Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, John R. Wilson, Jr.
Name of the Holding Company Director and Official

President
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

John R. Wilson, Jr.
Signature of Holding Company Director and Official

03/25/2020
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- ☐ is included with the FR Y-6 report
- ☒ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2019
Month / Day / Year

254900LEETLF2JGNOU79
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

PUTNAM BANCSHARES, INC.
Legal Title of Holding Company

P. O. BOX 308
(Mailing Address of the Holding Company) Street / P.O. Box

HURRICANE	WV	25526-0308
City	State	Zip Code

2761 MAIN STREET
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

JOHN R. WILSON, JR.	PRESIDENT
Name	Title

304/562-9931/1257
Area Code / Phone Number / Extension

304/562-2642
Area Code / FAX Number

JWILSONJR@PUTCOBK.COM
E-mail Address

WWW.PUTCOBK.COM
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes **0**

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... ☐
2. a letter justifying this request has been provided separately ... ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

NOT APPLICABLE

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

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City State Zip Code

Physical Location (if different from mailing address)

FORM FR Y-6

PUTNAM BANCSHARES, INC.
HURRICANE, WEST VIRGINIA

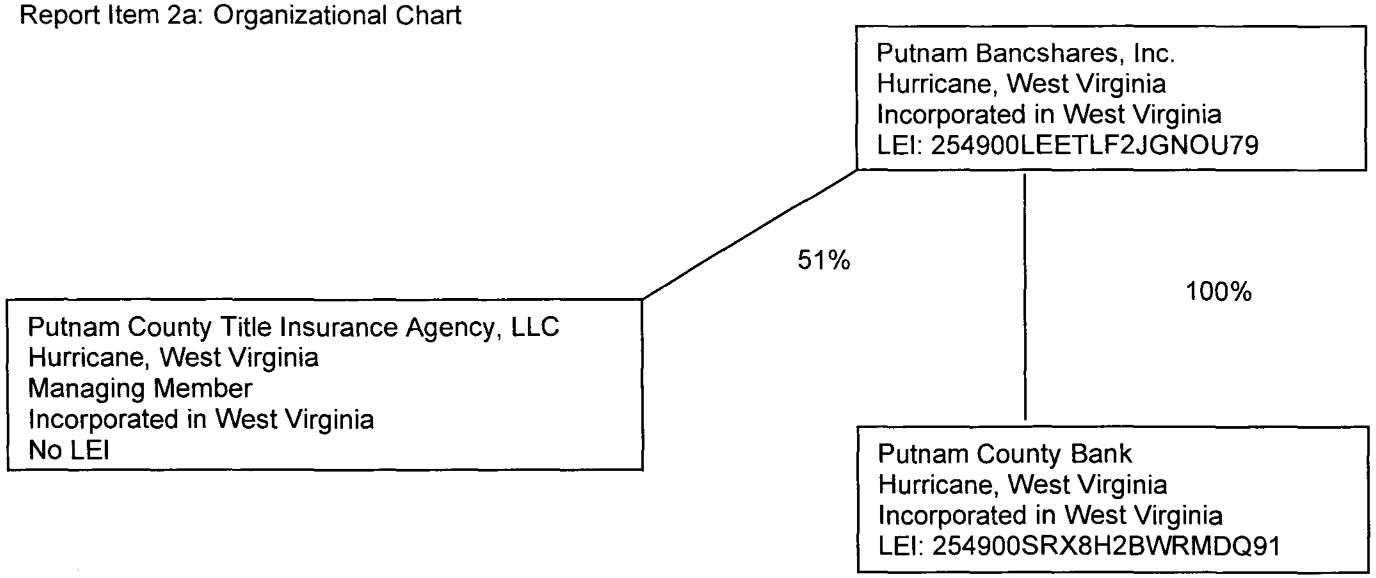
FISCAL YEAR ENDING DECEMBER 31, 2019

Report Item 1: Annual Report to Shareholders

Putnam Bancshares, Inc. is not registered with the Securities Exchange Commission and, as such, does not file a Form 10-K.

Putnam Bancshares, Inc. prepares an annual report for its shareholders and for public distribution. The 2019 annual report has not been completed at this time and will be forwarded to your office as soon as available. Putnam Bancshares, Inc. has engaged an independent CPA firm to prepare audited financial statements as of December 31, 2019 which will appear in the 2019 annual report. These statements will include all footnotes.

Report Item 2a: Organizational Chart



Results: A list of branches for your depository institution: PUTNAM COUNTY BANK (ID_RSSD: 417626).
This depository institution is held by PUTNAM BANCSHARES, INC. (1139804) of HURRICANE, WV.
The data are as of 12/31/2019. Data reflects information that was received and processed through 03/05/2020.

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	417626	PUTNAM COUNTY BANK	2761 MAIN STREET	HURRICANE	WV	25526	PUTNAM	UNITED STATES	Not Required	Not Required	PUTNAM COUNTY BANK	417626	
OK		Full Service	1161403	INTERSTATE BRANCH	300 HURRICANE CREEK ROAD	HURRICANE	WV	25526	PUTNAM	UNITED STATES	Not Required	Not Required	PUTNAM COUNTY BANK	417626	
OK		Full Service	1926349	VALLEY BRANCH	3058 MOUNT VERNON ROAD	HURRICANE	WV	25526	PUTNAM	UNITED STATES	Not Required	Not Required	PUTNAM COUNTY BANK	417626	

ANNUAL REPORT OF BANK HOLDING COMPANIES
FORM FR Y-6

PUTNAM BANCSHARES, INC.
HURRICANE, WEST VIRGINIA
FISCAL YEAR ENDING DECEMBER 31, 2019

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Report Item 2b: Domestic Branch Listing

The Domestic Branch Listing was verified as accurate by the Reporter as of December 31, 2019 and submitted via email to FRB Richmond on 3/24/2020 at 1:11 pm.

