

Community Bankers Trust Corp  
Form 10-Q  
August 13, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2013

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-32590

**COMMUNITY BANKERS TRUST CORPORATION**

(Exact name of registrant as specified in its charter)

Edgar Filing: Community Bankers Trust Corp - Form 10-Q

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>20-2652949</b> (I.R.S. Employer Identification No.)
<b>4235 Innslake Drive, Suite 200</b> <b>Glen Allen, Virginia</b> (Address of principal executive offices)	<b>23060</b> (Zip Code)
<b>(804) 934-9999</b> (Registrant's telephone number, including area code)	
<b>n/a</b> (Former name, former address and former fiscal year, if changed since last report)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At June 30, 2013, there were 21,693,059 shares of the Company's common stock outstanding.

**Table of Contents**

**COMMUNITY BANKERS TRUST CORPORATION**

TABLE OF CONTENTS

FORM 10-Q

June 30, 2013

**PART I FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements</u>	
	<u>Consolidated Balance Sheets</u>	3
	<u>Unaudited Consolidated Statements of Income</u>	4
	<u>Unaudited Consolidated Statements of Comprehensive (Loss) Income</u>	5
	<u>Unaudited Consolidated Statements of Stockholders' Equity</u>	6
	<u>Unaudited Consolidated Statements of Cash Flows</u>	7
	<u>Notes to Unaudited Consolidated Financial Statements</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	50
Item 4.	<u>Controls and Procedures</u>	51

**PART II OTHER INFORMATION**

Item 1.	<u>Legal Proceedings</u>	52
Item 1A.	<u>Risk Factors</u>	52
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	52
Item 3.	<u>Defaults upon Senior Securities</u>	52
Item 4.	<u>Mine Safety Disclosures</u>	52
Item 5.	<u>Other Information</u>	52
Item 6.	<u>Exhibits</u>	52
	<u>SIGNATURES</u>	53

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****COMMUNITY BANKERS TRUST CORPORATION****CONSOLIDATED BALANCE SHEETS****AS OF JUNE 30, 2013 AND DECEMBER 31, 2012****(dollars in thousands)**

	<b>June 30, 2013 (Unaudited)</b>	<b>December 31, 2012 (Audited)</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 10,399	\$ 12,502
Interest bearing bank deposits	14,854	11,635
Total cash and cash equivalents	25,253	24,137
Securities available for sale, at fair value	278,125	309,078
Securities held to maturity, at cost (fair value of \$37,793 and \$45,228, respectively)	35,747	42,283
Equity securities, restricted, at cost	7,236	7,405
Total securities	321,108	358,766
Loans held for sale	5,653	1,266
Loans not covered by FDIC shared-loss agreements	587,757	575,482
Loans covered by FDIC shared-loss agreements	79,476	84,637
Total loans	667,233	660,119
Allowance for loan losses (non-covered loans of \$11,523 and \$12,920, respectively; covered loans of \$484 and \$484, respectively)	(12,007)	(13,404)
Net loans	655,226	646,715
FDIC indemnification asset	29,166	33,837
Bank premises and equipment, net	33,318	33,638
Other real estate owned, covered by FDIC shared-loss agreements	2,411	3,370
Other real estate owned, non-covered	7,593	10,793
Bank owned life insurance	20,449	15,146
FDIC receivable under shared-loss agreements	878	895
Core deposit intangibles, net	9,166	10,297
Other assets	14,346	14,428
Total assets	\$ 1,124,567	\$ 1,153,288
<b>LIABILITIES</b>		
Deposits:		
Noninterest bearing	\$ 88,696	\$ 77,978
Interest bearing	864,212	896,340

Edgar Filing: Community Bankers Trust Corp - Form 10-Q

Total deposits	952,908	974,318
Federal funds purchased	1,000	5,412
Federal Home Loan Bank advances	49,479	49,828
Trust preferred capital notes	4,124	4,124
Other liabilities	4,238	4,289
<b>Total liabilities</b>	<b>1,011,749</b>	<b>1,037,971</b>

Commitment and Contingencies (Note 12)

**STOCKHOLDERS EQUITY**

Preferred stock (5,000,000 shares authorized, \$0.01 par value; 17,680 shares issued and outstanding)	17,680	17,680
Warrants on preferred stock	1,037	1,037
Discount on preferred stock	(117)	(234)
Common stock (200,000,000 shares authorized, \$0.01 par value; 21,693,059 and 21,670,212 shares issued and outstanding, respectively)	218	217
Additional paid in capital	144,531	144,398
Retained deficit	(48,237)	(50,609)
Accumulated other comprehensive (loss) income	(2,294)	2,828
<b>Total stockholders equity</b>	<b>112,818</b>	<b>115,317</b>

Total liabilities and stockholders equity	\$ 1,124,567	\$ 1,153,288
---	--------------	--------------

See accompanying notes to unaudited consolidated financial statements

**Table of Contents**

**COMMUNITY BANKERS TRUST CORPORATION**  
**UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012**  
(dollars and shares in thousands, except per share data)

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b>Interest and dividend income</b>				
Interest and fees on non-covered loans	\$ 7,622	\$ 7,574	\$ 15,133	\$ 15,261
Interest and fees on FDIC covered loans	2,745	4,366	5,404	8,280
Interest on federal funds sold	1	3	3	4
Interest on deposits in other banks	14	19	22	31
Interest and dividends on securities				
Taxable	1,945	2,039	3,783	4,116
Nontaxable	164	118	312	236
<b>Total interest and dividend income</b>	<b>12,491</b>	<b>14,119</b>	<b>24,657</b>	<b>27,928</b>
<b>Interest expense</b>				
Interest on deposits	1,600	2,241	3,301	4,594
Interest on federal funds purchased	2	3	3	3
Interest on other borrowed funds	189	343	381	702
<b>Total interest expense</b>	<b>1,791</b>	<b>2,587</b>	<b>3,685</b>	<b>5,299</b>
<b>Net interest income</b>	<b>10,700</b>	<b>11,532</b>	<b>20,972</b>	<b>22,629</b>
<b>Provision for loan losses</b>		500		750
<b>Net interest income after provision for loan losses</b>	<b>10,700</b>	<b>11,032</b>	<b>20,972</b>	<b>21,879</b>
<b>Noninterest income</b>				
Service charges on deposit accounts	701	674	1,364	1,291
Gain on securities transactions, net	130	290	408	174
Loss on sale of other real estate, net	(418)	(229)	(1,048)	(406)
Other	558	544	977	1,045
<b>Total noninterest income</b>	<b>971</b>	<b>1,279</b>	<b>1,701</b>	<b>2,104</b>
<b>Noninterest expense</b>				
Salaries and employee benefits	3,901	4,177	7,894	8,415
Occupancy expenses	717	685	1,380	1,316
Equipment expenses	247	270	514	565
Legal fees	38	15	51	39
Professional fees	139	148	189	233
FDIC assessment	223	496	390	1,080
Data processing fees	551	499	1,088	1,016
FDIC indemnification asset amortization	1,592	1,983	3,093	3,865
Amortization of intangibles	566	565	1,131	1,130
Other operating expenses	1,417	1,790	2,776	3,261
<b>Total noninterest expense</b>	<b>9,391</b>	<b>10,628</b>	<b>18,506</b>	<b>20,920</b>

Edgar Filing: Community Bankers Trust Corp - Form 10-Q

<b>Income before income taxes</b>	2,280	1,683	4,167	3,063
Income tax expense	673	473	1,236	863
<b>Net income</b>	\$ 1,607	\$ 1,210	\$ 2,931	\$ 2,200
Dividends paid on preferred stock	221	221	442	442
Accretion of discount on preferred stock	59	55	117	110
<b>Net income available to common stockholders</b>	\$ 1,327	\$ 934	\$ 2,372	\$ 1,648
Net income per share basic	\$ 0.06	\$ 0.04	\$ 0.11	\$ 0.08
Net income per share diluted	\$ 0.06	\$ 0.04	\$ 0.11	\$ 0.08
Weighted average number of shares outstanding				
basic	21,696	21,638	21,689	21,634
diluted	21,835	21,706	21,858	21,661

See accompanying notes to unaudited consolidated financial statements

**Table of Contents**

**COMMUNITY BANKERS TRUST CORPORATION**

**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012**

**(dollars in thousands)**

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b>Net income</b>	\$ 1,607	\$ 1,210	\$ 2,931	\$ 2,200
<b>Other comprehensive (loss) income:</b>				
Change in unrealized (loss) gain in investment securities	(7,402)	1,994	(7,353)	1,056
Tax related to unrealized loss (gain) in investment securities	2,517	(678)	2,500	(359)
Reclassification adjustment for (gain) in securities sold	(130)	(290)	(408)	(174)
Tax related to realized gain in securities sold	44	99	139	59
<b>Total other comprehensive (loss) income</b>	<b>(4,971)</b>	<b>1,125</b>	<b>(5,122)</b>	<b>582</b>
<b>Total comprehensive (loss) income</b>	<b>\$ (3,364)</b>	<b>\$ 2,335</b>	<b>\$ (2,191)</b>	<b>\$ 2,782</b>

See accompanying notes to unaudited consolidated financial statements



Table of Contents

**COMMUNITY BANKERS TRUST CORPORATION**  
**UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

**FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012**

(dollars and shares in thousands)

	Preferred Stock	Warrants	Discount on Preferred Stock	Common Stock Shares	Stock Amount	Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Income	Total
<b>Balance January 1, 2012</b>	\$ 17,680	\$ 1,037	\$ (454)	21,628	\$ 216	\$ 144,243	\$ (53,761)	\$ 2,219	\$ 111,180
Amortization of preferred stock warrants			110				(110)		
Issuance of common stock				15		33			33
Dividends paid on preferred stock							(663)		(663)
Issuance of stock options						27			27
Net income							2,200		2,200
Other comprehensive income								582	582
<b>Balance June 30, 2012</b>	\$ 17,680	\$ 1,037	\$ (344)	21,643	\$ 216	\$ 144,303	\$ (52,334)	\$ 2,801	\$ 113,359
<b>Balance January 1, 2013</b>	\$ 17,680	\$ 1,037	\$ (234)	21,670	\$ 217	\$ 144,398	\$ (50,609)	\$ 2,828	\$ 115,317
Amortization of preferred stock warrants			117				(117)		
Issuance of common stock				23	1	64			65
Dividends paid on preferred stock							(442)		(442)
Issuance of stock options						69			69
Net income							2,931		2,931
Other comprehensive loss								(5,122)	(5,122)
<b>Balance June 30, 2013</b>	\$ 17,680	\$ 1,037	\$ (117)	21,693	\$ 218	\$ 144,531	\$ (48,237)	\$ (2,294)	\$ 112,818

See accompanying notes to unaudited consolidated financial statements

**Table of Contents**

**COMMUNITY BANKERS TRUST CORPORATION**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012**

(dollars in thousands)

	June 30, 2013	June 30, 2012
<b>Operating activities:</b>		
Net income	\$ 2,931	\$ 2,200
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and intangibles amortization	1,980	2,002
Issuance of common stock and stock options	134	60
Provision for loan losses		750
Amortization of purchased loan premium	598	695
Provision for deferred income taxes	1,236	863
Amortization of security premiums and accretion of discounts, net	1,826	1,518
Net gain on sale of securities	(408)	(174)
Net loss on sale and valuation of other real estate	1,048	406
Changes in assets and liabilities:		
Decrease in loans held for sale	713	(599)
Decrease in other assets	5,870	5,604
(Decrease) increase in accrued expenses and other liabilities	(51)	854
Net cash provided by operating activities	15,877	14,179
<b>Investing activities:</b>		
Proceeds from available for sale securities	115,760	125,381
Proceeds from held to maturity securities	6,390	10,960
Proceeds from equity securities	254	135
Purchase of available for sale securities	(93,840)	(152,252)
Purchase of equity securities	(85)	(67)
Proceeds from sale of other real estate	4,545	6,370
Improvements and additions of other real estate, net of insurance proceeds	(186)	(69)
Net increase in loans	(16,263)	(9,820)
Principal recoveries of loans previously charged off	813	674
Purchase of premises and equipment, net	(536)	(195)
Purchase of bank owned life insurance investment	(5,000)	
Net cash provided by (used in) investing activities	11,852	(18,883)
<b>Financing activities:</b>		
Net (decrease) increase in noninterest bearing and interest bearing demand deposits	(21,410)	20,367
Net decrease in federal funds purchased	(4,412)	
Net decrease in Federal Home Loan Bank borrowings	(349)	
Cash dividends paid	(442)	(663)
Net cash (used in) provided by financing activities	(26,613)	19,704
<b>Net increase in cash and cash equivalents</b>	<b>1,116</b>	<b>15,000</b>

Edgar Filing: Community Bankers Trust Corp - Form 10-Q

<b>Cash and cash equivalents:</b>			
Beginning of the period	\$	24,137	\$ 21,751
End of the period	\$	25,253	\$ 36,751

		June 30, 2013	June 30, 2012
<b>Supplemental disclosures of cash flow information:</b>			
Interest paid	\$	3,818	\$ 5,697
Income taxes paid			120
Transfers of OREO property		1,241	6,483
Transfer of portfolio loans to loans held for sale		5,100	

See accompanying notes to unaudited consolidated financial statements

---

**Table of Contents**

**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Unaudited Consolidated Financial Statements**

**1. NATURE OF BANKING ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Community Bankers Trust Corporation (the Company) is a bank holding company that was incorporated under Delaware law on April 6, 2005. The Company is headquartered in Glen Allen, Virginia and is the holding company for Essex Bank (the Bank), a Virginia state bank with 24 full-service offices in Virginia, Maryland and Georgia. The Bank also operates two loan production offices.

