



*A Tradition of Service and Commitment*



A subsidiary of Putnam Bancshares, Inc.

## Annual Meeting

The annual meeting of shareholders of  
Putnam Bancshares, Inc.

**Thursday, June 13, 2024 | 10:30 am**

Putnam County Bank  
Loan Center Boardroom  
300 Hurricane Creek Road  
Hurricane, West Virginia 25526

## Shareholder Services

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

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**4 Branches  
2 Loan Offices**



**Over \$161,000  
in donations  
given to the  
local  
community**



**Over  
\$186 million  
in mortgage  
loans not sold  
on the  
secondary  
market**

# LETTER TO SHAREHOLDERS

The following are the financial results of Putnam Bancshares, Inc. and its wholly-owned subsidiary, Putnam County Bank, for 2023.

The Company reported net income of \$4.5 million in 2023. This is in contrast with a net income of \$5.8 million in 2022. The increase in net earnings in 2022 was driven by the recognition of \$1.2 million from the Federal Employee Retention Tax Credit and \$1.4 million as a credit to the provision for loan losses. This adjustment to the provision was the result of a large loss recovery in 2022.

Income on earning assets and interest expense saw increases in 2023 as a result of increases in market interest rates.

During 2023, the Federal Reserve Open Market Committee increased its effective federal funds rate from 4.33% to 5.33% in December.

Gross loans rose to \$400 million at the end of 2023 from \$373 million at the end of 2022, which was an increase of \$27 million or 7%. Real estate secured lending led the increase with 1-4 family residential lending playing a significant role in the increase.

The Company's total capital \$71.9 million at the end of 2023 from \$89.5 million at the end of 2022. The leading reason for the decline was the Company's decision to purchase shares into Treasury Stock totaling \$23.7 million. Capital levels increased nearly \$3 million in 2023 from retained earnings \$3 million from other comprehensive income. The increase in comprehensive income is a result of investments which are shown at current market value. The Company's capital continues to be very strong by regulatory measures.

The Federal Reserve increased its target federal funds rate four times in 2023 with the last adjustment in July. The Federal Reserve has opted not to adjust rates further but chose to monitor the effects of rate increases on inflation. Market optimism in late 2023 brought about the notion that multiple rate decreases could begin in 2024. However, market indicators have proven inflation to be stubborn to decline. In response, the Federal Reserve has taken the approach of holding rates higher for longer. Statewide, the economy continues to see pockets of economic growth. In our area, Mason County is seeing significant growth from the construction of a new steel plant, NuCor. This has spurred an increase in residential real estate demand in Mason, Putnam and Cabell counties.

We are proud of all of our offices as they continue to effectively serve our customers in Hurricane, Scott Depot, Milton and Charleston.

We recognize two of our valued employees who retired in 2023. Donna Stowers retired in May with over 27 years of employment with the Bank. Retha Lemon officially retired in December having been employed with the Bank since 1986. Retha continues to work for the Bank in a part-time capacity. We thank both Donna and Retha for their dedicated service to their customers and the Bank and wish them both the very best.

Putnam County Bank will continue to serve its customers with the products and services they have come to expect. We continue to provide services that 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 that works hard every day to satisfy its customers. We expect to meet these challenges with a helpful and knowledgeable staff of professionals who provide services that are timely and meet customer expectations.

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



John R. Wilson, Jr.  
President and Chief Executive Officer

**We are proud of  
all of our offices as  
they continue to  
effectively serve  
our customers in  
Hurricane, Scott  
Depot, Milton and  
Charleston.**

# SELECTED FINANCIAL SUMMARY

IN THOUSANDS OF DOLLARS

		Four-Year Summary		
	2023	2022	2021	2020
<b>YEAR-END BALANCE SHEET SUMMARY</b>				
Loans, Net	395,147	368,600	312,239	317,357
Investment Securities	174,689	211,609	222,641	168,810
Total Assets	609,070	635,392	678,331	637,462
Deposits	525,921	541,598	580,699	538,870
Shareholders' Equity	71,897	89,549	92,544	91,939
<b>AVERAGE BALANCE SHEET SUMMARY</b>				
Loans, Net	383,536	339,987	309,481	330,668
Investment Securities	172,374	237,945	200,275	166,690
Total Assets	619,467	669,479	663,261	618,720
Deposits	538,662	575,109	564,185	519,586
Shareholders' Equity	74,836	89,482	92,723	91,884
<b>SELECTED RATIOS</b>				
Return On Average Assets	0.73%	0.88%	0.40%	0.54%
Return On Average Equity	6.02%	6.59%	2.87%	3.63%
Dividends Declared As a Percentage Of Net Income	34.01%	34.62%	74.31%	57.54%
<b>SUMMARY OF OPERATIONS</b>				
Interest Income	25,137	19,058	15,769	19,488
Interest Expense	8,568	2,634	3,123	5,140
Net Interest Income	16,569	16,424	12,645	14,348
Provision for Loan Losses	332	(1,423)	(1,088)	254
Noninterest Income	780	344	202	464
Noninterest Expense	11,286	10,875	10,409	10,172
Net Income	4,508	5,892	2,664	3,337
<b>PER SHARE DATA</b>				
Net Income	10.29	9.82	4.44	5.56
Cash Dividends	3.50	3.40	3.30	3.20
Book Value	164.15	149.25	154.24	153.23

# ANALYSIS OF EARNING ASSETS AND INTEREST BEARING LIABILITIES

IN THOUSANDS OF DOLLARS

ASSETS	2023			2022		
	Avg. Balance	Interest	Yield/Ratio	Avg. Balance	Interest	Yield/Ratio
Loans						
Commercial	13,777	1,005	7.29%	14,390	752	5.23%
Real Estate	370,718	16,886	4.55%	327,344	14,169	4.33%
Consumer	<u>3,797</u>	<u>279</u>	<u>7.35%</u>	<u>3,270</u>	<u>269</u>	<u>8.23%</u>
Total Loans (1)	388,292	18,170	4.68%	345,004	15,190	4.40%
Securities (2)						
Taxable	167,565	5,025	3.00%	232,487	3,297	1.42%
Tax-Exempt (3)	13,338	338	2.54%	9,987	243	2.43%
Mutual Funds	<u>1,500</u>	<u>33</u>	<u>2.17%</u>	<u>1,500</u>	<u>21</u>	<u>1.37%</u>
Total Securities	182,403	5,396	2.96%	243,974	3,560	1.46%
Interest Bearing Deposit in Banks	32,119	1,530	4.76%	18,828	301	1.60%
Federal Funds Sold	<u>7,474</u>	<u>34</u>	<u>0.46%</u>	<u>50,833</u>	<u>5</u>	<u>0.01%</u>
Total Earnings Assets	610,288	<u>25,129</u>	<u>4.12%</u>	658,639	<u>19,056</u>	<u>2.89%</u>
Cash and Due from Banks	12,419			12,073		
Premises and Equipment, Net	4,590			4,716		
Other Assets	(3,074)			(931)		
Allowance for Loan Losses	<u>(4,756)</u>			<u>(5,018)</u>		
<b>Total Assets (4)</b>	<b><u>619,467</u></b>			<b><u>669,479</u></b>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>Interest Bearing Deposit</b>						
Super NOW and Business	136,580	683	0.50%	168,826	263	0.16%
Savings	46,709	46	0.10%	48,857	37	0.08%
Time	<u>245,929</u>	<u>7,813</u>	<u>3.18%</u>	<u>239,286</u>	<u>2,334</u>	<u>0.98%</u>
<b>Total Interest Bearing Deposits</b>	<u>429,218</u>	<u>8,542</u>	<u>1.99%</u>	<u>456,968</u>	<u>2,634</u>	<u>0.58%</u>
Short-Term Borrowings	<u>452</u>	<u>26</u>	<u>5.75%</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>
<b>Total Interest Bearing Liabilities</b>	<u>429,670</u>	<u>8,568</u>	<u>1.99%</u>	<u>456,968</u>	<u>2,634</u>	<u>0.58%</u>
Noninterest Bearing Deposits	109,446			118,140		
Accrued Expenses and Other Liabilities	5,515			4,889		
Equity	<u>74,836</u>			<u>89,482</u>		
Total Liabilities and Equity	<u>619,467</u>			<u>669,479</u>		
Net Interest Margin	610,288	16,562	2.71%	658,639	16,422	2.49%

(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, 2023

IN THOUSANDS OF DOLLARS

	Three Months or Less	Three to Twelve Months	One to Three Years	Three to Five Years	Five to Fifteen Years	Over Fifteen Years
<b>REPRICING INTERVAL</b>						
<b>ASSETS</b>						
Total Loans (1)	13,959	16,269	54,741	110,083	167,611	33,201
Investment Securities (2)	26,418	32,514	34,268	9,700	26,188	44,295
Federal Funds Sold	<u>2,417</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Selected Assets	42,794	48,783	89,010	119,783	193,800	77,496
<b>LIABILITIES</b>						
Interest Bearing Deposits (3)	130,589	113,490	7,699	525	0	0
Borrowed Funds	<u>5,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Selected Liabilities	135,589	113,490	7,699	525	0	0
Differences	<u>(92,796)</u>	<u>(64,707)</u>	<u>81,311</u>	<u>119,258</u>	<u>193,800</u>	<u>77,496</u>
Cumulative Differences	<u>(92,796)</u>	<u>(157,503)</u>	<u>(76,192)</u>	<u>43,066</u>	<u>236,865</u>	<u>314,361</u>

(1) Does not include loans on nonaccrual status.