Report Item 3: Securities Holders

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of 12/31/2019

(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities
J. R. Wilson Hurricane, WV, USA	USA	164,021 – 27.34% Common Stock
Edward Allen Bell Scott Depot, WV, USA	USA	48,534 – 8.09% Common Stock
Walter T. Hayslett Hurricane, WV USA	USA	41,370 – 6.90% Common Stock
Boyd L. Meadows Trust Milton, WV, USA	USA	34,332 – 5.72% Common Stock

ANNUAL REPORT OF BANK HOLDING COMPANIES
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PUTNAM BANCSHARES, INC.
HURRICANE, WEST VIRGINIA
FISCAL YEAR ENDING DECEMBER 31, 2019
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Report Item 3: Securities Holders - Continued

Shareholders not listed in (3)(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year of 12/31/2019

(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
NONE		

Report Item 4: Insiders

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of Other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held
W. Timothy Hayslett Hurricane, WV, USA	Construction	Director	Director-Putnam County Bank	President-Hayslett Construction Co.	6.90%	None	Hayslett Construction Co. – 100%

ANNUAL REPORT OF BANK HOLDING COMPANIES
FORM FR Y-6

PUTNAM BANCSHARES, INC.
HURRICANE, WEST VIRGINIA
FISCAL YEAR ENDING DECEMBER 31, 2019
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Report Item 4: Insiders - Continued

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of Other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held
Roger T. Hayslett Hurricane, WV, USA	Construction	Director	Director-Putnam County Bank	Vice President-Hayslett Construction Co.	.17%	None	None
Stephen Hodges Scott Depot, WV, USA	Home Builder	Director	Director-Putnam County Bank	President-Hodges Homebuilders, Inc.	2.50%	None	Hodges Homebuilders, Inc. – 100%
Allison W. Jones Hurricane, WV, USA	N/A	Executive Vice President, Treasurer and Director	Executive Vice President and Director-Putnam County Bank	None	.23%	None	None

ANNUAL REPORT OF BANK HOLDING COMPANIES
FORM FR Y-6

PUTNAM BANCSHARES, INC.
HURRICANE, WEST VIRGINIA
FISCAL YEAR ENDING DECEMBER 31, 2019

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Report Item 4: Insiders - Continued

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Roger K. Randolph Scott Depot, WV, USA	Engineer	Director	Director-Putnam County Bank	President-Randolph Engineering Co.	.33%	None	Randolph Engineering Co.- 50%; Teays Valley Storage - 50%; Teays River Construction-25%; DARR Development - 25%; CR Development-25%; RDS Corp – 50%.
J. R. Wilson Hurricane, WV, USA	N/A	Chairman of the Board	Chairman of the President Putnam County Bank	N/A	27.34%	None	N/A
John R. Wilson, Jr. Scott Depot, WV, USA	N/A	President and Director	President and Director-Putnam County Bank	N/A	2.21%	None	N/A

ANNUAL REPORT OF BANK HOLDING COMPANIES
FORM FR Y-6

PUTNAM BANCSHARES, INC.
HURRICANE, WEST VIRGINIA
FISCAL YEAR ENDING DECEMBER 31, 2019

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Report Item 4: Insiders - Continued

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Glen Yeager Winfield, WV, USA	Real Estate	Director	Director-Putnam County Bank	President-Yeager Land LLC	.50%	None	Yeager Land LLC–50%;

ANNUAL REPORT OF BANK HOLDING COMPANIES
FORM FR Y-6

PUTNAM BANCSHARES, INC.
HURRICANE, WEST VIRGINIA
FISCAL YEAR ENDING DECEMBER 31, 2019

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Report Item 4: Insiders - Continued

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of Other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held
Gary D. Young Winfield, WV, USA	Construction	Director	Director-Putnam County Bank	President-G & G Builders, Inc.	2.26%	None	GDY, LLC–100%; G & G Builders, Inc.–100%; Fourever Young LTD Partnership – 51%; G & G Investments LLC - 100%; Keystone LLC – 60%; Cobblestone Subdivision, LLC – 100%; No S Properties LLC – 69%; Visionary Properties LLC – 100%; ABCG Properties LLC – 60%; ABG Properties LLC – 80%

END OF REPORT

PUTNAM BANCSHARES, INC. & SUBSIDIARIES

2019

Annual Financial Report

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

HESS, STEWART & CAMPBELL, PLLC

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

DARRELL D. TUCKER, CPA
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Putnam Bancshares, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Putnam Bancshares, Inc. and Subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hess, Stewart & Campbell, PLLC