The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals and small businesses, including individual and commercial demand and time deposit accounts, commercial and industrial loans, consumer and small business loans, real estate and mortgage loans, investment services, on-line and mobile banking products, and safe deposit box facilities. Thirteen offices are located in Virginia, from the Chesapeake Bay to just west of Richmond, seven are located in Maryland along the Baltimore-Washington corridor and four are located in the Atlanta, Georgia metropolitan market.

**Financial Statements**

The consolidated statements presented include accounts of the Company and the Bank, its wholly-owned subsidiary. All material intercompany balances and transactions have been eliminated. The statements should be read in conjunction with the Company's consolidated financial statements and the accompanying notes to consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The accounting and reporting policies of the Company conform to generally accepted accounting principles (GAAP) and to the general practices within the banking industry. The interim financial statements have not been audited; however, in the opinion of management, all adjustments, consisting of normal accruals, were made that are necessary to present fairly the balance sheet of the Company as of June 30, 2013, changes in stockholders' equity and cash flows for the six months ended June 30, 2013, and the income statement and statement of other comprehensive income for the three and six months ended June 30, 2013. Results for the six month period ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013.

The financial information contained within the statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained when either earning income, recognizing an expense, recovering an asset or relieving a liability. The Company uses historical loss factors as one factor in determining the inherent loss that may be present in its loan portfolio. Actual losses could differ significantly from the historical factors that the Company uses. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of the Company's transactions would be the same, the timing of events that would impact its transactions could change.

Certain reclassifications have been made to prior period balances to conform to the current period presentation.

In preparing these financial statements, the Company has evaluated subsequent events and transactions for potential recognition or disclosure through the date the financial statements were issued.

**Recent Accounting Pronouncements**

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)*. U.S. GAAP does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this ASU state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss



**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. Retrospective application is permitted. The Company currently presents these tax items in accordance with this guidance; therefore, no changes are necessary for adoption.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires is already required to be disclosed elsewhere in the financial statements under U.S. GAAP. The new amendments will require an organization to:

Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items, which are not required under U.S. GAAP to be reclassified directly to net income in their entirety in the same reporting period.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). The amendments are effective for reporting periods beginning after December 15, 2012. Early adoption is permitted. The Company adopted this guidance with no material impact on its consolidated financial statements.

**2. SECURITIES**

Amortized costs and fair values of securities available for sale and held to maturity at June 30, 2013 and December 31, 2012 were as follows (dollars in thousands):

	Amortized Cost	June 30, 2013 Gross Unrealized		Fair Value
		Gains	Losses	
<b>Securities Available for Sale</b>				
U.S. Treasury issue and other U.S. Gov t agencies	\$ 113,390	\$ 395	\$ (580)	\$ 113,205
State, county and municipal	135,227	2,274	(4,066)	133,435
Corporate and other bonds	6,963	59	(11)	7,002
Mortgage backed U.S. Gov t agencies	11,810	184	(107)	11,887
Mortgage backed U.S. Gov t sponsored agencies	12,580	162	(146)	12,596

Edgar Filing: Community Bankers Trust Corp - Form 10-Q

Total Securities Available for Sale	\$ 279,970	\$ 3,074	\$ (4,919)	\$ 278,125
<b>Securities Held to Maturity</b>				
State, county and municipal	\$ 11,812	\$ 790	\$	\$ 12,602
Mortgage backed U.S. Gov t agencies	7,832	481		8,313
Mortgage backed U.S. Gov t sponsored agencies	16,103	775		16,878
Total Securities Held to Maturity	\$ 35,747	\$ 2,046	\$	\$ 37,793

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

	Amortized Cost	December 31, 2012 Gross Unrealized		Fair Value
		Gains	Losses	
<b>Securities Available for Sale</b>				
U.S. Treasury issue and other U.S. Gov t agencies	\$ 153,480	\$ 362	\$ (565)	\$ 153,277
U.S. Gov t sponsored agencies	500	3		503
State, county and municipal	112,110	5,757	(271)	117,596
Corporate and other bonds	7,530	96	(8)	7,618
Mortgage backed U.S. Gov t agencies	15,192	378	(10)	15,560
Mortgage backed U.S. Gov t sponsored agencies	14,349	258	(83)	14,524
<b>Total Securities Available for Sale</b>	<b>\$ 303,161</b>	<b>\$ 6,854</b>	<b>\$ (937)</b>	<b>\$ 309,078</b>
<b>Securities Held to Maturity</b>				
State, county and municipal	\$ 11,825	\$ 1,142	\$	\$ 12,967
Mortgage backed U.S. Gov t agencies	9,112	615		9,727
Mortgage backed U.S. Gov t sponsored agencies	21,346	1,188		22,534
<b>Total Securities Held to Maturity</b>	<b>\$ 42,283</b>	<b>\$ 2,945</b>	<b>\$</b>	<b>\$ 45,228</b>

The amortized cost and fair value of securities at June 30, 2013 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without any penalties (dollars in thousands):

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 3,966	\$ 4,053	\$ 18,190	\$ 18,335
Due after one year through five years	28,353	29,952	37,761	37,943
Due after five years through ten years	3,428	3,788	124,532	123,966
Due after ten years			99,487	97,881
<b>Total securities</b>	<b>\$ 35,747</b>	<b>\$ 37,793</b>	<b>\$ 279,970</b>	<b>\$ 278,125</b>

Proceeds from sales of securities available for sale were \$29.4 million and \$83.8 million during the three months ended June 30, 2013 and 2012, respectively, and \$54.6 million and \$109.8 million during the six months ended June 30, 2013 and 2012, respectively. Gains and losses on the sale of securities are determined using the specific identification method. Gross realized gains and losses on sales of securities available for sale during the periods were as follows (dollars in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Gross realized gains	\$ 145	\$ 687	\$ 470	\$ 725
Gross realized losses	(15)	(397)	(62)	(551)
<b>Net securities gains</b>	<b>\$ 130</b>	<b>\$ 290</b>	<b>\$ 408</b>	<b>\$ 174</b>



## Edgar Filing: Community Bankers Trust Corp - Form 10-Q

In estimating other than temporary impairments (OTTI) losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and short-term prospects for the issuer, and the intent and ability of management to hold its investment for a period of time to allow a recovery in fair value. There were no investments held that had OTTI losses for the three and six months ended June 30, 2013 and 2012.

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

The fair value and gross unrealized losses for securities available for sale, segregated by the length of time that individual securities have been in a continuous gross unrealized loss position, at June 30, 2013 and December 31, 2012 were as follows (dollars in thousands):

	<b>June 30, 2013</b>					
	<b>Less than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>
U.S. Treasury issue and other U.S. Gov t agencies	\$ 50,233	\$ (432)	\$ 21,781	\$ (148)	\$ 72,014	\$ (580)
State, county and municipal	77,659	(3,788)	2,861	(278)	80,520	(4,066)
Corporate and other bonds	928	(11)	986	(9)	986	(9)
Mortgage backed U.S. Gov t agencies	1,890	(107)			1,890	(107)
Mortgage backed U.S. Gov t sponsored agencies	6,296	(146)			6,296	(146)
<b>Total</b>	<b>\$ 137,006</b>	<b>\$ (4,484)</b>	<b>\$ 25,628</b>	<b>\$ (435)</b>	<b>\$ 162,634</b>	<b>\$ (4,919)</b>

	<b>December 31, 2012</b>					
	<b>Less than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>
U.S. Treasury issue and other U.S. Gov t agencies	\$ 70,561	\$ (565)	\$	\$	\$ 70,561	\$ (565)
U.S. Gov t sponsored agencies						
State, county and municipal	17,404	(271)			17,404	(271)
Corporate and other bonds	1,485	(8)			1,485	(8)
Mortgage backed U.S. Gov t agencies	1,688	(10)			1,688	(10)
Mortgage backed U.S. Gov t sponsored agencies	4,779	(83)			4,779	(83)
<b>Total</b>	<b>\$ 95,917</b>	<b>\$ (937)</b>	<b>\$</b>	<b>\$</b>	<b>\$ 95,917</b>	<b>\$ (937)</b>

The unrealized losses in the investment portfolio at June 30, 2013 and December 31, 2012 are generally a result of market fluctuations that occur daily. The unrealized losses are from 193 securities at June 30, 2013. Of those, 191 are investment grade, U.S. government agency guarantees, or the full faith and credit of local municipalities throughout the United States. Investment grade corporate obligations comprise the remaining two securities with unrealized losses at June 30, 2013. The Company considers the reason for impairment, length of impairment and ability to hold until the full value is recovered in determining if the impairment is temporary in nature. Based on this analysis, the Company has determined these impairments to be temporary in nature. The Company does not intend to sell and it is more likely than not that the Company will not be required to sell these securities until they recover in value.

Market prices are affected by conditions beyond the control of the Company. Investment decisions are made by the management group of the Company and reflect the overall liquidity and strategic asset/liability objectives of the Company. Management analyzes the securities portfolio frequently and manages the portfolio to provide an overall positive impact to the Company's income statement and balance sheet.

Securities with amortized costs of \$102.4 million and \$111.7 million at June 30, 2013 and December 31, 2012, respectively, were pledged to secure deposits and for other purposes required or permitted by law. At each of June 30, 2013 and December 31, 2012, there were no securities purchased from a single issuer, other than U.S. Treasury issue and other U.S. Government agencies, that comprised more than 10% of the consolidated shareholders' equity.



**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements****3. LOANS NOT COVERED BY FDIC SHARED-LOSS AGREEMENT (NON-COVERED LOANS) AND RELATED ALLOWANCE FOR LOAN LOSSES**

The Company's non-covered loans at June 30, 2013 and December 31, 2012 were comprised of the following (dollars in thousands):

	June 30, 2013		December 31, 2012	
	Amount	% of Non-Covered Loans	Amount	% of Non-Covered Loans
Mortgage loans on real estate:				
Residential 1-4 family	\$ 141,292	24.04%	\$ 135,420	23.52%
Commercial	244,839	41.65	246,521	42.83
Construction and land development	61,333	10.43	61,127	10.62
Second mortgages	7,002	1.19	7,230	1.26
Multifamily	37,587	6.39	28,683	4.98
Agriculture	8,977	1.53	10,359	1.80
Total real estate loans	501,030	85.23	489,340	85.01
Commercial loans	79,279	13.49	77,835	13.52
Consumer installment loans	6,070	1.03	6,929	1.20
All other loans	1,482	0.25	1,526	0.27
Gross loans	587,861	100.00%	575,630	100.00%
Less unearned income on loans	(104)		(148)	
Non-covered loans, net of unearned income	\$ 587,757		\$ 575,482	

The Company held \$40.7 million and \$40.9 million in balances of loans guaranteed by the United States Department of Agriculture (USDA), which are included in various categories in the table above, at June 30, 2013 and December 31, 2012, respectively. As these loans are 100% guaranteed by the USDA, no loan loss provision is required. These loan balances included an unamortized purchase premium of \$3.1 million and \$3.4 million at June 30, 2013 and December 31, 2012, respectively. Unamortized purchase premium is recognized as an adjustment of the related loan yield using the interest method.

At June 30, 2013 and December 31, 2012, the Company's allowance for credit losses was comprised of the following: (i) specific valuation allowances calculated in accordance with FASB ASC 310, *Receivables*, (ii) general valuation allowances calculated in accordance with FASB ASC 450, *Contingencies*, based on economic conditions and other qualitative risk factors, and (iii) historical valuation allowances calculated using historical loan loss experience. Management identified loans subject to impairment in accordance with ASC 310.

At June 30, 2013 and December 31, 2012, a portion of the construction and land development loans presented above contained interest reserve provisions. The Company follows standard industry practice to include interest reserves and capitalized interest in a construction loan. This practice recognizes interest as an additional cost of the project and, as a result, requires the borrower to put additional equity into the project. In order to monitor the project throughout its life to make sure the property is moving along as planned to ensure appropriateness of continuing to capitalize interest, the Company coordinates an independent property inspection in connection with each disbursement of loan funds. Until completion, there is generally no cash flow from which to make the interest payment. The Company does not advance additional interest reserves to keep a loan from becoming nonperforming.

There were no significant amounts of interest reserves recognized as interest income on construction loans with interest reserves for each of the three and six months ended June 30, 2013 and 2012. Nonperforming construction loans with interest reserves were \$4.1 million at each of June 30, 2013 and December 31, 2012.

## Edgar Filing: Community Bankers Trust Corp - Form 10-Q

Interest income on nonaccrual loans, if recognized, is recorded using the cash basis method of accounting. There were no significant amounts recognized during either of the three and six months ended June 30, 2013 and 2012. For the three months ended June 30, 2013 and 2012, estimated interest income of \$298,000 and \$500,000, respectively, would have been recorded if all such loans had been accruing interest according to their original contractual terms. For the six months ended June 30, 2013 and 2012, estimated interest income of \$590,000 and \$944,000, respectively, would have been recorded if all such loans had been accruing interest according to their original contractual terms.