(2) Does not include Federal Reserve Stock or Federal Home Loan Bank Stock. Reported HTM securities at amortized cost and AFS securities at fair value.

(3) Does not include Super NOW 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

#### Opinion

We have audited the accompanying consolidated financial statements of Putnam Bancshares, Inc. and Subsidiaries (a West Virginia corporation), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Putnam Bancshares, Inc. and Subsidiary as of December 31, 2023 and 2022, 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.

#### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Putnam Bancshares, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Putnam Bancshares, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

# INDEPENDENT AUDITOR'S REPORT

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Putnam Bancshares, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Putnam Bancshares, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Huntington, West Virginia  
March 18, 2024

# CONSOLIDATED BALANCE SHEETS

YEARS ENDED DECEMBER 31, 2023 AND 2022

ASSETS	<u>2023</u>	<u>2022</u>
Cash and due from banks	\$ 25,047,929	\$ 26,126,277
Federal funds sold	2,417,000	17,000,000
Cash and cash equivalents	27,464,929	43,126,277
Investment debt securities available-for-sale, at fair value	129,882,809	143,048,221
Investment debt securities held-to-maturity, at amortized cost	43,500,952	67,273,444
Investment equity securities, at fair value	1,305,449	1,287,490
Restricted stock, at cost	652,900	39,000
Loans	400,177,985	373,085,247
Allowance for credit losses	(5,030,731)	(4,484,839)
Net loans	395,147,254	368,600,408
Bank premises and equipment, net	4,484,434	4,567,803
Accrued interest receivable	1,662,319	1,421,898
Other assets	4,969,160	6,027,693
<b>TOTAL ASSETS</b>	<b>\$ 609,070,206</b>	<b>\$ 635,392,234</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 106,225,853	\$ 111,850,514
Interest-bearing	419,695,502	429,747,271
Total deposits	525,921,355	541,597,785
Advances - Federal Home Loan Bank	5,000,000	-
Accrued interest payable	3,299,308	537,868
Other liabilities	2,952,896	3,707,735
<b>TOTAL LIABILITIES</b>	<b>537,173,559</b>	<b>545,843,388</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.50 par value, 1,200,000 shares authorized, 600,000 shares issued, 438,000 and 600,000 shares outstanding for 2023 and 2022, respectively	300,000	300,000
Additional paid-in capital	1,000,000	1,000,000
Retained earnings	100,693,065	97,718,172
Accumulated other comprehensive income	(6,428,218)	(9,469,326)
Treasury stock, at cost, 162,000 shares	(23,668,200)	-
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>71,896,647</b>	<b>89,548,846</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 609,070,206</b>	<b>\$ 635,392,234</b>

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

# CONSOLIDATED STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
INTEREST INCOME		
Interest and fees on loans	\$ 18,168,131	\$ 15,189,541
Interest and dividends on investment securities:		
Available-for-sale	3,377,665	2,410,191
Held-to-maturity	2,017,878	1,149,872
Federal Reserve Bank	1,538,962	303,035
Interest on federal funds sold	<u>34,112</u>	<u>5,107</u>
Total interest income	25,136,748	19,057,746
INTEREST EXPENSE		
Interest on deposits	8,541,792	2,633,830
Interest on advances - Federal Home Loan Bank	<u>25,988</u>	<u>-</u>
Total interest expense	<u>8,567,780</u>	<u>2,633,830</u>
NET INTEREST INCOME	16,568,968	16,423,916
PROVISION FOR CREDIT LOSSES	<u>332,155</u>	<u>(1,423,183)</u>
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	16,236,813	17,847,099
NONINTEREST INCOME		
Service fees	862,559	522,102
Securities gains (losses)	(133,253)	(1,597,690)
Rental income	12,000	12,000
Other income (loss)	<u>38,868</u>	<u>1,407,594</u>
Total noninterest income	780,174	344,006
NONINTEREST EXPENSES		
Salaries and employee benefits	6,613,691	6,637,912
Equipment and occupancy expenses	758,747	703,567
Data processing	1,275,854	1,192,625
Insurance	335,475	248,518
Professional fees	395,850	408,323
Other real estate operational losses	192	1,793
Directors' fees	312,000	351,000
Computer supplies	295,583	265,591
Other expenses	<u>1,298,405</u>	<u>1,065,896</u>
Total noninterest expenses	<u>11,285,797</u>	<u>10,875,225</u>
INCOME BEFORE INCOME TAX	5,731,190	7,315,880
INCOME TAX EXPENSE	<u>1,223,297</u>	<u>1,423,455</u>
NET INCOME	<u>\$ 4,507,893</u>	<u>\$ 5,892,425</u>

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Net income	\$ 4,507,893	\$ 5,892,425
Other comprehensive income (loss):		
Unrealized (losses) gains on available-for-sale securities, net of income tax of (\$796,653) in 2023 and \$2,730,919 in 2022	2,500,753	(8,572,554)
Reclassification adjustment for (gains) losses realized, net of income tax (benefit) of (\$36,533) in 2023 and (\$345,284) in 2022	114,678	1,083,872
Change in underfunded pension liability, net of income tax (benefit) of \$135,606 in 2023 and \$204,077 in 2022	<u>425,677</u>	<u>640,614</u>
Other comprehensive income (loss), net of tax	<u>3,041,108</u>	<u>(6,848,068)</u>
Comprehensive income (loss)	<u>\$ 7,549,001</u>	<u>\$ (955,643)</u>

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

# CONSOLIDATED STATEMENT OF CHANGE IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2023 AND 2022

	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Treasury Stock</b>	<b>Total Equity</b>
BALANCE, December 31, 2021	\$ 300,000	\$ 1,000,000	\$ 93,865,747	\$ (2,621,258)	\$ -	\$ 92,544,489
Net income	-	-	5,892,425	-	-	5,892,425
Other comprehensive income	-	-	-	(6,848,068)	-	(6,848,068)
Dividends, \$3.40 per share	-	-	(2,040,000)	-	-	(2,040,000)
BALANCE, December 31, 2022	300,000	1,000,000	97,718,172	(9,469,326)	-	89,548,846
Net income	-	-	4,507,893	-	-	4,507,893
Other comprehensive income	-	-	-	3,041,108	-	3,041,108
Purchase of treasury stock	-	-	-	-	(23,668,200)	(23,668,200)
Dividends, \$3.50 per share	-	-	(1,533,000)	-	-	(1,533,000)
BALANCE, December 31, 2023	<u>\$ 300,000</u>	<u>\$ 1,000,000</u>	<u>\$ 100,693,065</u>	<u>\$ (6,428,218)</u>	<u>\$ (23,668,200)</u>	<u>\$ 71,896,647</u>

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 4,507,893	\$ 5,892,425
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	314,106	315,495
Deferred income taxes (benefits)	(189,282)	155,982
Provision for credit losses	332,155	1,423,183
Equity in earnings of unconsolidated subsidiary, net of distributions	(2,335)	(36,936)
Net premium amortization on investment securities	(1,709,389)	(1,975,819)
Change in unrealized loss on equity securities	(17,959)	168,534
Loss on sale of OREO	22,088	-
Change in carrying value in OREO	-	73,330
(Increase) decrease in:		
Interest receivable	(240,421)	(363,850)
Other assets	281,358	(1,462,903)
Increase (decrease) in:		
Interest payable	2,761,440	(172,854)
Other liabilities	(193,556)	175,840
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>5,866,098</u>	<u>4,192,427</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of available-for-sale securities	51,485,026	76,929,191
Purchases of available-for-sale securities	(35,179,486)	(116,348,974)
Proceeds from maturities of held-to-maturity securities	86,550,000	232,050,000
Purchases of held-to-maturity securities	(60,759,630)	(189,665,005)
Purchases of restricted stock	(613,900)	-
Purchases of bank premises and equipment	(230,737)	(48,761)
Proceeds from sale of other real estate owned	70,032	165,110
Net (increase) decrease in loans	(26,971,121)	(58,022,695)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<u>14,350,184</u>	<u>(54,941,134)</u>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in demand deposits	\$ (41,063,379)	\$ (8,915,197)
Net increase (decrease) in time deposits	25,386,949	(30,185,755)
Proceeds from issuance of FHLB advances	5,000,000	-
Purchase of treasury stock	(23,668,200)	-
Cash dividends paid	<u>(1,533,000)</u>	<u>(2,040,000)</u>
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>(35,877,630)</u>	<u>(41,140,952)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(15,661,348)	(91,889,659)
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>43,126,277</u>	<u>135,015,936</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 27,464,929</u>	<u>\$ 43,126,277</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid for interest on deposits and borrowings	<u>\$ 5,780,352</u>	<u>\$ 2,806,685</u>
Cash paid for income taxes	<u>\$ 1,608,359</u>	<u>\$ 1,041,352</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES</b>		
Loans transferred to foreclosed properties	<u>\$ 92,120</u>	<u>\$ 238,440</u>

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



# 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 four full-service branches, a limited-service loan center, and a loan production office located in Charleston, 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 of 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.