Huntington, West Virginia
March 12, 2020

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

ASSETS	**2019**	**2018**
Cash and due from banks	$ 17,375,152	$ 15,822,270
Federal funds sold	66,669,340	56,318,480
Cash and cash equivalents	84,044,492	72,140,750
Investment debt securities available-for-sale, at fair value	43,298,961	27,698,677
Investment debt securities held-to-maturity, at amortized cost	117,055,402	137,869,021
Investment equity securities, at fair value	1,467,076	1,424,252
Federal Reserve Bank stock, at cost	39,000	39,000
Loans	345,398,805	348,014,621
Allowance for loan losses	(4,948,597)	(5,265,757)
Net loans	340,450,208	342,748,864
Bank premises and equipment, net	888,532	608,009
Other real estate owned	15,000	1,009,663
Accrued interest receivable	1,016,865	1,018,672
Other assets	2,757,380	3,643,034
TOTAL ASSETS	$ 591,032,916	$ 588,199,942
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 69,479,203	$ 62,852,494
Interest-bearing	424,132,341	432,993,721
Total deposits	493,611,544	495,846,215
Accrued interest payable	1,645,098	1,245,816
Other liabilities	5,446,823	3,772,055
TOTAL LIABILITIES	500,703,465	500,864,086
STOCKHOLDERS' EQUITY		
Common stock, $0.50 par value, 1,200,000 shares authorized, 600,000 shares issued and outstanding	300,000	300,000
Additional paid-in capital	1,000,000	1,000,000
Retained earnings	91,764,665	88,926,682
Accumulated other comprehensive income	(2,735,214)	(2,890,826)
TOTAL STOCKHOLDERS' EQUITY	90,329,451	87,335,856
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 591,032,916	$ 588,199,942

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

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
INTEREST INCOME		
Interest and fees on loans	$ 17,774,082	$ 18,470,589
Interest and dividends on investment securities:		
Available-for-sale	805,312	985,736
Held-to-maturity	2,911,232	2,080,248
Federal Reserve Bank	160,115	151,335
Interest on federal funds sold	1,181,123	928,449
Total interest income	22,831,864	22,616,357
INTEREST EXPENSE		
Interest on deposits	5,726,515	4,675,422
NET INTEREST INCOME	17,105,349	17,940,935
PROVISION FOR LOAN LOSSES	788,216	5,807,258
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,317,133	12,133,677
NONINTEREST INCOME		
Service fees	447,896	412,739
Securities gains (losses)	-	(338,145)
Rental income	13,000	51,348
Other income	9,129	3,465
Total noninterest income	470,025	129,407
NONINTEREST EXPENSES		
Salaries and employee benefits	6,171,515	5,999,653
Equipment and occupancy expenses	483,068	471,475
Data processing	1,020,702	1,104,291
Insurance	343,456	244,706
Professional fees	916,805	869,606
Other real estate operational losses	674,204	928,333
Directors' fees	264,000	262,000
Other expenses	952,282	1,085,206
Total noninterest expenses	10,826,032	10,965,270
INCOME BEFORE INCOME TAX	5,961,126	1,297,814
INCOME TAX EXPENSE	1,323,143	291,593
NET INCOME	$ 4,637,983	$ 1,006,221

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

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Net income	$ 4,637,983	$ 1,006,221
Other comprehensive income:		
Unrealized (losses) gains on available-for-sale securities, net of income taxes of ($149,571) in 2019 and $125,045 in 2018	469,515	(392,525)
Reclassification adjustment for (gains) losses realized, net of income taxes (benefit) of $0 in 2019 and ($81,696) in 2018	-	256,449
Change in underfunded pension liability, net of income taxes (benefit) of ($99,999) in 2019 and $52,088 in 2018	(313,903)	163,509
Other comprehensive income, net of tax	155,612	27,433
Comprehensive income	$ 4,793,595	$ 1,033,654

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

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
BALANCE, December 31, 2017	$ 300,000	$ 1,000,000	$ 89,660,461	$ (2,918,259)	$ 88,042,202
Net income	-	-	1,006,221	-	1,006,221
Other comprehensive income	-	-	-	27,433	27,433
Dividends, $2.90 per share	-	-	(1,740,000)	-	(1,740,000)
BALANCE, December 31, 2018	300,000	1,000,000	88,926,682	(2,890,826)	87,335,856
Net income	-	-	4,637,983	-	4,637,983
Other comprehensive income	-	-	-	155,612	155,612
Dividends, $3.00 per share	-	-	(1,800,000)	-	(1,800,000)
BALANCE, December 31, 2019	$ 300,000	$ 1,000,000	$ 91,764,665	$ (2,735,214)	$ 90,329,451

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

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,637,983	$ 1,006,221
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	130,762	126,687
Deferred income taxes (benefits)	357,129	60,467
Provision for loan losses	788,216	5,807,258
Equity in earnings of unconsolidated subsidiary, net of distributions	(4,932)	16,600
Net premium amortization on investment securities	(2,794,697)	(2,186,387)
Gain on sale of bank premises and equipment	-	(13,711)
Gain on sale of securities	-	338,145
Loss on sale of OREO	879,746	686,961
Change in carrying value in OREO	-	204,823
(Increase) decrease in:		
Interest receivable	1,807	410,935
Other assets	483,885	147,493
Increase (decrease) in:		
Interest payable	399,282	190,106
Other liabilities	1,260,865	244,404
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	6,140,046	7,040,002
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of available-for-sale securities	14,907,486	35,277,093
Purchases of available-for-sale securities	(30,048,042)	-
Proceeds from maturities of held-to-maturity securities	267,500,000	212,000,000
Purchases of held-to-maturity securities	(243,775,149)	(256,247,314)
Proceeds from sale of equipment	-	58,000
Purchases of bank premises and equipment	(411,285)	(198,746)
Proceeds from sale of other real estate owned	1,222,699	4,550,610
Purchases of other real estate owned	-	(58,249)
Net (increase) decrease in loans	402,658	37,191,102
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	9,798,367	32,572,496

PUTNAM BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits	$ 7,848,414	$ (6,998,435)
Net increase (decrease) in time deposits	(10,083,085)	(25,472,530)
Cash dividends paid	(1,800,000)	(1,740,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(4,034,671)	(34,210,965)
NET CHANGE IN CASH AND CASH EQUIVALENTS	11,903,742	5,401,533
CASH AND CASH EQUIVALENTS, BEGINNING	72,140,750	66,739,217
CASH AND CASH EQUIVALENTS, ENDING	$ 84,044,492	$ 72,140,750
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest on deposits and borrowings	$ 5,327,233	$ 4,485,316
Cash paid for income taxes	$ 420,300	$ -
SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES		
Loans transferred to foreclosed properties	$ 1,107,782	$ 4,655,539

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

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

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

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

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

Principles of consolidation: The consolidated statements include the accounts of Putnam Bancshares, Inc. and its wholly-owned subsidiary, Putnam County Bank. All significant intercompany balances and transactions have been eliminated.