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

The following table summarizes information related to impaired loans as of June 30, 2013 (dollars in thousands):

	Recorded Investment (1)	Unpaid Principal Balance (2)	Related Allowance
<b>With an allowance recorded:</b>			
Mortgage loans on real estate:			
Residential 1-4 family	\$ 3,542	\$ 3,659	\$ 810
Commercial	916	982	187
Construction and land development	6,782	9,684	675
Second mortgages	159	212	22
Multifamily			
Agriculture		53	
Total real estate loans	11,399	14,590	1,694
Commercial loans	114	818	13
Consumer installment loans	51	52	7
All other loans			
Subtotal impaired loans with a valuation allowance	11,564	15,460	1,714
<b>With no related allowance recorded:</b>			
Mortgage loans on real estate:			
Residential 1-4 family	2,102	2,128	
Commercial	1,771	2,008	
Construction and land development	1,683	2,107	
Second mortgages			
Multifamily			
Agriculture	223	231	
Total real estate loans	5,779	6,474	
Commercial loans			
Consumer installment loans	9	9	
All other loans			
Subtotal impaired loans without a valuation allowance	5,788	6,483	
<b>Total:</b>			
Mortgage loans on real estate:			
Residential 1-4 family	5,644	5,787	810
Commercial	2,687	2,990	187
Construction and land development	8,465	11,791	675
Second mortgages	159	212	22
Multifamily			
Agriculture	223	284	

## Edgar Filing: Community Bankers Trust Corp - Form 10-Q

Total real estate loans	17,178	21,064	1,694
Commercial loans	114	818	13
Consumer installment loans	60	61	7
All other loans			
Total impaired loans	\$ 17,352	\$ 21,943	\$ 1,714

- (1) The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment
- (2) The contractual amount due, which reflects paydowns applied in accordance with loan documents, but which does not reflect any direct write-downs

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

The following table summarizes information related to impaired loans as of December 31, 2012 (dollars in thousands):

	Recorded Investment (1)	Unpaid Principal Balance (2)	Related Allowance
<b>With an allowance recorded:</b>			
Mortgage loans on real estate:			
Residential 1-4 family	\$ 3,838	\$ 4,021	\$ 897
Commercial	2,741	2,827	725
Construction and land development	7,412	10,355	850
Second mortgages	124	170	22
Multifamily			
Agriculture	250	580	20
<b>Total real estate loans</b>	<b>14,365</b>	<b>17,953</b>	<b>2,514</b>
Commercial loans	509	582	121
Consumer installment loans	78	79	21
All other loans			
<b>Subtotal impaired loans with a valuation allowance</b>	<b>14,952</b>	<b>18,614</b>	<b>2,656</b>
<b>With no related allowance recorded:</b>			
Mortgage loans on real estate:			
Residential 1-4 family	2,702	3,094	
Commercial	3,076	3,281	
Construction and land development	1,578	1,961	
Second mortgages	48	48	
Multifamily			
Agriculture			
<b>Total real estate loans</b>	<b>7,404</b>	<b>8,384</b>	
Commercial loans		183	
Consumer installment loans	9	9	
All other loans			
<b>Subtotal impaired loans without a valuation allowance</b>	<b>7,413</b>	<b>8,576</b>	
<b>Total:</b>			
Mortgage loans on real estate:			
Residential 1-4 family	6,540	7,115	897
Commercial	5,817	6,108	725
Construction and land development	8,990	12,316	850
Second mortgages	172	218	22
Multifamily			
Agriculture	250	580	20



## Edgar Filing: Community Bankers Trust Corp - Form 10-Q

Total real estate loans	21,769	26,337	2,514
Commercial loans	509	765	121
Consumer installment loans	87	88	21
All other loans			
Total impaired loans	\$ 22,365	\$ 27,190	\$ 2,656

- (1) The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment
- (2) The contractual amount due, which reflects paydowns applied in accordance with loan documents, but which does not reflect any direct write-downs

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

The following table summarizes average recorded investment of impaired loans for the three and six months ended June 30, 2013 and 2012 (dollars in thousands):

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Mortgage loans on real estate:				
Residential 1-4 family	\$ 6,327	\$ 7,208	\$ 6,092	\$ 6,977
Commercial	3,270	11,790	4,252	12,597
Construction and land development	8,801	10,259	8,728	11,177
Second mortgages	165	187	166	192
Multifamily				
Agriculture	229	54	237	54
Total real estate loans	18,792	29,498	19,475	30,997
Commercial loans	199	788	312	874
Consumer installment loans	77	189	74	155
All other loans				10
Total impaired loans	\$ 19,068	\$ 30,475	\$ 19,861	\$ 32,036

The majority of impaired loans are also nonaccruing for which no interest income was recognized during each of the three and six months ended June 30, 2013 and 2012. No significant amounts of interest income were recognized on accruing impaired loans for each of the three and six months ended June 30, 2013 and 2012.

The following table presents non-covered nonaccruals by loan category as of June 30, 2013 and December 31, 2012 (dollars in thousands):

	June 30, 2013	December 31, 2012
Mortgage loans on real estate:		
Residential 1-4 family	\$ 5,232	\$ 5,562
Commercial	1,421	5,818
Construction and land development	8,465	8,815
Second mortgages	129	141
Multifamily		
Agriculture	223	250
Total real estate loans	15,470	20,586
Commercial loans	114	385
Consumer installment loans	60	77
All other loans		
Total loans	\$ 15,644	\$ 21,048

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

Troubled debt restructures, special mention, some substandard, and doubtful loans still accruing interest are loans that management expects to ultimately collect all principal and interest due, but not under the terms of the original contract. A reconciliation of impaired loans to nonaccrual loans at June 30, 2013 and December 31, 2012, is set forth in the table below (dollars in thousands):

	June 30, 2013	December 31, 2012
Nonaccruals	\$ 15,644	\$ 21,048
Trouble debt restructure and still accruing	1,557	847
Special mention		299
Substandard and still accruing	151	171
Doubtful and still accruing		
<b>Total impaired</b>	<b>\$ 17,352</b>	<b>\$ 22,365</b>

The following tables present an age analysis of past due status of non-covered loans by category as of June 30, 2013 and December 31, 2012 (dollars in thousands):

	June 30, 2013				Total Loans	Recorded Investment 90 Days Past Due and Accruing
	30-89 Days Past Due	90 Days Past Due	Total Past Due	Current		
Mortgage loans on real estate:						
Residential 1-4 family	\$ 1,268	\$ 5,232	\$ 6,500	\$ 134,792	\$ 141,292	\$
Commercial	781	1,421	2,202	242,637	244,839	
Construction and land development	139	8,465	8,604	52,729	61,333	
Second mortgages	30	129	159	6,843	7,002	
Multifamily				37,587	37,587	
Agriculture		223	223	8,754	8,977	
<b>Total real estate loans</b>	<b>2,218</b>	<b>15,470</b>	<b>17,688</b>	<b>483,342</b>	<b>501,030</b>	
Commercial loans	228	114	342	78,937	79,279	
Consumer installment loans	5	60	65	6,005	6,070	
All other loans				1,482	1,482	
<b>Total loans</b>	<b>\$ 2,451</b>	<b>\$ 15,644</b>	<b>\$ 18,095</b>	<b>\$ 569,766</b>	<b>\$ 587,861</b>	<b>\$</b>

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

	December 31, 2012					Recorded Investment 90 Days Past Due and Accruing
	30-89 Days Past Due	90 Days Past Due	Total Past Due	Current	Total Loans	
Mortgage loans on real estate:						
Residential 1-4 family	\$ 1,433	\$ 5,797	\$ 7,230	\$ 128,190	\$ 135,420	\$ 235
Commercial		5,818	5,818	240,703	246,521	
Construction and land development	298	9,089	9,387	51,740	61,127	274
Second mortgages		141	141	7,089	7,230	
Multifamily				28,683	28,683	
Agriculture		250	250	10,109	10,359	
Total real estate loans	1,731	21,095	22,826	466,514	489,340	509
Commercial loans	85	385	470	77,365	77,835	
Consumer installment loans	40	77	117	6,812	6,929	
All other loans				1,526	1,526	
Total loans	\$ 1,856	\$ 21,557	\$ 23,413	\$ 552,217	\$ 575,630	\$ 509

Activity in the allowance for loan losses on non-covered loans for the six months ended June 30, 2013 and the year ended December 31, 2012 was comprised of the following (dollars in thousands):

	December 31, 2012	Provision Allocation	Charge-offs	Recoveries	June 30, 2013
Mortgage loans on real estate:					
Residential 1-4 family	\$ 3,985	\$ 63	\$ (161)	\$ 51	\$ 3,938
Commercial	2,482	1,508	(1,492)	10	2,508
Construction and land development	3,773	(1,427)	(157)	676	2,865
Second mortgages	142	(75)		5	72
Multifamily	303	(157)			146
Agriculture	61	1	(6)		56
Total real estate loans	10,746	(87)	(1,816)	742	9,585
Commercial loans	1,961	69	(297)	39	1,772
Consumer installment loans	195	11	(97)	32	141
All other loans	18	7			25
Total loans	\$ 12,920	\$	\$ (2,210)	\$ 813	\$ 11,523

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

	December 31, 2011	Provision Allocation	Charge-offs	Recoveries	December 31, 2012
Mortgage loans on real estate:					
Residential 1-4 family	\$ 3,451	\$ 2,283	\$ (1,786)	\$ 37	\$ 3,985
Commercial	3,048	15	(654)	73	2,482
Construction and land development	5,729	(1,539)	(2,058)	1,641	3,773
Second mortgages	296	(165)	(45)	56	142
Multifamily	224	79			303
Agriculture	25	75	(39)		61
<b>Total real estate loans</b>	<b>12,773</b>	<b>748</b>	<b>(4,582)</b>	<b>1,807</b>	<b>10,746</b>
Commercial loans	1,810	604	(695)	242	1,961
Consumer installment loans	241	91	(220)	83	195
All other loans	11	7			18
<b>Total loans</b>	<b>\$ 14,835</b>	<b>\$ 1,450</b>	<b>\$ (5,497)</b>	<b>\$ 2,132</b>	<b>\$ 12,920</b>

Included in charge-offs for the six months ended June 30, 2013, was a \$500,000 writedown arising from the transfer of a loan from non-covered loans to loans held for sale.

The following tables present information on the non-covered loans evaluated for impairment in the allowance for loan losses as of June 30, 2013 and December 31, 2012 (dollars in thousands):

	June 30, 2013					
	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment <sup>(1)</sup>	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment <sup>(1)</sup>	Collectively Evaluated for Impairment	Total
Mortgage loans on real estate:						
Residential 1-4 family	\$ 846	\$ 3,092	\$ 3,938	\$ 7,571	\$ 133,721	\$ 141,292
Commercial	247	2,261	2,508	9,327	235,512	244,839
Construction and land development	899	1,966	2,865	12,147	49,186	61,333
Second mortgages	28	44	72	220	6,782	7,002
Multifamily		146	146		37,587	37,587
Agriculture		56	56	223	8,754	8,977
<b>Total real estate loans</b>	<b>2,020</b>	<b>7,565</b>	<b>9,585</b>	<b>29,488</b>	<b>471,542</b>	<b>501,030</b>
Commercial loans	15	1,757	1,772	206	79,073	79,279
Consumer installment loans	9	132	141	63	6,007	6,070
All other loans		25	25		1,482	1,482
<b>Total loans</b>	<b>\$ 2,044</b>	<b>\$ 9,479</b>	<b>\$ 11,523</b>	<b>\$ 29,757</b>	<b>\$ 558,104</b>	<b>\$ 587,861</b>

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

	December 31, 2012					
	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment <sup>(1)</sup>	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment <sup>(1)</sup>	Collectively Evaluated for Impairment	Total
Mortgage loans on real estate:						
Residential 1-4 family	\$ 1,003	\$ 2,982	\$ 3,985	\$ 10,340	\$ 125,080	\$ 135,420
Commercial	864	1,618	2,482	15,636	230,885	246,521
Construction and land development	1,306	2,467	3,773	14,173	46,954	61,127
Second mortgages	29	113	142	234	6,996	7,230
Multifamily		303	303		28,683	28,683
Agriculture	21	40	61	250	10,109	10,359
Total real estate loans	3,223	7,523	10,746	40,633	448,707	489,340
Commercial loans	125	1,836	1,961	605	77,230	77,835
Consumer installment loans	22	173	195	92	6,837	6,929
All other loans		18	18		1,526	1,526
Total loans	\$ 3,370	\$ 9,550	\$ 12,920	\$ 41,330	\$ 534,300	\$ 575,630

<sup>(1)</sup> The category Individually Evaluated for Impairment includes loans individually evaluated for impairment and determined not to be impaired. These loans totalled \$12.4 million and \$19.0 million at June 30, 2013 and December 31, 2012, respectively. The allowance for loans losses allocated to these loans was \$330,000 and \$714,000 at June 30, 2013 and December 31, 2012, respectively.

Non-covered loans are monitored for credit quality on a recurring basis. These credit quality indicators are defined as follows:

**Pass** A pass loan is not adversely classified, as it does not display any of the characteristics for adverse classification. This category includes purchased loans that are 100% guaranteed by U.S. Government agencies of \$40.7 million and \$40.9 million at June 30, 2013 and December 31, 2012, respectively.

**Special Mention** A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, such potential weaknesses may result in deterioration of the repayment prospects or collateral position at some future date. Special mention loans are not adversely classified and do not warrant adverse classification.

**Substandard** A substandard loan is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard generally have a well defined weakness, or weaknesses, that jeopardize the liquidation of the debt. These loans are characterized by the distinct possibility of loss if the deficiencies are not corrected.

**Doubtful** A doubtful loan has all the weaknesses inherent in a loan classified as substandard with the added characteristics that the weaknesses make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions, and values.

