.S. Government agencies	-	50,439,591	-	50,439,591
Municipal bonds	-	2,875,018	-	2,875,018
Mutual funds	1,456,024	-	-	1,456,024
Totals	$ 1,456,024	$ 63,355,429	$ -	$ 64,811,453

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, 2018 and 2017:

	Fair Value Measurement Using			
December 31, 2018	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ 22,628,941	$ -	$ 22,628,941
OREO	$ -	$ 1,009,663	$ -	$ 1,009,663

	Fair Value Measurement Using			
December 31, 2017	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ 47,573,512	$ -	$ 47,573,512
OREO	$ -	$ 1,738,269	$ -	$ 1,738,269

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, 2018.

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

NOTE 15. PARENT COMPANY FINANCIAL INFORMATION

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

BALANCE SHEETS	December 31, 2018	December 31, 2017
ASSETS		
Cash	$ 161,758	$ 170,515
Investment in Putnam County Bank	87,176,181	87,863,408
Investment in Putnam County Title Insurance Agency	(7,746)	8,853
TOTAL ASSETS	$ 87,330,193	$ 88,042,776
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ -	$ -
Income taxes payable	(5,663)	574
TOTAL LIABILITIES	(5,663)	574
STOCKHOLDERS' EQUITY	87,335,856	88,042,202
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 87,330,193	$ 88,042,776

STATEMENTS OF INCOME	Years Ended 2018	Years Ended 2017
INCOME	$ 1,740,000	$ 1,750,200
EXPENSES:		
Operating expenses	8,183	8,329
Income before income tax benefit and equity in undistributed earnings of subsidiaries	1,731,817	1,741,871
Applicable income taxes	(5,663)	574
Income before equity in undistributed earnings of subsidiaries	1,737,480	1,741,297
Equity in undistributed earnings of subsidiaries	(731,259)	(595,595)
Net income	$ 1,006,221	$ 1,145,702

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

NOTE 15. PARENT COMPANY FINANCIAL INFORMATION (continued)

STATEMENTS OF CASH FLOWS	Years Ended 2018	Years Ended 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,006,221	$ 1,145,702
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	731,259	595,595
Increase/(decrease) in accounts payable	-	-
Increase/(decrease) in income taxes payable	(6,237)	574
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,731,243	1,741,871
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(1,740,000)	(1,740,000)
NET CASH USED IN FINANCING ACTIVITIES	(1,740,000)	(1,740,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(8,757)	1,871
CASH AND CASH EQUIVALENTS, BEGINNING	170,515	168,644
CASH AND CASH EQUIVALENTS, ENDING	$ 161,758	$ 170,515

Officers and Employees

Jack Wilson	Chairman of the Board of Directors
John R. Wilson, Jr.	President/Chief Executive Officer
Allison W. Jones	Executive Vice President
Matthew B. Call	Vice President/Chief Loan Officer - Commercial
Michelle M. Daugherty	Vice President/Chief Credit Officer
Greg M. Mick	Vice President/Chief Operations Officer
Phillip J. Ball	Vice President/Chief Financial Officer
Grace A. Duncan	Vice President /Chief Loan Officer - Consumer
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
Angela G. Melton	Branch Manager
Beth J. Carnefix	Branch Manager
Thomas P. Schmader, IV	Loan Officer
Katie M. Allen	Loan Officer
Danny G. Morris	Loan Officer
Rebecca L. Foster	Vault Manager
Tina M. Leadmon	Paying & Receiving
Denise D. Edwards	Accounting
Teresa K. White	Paying & Receiving
Rhonda L. Fairchild	Electronic Banking
Penny L. Collier	Proof Operations
Deborah R. Milton	Loan Receptionist
Donna J. Stowers	Paying & Receiving
Marsha D. Eggleton	Paying & Receiving
Tammy J. Sovine	Data Process Verification
Tina M. Ellison	Bank Secrecy Assistant
Kelly L. Shaw	Paying & Receiving
Joy M. Persinger	Paying & Receiving
Betty J. Morris	Paying & Receiving
Suzanne A. Craigo	Proof Operations
Margie M. White	Loan Operations

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Officers and Employees

Kera D. Taylor	Audit Clerk
Cheryl L. Halstead	Paying & Receiving
Bryan J. McCallister	Research and Records
Retha A. Lemon	Paying & Receiving
Cathy M. Lippert	Loan Operations
Amanda A. McCallister	Paying & Receiving
Darlena F. Meadows	Paying & Receiving
Jill R. Rice	Paying & Receiving
Ashley M. Johnson	Electronic Banking
Jonathan S. Fisher, II	Credit Analyst
Kelley A. Lanning	Loan Operations
James S. Coniff	Evaluations/Appraisal Review
Janet F. Benjamin	Paying & Receiving
Mary B. Jordan	Bookkeeping Manager
Elizabeth H. Handley	Paying & Receiving
Tamara L. Epperly	Bookkeeping
Bruce A. Scarberry	Building Maintenance
Patricia J. Thomasson	Accounting Clerk
Devyn L. Smith	Loan Operations
Ashley R. Fain	Paying & Receiving
Jarrett T. Hylton	Proof Operations
Michelle R. Jividen	Bookkeeping
Shanna N. McClure	Loan Operations
Ryan W. Ramey	Senior Credit Analyst
Cory B. Kidder	Portfolio Manager
Clayton E. Willis	Construction Loan Manager
Joshua L. O'Dell	Credit Analyst
D. Eric Hayslett	Collections Manager
Robert A. Hunt	Special Assets Manager
Charles H. Peak III	Credit Administrator
Amanda G. Henderson	Bookkeeping
Dawn R. Morgan	Paying & Receiving
Anndrea D. Spangler	Paying & Receiving
J. Brett Adkins	Bookkeeping
Ryan L. Eary	Paying & Receiving

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