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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

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

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

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

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

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

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

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

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

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

Any security that has experienced a decline in value, which management deems other-than-temporary, is reduced to its estimated fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Realized gains and losses on sales of securities are recognized using the specific-identification method. Amortization of premiums and accretion discounts are computed using the effective interest rate method.

Investment in limited liability company: The Company entered into an agreement with other individuals to form Putnam County Title Insurance Agency, LLC. The Company has a controlling interest in the LLC, owning 51%. The equity method was used in accounting for the LLC. See Note 16 for additional information.

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

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

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

Generally, loans are placed on nonaccrual status when principal or interest is greater than 90 days past due based upon the loan's contractual terms, unless such loans are well secured and in the process of collection. Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt. Interest on nonaccrual loans is recognized primarily using the cost-recovery method.

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

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

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

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

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

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

Off-balance sheet financial instruments: In the ordinary course of business, the Bank enters into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

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

Buildings and improvements	10-40 years
Equipment, fixtures and vehicles	3-10 years

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

Repairs, maintenance and minor improvements are charged to occupancy and equipment expense as incurred. Major improvements and additions to premises and equipment are capitalized. Gains or losses on disposition, if any, are included in current operations.

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

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

Advertising costs: Advertising costs are expensed as incurred and included in other operating expenses. Advertising expense was $133,077 and $140,063 for the years ended December 31, 2019 and 2018, respectively.

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

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

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

Income taxes: Putnam Bancshares, Inc. and its subsidiary file a consolidated federal income tax return. Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of the allowances for loan losses, unfunded pension liability and unrealized gains/losses on available-for-sale securities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the deferred tax assets or liabilities are expected to be settled or realized. Valuation allowances are established when deemed necessary to reduce deferred tax assets to the amount expected to be realized within a short term.

Other comprehensive income: Accounting principles generally require that recognized revenue, expenses, and gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and amortization of deferred gains and losses associated with the Company's pension plan, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of other comprehensive income. The components of other comprehensive income and related tax effects are presented within the Consolidated Statements of Comprehensive Income.

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.

		2019		2018
Net income	$	4,637,983	$	1,006,221
Earnings per common share	$	7.73	$	1.68
Divdends paid per common share	$	3.00	$	2.90

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

Date of management's review of subsequent events: Management has evaluated subsequent events through March 12, 2020, the date which the financial statements were available to be issued.

Accounting pronouncements adopted: The following is a summary of authoritative pronouncements that the Company adopted in 2019.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to replace a wide range of industry-specific rules with a broad, principles-based framework for recognizing and measuring revenue from contracts with customers. The guidance is codified at FASB ASC 606. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Company's revenue is composed of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of the Company's revenues were not affected. ASU 2014-09, which was adopted on January 1, 2019 using the modified retrospective approach, did not have a material impact on the Company's financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. The guidance also changes certain disclosure requirements and other aspects of current accounting principles. Adoption of ASU 2016-01, which was effective for the Company on January 1, 2019, did not have a material impact on the Company's financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which provides financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. Adoption of ASU 2018-02 was effective for the Company on January 1, 2019. The Company has not elected to reclassify income tax effects of the Tax Cuts and Jobs Act on items within accumulated other comprehensive income to retained earnings.

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, 2019 and 2018 was $7,903,000 and $8,015,000, respectively. At December 31, 2019 and 2018, the Bank had accounts at correspondent banks, excluding the Federal Reserve Bank, which exceeded the FDIC insurable limit of $250,000 by $2,307,466 and $1,492,797, respectively.

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

NOTE 3. SECURITIES

The amortized gains, unrealized losses and estimated fair values of securities at December 31, 2019 and 2018, are as follows:

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government treasuries	$ -	$ -	$ -	$ -
U.S. Government agencies	40,139,264	302,731	(23,959)	40,418,036
Municipal bonds	2,815,557	65,368	-	2,880,925
Total available-for-sale	$ 42,954,821	$ 368,099	$ (23,959)	$ 43,298,961
Held-to-maturity:				
U.S. Government treasuries	$ 117,055,402	$ 60,101	$ (75)	$ 117,115,428
Equity:				
Mutual funds	$ 1,500,000	$ -	$ (32,924)	$ 1,467,076

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government treasuries	$ 4,999,269	$ -	$ (13,329)	$ 4,985,940
U.S. Government agencies	20,116,204	-	(144,304)	19,971,900
Municipal bonds	2,815,327	15,597	(90,087)	2,740,837
Total available-for-sale	$ 27,930,800	$ 15,597	$ (247,720)	$ 27,698,677
Held-to-maturity:				
U.S. Government treasuries	$ 137,869,021	$ 9,868	$ (53,414)	$ 137,825,475
Equity:				
Mutual funds	$ 1,500,000	$ -	$ (75,748)	$ 1,424,252

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.

	2019	2018
Proceeds from sales of available-for-sale securities	$ -	$ 14,985,430
Gross realized gains	$ -	$ -
Gross realized losses	$ -	$ 338,145

The scheduled maturities of securities at December 31, 2019, 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.