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

The following tables present the composition of non-covered loans by credit quality indicator at June 30, 2013 and December 31, 2012 (dollars in thousands):

	<b>June 30, 2013</b>				
	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total</b>
<b>Mortgage loans on real estate:</b>					
Residential 1-4 family	\$ 126,310	\$ 7,701	\$ 7,281	\$	\$ 141,292
Commercial	220,859	15,918	7,906	156	244,839
Construction and land development	43,927	5,261	12,145		61,333
Second mortgages	6,452	330	220		7,002
Multifamily	37,587				37,587
Agriculture	8,754		223		8,977
<b>Total real estate loans</b>	<b>443,889</b>	<b>29,210</b>	<b>27,775</b>	<b>156</b>	<b>501,030</b>
Commercial loans	77,929	1,144	206		79,279
Consumer installment loans	5,793	214	63		6,070
All other loans	1,482				1,482
<b>Total loans</b>	<b>\$ 529,093</b>	<b>\$ 30,568</b>	<b>\$ 28,044</b>	<b>\$ 156</b>	<b>\$ 587,861</b>

	<b>December 31, 2012</b>				
	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total</b>
<b>Mortgage loans on real estate:</b>					
Residential 1-4 family	\$ 118,931	\$ 6,496	\$ 9,993	\$	\$ 135,420
Commercial	209,347	21,540	15,478	156	246,521
Construction and land development	36,261	10,954	13,912		61,127
Second mortgages	6,519	477	234		7,230
Multifamily	27,514	1,169			28,683
Agriculture	10,109		250		10,359
<b>Total real estate loans</b>	<b>408,681</b>	<b>40,636</b>	<b>39,867</b>	<b>156</b>	<b>489,340</b>
Commercial loans	76,148	1,205	482		77,835
Consumer installment loans	6,617	220	92		6,929
All other loans	1,526				1,526
<b>Total loans</b>	<b>\$ 492,972</b>	<b>\$ 42,061</b>	<b>\$ 40,441</b>	<b>\$ 156</b>	<b>\$ 575,630</b>

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

In accordance with FASB ASU 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, the Company assesses all loan modifications to determine whether they are considered troubled debt restructurings (TDRs) under the guidance. During the three and six months ended June 30 2013, the Company modified one residential 1-4 family loan that was considered to be a TDR. The Company extended the term and lowered the interest rate for this loan, which had a pre- and post-modification balance of \$174,000.

During the three and six months ended June 30, 2012, the Company modified five loans that were considered to be TDRs. The Company extended the terms for two of these loans and lowered the interest rate for all five of these loans. The following table presents information relating to loans modified as TDRs during the three and six months ended June 30, 2012 (dollars in thousands):

	Three and six months ended June 30, 2012			
	Number of Contracts	Modification Recorded Investment	Outstanding Balance	Modification Recorded Investment
Mortgage loans on real estate:				
Residential 1-4 family	2	\$ 471	\$ 471	
Commercial	1	1,171	1,171	
Construction and land development	1	675	675	
Total real estate loans	4	2,317	2,317	
Commercial loans	1	74	74	
Total loans	5	\$ 2,391	\$ 2,391	

A loan is considered to be in default if it is 90 days or more past due. There were no TDRs that had been restructured during the previous 12 months that resulted in default during either of the three and six months ended June 30, 2013 and 2012.

In the determination of the allowance for loan losses, management considers TDRs and subsequent defaults in these restructures by reviewing for impairment in accordance with FASB ASC 310-10-35, *Receivables, Subsequent Measurement*.

At June 30, 2013, the Company had 1-4 family mortgages in the amount of \$149.8 million pledged as collateral to the Federal Home Loan Bank for a total borrowing capacity of \$98.8 million.

#### **4. LOANS COVERED BY FDIC SHARED-LOSS AGREEMENTS (COVERED LOANS) AND RELATED ALLOWANCE FOR LOAN LOSSES**

On January 30, 2009, the Company entered into a Purchase and Assumption Agreement with the Federal Deposit Insurance Corporation (FDIC) to assume all of the deposits and certain other liabilities and acquire substantially all assets of Suburban Federal Savings Bank (SFSB). The Company is applying the provisions of FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, to all loans acquired in the SFSB transaction (the covered loans). Of the total \$198.3 million in loans acquired, \$49.1 million met the criteria of FASB ASC 310-30. These loans, consisting mainly of construction loans, were deemed impaired at the acquisition date. The remaining \$149.1 million of loans acquired, comprised mainly of residential 1-4 family, were analogized to meet the criteria of FASB ASC 310-30. Analysis of this portfolio revealed that SFSB utilized weak underwriting and documentation standards, which led the Company to believe that significant losses were probable given the economic environment at the time.





**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

As of June 30, 2013 and December 31, 2012, the outstanding contractual balance of the covered loans was \$128.9 million and \$137.2 million, respectively. The carrying amount, by loan type, as of these dates is as follows (dollars in thousands):

	June 30, 2013		December 31, 2012	
	Amount	% of Covered Loans	Amount	% of Covered Loans
Mortgage loans on real estate:				
Residential 1-4 family	\$ 70,334	88.50%	\$ 74,046	87.47%
Commercial	1,620	2.04	1,986	2.35
Construction and land development	2,966	3.73	3,264	3.86
Second mortgages	4,119	5.18	4,864	5.75
Multifamily	266	0.33	304	0.36
Agriculture	171	0.22	172	0.20
Total real estate loans	79,476	100.00	84,636	99.99
Commercial loans				
Consumer installment loans			1	0.01
All other loans				
Total covered loans	\$ 79,476	100.00%	\$ 84,637	100.00%

There was no activity in the allowance for loan losses on covered loans for the six months ended June 30, 2013. Activity in the allowance for loan losses on covered loans for the year ended December 31, 2012 was comprised of the following (dollars in thousands):

	December 31, 2011	Provision Allocation	Charge-offs	Recoveries	December 31, 2012
Mortgage loans on real estate:					
Residential 1-4 family	\$ 473	\$ (218)	\$ (12)	\$ 9	\$ 252
Commercial	303	(71)			232
Construction and land development		4	(22)	18	
Multifamily		35	(315)	280	
Total real estate loans	776	(250)	(349)	307	484
Total covered loans	\$ 776	\$ (250)	\$ (349)	\$ 307	\$ 484

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

The following table presents information on the covered loans collectively evaluated for impairment in the allowance for loan losses at June 30, 2013 and December 31, 2012 (dollars in thousands):

	June 30, 2013		December 31, 2012	
	Allowance for loan losses	Recorded investment in loans	Allowance for loan losses	Recorded investment in loans
Mortgage loans on real estate:				
Residential 1-4 family	\$ 252	\$ 70,334	\$ 252	\$ 74,046
Commercial	232	1,620	232	1,986
Construction and land development		2,966		3,264
Second mortgages		4,119		4,864
Multifamily		266		304
Agriculture		171		172
Total real estate loans	484	79,476	484	84,636
Commercial loans				
Consumer installment loans				1
All other loans				
Total covered loans	\$ 484	\$ 79,476	\$ 484	\$ 84,637

The change in the accretable yield balance for the six months ended June 30, 2013 and the year ended December 31, 2012 is as follows (dollars in thousands):

Balance, January 1, 2012	\$ 56,310
Accretion	(14,105)
Reclassification from nonaccretable Yield	11,939
Balance, December 31, 2012	54,144
Accretion	(5,401)
Reclassification from nonaccretable Yield	2,348
Balance, June 30, 2013	\$ 51,091

The covered loans are not classified as nonperforming assets as of June 30, 2013, as the loans are accounted for on a pooled basis, and interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all covered loans.

**5. FDIC AGREEMENTS AND FDIC INDEMNIFICATION ASSET**

On January 30, 2009, the Company entered into a Purchase and Assumption Agreement with the FDIC to assume all of the deposits and certain other liabilities and acquire substantially all assets of SFSB. Under the shared-loss agreements that are part of that agreement, the FDIC will reimburse the Bank for 80% of losses arising from covered loans and foreclosed real estate assets, on the first \$118 million in losses on such

## Edgar Filing: Community Bankers Trust Corp - Form 10-Q

covered loans and foreclosed real estate assets, and for 95% of losses on covered loans and foreclosed real estate assets thereafter. Under the shared-loss agreements, a loss on a covered loan or foreclosed real estate is defined generally as a realized loss incurred through a permitted disposition, foreclosure, short-sale or restructuring of the covered loan or foreclosed real estate. The reimbursements for losses on single family one-to-four residential mortgage assets are to be made quarterly through January 2019, and the reimbursements for losses on other covered assets are to be made quarterly through January 2014. The shared-loss agreements provide for indemnification from the first dollar of losses without any threshold requirement. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction, January 30, 2009. New loans made after that date are not covered by the shared-loss agreements. The fair value of the shared-loss agreements is detailed below.

The Company is accounting for the shared-loss agreements as an indemnification asset pursuant to the guidance in FASB ASC 805, *Business Combinations*. The FDIC indemnification asset is required to be measured in the same manner as the asset

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

or liability to which it relates. The FDIC indemnification asset is measured separately from the covered loans and other real estate owned assets (OREO) because it is not contractually embedded in the covered loan and OREO and is not transferable should the Company choose to dispose of them. Fair value was estimated using projected cash flows available for loss sharing based on the credit adjustments estimated for each loan pool and other real estate owned and the loss sharing percentages outlined in the shared-loss agreements with the FDIC. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

Because the acquired loans are subject to shared-loss agreements and a corresponding indemnification asset exists to represent the value of expected payments from the FDIC, increases and decreases in loan accretable yield due to changing loss expectations will also have an impact to the valuation of the FDIC indemnification asset. Improvement in loss expectations will typically increase loan accretable yield and decrease the value of the FDIC indemnification asset and, in some instances, result in an amortizable premium on the FDIC indemnification asset. Increases in loss expectations will typically be recognized as impairment in the current period through allowance for loan losses, resulting in additional noninterest income for the amount of the increase in the FDIC indemnification asset.

In addition to the premium amortization, the balance of the FDIC indemnification asset is affected by expected payments from the FDIC. Under the terms of the shared-loss agreements, the FDIC will reimburse the Company for loss events incurred related to the covered loan portfolio. These events include such things as future writedowns due to decreases in the fair market value of OREO, net loan charge-offs and recoveries, and net gains and losses on OREO sales.

As discussed above, the shared-loss agreement for assets other than single family one-to-four residential mortgage assets expires January 2014. The portion of the FDIC indemnification asset related to those assets was \$871,000 at June 30, 2013, of which \$318,000 represented estimated losses to be reimbursed by the FDIC.

The following table presents the balances of the FDIC indemnification asset at June 30, 2013 and December 31, 2012 (dollars in thousands):

	Anticipated Expected Losses	Estimated Loss Sharing Value	Amortizable Premium (Discount) at Present Value	FDIC Indemnification Asset Total
January 1, 2012	\$ 28,713	\$ 22,971	\$ 19,670	\$ 42,641
Increases:				
Writedown of OREO property to FMV	622	497		497
Decreases:				
Net amortization of premium			(6,936)	(6,936)
Reclassifications to FDIC receivable:				
Net loan charge-offs and recoveries	(1,321)	(1,057)		(1,057)
OREO sales	(1,140)	(912)		(912)
Reimbursements requested from FDIC	(495)	(396)		(396)
Reforecasted Change in Anticipated Expected Losses	(3,174)	(2,539)	2,539	
December 31, 2012	\$ 23,205	\$ 18,564	\$ 15,273	\$ 33,837
Increases:				
Writedown of OREO property to FMV	88	70		70
Decreases:				
Net amortization of premium			(3,093)	(3,093)
Reclassifications to FDIC receivable:				
Net loan charge-offs and recoveries	(757)	(605)		(605)
OREO sales	(1,131)	(905)		(905)

## Edgar Filing: Community Bankers Trust Corp - Form 10-Q

Reimbursements requested from FDIC	(173)	(138)		(138)
Reforecasted Change in Anticipated Expected Losses	(3,961)	(3,169)	3,169	
June 30, 2013	\$ 17,271	\$ 13,817	\$ 15,349	\$ 29,166

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements****6. OTHER INTANGIBLES**

Core deposit intangibles are recognized, amortized and evaluated for impairment as required by FASB ASC 350, *Intangibles*. As a result of the mergers with TransCommunity Financial Corporation (TFC), and BOE Financial Services of Virginia, Inc. (BOE) on May 31, 2008, the Company recorded \$15.0 million in core deposit intangible assets, which are being amortized over 9 years. Core deposit intangibles resulting from the Georgia and Maryland transactions, in 2008 and 2009, respectively, equaled \$3.2 million and \$2.1 million, respectively, and are being amortized over 9 years.

Other intangible assets are presented in the following table (dollars in thousands):

	June 30, 2013	December 31, 2012
Core deposit intangible	\$ 20,290	\$ 20,290
Accumulated amortization	(11,124)	(9,993)
<b>Balance</b>	<b>\$ 9,166</b>	<b>\$ 10,297</b>

**7. DEPOSITS**

The following table provides interest bearing deposit information, by type, as of June 30, 2013 and December 31, 2012 (dollars in thousands):

	June 30, 2013	December 31, 2012
NOW	\$ 135,765	\$ 142,923
MMDA	110,976	113,171
Savings	83,562	77,506
Time deposits less than \$100,000	279,972	287,422
Time deposits \$100,000 and over	253,937	275,318
<b>Total interest bearing deposits</b>	<b>\$ 864,212</b>	<b>\$ 896,340</b>

**8. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME**

The following tables present activity net of tax in accumulated other comprehensive income (AOCI) for the three and six months ended June 30, 2013 and 2012 (dollars in thousands):

	Three months ended June 30, 2013		
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Total Other Comprehensive Income
Beginning balance	\$ 3,715	\$ (1,038)	\$ 2,677
Other comprehensive loss before reclassifications	(4,885)		(4,885)

## Edgar Filing: Community Bankers Trust Corp - Form 10-Q

Amounts reclassified from AOCI	(86)		(86)
Net current period other comprehensive loss	(4,971)		(4,971)
Ending balance	\$ (1,256)	\$ (1,038)	\$ (2,294)



**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

	Three months ended June 30, 2012		
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Total Other Comprehensive Income
Beginning balance	\$ 2,714	\$ (1,038)	\$ 1,676
Other comprehensive income before reclassifications	1,316		1,316
Amounts reclassified from AOCI	(191)		(191)
Net current period other comprehensive income	1,125		1,125
Ending balance	\$ 3,839	\$ (1,038)	\$ 2,801

	Six months ended June 30, 2013		
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Total Other Comprehensive Income
Beginning balance	\$ 3,866	\$ (1,038)	\$ 2,828
Other comprehensive loss before reclassifications	(4,853)		(4,853)
Amounts reclassified from AOCI	(269)		(269)
Net current period other comprehensive loss	(5,122)		(5,122)
Ending balance	\$ (1,256)	\$ (1,038)	\$ (2,294)

	Six months ended June 30, 2012		
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Total Other Comprehensive Income
Beginning balance	\$ 3,257	\$ (1,038)	\$ 2,219
Other comprehensive income before reclassifications	697		697
Amounts reclassified from AOCI	(115)		(115)
Net current period other comprehensive income	582		582
Ending balance	\$ 3,839	\$ (1,038)	\$ 2,801

The following tables present the effects of reclassifications out of accumulated other comprehensive income on line items of consolidated income for the three and six months ended June 30, 2013 and 2012 (dollars in thousands):

Edgar Filing: Community Bankers Trust Corp - Form 10-Q

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Unaudited Consolidated Statement of Income
	Three months ended		
	June 30, 2013	June 30, 2012	
Unrealized gains and losses on securities available for sale	\$ (130)	\$ (290)	Gain on securities transactions, net
	44	99	Tax expense
	\$ (86)	\$ (191)	Net of tax

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Unaudited Consolidated Statement of Income
	Six months ended		
	June 30, 2013	June 30, 2012	
Unrealized gains and losses on securities available for sale	\$ (408)	\$ (174)	Gain on securities transactions, net
	139	59	Tax expense
	\$ (269)	\$ (115)	Net of tax

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements****9. FAIR VALUES OF ASSETS AND LIABILITIES**

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs and also establishes a fair value hierarchy that prioritizes the valuation inputs into three broad levels. The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Valuation is determined using model-based techniques with significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of third party pricing services, option pricing models, discounted cash flow models and similar techniques.