**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 and related allowance for credit losses:** Debt securities classified as held-to-maturity (“HTM”) are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs, or changes in general economic conditions. These securities are carried at cost, adjusted for amortization of premium and accretion of discount, computed using the interest method, over their contractual lives. With the adoption of ASU 2016-13, expected credit losses on HTM securities are measured on a collective basis by major security type, when similar risk characteristics exist. Risk characteristics for segmenting HTM debt securities include issuer, maturity, coupon rate, yield, payment frequency, source of repayment, bond payment structure, and embedded options. Upon assignment of the risk characteristics to the major security types, management may further evaluate the qualitative factors associated with these securities to determine the expectation of credit losses, if any. Impairments below cost in the estimated fair value of individual HTM debt securities that are attributable to credit losses are recorded through an allowance for HTM credit losses. Such losses are limited to the amount that amortized cost exceeds fair value, even if the amount of the credit loss is greater. Impairments below cost attributable to other factors are realized in noninterest income in the consolidated statements of income.

Debt securities classified as available-for-sale (“AFS”) are those debt securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as AFS would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Bank’s assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third party pricing service with any unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income (loss), which is reported as a separate component of shareholders’ equity, net of the related deferred tax effect. Management assesses the financial condition and near-term prospects of the issuer, industry and/or geographic conditions, credit ratings as well as other indicators at the individual security level. Impairments below cost in the estimated fair value of individual AFS debt securities when there is an intent to sell or for which it more likely than not the Bank will be required to sell before the impairment is recovered, are realized in noninterest income in the consolidated statements of income. When there is not an intent to sell or it is more likely than not the Bank will not be required to sell the security before the

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

impairment is recovered, management assesses whether the decline in fair value has resulted from credit losses or other factors. If the present value of discounted cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for AFS credit losses is recorded. Such losses are limited to the amount that amortized cost exceeds fair value, even if the amount of the credit loss is greater. Any future changes in the allowance for credit losses is recorded as provision for (reversal of) credit losses. Losses attributable to other factors are charged to accumulated other comprehensive income.

Gains and losses realized on sales of investment debt securities, determined using the adjusted cost basis of the specific securities sold, are included in noninterest income in the consolidated statements of income.

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 Bank'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.

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the consolidated statements of income.

Restricted stock is stock from the Federal Home Loan Bank of Pittsburgh ("FHLB") and the Federal Reserve Bank, which are restricted as to their marketability. Because no ready market exists for these investments and they have no quoted market value, the Bank's investment in these stocks are carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

**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 18 for additional information.

**Loans and related allowance for credit losses:** 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.

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 that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are carried at amortized cost, which consists of the amount of unpaid principal, adjusted for deferred loan fees and origination costs. Interest on loans is accrued based on the principal amounts outstanding. Nonrefundable loan fees and related direct costs are deferred and the net amount is amortized to income as a yield adjustment over the life of the loan using the interest method. When principal or interest is delinquent for ninety days or more, the Bank evaluates the loan for nonaccrual status.

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

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. After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectibility of the loan is in doubt. Cash collections on loans where ultimate collectibility remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

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.

With the adoption of ASU 2016-13 on January 1, 2023, an allowance for credit losses is established upon origination for all loans through a provision for credit losses charged to earnings. ASU 2016-13 replaced the previous probably incurred loss model, which incorporated only known information as of the balance sheet date. The expected credit loss model is based on management's best estimate of lifetime expected credit losses inherent in the Bank's relevant financial assets. There are two components of the allowance for credit losses: reserves on pooled loans sharing risk characteristics (portfolio segments) and individually evaluated loans that do not fit within a portfolio segment. For loans, expected credit losses are typically estimated using quantitative methods that consider a variety of factors such as historical loss experience, the current credit quality of the portfolio as well as supportable forecasts of the economic outlook over the life of the loan. When management determines that foreclosure is probable, expected credit losses are accrued based on the differences between the loan balance and 1) the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, 2) the present value of future cash flows, or 3) the loan's value as observable in the secondary market. Adjustments are made for selling costs, as appropriate. When management believes the loan is not collectible, the loan is charged off against the allowance. Subsequent recoveries, if any, are credited to the allowance.

Allowance factors and overall size of the allowance may change from period to period based on management's assessment and the relative weights given to each factor. In addition, various regulatory agencies periodically review the allowance for credit losses. These agencies may require the Bank to make additions to the allowance for credit losses based on their judgments of collectibility supported by information available to them at the time of their examination.

**Loan modifications:** In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession for other than an insignificant period of time to the member that the Company would not otherwise consider, the related loan is classified as a loan modification. The Company strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

**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:

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

**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 credit losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated selling costs. Revenues and expenses incurred in connection with operating these properties and any direct write downs are included in net cost of operations of other real estate in the Consolidated Statements of Income.

**Advertising costs:** Advertising costs are expensed as incurred and included in other operating expenses. Advertising expense was \$237,075 and \$156,990 for the years ended December 31, 2023 and 2022, 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 10 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 credit 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.

**Treasury Stock:** Common stock shares repurchased are recorded as treasury stock at cost.

**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.

# 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.

	2023	2022
Net income	\$ 4,507,893	\$ 5,892,425
Earnings per common share	\$ 10.29	\$ 9.82
Dividends paid per common share	\$ 3.50	\$ 3.40

**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 the accompanying consolidated financial statements for subsequent events and transactions through March 18, 2024, the date these financial statements were available for issue, based on FASB ASC 855, *Subsequent Events*, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

**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:

On January 1, 2023, the Company adopted FASB ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses on certain financial instruments held by the Company that are measured at amortized cost, such as loan receivables and held-to-maturity debt securities. Prior to January 1, 2023, the allowance for losses on such assets was determined based on management's estimate of probable incurred losses. ASU 2016-13 also modified the impairment model on available-for-sale securities whereby credit losses are recognized as an allowance, rather than as a direct write-down. The Company adopted this new guidance utilizing the modified retrospective transition method for loans and prospectively for debt securities available-for-sale. The adoption of this Standard did not have a material impact on the Company's consolidated financial statements but did change how the allowance for credit losses is determined.

On January 1, 2023, the Company adopted FASB ASU 2022-2, *Financing Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, on a prospective basis. ASU 2022-2 eliminates the troubled debt restructuring recognition and measurement accounting guidance and instead requires entities to apply the loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan. Expected credit losses are recorded in the allowance for credit losses. The adoption of this Standard did not have a material impact on the Company's consolidated financial statements.

The Company adopted ASU 2016-02, *Leases (Topic 842)*, on January 1, 2022 using the optional transition method, which allows for the prospective application of the standard. In addition, the Company elected practical expedients permitted under the transition guidance permitting the Company to not reassess historical lease classification, prior conclusions relating to initial direct costs, and whether any expired or existing contracts are or contain leases. For lease agreements with lease and non-lease components, the Company elected the practical expedient to account for them as a single lease component. The Company will also make the accounting policy election for short-term leases for existing and future short-term leases for all classes of underlying assets. Adoption did not have a material effect on consolidated net income and had no effect on consolidated cash flows.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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, 2023 and 2022 was \$0. At December 31, 2023 and 2022, the Bank had accounts at correspondent banks, excluding the Federal Reserve Bank, which exceeded the FDIC insurable limit of \$250,000 by \$3,469,577 and \$7,986,812, respectively.