NOTE 3. SECURITIES (continued)

	Available-for-sale securities		Held-to-maturity securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 9,979,878	$ 10,012,029	$ 117,055,402	$ 117,115,428
Due after one year through five years	30,159,386	30,406,007	-	-
Due after five years through ten years	-	-	-	-
Due after ten years	2,815,557	2,880,925	-	-
Totals	$ 42,954,821	$ 43,298,961	$ 117,055,402	$ 117,115,428

At December 31, 2019 and 2018, the carrying value of securities pledged to secure public funds totaled $75,625,000 and $76,650,000, respectively. At December 31, 2019 and 2018, the estimated fair values totaled $75,730,307 and $76,039,569, respectively, and were pledged to secure public deposits and for other purposes as required or permitted by law.

Impairment is evaluated considering numerous factors, and their relative significance varies from case to case. Factors considered include the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in market value. If, based on the analysis, it is determined that the impairment is other-than-temporary, the security is written down to fair value, and a loss is recognized through earnings. There were no other-than-temporary impairment losses for the years ended December 31, 2019 and 2018.

The Bank had one available-for-sale security, one held-to-maturity security, and three equity securities with an unrealized loss position at December 31, 2019. These securities are predominately rated investment grade securities and the unrealized losses are due to overall market interest rate fluctuations and not due to any underlying credit concerns of the issuers. The Bank has the intent and ability to hold such investments until maturity or market price recovery. Accordingly, the Bank has concluded that none of the securities in its investment portfolio are other-than-temporarily impaired at December 31, 2019.

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

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
December 31, 2019						
Available-for-sale:						
U.S. Government treasuries	$ -	$ -	$ -	$ -	$ -	$ -
U.S. Government agencies	5,078,545	(23,959)	-	-	5,078,545	(23,959)
Municipal bonds	-	-	-	-	-	-
Total available-for-sale	$ 5,078,545	$ (23,959)	$ -	$ -	$ 5,078,545	$ (23,959)
Held-to-maturity:						
U.S. Government treasuries	$ 2,482,825	$ (75)	$ -	$ -	$ 2,482,825	$ (75)
Equity:						
Mutual funds	$ -	$ -	$ 1,467,076	$ (32,924)	$ 1,467,076	$ (32,924)

NOTE 3. SECURITIES (continued)

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
December 31, 2018						
Available-for-sale:						
U.S. Government treasuries	$ -	$ -	$ 4,985,940	$ (13,329)	$ 4,985,940	$ (13,329)
U.S. Government agencies	4,934,215	(30,329)	15,037,685	(113,975)	19,971,900	(144,304)
Municipal bonds	905,240	(90,087)	-	-	905,240	(90,087)
Total available-for-sale	$ 5,839,455	$ (120,416)	$ 20,023,625	$ (127,304)	$ 25,863,080	$ (247,720)
Held-to-maturity:						
U.S. Government treasuries	$ 72,835,309	$ (53,414)	$ -	$ -	$ 72,835,309	$ (53,414)
Equity:						
Mutual funds	$ -	$ -	$ 1,424,252	$ (75,748)	$ 1,424,252	$ (75,748)

Restricted investments, at cost

Federal Reserve Bank stock, which represents a required investment in the common stock of the Federal Reserve Bank (FRB), is carried at cost as a restricted long-term investment at December 31, 2019 and 2018. The balance for FRB stock at December 31, 2019 and 2018 totaled $39,000.

NOTE 4. LOANS

The following table summarizes the components of the Bank's loan portfolio as of December 31, 2019 and 2018:

	2019	2018
Loans		
Commercial	$ 110,361,853	$ 95,745,975
Real estate	208,897,614	212,337,449
Construction	16,631,182	24,299,855
Other	9,508,156	15,631,342
Total loans	345,398,805	348,014,621
Less allowance for loan losses	(4,948,597)	(5,265,757)
Loans, net	$ 340,450,208	$ 342,748,864

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.

NOTE 4. LOANS (continued)

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

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

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

The following tables present the contractual aging of the recorded investment in past due loans as of December 31, 2019 and 2018:

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

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

NOTE 4. LOANS (continued)

The following table presents the non-accrual loans included in the net balance of loans at December 31, 2019 and 2018, respectively.

	2019	2018
Commercial	$ 5,772,386	$ 6,760,196
Real estate	2,443,980	7,512,924
Construction	213,013	1,700,950
Other	618	26,442
Totals	$ 8,429,997	$ 16,000,512

If interest on non-accrual loans had been accrued, such income would have approximated $776,559 and $1,889,541 for the years December 31, 2019 and 2018, 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.

NOTE 4. LOANS (continued)

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

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

	December 31, 2018				
	Commercial	Real estate	Construction	Other	Total
Pass	$ 71,384,498	$ 197,709,414	$ 21,241,266	$ 12,096,978	$ 302,432,156
Special mention	8,853,570	1,392,107	197,096	3,215,149	13,657,922
Substandard	15,507,907	13,235,928	2,861,493	319,215	31,924,543
Doubtful	-	-	-	-	-
Totals	$ 95,745,975	$ 212,337,449	$ 24,299,855	$ 15,631,342	$ 348,014,621

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 2019 and 2018:

	2019	2018
Balances - January 1,	$ 11,860,723	$ 11,812,749
New loans	983,364	1,353,213
Repayments	(3,045,340)	(1,305,239)
Balances - December 31,	$ 9,798,747	$ 11,860,723

NOTE 4. LOANS (continued)

The following is a summary of impaired loans by class at December 31, 2019 and 2018:

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

NOTE 4. LOANS (continued)

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

NOTE 5. ALLOWANCE FOR LOAN LOSSES

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

Specific Reserve for Loans Individually Evaluated

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

Once determined to be impaired, impairment will be measured by the present value of expected cash flow at the loan's effective interest rate, less the fair value of the loans' collateral and costs to sell. Loans determined to be impaired will be identified and listed individually with the impairment measurement amount (even if the amount is zero). These loans will be deducted from the appropriate loan pool when calculating the estimated loss under ASC 450-10.