FASB ASC 825, *Financial Instruments*, allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Company has not made any material FASB ASC 825 elections as of June 30, 2013.

**Assets and Liabilities Recorded at Fair Value on a Recurring Basis**

The Company utilizes fair value measurements to record adjustments to certain assets to determine fair value disclosures. Securities available for sale and loans held for sale are recorded at fair value on a recurring basis. The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis (dollars in thousands):

	June 30, 2013			
	Total	Level 1	Level 2	Level 3
Investment securities available for sale				
U.S. Treasury issue and other U.S. Gov't agencies	\$ 113,205	\$ 110,194	\$ 3,011	\$
State, county, and municipal	133,435	9,637	123,798	
Corporate and other bonds	7,002	2,047	4,955	
Mortgage backed U.S. Gov't agencies	11,887		11,887	
Mortgage backed U.S. Gov't sponsored agencies	12,596	1,922	10,674	
<b>Total investment securities available for sale</b>	<b>278,125</b>	<b>123,800</b>	<b>154,325</b>	
Loans held for sale	5,653		5,653	
<b>Total assets at fair value</b>	<b>\$ 283,778</b>	<b>\$ 123,800</b>	<b>\$ 159,978</b>	<b>\$</b>
<b>Total liabilities at fair value</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>



**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

		December 31, 2012		
	Total	Level 1	Level 2	Level 3
Investment securities available for sale				
U.S. Treasury issue and other U.S. Gov t agencies	\$ 153,277	\$ 153,277	\$	\$
U.S. Gov t sponsored agencies	503		503	
State, county and municipal	117,596	6,742	110,854	
Corporate and other bonds	7,618	1,009	6,609	
Mortgage backed U.S. Gov t agencies	15,560		15,560	
Mortgage backed U.S. Gov t sponsored agencies	14,524		14,524	
Total investment securities available for sale	309,078	161,028	148,050	
Loans held for sale	1,266		1,266	
Total assets at fair value	\$ 310,344	\$ 161,028	\$ 149,316	\$
Total liabilities at fair value	\$	\$	\$	\$

***Investment securities available for sale***

Investment securities available for sale are recorded at fair value each reporting period. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

The Company utilizes a third party vendor to provide fair value data for purposes of determining the fair value of its available for sale securities portfolio. The third party vendor uses a reputable pricing company for security market data. The third party vendor has controls and edits in place for month-to-month market checks and zero pricing, and a Statement on Standards for Attestation Engagements No. 16 report is obtained from the third party vendor on an annual basis. The Company makes no adjustments to the pricing service data received for its securities available for sale.

Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

***Loans held for sale***

The carrying amounts of loans held for sale approximate fair value.

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements****Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

The Company is also required to measure and recognize certain other financial assets at fair value on a nonrecurring basis on the consolidated balance sheet. The following table presents assets measured at fair value on a nonrecurring basis for the period ended June 30, 2013 and December 31, 2012 (dollars in thousands):

	Total	June 30, 2013		
		Level 1	Level 2	Level 3
Impaired loans, non-covered	\$ 12,589	\$	\$ 2,871	\$ 9,718
Other real estate owned (OREO), non-covered	7,593			7,593
Other real estate owned (OREO), covered	2,411			2,411
Total assets at fair value	\$ 22,593	\$	\$ 2,871	\$ 19,722
Total liabilities at fair value	\$	\$	\$	\$

  

	Total	December 31, 2012		
		Level 1	Level 2	Level 3
Impaired loans, non-covered	\$ 15,552	\$	\$ 4,039	\$ 11,513
Other real estate owned (OREO), non-covered	10,793			10,793
Other real estate owned (OREO), covered	3,370			3,370
Total assets at fair value	\$ 29,715	\$	\$ 4,039	\$ 25,676
Total liabilities at fair value	\$	\$	\$	\$

***Impaired loans, non-covered***

Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures the impairment in accordance with FASB ASC 310, *Receivables*. The fair value of impaired loans is estimated using one of several methods, including collateral value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investments in such loans. At June 30, 2013 and December 31, 2012, a majority of total impaired loans were evaluated based on the fair value of the collateral. The Company frequently obtains appraisals prepared by external professional appraisers for classified loans greater than \$250,000 when the most recent appraisal is greater than 12 months old. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan within Level 2.

The Company may also identify collateral deterioration based on current market sales data, including price and absorption, as well as input from real estate sales professionals and developers, county or city tax assessments, market data and on-site inspections by Company personnel. Internally prepared estimates generally result from current market data and actual sales data related to the Company's collateral or where the collateral is located. When management determines that the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3. In instances where an appraisal received subsequent to an internally prepared estimate reflects a higher collateral value, management does not revise the carrying amount. Impaired loans can also be evaluated for impairment using the present value of expected future cash flows discounted at the loan's effective interest rate. The measurement of impaired loans using future cash flows discounted at the loan's effective interest rate rather than the market rate of interest rate is

## Edgar Filing: Community Bankers Trust Corp - Form 10-Q

not a fair value measurement and is therefore excluded from fair value disclosure requirements. Reviews of classified loans are performed by management on a quarterly basis.

### ***Other real estate owned, covered and non-covered***

Other real estate owned (OREO) assets are adjusted to fair value less estimated selling costs upon transfer of the related loans to OREO property. Subsequent to the transfer, valuations are periodically performed by management and the assets are carried at the lower of carrying value or fair value less estimated selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset within Level 2. When an appraised value is not available or management determines that the fair value of the collateral is further impaired below the appraised value due to such things as absorption rates and market conditions, the Company records the foreclosed asset within Level 3 of the fair value hierarchy.

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements****Fair Value of Financial Instruments**

FASB ASC 825, *Financial Instruments*, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring or nonrecurring basis. FASB ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The following reflects the fair value of financial instruments, whether or not recognized on the consolidated balance sheet, at fair value measures by level of valuation assumptions used for those assets. This table excludes financial instruments for which the carrying value approximates fair value (dollars in thousands):

	Carrying Value	June 30, 2013			
		Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Securities held to maturity	\$ 35,747	\$ 37,793	\$	\$ 37,793	\$
Loans, non-covered	576,234	580,593		570,875	9,718
Loans, covered	78,992	90,003			90,003
FDIC indemnification asset	29,166	13,966			13,966
<b>Financial liabilities:</b>					
Interest bearing deposits	864,212	826,620		826,620	
Borrowings	53,603	53,485		53,485	

	Carrying Value	December 31, 2012			
		Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Securities held to maturity	\$ 42,283	\$ 45,228	\$	\$ 45,228	\$
Loans, non-covered	562,562	569,188		557,675	11,513
Loans, covered	84,153	96,024			96,024
FDIC indemnification asset	33,837	17,477			17,477
<b>Financial liabilities:</b>					
Interest bearing deposits	896,340	872,920		872,920	
Borrowings	53,952	54,569		54,569	

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value as of June 30, 2013. The Company applied the provisions of FASB ASC 820 to the fair value measurements of financial instruments not recognized on the consolidated balance sheet at fair value. The provisions requiring the Company to maximize the use of observable inputs and to measure fair value using a notion of exit price were factored into the Company's selection of inputs into its established valuation techniques.

**Financial Assets*****Cash and cash equivalents***



## Edgar Filing: Community Bankers Trust Corp - Form 10-Q

The carrying amounts of cash and due from banks, interest bearing bank deposits, and federal funds sold approximate fair value.

**Table of Contents**

**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Unaudited Consolidated Financial Statements**

***Securities held for investment***

For securities held for investment, fair values are based on quoted market prices or dealer quotes.

***Restricted securities***

The carrying value of restricted securities approximates their fair value based on the redemption provisions of the respective issuer.

***Loans held for resale***

The carrying amounts of loans held for resale approximate fair value.

***Loans not covered by FDIC shared-loss agreement (non-covered loans)***

For certain homogeneous categories of loans, such as some residential mortgages and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of impaired loans included here is consistent with the methodology used for the FASB ASC 820 disclosure for assets recorded at fair value on a nonrecurring basis presented above.

***Loans covered by FDIC shared-loss agreement (covered loans)***

Fair values for covered loans are based on a discounted cash flow methodology that considers various factors including the type of loan and related collateral, classification status, term of loan and whether or not the loans are amortizing. Loans were pooled together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. The discount rates used for loans are based on the rates used at acquisition (which were based on market rates for new originations of comparable loans) adjusted for any material changes in interest rates since acquisition. Increases in cash flow expectations since acquisition resulted in estimated fair value being higher than carrying value. The increase in cash flows is also reflected in a transfer from unaccretable yield to accretable yield as disclosed in Note 4.

***FDIC indemnification asset***

Loss sharing assets are measured separately from the related covered assets as they are not contractually embedded in the covered assets and are not transferable with the assets should the Company choose to dispose of them. Fair value is estimated using projected cash flows related to the obligations under the shared-loss agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These expected reimbursements do not include reimbursable amounts related to future covered expenditures. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. A reduction in loss expectations has resulted in the estimated fair value of the FDIC indemnification asset being lower than its carrying value. This creates a premium that is amortized over the life of the asset and is reflected in Note 5.

***Accrued interest receivable***

The carrying amounts of accrued interest receivable approximate fair value.

**Financial Liabilities**

***Noninterest bearing deposits***

The carrying amount of noninterest bearing deposits approximates fair value.



**Table of Contents**

**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Unaudited Consolidated Financial Statements**

***Interest bearing deposits***

The fair value of NOW accounts, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

***Federal funds purchased***

The carrying amount of federal funds purchased approximates fair value.

***Borrowings***

The fair values of the Company's borrowings, such as FHLB advances, are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

***Accrued interest payable***

The carrying amounts of accrued interest payable approximate fair value.

***Off-balance sheet financial instruments***

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of stand-by letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. The Company's off-balance sheet commitments are funded at current market rates at the date they are drawn upon. It is management's opinion that the fair value of these commitments would approximate their carrying value, if drawn upon.

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements****10. EARNINGS PER COMMON SHARE**

Basic earnings per common share ( EPS ) is computed by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares outstanding during the period, including the effect of all potentially dilutive common shares outstanding attributable to stock instruments (dollars and shares in thousands, except per share data):

	Net Income Available to Common Stockholders  (Numerator)	Weighted Average Common Shares  (Denominator)	Per Common Share Amount
<b>For the three months ended June 30, 2013</b>			
Shares issued		21,685	
Unissued vested restricted stock		11	
Basic EPS	\$ 1,327	21,696	\$ 0.06
Effect of dilutive stock awards		139	
Diluted EPS	\$ 1,327	21,835	\$ 0.06
<b>For the three months ended June 30, 2012</b>			
Shares issued		21,631	
Unissued vested restricted stock		7	
Basic EPS	\$ 934	21,638	\$ 0.04
Effect of dilutive stock awards		68	
Diluted EPS	\$ 934	21,706	\$ 0.04

	Net Income Available to Common Stockholders  (Numerator)	Weighted Average Common Shares  (Denominator)	Per Common Share Amount
<b>For the six months ended June 30, 2013</b>			
Shares issued		21,678	
Unissued vested restricted stock		11	

## Edgar Filing: Community Bankers Trust Corp - Form 10-Q

Basic EPS	\$ 2,372	21,689	\$ 0.11
Effect of dilutive stock awards		169	
Diluted EPS	\$ 2,372	21,858	\$ 0.11
 For the six months ended June 30, 2012			
Shares issued		21,627	
Unissued vested restricted stock		7	
Basic EPS	\$ 1,648	21,634	\$ 0.08
Effect of dilutive stock awards		27	
Diluted EPS	\$ 1,648	21,661	\$ 0.08

Excluded from the computation of diluted earnings per common share were 846,000 and 1.3 million common shares issuable under awards, options or warrants during the three and six months ended June 30, 2013 and 2012, respectively, because their inclusion would be anti-dilutive.