## NOTE 3. SECURITIES

The amortized costs, unrealized gains and losses, and estimated fair values of securities at December 31, 2023 and 2022 are as follows:

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-sale:</b>				
U.S. Government treasuries	\$ 15,024,385	\$ -	\$ (125,084)	\$ 14,899,301
U.S. Government agencies	35,134,608	313,681	(21,923)	35,426,366
Mortgage backed securities	73,302,319	20,812	(6,638,250)	66,684,881
Municipal bonds	13,323,085	33,040	(483,864)	12,872,261
Total available-for-sale	<u>\$ 136,784,397</u>	<u>\$ 367,533</u>	<u>\$ (7,269,121)</u>	<u>\$ 129,882,809</u>
<b>Held-to-maturity:</b>				
U.S. Government treasuries	<u>\$ 43,500,952</u>	<u>\$ 50,094</u>	<u>\$ (14,326)</u>	<u>\$ 43,536,720</u>
<b>Equity:</b>				
Mutual funds	<u>\$ 1,500,000</u>	<u>\$ -</u>	<u>\$ (194,551)</u>	<u>\$ 1,305,449</u>
	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-sale:</b>				
U.S. Government treasuries	\$ 40,382,774	\$ -	\$ (1,077,529)	\$ 39,305,245
U.S. Government agencies	15,114,670	-	(145,038)	14,969,632
Mortgage backed securities	84,549,684	-	(8,427,098)	76,122,586
Municipal bonds	13,351,296	81	(700,619)	12,650,758
Total available-for-sale	<u>\$ 153,398,424</u>	<u>\$ 81</u>	<u>\$ (10,350,284)</u>	<u>\$ 143,048,221</u>
<b>Held-to-maturity:</b>				
U.S. Government treasuries	<u>\$ 67,273,444</u>	<u>\$ 6,938</u>	<u>\$ (137,908)</u>	<u>\$ 67,142,474</u>
<b>Equity:</b>				
Mutual funds	<u>\$ 1,500,000</u>	<u>\$ -</u>	<u>\$ (212,510)</u>	<u>\$ 1,287,490</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3. SECURITIES (continued)

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.

	2023	2022
Proceeds from sales of available-for-sale securities	<u>\$ 9,154,538</u>	<u>\$ 66,708,849</u>
Gross realized gains	<u>\$ -</u>	<u>\$ -</u>
Gross realized losses	<u>\$ (151,211)</u>	<u>\$ (1,429,156)</u>

The scheduled maturities of securities at December 31, 2023, 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.

	<u>Available-for-sale securities</u>		<u>Held-to-maturity securities</u>
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>
Due within one year	\$ 15,558,743	\$ 15,430,366	\$ 43,500,952
Due after one year through five years	45,006,903	45,041,349	-
Due after five years through ten years	2,916,431	2,726,212	-
Due after ten years	<u>73,302,320</u>	<u>66,684,882</u>	<u>-</u>
Totals	<u>\$ 136,784,397</u>	<u>\$ 129,882,809</u>	<u>\$ 43,500,952</u>

The following table summarizes the fair value and gross unrealized losses of available-for-sale securities in an unrealized loss position for which an allowance for credit losses has not been recorded, aggregated by major security type and length of time in a continuous unrealized loss position:

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Estimated Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Gross Unrealized Losses</u>
<u>December 31, 2023</u>						
Available-for-sale:						
U.S. Government treasuries	\$ -	\$ -	\$ 14,899,301	\$ (125,084)	\$ 14,899,301	\$ (125,084)
U.S. Government agencies	5,001,053	(21,923)	-	-	5,001,053	(21,923)
Mortgage backed securities	-	-	61,828,870	(6,638,249)	61,828,870	(6,638,249)
Municipal bonds	-	-	8,991,396	(483,865)	8,991,396	(483,865)
Total available-for-sale	<u>\$ 5,001,053</u>	<u>\$ (21,923)</u>	<u>\$ 85,719,567</u>	<u>\$ (7,247,198)</u>	<u>\$ 90,720,620</u>	<u>\$ (7,269,121)</u>

# 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
<u>December 31, 2022</u>						
Available-for-sale:						
U.S. Government treasuries	\$ 19,732,395	\$ (241,495)	\$ 19,572,850	\$ (836,034)	\$ 39,305,245	\$ (1,077,529)
U.S. Government agencies	5,069,089	(2,650)	9,900,544	(142,388)	14,969,633	(145,038)
Mortgage backed securities	84,549,684	(8,427,098)	-	-	84,549,684	(8,427,098)
Municipal bonds	9,484,398	(394,213)	2,841,279	(306,406)	12,325,677	(700,619)
Total available-for-sale	<u>\$ 118,835,566</u>	<u>\$ (9,065,456)</u>	<u>\$ 32,314,673</u>	<u>\$ (1,284,828)</u>	<u>\$ 151,150,239</u>	<u>\$ (10,350,284)</u>

The Bank had 41 available-for-sale securities with an unrealized loss position at December 31, 2023. Unrealized losses on securities have not been recognized into income because the securities are of high credit quality (rated AA or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the securities. The fair value is expected to recover as the securities approach maturity.

At December 31, 2023 and 2022, the carrying value of securities pledged to secure public funds totaled \$104,060,000 and \$102,595,000, respectively. At December 31, 2023 and 2022, the estimated fair values totaled \$101,700,472 and \$101,090,331, respectively, and were pledged to secure public deposits and for other purposes as required or permitted by law.

### Restricted stock, at cost

Investment in restricted stocks is principally comprised of restricted stock in the Federal Home Loan Bank (FHLB) of Pittsburgh, which is carried at cost. Federal law requires a member institution of the FHLB to hold stock according to a predetermined formula. The FHLB stock was carried at \$613,900 and \$0 as of December 31, 2023 and 2022, respectively. Restricted stock also includes stock of the Federal Reserve Bank, which is carried at cost, in the amount of \$39,000 at December 31, 2023 and 2022.

## NOTE 4. LOANS

The following table summarizes the components of the Bank's loan portfolio as of December 31, 2023 and 2022:

	2023	2022
Loans		
Commercial	\$ 142,031,074	\$ 141,322,619
Real estate	210,377,548	190,146,441
Construction	20,268,375	22,699,476
Other	<u>27,500,988</u>	<u>18,916,711</u>
Total loans	400,177,985	373,085,247
Less allowance for credit losses	<u>(5,030,731)</u>	<u>(4,484,839)</u>
Loans, net	<u>\$ 395,147,254</u>	<u>\$ 368,600,408</u>



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 4. LOANS (continued)

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.

**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, 2023 and 2022:

December 31, 2023							
<i>Dollars in thousands</i>	Past due				Current	Total loans	Recorded investment >90 days and accruing
	30-59 Days	60-89 Days	> 90 Days	Total			
Commercial	\$ -	\$ -	\$ -	\$ -	\$ 142,031	\$ 142,031	\$ -
Real estate	546	53	42	641	209,737	210,378	-
Construction	251	-	-	251	20,017	20,268	-
Other	16	-	50	66	27,435	27,501	-
Totals	<u>\$ 813</u>	<u>\$ 53</u>	<u>\$ 92</u>	<u>\$ 958</u>	<u>\$ 399,220</u>	<u>\$ 400,178</u>	<u>\$ -</u>

  

December 31, 2022							
<i>Dollars in thousands</i>	Past due				Current	Total loans	Recorded investment >90 days and accruing
	30-59 Days	60-89 Days	> 90 Days	Total			
Commercial	\$ -	\$ -	\$ -	\$ -	\$ 141,323	\$ 141,323	\$ -
Real estate	504	89	47	640	189,507	190,147	-
Construction	-	-	-	-	22,699	22,699	-
Other	2	-	-	2	18,914	18,916	-
Totals	<u>\$ 506</u>	<u>\$ 89</u>	<u>\$ 47</u>	<u>\$ 642</u>	<u>\$ 372,443</u>	<u>\$ 373,085</u>	<u>\$ -</u>

# 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, 2023 and 2022, respectively.

	<u>2023</u>	<u>2022</u>
Commercial	\$ 1,447,883	\$ 1,706,733
Real estate	603,458	396,923
Construction	-	82,238
Other	49,700	-
Totals	<u>\$ 2,101,041</u>	<u>\$ 2,185,894</u>

If interest on non-accrual loans had been accrued, such income would have approximated \$242,466 and \$201,850 for the years December 31, 2023 and 2022, respectively.