NOTE 5. ALLOWANCE FOR LOAN LOSSES (continued)

Quantitative Reserve for Loans Collectively Evaluated

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

Qualitative Reserve for Loans Collectively Evaluated

The Bank also considers the necessity to adjust the average historical net loan charge-off rates relative to each of the above loan pools for potential risk factors that could result in actual losses deviating from prior loss experience. Such qualitative risk factors considered are: (1) levels of and trends in delinquencies and impaired loans, (2) effects of any changes in the quality of the loan review system and findings, (3) trends in volume and term of loans, (4) effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures, and practice, (5) experience, ability, and depth of lending management and other relevant staff, (6) national and local economic trends and conditions, (7) industry conditions such as competition and legal and regulatory requirements, (8) effects of changes in credit concentrations, and (9) effects of changes in the value of underlying collateral.

Activity in the allowance for loan losses by loan class for the years ended December 31, 2019 and 2018 is as follows:

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

NOTE 5. ALLOWANCE FOR LOAN LOSSES (continued)

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

Both commercial and consumer loans are deemed impaired upon being contractually modified in a troubled debt restructuring ("TDR"). TDRs typically result from loss mitigation activities and occur when the Bank grants a concession to a borrower who is experiencing financial difficulty in order to minimize the loss. The modifications to the Company's TDRs for the years ended December 31, 2019 and 2018 were concessions on the interest rate charged and paying real estate taxes. The effect of the modifications to the Company was a reduction in interest income. Once restructured in a TDR, a loan is generally considered impaired until its maturity, regardless of whether the borrower performs under the modified terms. Although such a loan may be returned to accrual status if all principal and interest is paid to date, the loan would continue to be evaluated for an asset-specific allowance for loan losses.

The following tables present TDRs, modified by class at December 31, 2019 and 2018:

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

NOTE 5. ALLOWANCE FOR LOAN LOSSES (continued)

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

Default occurs when payments are not received in accordance with terms specified in the loan document, which may result in the loan being fully or partially charged-off. For the year ended December 31, 2019, there was one restructured commercial loan that subsequently defaulted resulting in a principal charge-off of $85,565 and one restructured mortgage loan that subsequently defaulted resulting in a principal charge-off of $158,120. For the year ended December 31, 2018, there were two restructured commercial loans that subsequently defaulted resulting in principal charge-offs of $90,556.

NOTE 6. BANK PREMISES AND EQUIPMENT

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

	2019	2018
Buildings and improvements	$ 2,157,173	$ 1,869,786
Furniture and fixtures	1,829,013	1,748,937
Vehicles	239,909	228,865
	4,226,095	3,847,588
Less: accumulated depreciation	(3,538,023)	(3,440,039)
	688,072	407,549
Land	200,460	200,460
Bank premises and equipment, net	$ 888,532	$ 608,009

Depreciation expense for the years ended December 31, 2019 and 2018, totaled $130,762 and $126,687, respectively, and is included in equipment and occupancy expense in the Consolidated Statements of Income.

The Bank has entered into a noncancelable lease agreement with a related party, consummated at arm's length, for its Teays Valley branch. Rent expense for the operating lease approximated $73,437 and $73,437 for the years ended December 31, 2019 and 2018, respectively. The minimum annual rental commitment under this lease, exclusive of taxes and other charges, payable by the lessee at December 31, 2019, is as follows:

Year	Amount
2020	$ 73,437
2021	73,437
2022	67,317
2023	-
2024 and thereafter	-
Total	$ 214,191

NOTE 7. DEPOSITS

The following is a summary of major categories of deposits at December 31, 2019 and 2018:

	2019	2018
Non-interest bearing	$ 69,479,203	$ 62,852,494
Interest bearing:		
Time deposits under $250,000	187,854,415	199,160,986
Time deposits greater than or equal to $250,000	84,764,648	83,541,162
Total time deposits	272,619,063	282,702,148
Money market	116,795,330	117,855,306
Savings	34,717,948	32,436,267
Total interest bearing deposits	424,132,341	432,993,721
Total deposits	$ 493,611,544	$ 495,846,215

Scheduled maturities of time and certificates of deposit at December 31, 2019, are as follows:

Year	Amount
2020	$ 148,528,185
2021	48,280,770
2022	10,203,489
2023 and thereafter	65,606,619
Total	$ 272,619,063

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 $54,564,168 and $50,243,274 at December 31, 2019 and 2018, respectively.

NOTE 8. INCOME TAXES

The components of applicable income tax expense (benefit) for the years ended December 31, 2019 and 2018, are summarized as follows:

	2019	2018
Current expense:		
Federal	$ 865,796	$ 205,654
State	100,218	25,472
Total current	966,014	231,126
Deferred expense:		
Federal	293,455	50,420
State	63,674	10,047
Total deferred	357,129	60,467
Income tax expense	$ 1,323,143	$ 291,593

NOTE 8. INCOME TAXES (continued)

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2019 and 2018, are as follows:

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 1,195,580	$ 1,272,207
Defined benefit plan	880,989	770,500
Nonaccrual interest	187,617	456,513
Unrealized loss on available-for-sale securities	-	74,381
OREO write-downs	-	49,485
Total deferred tax assets	2,264,186	2,623,086
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	(75,190)	-
Depreciation and amortization	-	(27,500)
Total deferred tax liabilities	(75,190)	(27,500)
Net deferred tax assets	$ 2,188,996	$ 2,595,586

No valuation allowance for deferred tax assets was recorded at December 31, 2019 and 2018, as the Company believes it is more likely than not that all of the deferred tax assets will be realized because they were supported by recoverable taxes paid in prior years.