In December 2008, the Company issued 17,680 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A to the United States Department of Treasury in connection with the Company's participation in the Treasury's TARP Capital Purchase Program. Under the terms of the Series A Preferred Stock, the Company is required to pay cumulative dividends on a

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements**

quarterly basis at a rate of 5% per year on such amount through the February 2014 payment. After the February 2014 payment, the dividend rate automatically increases to 9% per year. The Company may defer dividend payments, but the dividend is a cumulative dividend that accrues for payment in the future. Deferred dividends also accrue interest at the same rate as the dividend. The failure to pay dividends for six dividend periods triggers the right for the holder of the Series A Preferred Stock to appoint two directors to the Company's board.

As of June 30, 2013, the Company was current in its payment of dividends, payable quarterly in the amount of \$221,000, with respect to the Series A Preferred Stock.

On July 24, 2013, the Company repurchased 4,500 shares of the original 17,680 shares of Series A Preferred Stock. The Company funded the repurchase through the earnings of its banking subsidiary. The form of the repurchase was a redemption under the terms of the TARP preferred stock. The Company paid the Treasury \$4.5 million, which represented 100% of the par value of the preferred stock repurchased plus accrued dividends with respect to such shares. The repurchase will result in a reduction of \$56,000 in the Company's quarterly dividend payments to the Treasury.

**11. DEFINED BENEFIT PLAN**

On May 31, 2008, the Company adopted the Bank of Essex noncontributory defined benefit pension plan for all full-time pre-merger Bank employees over 21 years of age. Benefits are generally based upon years of service and the employees' compensation. The Company funds pension costs in accordance with the funding provisions of the Employee Retirement Income Security Act. The Company has frozen the plan benefits for all participants effective December 31, 2010. The following table presents the components of net periodic benefit cost for the three and six months ended June 30, 2013 and 2012 (dollars in thousands):

(dollars in thousands)	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Service cost	\$	\$	\$	\$
Interest cost	56	62	112	125
Expected return on plan assets	(101)	(102)	(202)	(204)
Recognized net actuarial loss	17	16	35	33
Net periodic benefit cost	\$ (28)	\$ (24)	\$ (55)	\$ (46)

As of June 30, 2013, there had been no employer contributions for the plan year. The Company is considering terminating the pension plan in the future. No determination has been made and the Company has not determined the financial impact of the termination of the plan.

**12. CONTINGENCIES**

See the Annual Report on Form 10-K for the period ended December 31, 2012 for information with respect to transaction-based bonus awards that the Company approved for the Company's then chief strategic officer in the first quarter of 2010 and paid in the first and second quarters of 2010. There have been no developments to the issues disclosed in the 2010 Form 10-K and, as of August 13, 2013, these issues remain open.

---

**Table of Contents**

**Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of the financial condition at June 30, 2013 and results of operations of Community Bankers Trust Corporation (the "Company") for the three and six months ended June 30, 2013 should be read in conjunction with the Company's consolidated financial statements and the accompanying notes to consolidated financial statements included in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

***OVERVIEW***

The Company is a bank holding company that was incorporated under Delaware law on April 6, 2005. The Company is headquartered in Glen Allen, Virginia and is the holding company for Essex Bank (the "Bank"), a Virginia state bank with 24 full-service offices in Virginia, Maryland and Georgia. The Bank also operates two loan production offices.

The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals and small businesses, including individual and commercial demand and time deposit accounts, commercial and industrial loans, consumer and small business loans, real estate and mortgage loans, investment services, on-line and mobile banking products, and safe deposit box facilities. Thirteen offices are located in Virginia, from the Chesapeake Bay to just west of Richmond, seven are located in Maryland along the Baltimore-Washington corridor and four are located in the Atlanta, Georgia metropolitan market.

The Company generates a significant amount of its income from the net interest income earned by the Bank. Net interest income is the difference between interest income and interest expense. Interest income depends on the amount of interest earning assets outstanding during the period and the interest rates earned thereon. The Company's cost of funds is a function of the average amount of interest bearing deposits and borrowed money outstanding during the period and the interest rates paid thereon. The quality of the assets further influences the amount of interest income lost on nonaccrual loans and the amount of additions to the allowance for loan losses. Additionally, the Bank earns noninterest income from service charges on deposit accounts and other fee or commission-based services and products. Other sources of noninterest income can include gains or losses on securities transactions, gains from loan sales, transactions involving bank-owned property, and income from Bank Owned Life Insurance (BOLI) policies. The Company's income is offset by noninterest expense, which consists of salaries and benefits, occupancy and equipment costs, professional fees, the amortization of intangible assets and other operational expenses. The provision for loan losses and income taxes materially affect income.

***CAUTION ABOUT FORWARD-LOOKING STATEMENTS***

The Company makes certain forward-looking statements in this report that are subject to risks and uncertainties. These forward-looking statements include statements regarding our profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk, future strategy, and financial and other goals. These forward-looking statements are generally identified by phrases such as "the Company expects," "the Company believes" or words of similar import.

These forward-looking statements are subject to significant uncertainties because they are based upon or are affected by factors, including, without limitation, the effects of and changes in the following:

the quality or composition of the Company's loan or investment portfolios, including collateral values and the repayment abilities of borrowers and issuers;

assumptions that underlie the Company's allowance for loan losses;

general economic and market conditions, either nationally or in the Company's market areas;

the ability of the Company to comply with regulatory actions, and the costs associated with doing so;



**Table of Contents**

the interest rate environment;

competitive pressures among banks and financial institutions or from companies outside the banking industry;

real estate values;

the demand for deposit, loan, and investment products and other financial services;

the demand, development and acceptance of new products and services;

the performance of vendors or other parties with which the Company does business;

the Company's compliance with, and the timing of future reimbursements from the FDIC to the Company under, the shared-loss agreements;

assumptions and estimates that underlie the accounting for loan pools under the shared-loss agreements;

consumer profiles and spending and savings habits;

levels of fraud in the banking industry;

the level of attempted cyber attacks in the banking industry;

the securities and credit markets;

costs associated with the integration of banking and other internal operations;

management's evaluation of goodwill and other assets on a periodic basis, and any resulting impairment charges, under applicable accounting standards;

the soundness of other financial institutions with which the Company does business;

inflation;

technology; and

## Edgar Filing: Community Bankers Trust Corp - Form 10-Q

legislative and regulatory requirements.

These factors and additional risks and uncertainties are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 and other reports filed from time to time by the Company with the Securities and Exchange Commission.

Although the Company believes that its expectations with respect to the forward-looking statements are based upon reliable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

---

**Table of Contents**

***CRITICAL ACCOUNTING POLICIES***

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The financial information contained within the statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained when either earning income, recognizing an expense, recovering an asset or relieving a liability. For example, the Company uses historical loss factors as one factor in determining the inherent loss that may be present in its loan portfolio. Actual losses could differ significantly from the historical factors that the Company uses. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of the Company's transactions would be the same, the timing of events that would impact its transactions could change.

The following is a summary of the Company's critical accounting policies that are highly dependent on estimates, assumptions and judgments.

***Allowance for Loan Losses on Non-covered Loans***

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 uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes is appropriate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This quarterly evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance consists of specific and general components. For 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 non-classified loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, management believes that it is more likely than not 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, availability of current financial information, 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 the 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures.

***Accounting for Certain Loans or Debt Securities Acquired in a Transfer***

FASB ASC 310, *Receivables*, requires acquired loans to be recorded at fair value and prohibits carrying over valuation allowances in the initial accounting for acquired impaired loans. Loans carried at fair value, mortgage loans held for sale, and loans to borrowers in good standing under revolving credit arrangements are excluded from

---

**Table of Contents**

the scope of FASB ASC 310, which limits the yield that may be accreted to the excess of the undiscounted expected cash flows over the investor's initial investment in the loan. The excess of the contractual cash flows over expected cash flows may not be recognized as an adjustment of yield. Subsequent increases in cash flows to be collected are recognized prospectively through an adjustment of the loan's yield over its remaining life. Decreases in expected cash flows are recognized as impairments through allowance for loan losses.

The Company's acquired loans from the Suburban Federal Savings Bank (SFSB) transaction (the covered loans), subject to FASB ASC Topic 805, *Business Combinations* (formerly SFAS 141(R)), are recorded at fair value and no separate valuation allowance was recorded at the date of acquisition. FASB ASC 310-30, applies to loans acquired in a transfer with evidence of deterioration of credit quality for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. The Company is applying the provisions of FASB ASC 310-30 to all loans acquired in the SFSB transaction. The Company has grouped loans together based on common risk characteristics including product type, delinquency status and loan documentation requirements among others.

The covered loans are subject to the credit review standards described above for non-covered loans. If and when credit deterioration occurs subsequent to the date that the covered loans were acquired, a provision for credit loss for covered loans will be charged to earnings for the full amount without regard to the shared-loss agreements.

The Company has made an estimate of the total cash flows it expects to collect from each pool of loans, which includes undiscounted expected principal and interest. The excess of that amount over the fair value of the pool is referred to as accretable yield. Accretable yield is recognized as interest income on a constant yield basis over the life of the pool. The Company also determines each pool's contractual principal and contractual interest payments. The excess of that amount over the total cash flows that it expects to collect from the pool is referred to as nonaccretable difference, which is not accreted into income. Judgmental prepayment assumptions are applied to both contractually required payments and cash flows expected to be collected at acquisition. Over the life of the loan or pool, the Company continues to estimate cash flows expected to be collected. Subsequent decreases in cash flows expected to be collected over the life of the pool are recognized as an impairment in the current period through the allowance for loan losses. Subsequent increases in expected or actual cash flows are first used to reverse any existing valuation allowance for that loan or pool. Any remaining increase in cash flows expected to be collected is recognized as an adjustment to the accretable yield with the amount of periodic accretion adjusted over the remaining life of the pool.

***FDIC Indemnification Asset***

The Company is accounting for the shared-loss agreements as an indemnification asset pursuant to the guidance in FASB ASC 805, *Business Combinations*. The FDIC indemnification asset is required to be measured in the same manner as the asset or liability to which it relates. The FDIC indemnification asset is measured separately from the covered loans and other real estate owned assets because it is not contractually embedded in the covered loan and other real estate owned assets and is not transferable should the Company choose to dispose of them. Fair value was estimated using projected cash flows available for loss sharing based on the credit adjustments estimated for each loan pool and other real estate owned and the loss sharing percentages outlined in the shared-loss agreements. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

Because the acquired loans are subject to shared-loss agreements and a corresponding indemnification asset exists to represent the value of expected payments from the FDIC, increases and decreases in loan accretable yield due to changing loss expectations will also have an impact to the valuation of the FDIC indemnification asset. Improvement in loss expectations will typically increase loan accretable yield and decrease the value of the FDIC indemnification asset and, in some instances, result in an amortizable premium on the FDIC indemnification asset. Increases in loss expectations will typically be recognized as impairment in the current period through allowance for loan losses while resulting in additional noninterest income for the amount of the increase in the FDIC indemnification asset.

## **Table of Contents**

### ***Other Intangible Assets***

The Company is accounting for other intangible assets in accordance with FASB ASC 350, *Intangibles Goodwill and Others*. Under FASB ASC 350, acquired intangible assets (such as core deposit intangibles) are separately recognized if the benefit of the assets can be sold, transferred, licensed, rented, or exchanged, and amortized over their useful lives. The costs of purchased deposit relationships and other intangible assets, based on independent valuation by a qualified third party, are being amortized over their estimated lives. The core deposit intangible is evaluated for impairment in accordance with FASB ASC 350.

### ***Income Taxes***

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of operations. Under FASB ASC 740, *Income Taxes*, a valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. In management's opinion, based on a three year taxable income projection, tax strategies which would result in potential securities gains and the effects of off-setting deferred tax liabilities, it is more likely than not that the deferred tax assets are realizable. Included in deferred tax assets are the tax benefits derived from net operating loss carryforwards totaling \$3.4 million. Management expects to utilize all of these carryforward amounts prior to expiration.

The Company and its subsidiaries are subject to U. S. federal income tax as well as various state income taxes. All years from 2009 through 2012 are open to examination by the respective tax authorities.

### ***Other Real Estate Owned***

Real estate acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at the fair value at the date of foreclosure net of estimated disposal costs, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or the fair value less costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other operating expenses. Costs to bring a property to salable condition are capitalized up to the fair value of the property while costs to maintain a property in salable condition are expensed as incurred.

## ***RESULTS OF OPERATIONS***

### ***Overview***

Net income was \$1.6 million for the second quarter of 2013. This compares with net income of \$1.2 million in the second quarter of 2012. Net income available to common stockholders was \$1.3 million in the second quarter of 2013 compared with net income available to common stockholders of \$934,000 in the second quarter of 2012. Earnings per common share, basic and fully diluted, were \$0.06 per share for the second quarter of 2013 compared with \$0.04 per share for the second quarter of 2012.

---

**Table of Contents**

The increase of \$397,000 in net income year over year was driven by a decrease in noninterest expense of \$1.2 million, or 11.6%. A reduction of \$391,000 in FDIC indemnification asset amortization was the largest decrease in noninterest expense when comparing the second quarter of 2013 to the same period in 2012. Also decreasing year over year were other operating expenses, which declined \$373,000, or 20.8%, salaries and employee benefits, which declined \$276,000, or 6.6%, and FDIC assessment, which declined \$273,000, or 55.0%. Additionally, there was no provision for loan losses in the second quarter of 2013, while there was a \$500,000 provision for loan losses in the second quarter of 2012.

Improvement in noninterest expense was offset by a decrease of \$332,000 in net interest income after provision for loan losses and a decrease of \$308,000 in noninterest income. Loss on sale of other real estate owned (OREO) reflected losses and write-downs of \$418,000 on OREO properties in the second quarter of 2013 compared with losses and write-downs of \$229,000 for the same period of 2012. Management resolves problem credits with aggressive valuation and disposition, as can be evidenced when reviewing *Asset Quality* further in this document.