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

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

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

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

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

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

	<u>December 31, 2023</u>				
	<u>Commercial</u>	<u>Real estate</u>	<u>Construction</u>	<u>Other</u>	<u>Total</u>
Pass	\$ 125,737,272	\$ 200,198,742	\$ 19,930,484	\$ 26,818,071	\$ 372,684,569
Special mention	7,174,356	5,154,834	210,015	544,484	13,083,689
Substandard	9,119,446	5,023,972	127,876	138,433	14,409,727
Doubtful	-	-	-	-	-
Totals	<u>\$ 142,031,074</u>	<u>\$ 210,377,548</u>	<u>\$ 20,268,375</u>	<u>\$ 27,500,988</u>	<u>\$ 400,177,985</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 4. LOANS (continued)

	December 31, 2022				Total
	Commercial	Real estate	Construction	Other	
Pass	\$ 123,894,022	\$ 180,709,914	\$ 22,617,239	\$ 18,725,254	\$ 345,946,429
Special mention	10,767,086	2,604,212	-	12,204	13,383,502
Substandard	6,661,511	6,832,315	82,237	179,253	13,755,316
Doubtful	-	-	-	-	-
Totals	<u>\$ 141,322,619</u>	<u>\$ 190,146,441</u>	<u>\$ 22,699,476</u>	<u>\$ 18,916,711</u>	<u>\$ 373,085,247</u>

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 2023 and 2022:

	2023	2022
Balances - January 1,	\$ 5,165,887	\$ 5,292,647
New loans	1,450,000	3,913,379
Repayments	(3,375,815)	(4,040,139)
Balances - December 31,	<u>\$ 3,240,072</u>	<u>\$ 5,165,887</u>

The following is a summary of impaired loans by class at December 31, 2023 and 2022:

	December 31, 2023		
	Unpaid principal balance	Related allowance	Interest income recognized
<b>With a related allowance</b>			
Commercial	\$ 5,182,443	\$ 1,536,500	\$ 227,322
Real estate	1,018,206	561,526	61,389
Other	49,700	28,701	-
Totals	<u>\$ 6,250,349</u>	<u>\$ 2,126,727</u>	<u>\$ 288,711</u>
<b>With no related allowance</b>			
Commercial	\$ 868,011	\$ -	\$ 60,901
Real estate	333,539	-	11,983
Other	41,610	-	2,435
Totals	<u>\$ 1,243,160</u>	<u>\$ -</u>	<u>\$ 75,319</u>
<b>Total</b>			
Commercial	\$ 6,050,454	\$ 1,536,500	\$ 288,223
Real estate	1,351,745	561,526	73,372
Other	91,310	28,701	2,435
Totals	<u>\$ 7,493,509</u>	<u>\$ 2,126,727</u>	<u>\$ 364,030</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 4. LOANS (continued)

	December 31, 2022		
	Unpaid principal balance	Related allowance	Interest income recognized
<b>With a related allowance</b>			
Commercial	\$ 6,897,806	\$ 1,228,813	\$ 246,142
Real estate	1,915,123	158,942	74,498
Other	-	-	-
Totals	<u>\$ 8,812,929</u>	<u>\$ 1,387,755</u>	<u>\$ 320,640</u>
<b>With no related allowance</b>			
Commercial	\$ 1,609,527	\$ -	\$ 101,210
Real estate	44,527	-	1,862
Other	-	-	-
Totals	<u>\$ 1,654,054</u>	<u>\$ -</u>	<u>\$ 103,072</u>
<b>Total</b>			
Commercial	\$ 8,507,333	\$ 1,228,813	\$ 347,352
Real estate	1,959,650	158,942	76,360
Other	-	-	-
Totals	<u>\$ 10,466,983</u>	<u>\$ 1,387,755</u>	<u>\$ 423,712</u>

## NOTE 5. ALLOWANCE FOR CREDIT LOSSES – LOANS

The allowance for credit losses (“ACL”) is a valuation account that is deducted from the loan’s amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the un-collectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

The ACL represents management’s estimate of lifetime credit losses inherent in loans as of the statement of financial condition date. The ACL is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. No single statistic or measurement determines the adequacy of the allowance for credit losses. Changes in the allowance for credit losses and the related provision expense can materially affect net income.

The Bank measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Bank’s portfolio segments are based on the associated risks within that segment. Each class of loan requires significant judgement to determine the estimation method that fits the credit risk characteristics of its portfolio segment. The Bank has identified the following portfolio segments and calculates the allowance for credit losses for each using the weighted average remaining maturity (“WARM”) methodology:

- 1-4 family residential construction loans,
- Other construction loans and all land development and other land loans,
- Secured by farmland,
- Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit,
- Secured by first lien loans,
- Secured by junior lien loans,

## NOTE 5. ALLOWANCE FOR CREDIT LOSSES – LOANS (continued)

- Secured by multifamily (five or more) residential properties,
- Loans secured by owner-occupied, nonfarm residential properties,
- Loans secured by other nonfarm nonresidential properties.
- Commercial and industrial loans
- Automobile loans

These segments match the Bank's Call report segmentation.

Each segment has similar risk characteristics as compared to the other segments, including the following:

- **Credit Risk:** The risk that borrowers may default on their mortgage payments. This risk is influenced by factors such as borrowers' creditworthiness, employment stability, and overall financial health.
- **Market Risk:** Changes in the real estate market, including property values and regional economic conditions, can impact the value of the underlying collateral and the overall performance of the mortgage portfolio.
- **Prepayment Risk:** The risk that borrowers may pay off their mortgages earlier than expected, especially in a low-interest-rate environment. This can impact the Bank's expected interest income and the duration of its mortgage assets.
- **Concentration Risk:** Overexposure to a particular geographic area, property type, or borrower segment can increase risk. Concentration risk makes the portfolio more vulnerable to localized economic downturns or industry-specific challenges.
- **Operational Risk:** Risks related to the day-to-day operations of managing a mortgage loan portfolio, including errors in loan servicing, fraud, and the effectiveness of internal processes and controls.
- **Regulatory and Compliance Risk:** The risk of non-compliance with mortgage-related regulations and the potential impact of changes in regulatory requirements on the bank's mortgage lending practices.
- **Credit Concentration Risk:** Concentration of mortgage loans with specific characteristics, such as adjustable-rate mortgages or loans with high loan-to-value ratios, can increase vulnerability to certain market conditions.
- **Legal and Documentation Risk:** The risk associated with incomplete or inaccurate documentation, legal challenges related to foreclosure, and compliance with applicable laws in mortgage origination and servicing.

To meet the objectives of ASU 2016-13, the Bank has an established methodology to determine the adequacy of the ACL that assesses the risks and losses inherent in the Bank's portfolio. Loss estimates have been developed by averaging losses as stated in the Bank's quarterly Call reports. Loss rates over the previous 8 quarters will be projected over the next 24 quarters.

Additionally, the ACL calculation includes subjective adjustments for qualitative risk factors ("Q-factors") that are likely to cause estimated credit losses to differ from historical experience. These Q-factors may increase or reduce reserve levels and include the following:

- Changes in lending policies and procedures, including changes in underwriting standards and collections, charge offs, and recovery practices.
- Changes in international, national, regional, and local conditions.
- Changes in the nature and volume of the portfolio and terms of loans.
- Changes in the experience, depth, and ability of lending management.
- Changes in the volume and severity of past due loans and other similar conditions.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 5. ALLOWANCE FOR CREDIT LOSSES – LOANS (continued)

- Changes in the quality of the organization's loan review system.
- Changes in the value of underlying collateral for collateral dependent loans.
- The existence and effect of any concentrations of credit and changes in the levels of such concentrations.
- The effect of other external factors (i.e. competition, legal and regulatory requirements) on the level of estimated credit losses.
- Reasonable and supportable forecasts.

The Bank considers a variety of economic scenarios to establish a range of potential outcomes for each criterion the Bank applies to the allowance calculation. Management applies judgement to develop its view of loss probability within a range, using external and internal parameters with the objective of establishing an allowance for the losses inherent within these portfolios as of the reporting date. Management considers such factors as past events, current conditions, and reasonable and supportable forecasts about the future.