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

	2019	2018
Federal statutory rate	$ 1,251,836	$ 272,541
Increase (decrease) resulting from:		
State income tax, net of federal tax benefit	79,172	20,123
Tax exempt interest income	(18,493)	(18,493)
Nondeductible expense	3,457	4,516
Other items, net	7,171	12,906
Income tax expense	$ 1,323,143	$ 291,593

NOTE 9. EMPLOYEE BENEFIT PLANS

The Company provides retirement benefits to its employees through the Putnam County Bank 401(k) Plan, which is intended to be compliant with Employee Retirement Income Security Act (ERISA) Section 404(c). The Company's total expense associated with the retirement benefit plan approximated $87,490 and $77,131 for the years ended December 31, 2019 and 2018, respectively.

NOTE 9. EMPLOYEE BENEFIT PLANS (continued)

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

The following table sets summarizes activity with the frozen Defined Benefit Plan in 2019 and 2018:

	2019	2018
Change in fair value of plan assets:		
Fair value at beginning of measurement period	$ 5,271,890	$ 5,773,356
Actual gain/(loss) on plan assets	819,822	(275,141)
Contributions	232,550	214,000
Benefits paid	(440,689)	(440,325)
Settlements	(3,066)	-
Fair value at end of measurement periods	5,880,507	5,271,890
Change in benefit obligation:		
Benefit obligation at beginning of measurement period	(8,461,044)	(9,076,315)
Interest cost	(345,872)	(318,884)
Actuarial gain/(loss)	(1,163,824)	493,830
Benefits paid	440,689	440,325
Settlements	3,066	-
Benefit obligation at end of measurement period	(9,526,985)	(8,461,044)
Funded status	$ (3,646,478)	$ (3,189,154)
Weighted-average assumptions for balance sheet liability at end of year:		
Discount rate	3.20%	4.20%
Expected long-term rate of return	7.00%	7.00%
Weighted-average assumptions for benefit cost at beginning of year:		
Discount rate	4.20%	3.60%
Expected long-term rate of return	7.00%	7.00%

The unfunded status of the plan as of December 31, 2019 is included within Other Liabilities on the Consolidated Balance Sheets. At December 31, 2019, Accumulated Other Comprehensive Income includes a balance of $2,971,240, 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:

	2019	2018
Components of net periodic benefit:		
Interest cost	$ 345,872	$ 318,884
Expected return on plan assets	(398,072)	(401,772)
Amortization of unrecognized (gain)/loss	328,172	398,680
Net periodic pension cost	$ 275,972	$ 315,792

NOTE 9. EMPLOYEE BENEFIT PLANS (continued)

The Bank anticipates making contributions of $227,871 to the plan for the year ending December 31, 2020. 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
2020	$ 459,397
2021	456,612
2022	454,564
2023	483,515
2024	490,583
2025 through 2029	2,429,786
Total	$ 4,774,457

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

Plan Assets	Target Allocation 2019	Allowable allocation range	Percentage of plan assets at December 31, 2019	Percentage of plan assets at December 31, 2018
Equities	50%	40-60%	49%	45%
Fixed income	50%	40-60%	50%	54%
Other		0-3%	1%	1%
Totals			100%	100%

The primary long-term objective for the plan is to maintain assets at a level that will sufficiently cover future beneficiary obligations. The plan is overseen by Pentegra Retirement Services, who will invest the assets of the plan in a diversified combination of asset classes, investment strategies, and pooled vehicles. The asset allocation guidelines displayed in the table above reflect the Bank's risk tolerance and long-term objectives and is reviewed periodically to meet the above target allocations. The expected long-term rate of return for the plan's assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation for each class. The major categories of assets in the Company's Defined Benefit Plan as of year-end are presented in the following table. Assets are segregated by the level of the valuation inputs within the fair value hierarchy established by ASC Topic 820 utilized to measure fair value (see Note 14 for fair value hierarchy).

The following tables present the balances of the plan assets, by fair value, as of December 31, 2019 and 2018:

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

NOTE 9. EMPLOYEE BENEFIT PLANS (continued)

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

NOTE 10. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company and its subsidiary, Putnam County Bank, have loans, deposits and other transactions with its executive officers, directors and certain business organizations and individuals with which such persons are associated as discussed in Notes 4, 6 and 7. In the opinion of management, such transactions are consistent with prudent banking practices and are within applicable banking regulations.

NOTE 11. COMMITMENTS AND CONTINGENCIES

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

A summary of the notional amounts of the financial instruments with off-balance sheet risk at December 31, 2019 and 2018 is as follows:

Contract Amount	2019	2018
Commitments to extend credit	$ 12,156,365	$ 17,209,328
Commercial and standby letters of credit	33,000	120,750
Totals	$ 12,189,365	$ 17,330,078

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.