For the six months ended June 30, 2013, net income available to common stockholders was \$2.4 million, compared with a net income available to common stockholders of \$1.6 million for the six months ended June 30, 2012. The \$724,000 improvement for the six month comparison periods was the result of a reduction of \$2.4 million in noninterest expense and a reduction of \$750,000 in provision for loan losses, offset by a decrease of \$1.7 million in net interest income. Earnings per common share, basic and fully diluted, were \$0.11 per share for the six months ended June 30, 2013 compared with \$0.08 per share for the six months ended June 30, 2012.

***Net Interest Income***

The Company's operating results depend primarily on its net interest income, which is the difference between interest income on interest-earning assets, including securities and loans, and interest expense incurred on interest bearing liabilities, including deposits and other borrowed funds. Net interest income is affected by changes in the amount and mix of interest-earning assets and interest bearing liabilities, referred to as a volume change. It is also affected by changes in yields earned on interest earning assets and rates paid on interest bearing deposits and other borrowed funds, referred to as a rate change.

Year over year, net interest income decreased \$832,000, or 7.2%, from \$11.5 million in the second quarter of 2012 to \$10.7 million in the second quarter of 2013. This was primarily the result of a decrease in the Company's interest spread, from 4.71% in the second quarter of 2012 to 4.25% in the second quarter of 2013. While the cost of interest bearing liabilities declined 34 basis points, year over year, from 1.13% to 0.79%, the yield on earning assets declined by a larger degree, from 5.84% to 5.04%, or 80 basis points. This decreased the Company's net interest margin from 4.78% in the second quarter of 2012 to 4.32% for the same period in 2013.

For the six months ended June 30, 2013, net interest income of \$21.0 million decreased \$1.7 million, or 7.3%, from net interest income of \$22.6 million for the first six months of 2012. The Company's net interest spread declined from 4.65% for the first six months of 2012 to 4.18% for the same period in 2013. While the cost of interest bearing liabilities declined from 1.16% to 0.81% during the comparison period, the yield on earning assets declined by 82 basis points, from 5.81% for the first six months of 2012 to 4.99% for the same period in 2013. The result of this activity was a net interest margin of 4.25% for the first six months of 2013 compared with 4.71% for the first six months in 2012.

**Table of Contents**

The following tables set forth, for each category of interest-earning assets and interest bearing liabilities, the average amounts outstanding, the interest earned or paid on such amounts, and the average rate earned or paid for the three and six months ended June 30, 2013 and 2012. The tables also set forth the average rate paid on total interest bearing liabilities, and the net interest margin on average total interest-earning assets for the same periods. Except as indicated in the footnotes, no tax equivalent adjustments were made and all average balances are daily average balances. Any nonaccruing loans have been included in the table, as loans carrying a zero yield.

(dollars in thousands)	Three months ended June 30, 2013			Three months ended June 30, 2012		
	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid
<b>ASSETS:</b>						
Loans, non-covered, including fees	\$ 582,940	\$ 7,622	5.24%	\$ 553,227	\$ 7,574	5.48%
FDIC covered loans, including fees	82,177	2,745	13.40	93,018	4,366	18.77
Total loans	665,117	10,367	6.25	646,245	11,940	7.39
Interest bearing bank balances	20,407	14	0.27	33,499	19	0.23
Federal funds sold	1,951	1	0.11	10,621	3	0.12
Securities (taxable)	293,211	1,945	2.65	268,628	2,039	3.04
Securities (tax exempt) <sup>(1)</sup>	20,235	248	4.91	12,158	179	5.89
Total earning assets	1,000,921	12,575	5.04	971,151	14,180	5.84
Allowance for loan losses	(12,919)			(14,249)		
Non-earning assets	129,804			145,880		
Total assets	\$ 1,117,806			\$ 1,102,782		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Demand interest bearing	\$ 242,346	\$ 190	0.31	\$ 238,501	\$ 236	0.40
Savings	81,627	70	0.34	73,057	70	0.38
Time deposits	536,115	1,340	1.00	558,658	1,935	1.39
Total deposits	860,088	1,600	0.75	870,216	2,241	1.03
Federal funds purchased	1,145	2	0.77	1,491	3	0.71
FHLB and other borrowings	53,765	189	1.41	41,124	343	3.33
Total interest bearing liabilities	914,998	1,791	0.79	912,831	2,587	1.13
Noninterest bearing deposits	81,056			72,131		
Other liabilities	3,936			4,424		
Total liabilities	999,990			989,386		
Stockholders equity	117,816			113,396		
Total liabilities and stockholders equity	\$ 1,117,806			\$ 1,102,782		
Net interest earnings		\$ 10,784			\$ 11,593	
Net interest spread			4.25			4.71
Net interest margin			4.32			4.78

<sup>(1)</sup> Income and yields are reported on a tax equivalent basis assuming a federal tax rate of 34%.





**Table of Contents**

(dollars in thousands)	Six months ended June 30, 2013			Six months ended June 30, 2012		
	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid
<b>ASSETS:</b>						
Loans, non-covered, including fees	\$ 581,821	\$ 15,133	5.25%	\$ 551,537	\$ 15,261	5.53%
FDIC covered loans, including fees	81,951	5,404	13.30	94,282	8,280	17.56
Total loans	663,772	20,537	6.24	645,819	23,541	7.29
Interest bearing bank balances	18,416	22	0.24	25,032	31	0.24
Federal funds sold	5,859	3	0.10	6,794	4	0.11
Securities (taxable)	296,587	3,783	2.55	275,569	4,116	2.99
Securities (tax exempt) <sup>(1)</sup>	19,075	473	4.96	12,236	358	5.85
Total earning assets	1,003,709	24,818	4.99	965,450	28,050	5.81
Allowance for loan losses	(13,193)			(14,980)		
Non-earning assets	131,084			147,659		
Total assets	\$ 1,121,600			\$ 1,098,129		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Demand interest bearing	\$ 244,021	\$ 380	0.31	\$ 237,082	\$ 480	0.41
Savings	80,011	131	0.33	72,102	142	0.39
Time deposits	543,578	2,790	1.03	559,184	3,972	1.42
Total deposits	867,610	3,301	0.77	868,368	4,594	1.06
Federal funds purchased	739	3	0.76	838	3	0.70
FHLB and other borrowings	53,851	381	1.43	41,124	702	3.42
Total interest bearing liabilities	922,200	3,685	0.81	910,330	5,299	1.16
Noninterest bearing deposits	78,319			70,583		
Other liabilities	4,026			4,640		
Total liabilities	1,004,545			985,553		
Stockholders equity	117,055			112,576		
Total liabilities and stockholders equity	\$ 1,121,600			\$ 1,098,129		
Net interest earnings		\$ 21,133			\$ 22,751	
Net interest spread			4.18			4.65
Net interest margin			4.25			4.71

<sup>(1)</sup> Income and yields are reported on a tax equivalent basis assuming a federal tax rate of 34%.

**Provision for Loan Losses**

Management actively monitors the Company's asset quality and provides specific loss provisions when necessary. Provisions for loan losses are charged to income to bring the total allowance for loan losses to a level deemed appropriate by management of the Company based on such factors as historical credit loss experience, industry diversification of the commercial loan portfolio, the amount of nonperforming loans and related collateral, the volume growth and composition of the loan portfolio, current economic conditions that may affect the borrower's ability to pay and the value of collateral, the evaluation of the loan portfolio through the internal loan review function and other relevant factors. See *Allowance for Loan Losses on Non-covered Loans* in the Critical Accounting Policies section above for further discussion.



## **Table of Contents**

Loans are charged-off against the allowance for loan losses when appropriate. Although management believes it uses the best information available to make determinations with respect to the provision for loan losses, future adjustments may be necessary if economic conditions differ from the assumptions used in making the initial determinations.

Management also actively monitors its covered loan portfolio for impairment and necessary loan loss provisions. Provisions for covered loans may be necessary due to a change in expected cash flows or an increase in expected losses within a pool of loans.

The Company did not record a provision for loan losses for the three month and six month periods ended June 30, 2013. The Company records a separate provision for loan losses for its non-covered loan portfolio and its FDIC covered loan portfolio. There was no provision for loan losses on the non-covered loan portfolio for the six month period and quarter ended June 30, 2013. This was the result of increased coverage levels for the ratio of allowance for loan losses to nonperforming loans and the ratio of allowance for loan losses to nonaccrual loans. A decrease in the level of nonperforming assets to loans and OREO and the level of net charge-offs for the periods resulted in the increased coverage levels. These items will be presented in greater detail in the *Asset Quality* section of this document. There was no provision for loan losses on the FDIC covered loan portfolio during 2013.

The provision for loan losses on non-covered loans was \$500,000 for the quarter ended June 30, 2012. The provision for loan losses on non-covered loans was \$1.0 million for the six months ended June 30, 2012. The provision for loan losses on the FDIC covered loan portfolio was a \$250,000 credit for each of the three months and six months ended June 30, 2012. Improvement in expected losses on the Company's FDIC covered portfolio resulted in the \$250,000 provision benefit during the first quarter of 2012.

There were net charge-offs of \$735,000 in the second quarter of 2013 compared with \$909,000 in the second quarter of 2012. Total charge-offs for the second quarter of 2013 were \$1.3 million compared with \$1.1 million in the second quarter of 2012. Recoveries of previously charged-off loans were \$567,000 in the second quarter of 2013 compared with \$238,000 in the second quarter of 2012.

There were net charge-offs of \$1.4 million in the six months ended June 30, 2013 compared with \$2.3 million in the six months ended June 30, 2012. Total charge-offs for the first six months of 2013 were \$2.2 million compared with \$2.7 million for the same period in 2012. Recoveries of previously charged-off loans were \$813,000 in the six months ended June 30, 2013 compared with \$395,000 in the six months ended June 30, 2012.

## ***Noninterest Income***

Year over year, noninterest income decreased \$308,000, from \$1.3 million in the second quarter of 2012 to \$971,000 in the second quarter of 2013. Loss on OREO was the largest contributor to this decrease as losses on the sale and write-down of OREO increased to \$418,000 in the second quarter of 2013 compared with \$229,000 in the second quarter of 2012. Gains/(loss) on sale of securities reflected gains of \$130,000 in the second quarter of 2013 compared with gains of \$290,000 for the same period in 2012. Offsetting these year-over-year decreases to noninterest income were increases of \$27,000 in service charges on deposit accounts and \$14,000 in other noninterest income.

Noninterest income declined \$403,000 when comparing the six months ended June 30, 2013 and June 30, 2012. Noninterest income of \$1.7 million for the first two quarters of 2013 compared with \$2.1 million for the same period in 2012. Loss on OREO increased \$642,000 and reflected a loss of \$1.0 million for the first six months of 2013 compared with a loss of \$406,000 for the same period in 2012. Other noninterest income decreased \$68,000 when compared to the first six months of 2012. Offsetting these decreases was an increase in gains on sales of securities of \$234,000, as such gains were \$174,000 for the first six months of 2012 compared with \$408,000 for the same period in 2013. Service charges on deposit accounts increased \$73,000 when comparing the year-to-date periods ended June 30, 2013 and June 30, 2012.

**Table of Contents*****Noninterest Expense***

Noninterest expenses declined \$1.2 million, or 11.6%, when comparing the second quarter of 2013 to the same period in 2012. FDIC indemnification asset amortization decreased \$391,000, year over year, from \$2.0 million for the second quarter of 2012 to \$1.6 million for the same period in 2013. In the second quarter of 2012 there was accelerated amortization resulting from a large payoff of a covered loan accounted for on a cash basis. This payoff also had the effect of increasing the accretable yield in the second quarter of 2012. Other operating expenses declined \$373,000, from \$1.8 million in the second quarter of 2012 to \$1.4 million in the second quarter of 2013. Credit costs arising from the higher level of problem assets in the second quarter of 2012 compared with the same period in 2013 comprise \$266,000 of the decrease in other operating expenses. Salaries and employee benefits decreased \$276,000, from \$4.2 million in the second quarter of 2012 to \$3.9 million in the second quarter of 2013. Of this decrease, \$178,000 was due to an increase in the amount of credit-related salary expense that is capitalized as deferred loan costs, as a result of higher loan volume. This cost will be amortized over the life of the related loans. FDIC assessment declined \$273,000, from \$496,000 in the second quarter of 2012 to \$223,000 in the second quarter of 2013. The Bank is paying a lower premium to the FDIC on deposit accounts in 2013.

For the six months ended June 30, 2013, noninterest expenses were \$18.5 million, a decrease of \$2.4 million, or 11.5%, from noninterest expenses of \$20.9 million for the six months ended June 30, 2012. Indemnification asset amortization of \$3.1 million for the six months ended June 30, 2013 represented a decrease of 20.0% from \$3.9 million during the same period in 2012. There has been a lower volume of cash-basis loan payments in 2013 compared with 2012. FDIC assessment declined \$690,000, or 63.9%, from \$1.1 million for the six months ended June 30, 2012 to \$390,000 for the six months ended June 30, 2013, due to lower premium assessments. Other operating expenses declined 14.9%, or \$485,000, from \$3.3 million for the six months ended June 30, 2012 to \$2.8 million for the same period in 2013. Within other operating expenses, credit expense has decreased \$305,000 and costs associated with OREO have decreased \$166,000. Salaries and employee benefits declined \$521,000, or 6.2%, from \$8.4 million for the six months ended June 30, 2013 to \$7.9 million for the same period in 2012. Of this decrease in salaries and employee benefits, \$326,000 is due to an increased level of deferred loan costs from higher loan volume throughout 2013 compared with the first half of 2012.

***Income Taxes***

Income tax expense was \$673,000 for the three months ended June 30, 2013 compared with \$473,000 in the second quarter of 2012. For the six months ended June 30, 2013, income tax expense was \$1.2 million compared with \$863,000 for the same period in 2012.