Activity in the allowance for credit losses by loan class for the years ended December 31, 2023 and 2022 is as follows:

<b>2023</b>	<u>Commercial</u>	<u>Real estate</u>	<u>Construction</u>	<u>Other</u>	<u>Total</u>
<b>Allowance for credit losses</b>					
Beginning balance, prior to adoption of FASB ASU 2016-13	\$ 2,841,480	\$ 1,087,586	\$ 492,338	\$ 63,435	\$ 4,484,839
Impact of adopting FASB ASU 2016-13	30,912	11,776	5,397	983	49,068
Charge-offs	(20,176)	(22,088)	-	(5,097)	(47,361)
Recoveries	207,203	20,402	2,705	60	230,370
Provision	(417,489)	569,210	151,349	10,745	313,815
Ending balance	<u>\$ 2,641,930</u>	<u>\$ 1,666,886</u>	<u>\$ 651,789</u>	<u>\$ 70,126</u>	<u>\$ 5,030,731</u>
<b>Allowance related to:</b>					
Loans individually evaluated for impairment	\$ 1,536,500	\$ 561,526	\$ -	\$ 28,701	\$ 2,126,727
Loans collectively evaluated for impairment	<u>1,105,430</u>	<u>1,105,360</u>	<u>651,789</u>	<u>41,425</u>	<u>2,904,004</u>
Totals	<u>\$ 2,641,930</u>	<u>\$ 1,666,886</u>	<u>\$ 651,789</u>	<u>\$ 70,126</u>	<u>\$ 5,030,731</u>
<b>Loans</b>					
Loans individually evaluated for impairment	\$ 6,050,454	\$ 1,351,745	\$ -	\$ 91,310	\$ 7,493,509
Loans collectively evaluated for impairment	<u>135,980,620</u>	<u>209,025,803</u>	<u>20,268,375</u>	<u>27,409,678</u>	<u>392,684,476</u>
Totals	<u>\$ 142,031,074</u>	<u>\$ 210,377,548</u>	<u>\$ 20,268,375</u>	<u>\$ 27,500,988</u>	<u>\$ 400,177,985</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 5. ALLOWANCE FOR CREDIT LOSSES – LOANS (continued)

2022	Commercial	Real estate	Construction	Other	Total
<b>Allowance for loan loss</b>					
Beginning balance	\$ 3,754,629	\$ 1,137,788	\$ 418,995	\$ 40,556	\$ 5,351,968
Charge-offs	(209,424)	(81,710)	-	-	(291,134)
Recoveries	741,768	100,303	5,844	-	847,915
Provision	(1,445,493)	(68,795)	67,499	22,879	(1,423,910)
Ending balance	<u>\$ 2,841,480</u>	<u>\$ 1,087,586</u>	<u>\$ 492,338</u>	<u>\$ 63,435</u>	<u>\$ 4,484,839</u>
<b>Allowance related to:</b>					
Loans individually evaluated for impairment	\$ 1,228,813	\$ 158,942	\$ -	\$ -	\$ 1,387,755
Loans collectively evaluated for impairment	<u>1,612,667</u>	<u>928,644</u>	<u>492,338</u>	<u>63,435</u>	<u>3,097,084</u>
Totals	<u>\$ 2,841,480</u>	<u>\$ 1,087,586</u>	<u>\$ 492,338</u>	<u>\$ 63,435</u>	<u>\$ 4,484,839</u>
<b>Loans</b>					
Loans individually evaluated for impairment	\$ 8,507,334	\$ 1,959,650	\$ -	\$ -	\$ 10,466,984
Loans collectively evaluated for impairment	<u>132,815,285</u>	<u>188,186,791</u>	<u>22,699,476</u>	<u>18,916,711</u>	<u>362,618,263</u>
Totals	<u>\$ 141,322,619</u>	<u>\$ 190,146,441</u>	<u>\$ 22,699,476</u>	<u>\$ 18,916,711</u>	<u>\$ 373,085,247</u>

Both commercial and consumer loans are deemed impaired upon being contractually modified. Loan modifications 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 for the years ended December 31, 2023 and 2022, 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.

The following tables present loan modifications by class at December 31, 2023 and 2022:

2023	Number of contracts	Unpaid principal balance
Commercial	9	\$ 6,814,368
Real estate	10	1,443,860
Construction	1	21,909
Other	-	-
Totals	<u>20</u>	<u>\$ 8,280,137</u>
2022	Number of contracts	Unpaid principal balance
Commercial	8	\$ 6,026,642
Real estate	10	1,487,997
Construction	1	32,199
Other	-	-
Totals	<u>19</u>	<u>\$ 7,546,838</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 5. ALLOWANCE FOR CREDIT LOSSES – LOANS (continued)

Default occurs when payments are not received in accordance with terms specified in the loan document, which may result in the loan being fully or partially charged-off. For the years ended December 31, 2023 and 2022, there were no modified loans that subsequently defaulted and resulted in a principal charge-off.

## NOTE 6. BANK PREMISES AND EQUIPMENT

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

	2023	2022
Buildings and improvements	\$ 5,995,237	\$ 5,979,537
Furniture and fixtures	2,633,690	2,418,652
Vehicles	239,909	239,909
	8,868,836	8,638,098
Less: accumulated depreciation	(4,634,862)	(4,320,755)
	4,233,974	4,317,343
Land	250,460	250,460
Bank premises and equipment, net	<u>\$ 4,484,434</u>	<u>\$ 4,567,803</u>

Depreciation expense for the years ended December 31, 2023 and 2022, totaled \$314,106 and \$315,495, 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. Management of the Company accounted for this lease as if it were short-term because it does not believe that such treatment would have a material impact on the consolidated financial statements. Rent expense for the operating lease approximated \$75,579 and \$73,602 for the years ended December 31, 2023 and 2022, respectively. The minimum annual rental commitment under this lease, exclusive of taxes and other charges, payable by the lessee at December 31, 2023, is as follows:

<u>Year</u>	<u>Amount</u>
2024	\$ 71,988
2025	-
2026	-
2027	-
2028 and thereafter	-
Total	<u>\$ 71,988</u>



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 7. DEPOSITS

The following is a summary of major categories of deposits at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Non-interest bearing	\$ 106,225,853	\$ 111,850,514
Interest bearing:		
Time deposits under \$250,000	155,901,716	139,782,008
Time deposits greater than or equal to \$250,000	<u>96,504,022</u>	<u>87,236,781</u>
Total time deposits	252,405,738	227,018,789
Money market	122,346,307	154,162,989
Savings	<u>44,943,457</u>	<u>48,565,493</u>
Total interest bearing deposits	<u>419,695,502</u>	<u>429,747,271</u>
Total deposits	<u>\$ 525,921,355</u>	<u>\$ 541,597,785</u>

Scheduled maturities of time and certificates of deposit at December 31, 2023, are as follows:

<u>Year</u>	<u>Amount</u>
2024	\$ 207,724,453
2025	5,416,104
2026	2,283,147
2027	<u>36,982,034</u>
Total	<u>\$ 252,405,738</u>

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 \$69,778,223 and \$59,432,807 at December 31, 2023 and 2022, respectively.

## NOTE 8. ADVANCES – FEDERAL HOME LOAN BANK

Advances of \$5,000,000 and \$0 from the Federal Home Loan Bank (FHLB) of Pittsburgh were reported as of December 31, 2023 and 2022, respectively. The balance as of December 31, 2023 consisted of a single advance with an interest rate of 5.67% and a maturity date of February 29, 2024. The advance was obtained to provide low-rate funds to lenders for loans to low- and moderate income borrowers for owner-occupied and affordable rental housing and for the purpose of purchasing or funding new or existing residential housing finance assets. The advance is secured by the Bank's nondelinquent mortgage loans. In January 2024, the FHLB of Pittsburgh advanced a total of \$15,000,000 to the Bank with interest rates ranging from 5.13% to 5.648%.

Interest expense on advances from the FHLB of Pittsburgh for the years ended December 31, 2023 and 2022 totaled \$25,988 and \$0, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 9. INCOME TAXES

The components of applicable income tax expense (benefit) for the years ended December 31, 2023 and 2022, are summarized as follows:

	<u>2023</u>	<u>2022</u>
Current expense:		
Federal	\$ 1,211,127	\$ 1,116,037
State	<u>201,452</u>	<u>151,436</u>
Total current	1,412,579	1,267,473
Deferred expense (benefit):		
Federal	(203,532)	122,107
State	<u>14,250</u>	<u>33,875</u>
Total deferred	<u>(189,282)</u>	<u>155,982</u>
Income tax expense	<u>\$ 1,223,297</u>	<u>\$ 1,423,455</u>

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, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
<b>Deferred tax assets:</b>		
Allowance for credit losses - loans	\$ 1,215,425	\$ 1,083,537
Defined benefit plan	320,254	471,606
Nonaccrual interest	58,580	48,767
Unrealized loss on available-for-sale securities	1,737,912	2,500,609
Other	<u>4,246</u>	<u>4,247</u>
Total deferred tax assets	3,336,417	4,108,766
<b>Deferred tax liabilities:</b>		
Unrealized gain on available-for-sale securities	(70,489)	-
Depreciation and amortization	<u>(110,946)</u>	<u>(127,454)</u>
Total deferred tax liabilities	<u>(181,435)</u>	<u>(127,454)</u>
Net deferred tax assets	<u>\$ 3,154,982</u>	<u>\$ 3,981,312</u>

No valuation allowance for deferred tax assets was recorded at December 31, 2023 and 2022, 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 9. INCOME TAXES (continued)

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

	<u>2023</u>	<u>2022</u>
Federal statutory rate	\$ 1,203,550	\$ 1,536,335
Increase (decrease) resulting from:		
State income tax, net of federal tax benefit	159,147	119,634
Tax exempt interest income	(72,877)	(50,692)
Tax exempt other income	-	(254,448)
Nondeductible expense	9,924	4,186
Other items, net	<u>(76,447)</u>	<u>68,440</u>
Income tax expense	<u>\$ 1,223,297</u>	<u>\$ 1,423,455</u>

## NOTE 10. 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 \$103,535 and \$96,298 for the years ended December 31, 2023 and 2022, respectively.