NOTE 11. COMMITMENTS AND CONTINGENCIES (continued)

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

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

NOTE 12. CONCENTRATION OF CREDIT RISK

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

NOTE 13. REGULATORY MATTERS

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

The Bank, as a state chartered member bank of the Federal Reserve System, is subject to the dividend restrictions set forth by the West Virginia Division of Financial Institutions as well as the Federal Reserve Board. Under such restrictions, the Bank may not, without the prior approval of the West Virginia Division of Financial Institutions and the Federal Reserve Board, declare dividends in excess of the sum of the current year's net income, as defined, plus the retained net profits from the two preceding years. The Bank normally restricts dividends to a lesser amount. The dividends as of December 31, 2019, that the Bank could declare without the approval of the West Virginia Division of Financial Institutions and the Federal Reserve Board amounted to approximately $3,300,000.

The Bank is also subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet the minimum capital requirements can initiate certain actions by regulators that, if undertaken, could have a material effect on the Bank and the consolidated financial statements. Capital adequacy guidelines require minimum ratios of 6% for Tier 1 capital, 8% for total risk-based capital, and 4% for Tier 1 leverage capital. To be well capitalized under the regulatory framework for prompt corrective actions, the ratios must be at least 8%, 10%, and 5%, respectively.

Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weighting of assets and certain off-balance sheet items, and other factors.

As of December 31, 2019 and 2018, 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, 2019, the most recent notification from the Bank's primary regulatory agency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events since the notification that management believes have changed the Bank's category.

NOTE 13. REGULATORY MATTERS (continued)

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

		Capital amounts		
	Ratios	Actual	Minimum	Well capitalized
December 31, 2019				
Total risk-based capital				
(to risk-weighted assets)	33.49%	$ 96,573,000	$ 23,067,000	$ 28,833,000
Tier 1 capital				
(to risk-weighted assets)	32.24%	92,953,000	17,300,000	23,067,000
Tier 1 leverage capital				
(to adjusted average assets)	15.77%	92,953,000	23,584,000	29,481,000
December 31, 2018				
Total risk-based capital				
(to risk-weighted assets)	31.67%	$ 93,734,000	$ 23,676,000	$ 29,595,000
Tier 1 capital				
(to risk-weighted assets)	30.42%	90,016,000	17,757,000	23,676,000
Tier 1 leverage capital				
(to adjusted average assets)	15.15%	90,016,000	23,762,000	29,703,000

NOTE 14. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

NOTE 14. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

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

Other Real Estate Owned ("OREO"): Properties are recorded at the balance of the loan or at estimated fair value less estimated selling costs, whichever is less, at the date acquired. Fair values of OREO at December 31, 2019, are determined by sales agreements or appraisals, and costs to sell are based on estimation per the terms and conditions of the sales agreements or amounts commonly used in real estate transactions. Inputs include appraisal values on the properties or recent sales activity for similar assets in the property's market, and thus OREO measured at fair value would be classified within Level 2 of the hierarchy.

Assets at Fair Value on a Recurring Basis

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

	Fair Value Measurement Using			
December 31, 2018	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
U.S. Government treasuries	$ -	$ 4,985,940	$ -	$ 4,985,940
U.S. Government agencies	-	19,971,900	-	19,971,900
Municipal bonds	-	2,740,837	-	2,740,837
Totals	$ -	$ 27,698,677	$ -	$ 27,698,677

NOTE 14. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Assets Recorded at Fair Value on a Nonrecurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The following table measures financial assets measured at fair value on a nonrecurring basis as of December 31, 2019 and 2018:

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

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

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, 2019.

NOTE 15. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

NOTE 15. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

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

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance. For the years ended December 31, 2019 and 2018, service charges and fees on deposit accounts was $113,649 and $112,695, respectively.

Interchange Income: Interchange income represents fees earned when a debit card issued by the Company is used. The Company earns interchange fees from debit cardholder transactions through a payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income. For the years ended December 31, 2019 and 2018, interchange income was $334,247 and $300,045, 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, 2019 and 2018, the net gain (loss) on the sale of OREO was ($613,821) and ($686,961), respectively.

NOTE 16. PARENT COMPANY FINANCIAL INFORMATION

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

BALANCE SHEETS	December 31, 2019	December 31, 2018
ASSETS		
Cash	$ 156,942	$ 161,758
Investment in Putnam County Bank	90,175,324	87,176,181
Investment in Putnam County Title Insurance Agency	(2,815)	(7,746)
TOTAL ASSETS	$ 90,329,451	$ 87,330,193
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ -	$ -
Income taxes payable	-	(5,663)
TOTAL LIABILITIES	-	(5,663)
STOCKHOLDERS' EQUITY	90,329,451	87,335,856
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 90,329,451	$ 87,330,193

STATEMENTS OF INCOME	Years Ended 2019	Years Ended 2018
INCOME	$ 1,800,000	$ 1,740,000
EXPENSES:		
Operating expenses	10,479	8,183
Income before income tax benefit and equity in undistributed earnings of subsidiaries	1,789,521	1,731,817
Applicable income taxes	-	(5,663)
Income before equity in undistributed earnings of subsidiaries	1,789,521	1,737,480
Equity in undistributed earnings of subsidiaries	2,848,462	(731,259)
Net income	$ 4,637,983	$ 1,006,221

NOTE 16. PARENT COMPANY FINANCIAL INFORMATION (continued)

STATEMENTS OF CASH FLOWS

	Years Ended 2019	Years Ended 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,637,983	$ 1,006,221
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(2,848,462)	731,259
Increase/(decrease) in accounts payable	-	-
Increase/(decrease) in income taxes payable	5,663	(6,237)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,795,184	1,731,243
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(1,800,000)	(1,740,000)
NET CASH USED IN FINANCING ACTIVITIES	(1,800,000)	(1,740,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,816)	(8,757)
CASH AND CASH EQUIVALENTS, BEGINNING	161,758	170,515
CASH AND CASH EQUIVALENTS, ENDING	$ 156,942	$ 161,758