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

The following table sets summarizes activity with the frozen Defined Benefit Plan in 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Change in fair value of plan assets:		
Fair value at beginning of measurement period	\$ 5,605,247	\$ 7,114,402
Actual gain/(loss) on plan assets	609,738	(1,151,449)
Contributions	150,649	99,000
Benefits paid	(385,493)	(456,706)
Curtailment impact	<u>-</u>	<u>-</u>
Fair value at end of measurement period	5,980,141	5,605,247
Change in benefit obligation:		
Benefit obligation at beginning of measurement period	(7,557,259)	(9,786,301)
Interest cost	(364,676)	(267,564)
Actuarial gain/(loss)	222,987	(165,189)
Benefits paid	385,493	456,706
Assumption changes	<u>7,758</u>	<u>2,205,089</u>
Benefit obligation at end of measurement period	<u>(7,305,697)</u>	<u>(7,557,259)</u>
Funded status	<u>\$ (1,325,556)</u>	<u>\$ (1,952,012)</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 10. EMPLOYEE BENEFIT PLANS (continued)

Weighted-average assumptions for balance sheet liability at end of year:

Discount rate	5.01%	5.00%
Expected long-term rate of return	5.50%	6.75%

Weighted-average assumptions for benefit cost at beginning of year:

Discount rate	5.00%	2.80%
Expected long-term rate of return	6.75%	6.75%

The unfunded status of the plan as of December 31, 2023 is included within Other Liabilities on the Consolidated Balance Sheets. At December 31, 2023, Accumulated Other Comprehensive Income includes a balance of \$1,194,053, 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:

	2023	2022
Components of net periodic benefit:		
Interest cost	\$ 364,676	\$ 267,564
Expected return on plan assets	(427,816)	(449,164)
Amortization of unrecognized (gain)/loss	148,616	405,404
Net periodic pension cost	<u>\$ 85,476</u>	<u>\$ 223,804</u>

The Bank anticipates making contributions of \$96,993 to the plan for the year ending December 31, 2024. 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
2024	\$ 482,726
2025	480,786
2026	483,706
2027	489,620
2028	500,085
2029 through 2033	<u>2,539,309</u>
Total	<u>\$ 4,976,232</u>

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

Plan Assets	Target Allocation	Target Allocation	Percentage of plan assets at	
	2023	2022	December 31, 2023	December 31, 2022
Equities	0% - 40%	50%	28%	44%
Fixed income	60% - 98%	50%	65%	49%
Other	0% - 35%		6%	7%
Totals			<u>100%</u>	<u>100%</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 10. EMPLOYEE BENEFIT PLANS (continued)

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 USI Consulting Group, who will invest the assets of the plan in a diversified combination of asset classes, investment strategies, and pooled vehicles. The asset allocation guidelines displayed in the table above reflect the Bank's risk tolerance and long-term objectives and is reviewed periodically to meet the above target allocations. The expected long-term rate of return for the plan's assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation for each class. The major categories of assets in the Company's Defined Benefit Plan as of year-end are presented in the following table. Assets are segregated by the level of the valuation inputs within the fair value hierarchy established by ASC Topic 820 utilized to measure fair value (see Note 15 for fair value hierarchy).

The following tables present the balances of the plan assets, by fair value, as of December 31, 2023 and 2022:

December 31, 2023	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Fixed income mutual funds	3,887,092	-	-	3,887,092
Alternative investments	-	388,709	-	388,709
Equity mutual funds	1,704,340	-	-	1,704,340
Totals	<u>\$ 5,591,432</u>	<u>\$ 388,709</u>	<u>\$ -</u>	<u>\$ 5,980,141</u>

December 31, 2022	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 39,477	\$ -	\$ -	\$ 39,477
Fixed income mutual funds	2,739,989	-	-	2,739,989
Alternative investments	-	379,615	-	379,615
Equity mutual funds	2,446,166	-	-	2,446,166
Totals	<u>\$ 5,225,632</u>	<u>\$ 379,615</u>	<u>\$ -</u>	<u>\$ 5,605,247</u>

## NOTE 11. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company and its subsidiary, Putnam County Bank, have loans, deposits and other transactions with its executive officers, directors and certain business organizations and individuals with which such persons are associated 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 12. COMMITMENTS AND CONTINGENCIES

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 12. COMMITMENTS AND CONTINGENCIES (continued)

A summary of the notional amounts of the financial instruments with off-balance sheet risk at December 31, 2023 and 2022 is as follows:

<u>Contract Amount</u>	<u>2023</u>	<u>2022</u>
Commitments to extend credit	\$ 25,096,366	\$ 24,188,813
Commercial and standby letters of credit	54,500	53,500
Totals	<u>\$ 25,150,866</u>	<u>\$ 24,242,313</u>

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

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

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

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

## NOTE 13. 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 14. REGULATORY MATTERS

Putnam Bancshares, Inc.'s principal source of funds for future dividend payments to shareholders is from dividend payments received from its wholly-owned subsidiary, Putnam County Bank.

The Bank, as a state chartered member bank of the Federal Reserve System, is subject to the dividend restrictions set forth by the West Virginia Division of Financial Institutions as well as the Federal Reserve Board. Under such restrictions, the Bank may not, without the prior approval of the West Virginia Division of Financial Institutions and the Federal Reserve Board, declare dividends in excess of the sum of the current year's net income, as defined, plus the retained net profits from the two preceding years. The Bank normally restricts dividends to a lesser amount. The

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 14. REGULATORY MATTERS (continued)

dividends as of December 31, 2023, that the Bank could declare without the approval of the West Virginia Division of Financial Institutions and the Federal Reserve Board amounted to approximately \$9,045,000. However, during 2023, the Bank had to obtain approval from the West Virginia Division of Financial Institutions and the Federal Reserve Board to pay its normally declared dividends. This was due to the Bank upstreaming a dividend in the amount of \$23,668,200 to the Holding Company for it to purchase 162,000 shares of outstanding common stock from a shareholder's estate. As of December 31, 2023, those 162,000 shares are held as Treasury Stock.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of December 31, 2022. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the CARES Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital, but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purpose of section 38 of the Federal Deposit Insurance Act. Under the interim final rules the community bank leverage ratio minimum requirement is 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided the bank maintains a leverage ratio of 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert bank to the risk-weighting framework without restriction. As of December 31, 2023 and 2022, both the Company and Bank were qualifying community banking organizations as defined by the federal banking agencies.

As of December 31, 2023 and 2022, 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, 2023, 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 leverage ratios as set forth in the table below. There are no conditions or events since the notification that management believes have changed the Bank's category.

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

	Ratios	Capital amounts		
		Actual	Minimum	Well capitalized
<u>December 31, 2023</u>				
Tier 1 leverage capital				
(to adjusted average assets)	12.64%	\$ 77,963,000	\$ 55,522,000	≥ \$55,522,000
<u>December 31, 2022</u>				
Tier 1 leverage capital				
(to adjusted average assets)	15.06%	\$ 97,771,000	\$ 58,436,000	≥ \$58,436,000

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 15. 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.

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 designated as impaired when, in the judgement of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. All loans for which an impairment loss has been recognized as of December 31, 2023 and 2022, are collateralized by real estate. Fair value has been measured based on the collateral securing these loans utilizing current appraisals, or capitalization techniques (Level 3). Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and are adjusted accordingly, based on the same factors identified above.

**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, 2023, 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 3 of the hierarchy.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 15. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

### Assets at Fair Value on a Recurring Basis

December 31, 2023	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
<b>Available-for-sale securities</b>				
U.S. Government treasuries	\$ -	\$ 14,899,301	\$ -	\$ 14,899,301
U.S. Government agencies	-	35,426,366	-	35,426,366
Mortgage backed securities	-	66,684,881	-	66,684,881
Municipal bonds	-	12,872,261	-	12,872,261
Totals	\$ -	\$ 129,882,809	\$ -	\$ 129,882,809
<b>Equity securities</b>				
Mutual funds	\$ 1,305,449	\$ -	\$ -	\$ 1,305,449
<b>December 31, 2022</b>				
December 31, 2022	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
<b>Available-for-sale securities</b>				
U.S. Government treasuries	\$ -	\$ 39,305,245	\$ -	\$ 39,305,245
U.S. Government agencies	-	14,969,632	-	14,969,632
Mortgage backed securities	-	76,122,586	-	76,122,586
Municipal bonds	-	12,650,758	-	12,650,758
Totals	\$ -	\$ 143,048,221	\$ -	\$ 143,048,221
<b>Equity securities</b>				
Mutual funds	\$ 1,287,490	\$ -	\$ -	\$ 1,287,490

### 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, 2023 and 2022:

December 31, 2023	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
Impaired loans	\$ -	\$ -	\$ 4,123,622	\$ 4,123,622
OREO	\$ -	\$ -	\$ -	\$ -

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 15. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

December 31, 2022	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
Impaired loans	\$ -	\$ -	\$ 7,425,174	\$ 7,425,174
OREO	\$ -	\$ -	\$ -	\$ -

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, 2023.

## NOTE 16. 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.

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, 2023 and 2022, service charges and fees on deposit accounts was \$433,619 and \$110,751, respectively.

## NOTE 16. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

**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, 2023 and 2022, interchange income was \$428,940 and \$411,351, 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, 2023 and 2022, the net gain (loss) on the sale of OREO was \$0 and \$0, respectively.

## NOTE 17. EMPLOYEE RETENTION CREDIT

The CARES Act provides an employee retention credit which is a refundable tax credit against certain employment taxes per employee for eligible employers. The Company qualified for the tax credit under the CARES Act. During the fiscal year ended December 31, 2022, the Company recorded \$1,211,656 related to the CARES Act employee retention credit in other income on the Consolidated Statements of Income. As of December 31, 2023, the Company had a \$389,843 receivable balance from the United States government related to the employee retention credit, which is recorded in other assets on the Consolidated Balance Sheets.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 18. PARENT COMPANY FINANCIAL INFORMATION

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

BALANCE SHEETS	December 31,	
	2023	2022
ASSETS		
Cash	\$ 101,744	\$ 156,339
Investment in Putnam County Bank	71,749,702	89,376,143
Investment in Putnam County Title Insurance Agency	45,201	42,866
<b>TOTAL ASSETS</b>	<b>\$ 71,896,647</b>	<b>\$ 89,575,348</b>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ -	\$ 26,502
Income taxes payable	-	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>26,502</b>
STOCKHOLDERS' EQUITY	71,896,647	89,548,846
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 71,896,647</b>	<b>\$ 89,575,348</b>
STATEMENTS OF INCOME		
	Years Ended	
	2023	2022
INCOME	\$ 25,201,200	\$ 2,040,000
EXPENSES:		
Operating expenses	28,093	11,516
Income before income tax benefit and equity in undistributed earnings of subsidiaries	25,173,107	2,028,484
Applicable income taxes	-	-
Income before equity in undistributed earnings of subsidiaries	25,173,107	2,028,484
Equity in undistributed earnings of subsidiaries	(20,665,214)	3,863,941
<b>Net income</b>	<b>\$ 4,507,893</b>	<b>\$ 5,892,425</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 18. PARENT COMPANY FINANCIAL INFORMATION (continued)

STATEMENTS OF CASH FLOWS	Years Ended	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 4,507,893	\$ 5,892,425
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	20,665,214	(3,863,941)
Increase/(decrease) in accounts payable	(26,502)	26,502
Increase/(decrease) in income taxes payable	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>25,146,605</u>	<u>2,054,986</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	<u>(25,201,200)</u>	<u>(2,040,000)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(25,201,200)</u>	<u>(2,040,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(54,595)	14,986
CASH AND CASH EQUIVALENTS, BEGINNING	<u>156,339</u>	<u>141,353</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 101,744</u>	<u>\$ 156,339</u>

# OFFICERS & EMPLOYEES

**JOHN R. WILSON, JR.**

President / Chief Executive Officer

**ALLISON W. JONES**

Executive Vice President

**MATTHEW B. CALL**

Senior Vice President/Chief Loan Officer

**MICHELLE M. DAUGHERTY**

Senior Vice President/Chief Credit Officer

**GREG M. MICK**

Senior Vice President/Chief Operations Officer

**PHILLIP J. BALL**

Senior Vice President/Chief Financial Officer

**LEIGH A. SHIRKEY**

Senior Auditor / Compliance Officer

**TIMOTHY A. PAXTON**

Vice President / Commercial Loan Officer

**A. KAYE TURLEY**

Assistant Vice President/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

**KELLY L. SHAW**

Branch Manager

**GARY L. FLETCHER**

Branch Manager

**THOMAS P. SCHMADER, IV**

Assistant Vice President / Commercial Loan Officer

**KATIE M. ALLEN**

Assistant Vice President / Consumer Loan Officer

**CORY B. KIDDER**

Assistant Vice President / Commercial Loan Officer

**DANNY G. MORRIS**

Consumer Loan Officer

**MARGIE M. WHITE**

Consumer Loan Officer

**DEVYN L. SMITH**

Consumer Loan Officer

**REBECCA L. FOSTER**

Vault Manager

**TINA M. LEADMON**

Paying & Receiving

**DENISE D. EDWARDS**

Accounting

**RHONDA L. FAIRCHILD**

Electronic Banking

**PENNY L. COLLIER**

Proof Operations

**DEBORAH R. MILTON**

Loan Operations

**TAMMY J. SOVINE**

Data Process Verification

**TINA M. ELLISON**

Bookkeeping

**JOY M. PERSINGER**

Paying & Receiving

**BETTY J. MORRIS**

Paying & Receiving

**SUZANNE A. CRAIGO**

Proof Operations

**KERA D. TAYLOR**

Audit Clerk

**CHERYL L. HALSTEAD**

Paying & Receiving

**BRYAN J. MCCALLISTER**

Bank Secrecy Assistant

**RETHA A. LEMON**

Paying & Receiving

**JONATHAN S. FISHER, II**

Senior Credit Analyst

**JAMES S. CONIFF**

Evaluations / Appraisal Review

**JANET F. BENJAMIN**

Paying & Receiving

**MARY B. JORDAN**

Bookkeeping Manager

**ELIZABETH H. HANDLEY**

Paying & Receiving

**BRUCE A. SCARBERRY**

Building Maintenance

**PATRICIA J. THOMASSON**

Accounting Clerk

**ASHLEY R. FAIN**

Bookkeeping

**MICHELLE R. JVIDEN**

Assistant Branch Manager

**SHANNA N. WICKLINE**

Loan Operations

**CLAYTON E. WILLIS**

Construction Loan Manager

**D. ERIC HAYSLETT**

Special Projects Manager

**CHARLES H. PEAK, III**

Credit Administrator

**DAWN R. MORGAN**

Assistant Branch Manager

**ANNDREA D. SPANGLER**

Assistant Vice President / Customer Service Representative

**RYAN L. EARY**

Assistant Branch Manager

**PENNY L. MCKINLEY**

Loan Receptionist

**SHEILA M. YOUNG**

Loan Operations

**JOSEPH E. HENSON**

Bookkeeping

**SARAH E. SHIRKEY**

Electronic Banking

**MICHELLE L. VANCE**

Bookkeeping

**SANDRA L. SOWARDS**

Paying & Receiving

**ELIZABETH A. ELLISON**

Loan Operations

**ELIZABETH E. JAYNES-HOBSTETTER**

Loan Operations

**BRITTANY N. NELSON**

Paying & Receiving

**DUSTIN R. PENDLEBERRY**

Paying & Receiving

**JAMES R. HOLSTINE**

Senior Credit Analyst

**RYAN M. WINGO**

Accounting

**HANNA L. HUNT**

Loan Operations

**BRIAN E. DONOHOE**

Loan Operations

**RUSSELL R. AKERS II**

Senior Credit Analyst

**DYLAN R. QUENTRILL**

Paying & Receiving

**BRYCE A. RAINES**

Credit Analyst

**LINDA M. SULLIVAN**

Paying & Receiving

**TAYLOR B. BARNETT**

Paying & Receiving

**REBECCA J. RUNION**

Paying & Receiving



# BOARD OF DIRECTORS

**TIM HAYSLETT**

Chair of the Board  
President / Hayslett Construction Company

**ROGER HAYSLETT**

Vice President / Hayslett Construction Company

**STEPHEN HODGES, JR.**

President / Stephen Hodges Home Builders, Inc.

**ALLISON W. JONES**

Executive Vice President

**JOHN R. WILSON, JR.**

President / Chief Executive Officer

**BETH WILLIAMSON**

Owner / Halfway Market and Milton Flea Market

**GLEN YEAGER**

Member / Yeager Land, LLC

**GARY D. YOUNG**

President / G & G Builders, Inc.







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