***FINANCIAL CONDITION******General***

At June 30, 2013, the Company had total assets of \$1.125 billion, a decrease of \$28.7 million, or 2.5%, from total assets of \$1.153 billion at December 31, 2012. Total loans were \$667.2 million at June 30, 2013, increasing \$7.1 million from \$660.1 million at December 31, 2012 and \$25.4 million, or 4.0%, since June 30, 2012. The carrying value of FDIC covered loans declined \$5.2 million, or 6.1%, from December 31, 2012 and were \$79.5 million at June 30, 2013. Non-covered loans equaled \$587.8 million at June 30, 2013, increasing \$12.3 million since December 31, 2012. During the second quarter of 2013, total non-covered loans increased by \$7.9 million.

Multifamily loans increased \$1.2 million during the second quarter of 2013 and increased \$8.9 million since December 31, 2012 and \$17.3 million, or 85.0%, since June 30, 2012. Residential 1-4 family loans of \$141.3 million at June 30, 2013 increased \$4.0 million during the second quarter of 2013, \$5.9 million since year end and \$13.0 million since June 30, 2012. Commercial real estate loans increased \$5.0 million, or 2.1%, during the second quarter of 2013 and, at \$244.8 million at June 30, 2013, represent the Company's largest loan category.

The Company's securities portfolio, excluding equity securities, decreased \$37.5 million, or 10.7%, from \$351.4 million at December 31, 2012 to \$313.9 million at June 30, 2013. Realized gains of \$408,000 occurred during the first two quarters of 2013 through sales and call activity. The Company took a short-term position in a

---

**Table of Contents**

\$40 million U.S. Treasury issue at December 31, 2012 to fully invest short-term excess cash balances on deposit by local municipal governments. The issue matured in the first quarter of 2013 and is the primary factor for the decrease in securities balances from December 31, 2012. The maturity of these funds was not reinvested but was offset by a decline in public funds.

The Company had cash and cash equivalents of \$25.3 million at June 30, 2013, up slightly from \$24.1 million at December 31, 2012. There was \$1.0 million in Federal funds purchased at June 30, 2013 compared with \$5.4 million at December 31, 2012.

The Company is required to account for the effect of market changes in the value of securities available-for-sale (AFS) under FASB ASC 320, *Investments – Debt and Equity Securities*. The market value of the AFS portfolio was \$278.1 million at June 30, 2013 and \$309.1 million at December 31, 2012. At June 30, 2013, the Company had a net unrealized loss on the AFS portfolio of \$1.8 million compared with a net unrealized gain of \$5.9 million at December 31, 2012. Of this \$7.7 million decrease, 87.0%, or \$6.7 million, was a decrease in the Fixed Rate Taxable Municipal category. These securities exhibit more price volatility in a changing interest rate environment, in the Company's portfolio, because of their longer weighted average life of 7.845 years, than is consistent with other categories contained within the rest of the portfolio. Fixed Rate Taxable Municipal securities comprise 36% of the total investment portfolio at June 30, 2013.

Interest bearing deposits at June 30, 2013 were \$864.2 million, a decrease of \$32.1 million from December 31, 2012. The only category experiencing growth during 2013 was savings deposits, which increased 7.8%, or \$6.1 million, during the first six months of 2013. Time deposits \$100,000 and over decreased \$21.4 million during the six months ended June 30, 2013 as management did not renew a \$20 million public funds certificate of deposit. NOW accounts decreased \$7.2 million, or 5.0%, during 2013, and were impacted by seasonality and anticipated outflows of public funds accumulated in the fourth quarter of 2012. NOW accounts have since regained some of this decrease, as balances increased by \$9.0 million in the second quarter of 2013. Time deposits less than \$100,000 decreased \$7.5 million during the first six months of 2013 as management continues to attempt to lower interest expense by repricing certificates of deposit at lower rates. MMDA accounts declined \$2.2 million during the first two quarters of 2013.

The Company had Federal Home Loan Bank advances of \$49.5 million at June 30, 2013 compared with \$49.8 million at December 31, 2012. The blended rate on the average balance of these borrowings was 1.43% during the first six months of 2013.

Stockholders' equity was \$112.8 million at June 30, 2013 and \$115.3 million at December 31, 2012. The equity-to-asset ratios were 10.0% at both June 30, 2013 and December 31, 2012.

***Asset Quality – non-covered assets***

The allowance for loan losses represents management's estimate of the amount appropriate to provide for probable losses inherent in the loan portfolio.

Non-covered loan quality is continually monitored, and the Company's management has established an allowance for loan losses that it believes is appropriate for the risks inherent in the loan portfolio. Among other factors, management considers the Company's historical loss experience, the size and composition of the loan portfolio, the value and appropriateness of collateral and guarantors, nonperforming loans and current and anticipated economic conditions. There are additional risks of future loan losses, which cannot be precisely quantified nor attributed to particular loans or classes of loans. Because those risks include general economic trends, as well as conditions affecting individual borrowers, the allowance for loan losses is an estimate. The allowance is also subject to regulatory examinations and determination as to appropriateness, which may take into account such factors as the methodology used to calculate the allowance and size of the allowance in comparison to peer companies identified by regulatory agencies. See *Allowance for Loan Losses on Non-covered Loans* in the Critical Accounting Policies section above for further discussion.

**Table of Contents**

The Company maintains a list of non-covered loans that have potential weaknesses and thus may need special attention. This loan list is used to monitor such loans and is used in the determination of the appropriateness of the allowance for loan losses. Non-covered nonperforming assets totaled \$23.2 million at June 30, 2013 and net charge-offs were \$1.4 million for the six months ended June 30, 2013. This compares with nonperforming assets of \$32.4 million and net charge-offs of \$3.4 million at and for the year ended December 31, 2012.

Nonperforming non-covered loans were \$15.6 million at June 30, 2013 compared to \$21.6 million at December 31, 2012, a \$5.9 million decrease. Additions to nonaccrual loans totaled \$1.7 million, primarily attributable to three relationships relating to loans for residential property, totaling \$1.1 million, which are secured by real estate. The remaining increase related primarily to smaller residential property relationships, which are also secured by real estate. There were \$1.5 million in charge-offs taken during the period centered in commercial real estate loans. There were \$3.0 million in paydowns during the period and \$2.2 million in loans returned to accruing status. Foreclosures for the period totaled \$858,000.

The ratio of the allowance for loan losses to nonperforming assets was 49.59% at June 30, 2013, compared with 39.94% at December 31, 2012. The ratio of allowance for loan losses to total non-covered loans was 1.96% at June 30, 2013, compared with 2.25% at December 31, 2012. The decrease in the allowance for loan losses to total non-covered loans ratio was the result of aggressive charge-offs for non-performing loans and a lesser volume of loans migrating to a non-performing status. This situation has resulted in a stabilization of allowance coverage ratios.

In accordance with GAAP, an individual loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due in accordance with contractual terms of the loan agreement. The Company considers all troubled debt restructured and nonaccrual loans to be impaired loans. In addition, the Company reviews all substandard and doubtful loans that are not on nonaccrual status, as well as loans with other risk characteristics, pursuant to and specifically for compliance with the accounting definition of impairment as described above. These impaired loans have been determined through analysis, appraisals, or other methods used by management.

See Note 3 to the Company's financial statements for information related to the allowance for loan losses. At June 30, 2013 and December 31, 2012, total impaired non-covered loans equaled \$17.4 million and \$22.4 million, respectively.

The following table sets forth selected asset quality data, excluding FDIC covered assets, and ratios for the dates indicated (dollars in thousands):

	June 30, 2013	December 31, 2012
Nonaccrual loans	\$ 15,644	\$ 21,048
Loans past due 90 days and accruing interest		509
<b>Total nonperforming non-covered loans</b>	<b>15,644</b>	<b>21,557</b>
OREO non-covered	7,593	10,793
<b>Total nonperforming non-covered assets</b>	<b>\$ 23,237</b>	<b>\$ 32,350</b>
Accruing troubled debt restructure loans	\$ 10,716	\$ 9,990
<b>Balances</b>		
Specific reserve on impaired loans	1,714	2,656
General reserve related to unimpaired loans	9,809	10,264
<b>Total allowance for loan losses</b>	<b>11,523</b>	<b>12,920</b>
Average loans during quarter, net of unearned income	582,940	556,113
Impaired loans	17,352	22,365
Non-impaired loans	570,405	553,117
<b>Total loans, net of unearned income</b>	<b>587,757</b>	<b>575,482</b>
<b>Ratios</b>		
Allowance for loan losses to loans	1.96%	2.25%
Allowance for loan losses to nonperforming assets	49.59	39.94
Allowance for loan losses to nonaccrual loans	73.66	61.38

## Edgar Filing: Community Bankers Trust Corp - Form 10-Q

General reserve to non-impaired loans	1.72	1.86
Nonaccrual loans to loans	2.66	3.66
Nonperforming assets to loans and OREO	3.90	5.52
Net charge-offs for quarter to average loans, annualized	0.50	0.60

**Table of Contents**

The Company performs troubled debt restructures (TDR) and other various loan workouts whereby an existing loan may be restructured into multiple new loans. At June 30, 2013, the Company had 18 loans that met the definition of a TDR, which are loans that for reasons related to the debtor's financial difficulties have been restructured on terms and conditions that would otherwise not be offered or granted. Three of these loans were restructured using multiple new loans. The aggregated outstanding principal of TDR loans at June 30, 2013 was \$13.9 million, of which \$3.2 million were classified as nonaccrual.

The primary benefit of the restructured multiple loan workout strategy is to maximize the potential return by restructuring the loan into a good loan (the A loan) and a bad loan (the B loan). The impact on interest is positive because the Bank is collecting interest on the A loan rather than potentially not collecting interest on the entire original loan structure. The A loan is underwritten pursuant to the Bank's standard requirements and graded accordingly. The B loan is classified as either doubtful or loss. An impairment analysis is performed on the B loan and, based on its results, all or a portion of the B note is charged-off or a specific loan loss reserve is established.

The Company does not modify its nonaccrual policies in this arrangement, and the A loan and the B loan stand on their own terms. At inception, this structure meets the definition of a TDR. If the loan is on nonaccrual at the time of restructure, the A loan is held on nonaccrual until six consecutive payments have been received, at which time it may be put back on an accrual status. The B loan is placed on nonaccrual. Under the terms of each loan, the borrower's payment is contractually due.

A further breakout of nonaccrual loans, excluding covered loans, at June 30, 2013 and December 31, 2012 is below (dollars in thousands):

	June 30, 2013	December 31, 2012
Mortgage loans on real estate:		
Residential 1-4 family	\$ 5,232	\$ 5,562
Commercial	1,421	5,818
Construction and land development	8,465	8,815
Second mortgages	129	141
Multifamily		
Agriculture	223	250
Total real estate loans	15,470	20,586
Commercial loans	114	385
Consumer installment loans	60	77
All other loans		
Total loans	\$ 15,644	\$ 21,048



## **Table of Contents**

At June 30, 2013, the Company had 10 construction and land development credit relationships in nonaccrual status. The borrowers for eight of these relationships are residential land developers, and the borrowers under the remaining two relationships are commercial land developers. All of the relationships are secured by the real estate to be developed and are in the Company's central Virginia market. The total amount of the credit exposure outstanding at June 30, 2013 was \$8.5 million. These loans have either been charged-down or sufficiently reserved against to equal the current expected realizable value.

There have been no charge-offs related to these relationships during the first six months of 2013. The total amount of the allowance for loan losses attributed to all 10 relationships was \$675,000 at June 30, 2013, or 8.0% of the total credit exposure outstanding. The Company establishes its reserves as described above in *Allowance for Loan Losses on Non-covered Loans* in the Critical Accounting Policies section. In conjunction with the impairment analysis the Company performs as part of its allowance methodology, the Company ordered appraisals for all loans with balances in excess of \$250,000 unless there existed an appraisal that was not older than 12 months. The Company orders an automated valuation for balances between \$100,000 and \$250,000 and uses a ratio analysis for balances less than \$100,000. The Company maintains detailed analysis and other information for its allowance methodology, both for internal purposes and for review by its regulators.

### ***Asset Quality covered assets***

Loans accounted for under FASB ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans.

The Company makes an estimate of the total cash flows that it expects to collect from a pool of covered loans, which include undiscounted expected principal and interest. Over the life of the loan or pool, the Company continues to estimate cash flows expected to be collected. Subsequent decreases in cash flows expected to be collected over the life of the pool are recognized as impairment in the current period through the allowance for loan losses. Subsequent increases in expected cash flows are first used to reverse any existing valuation allowance for that loan or pool. Any remaining increase in cash flows expected to be collected is recognized as an adjustment to the yield over the remaining life of the pool.

### **Capital Requirements**

The determination of capital adequacy depends upon a number of factors, such as asset quality, liquidity, earnings, growth trends and economic conditions. The Company seeks to maintain a strong capital base to support its growth and expansion plans, provide stability to current operations and promote public confidence in the Company.

The federal banking regulators have defined three tests for assessing the capital strength and adequacy of banks, based on two definitions of capital. Tier 1 capital is defined as common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles. Tier 2 capital is defined as specific subordinated debt, some hybrid capital instruments and other qualifying preferred stock and a limited amount of the loan loss allowance. Total capital is defined as tier 1 capital plus tier 2 capital. Three risk-based capital ratios are computed using the above capital definitions, total assets and risk-weighted assets and are measured against regulatory minimums to ascertain adequacy. All assets and off-balance sheet risk items are grouped into categories according to degree of risk and assigned a risk-weighting and the resulting total is risk-weighted assets. Tier 1 risk-based capital is tier 1 capital divided by risk-weighted assets. Total risk-based capital is total capital divided by risk-weighted assets. The leverage ratio is tier 1 capital divided by total average assets.

**Table of Contents**

The Company's ratio of total risk-based capital was 16.9% at June 30, 2013 compared with 17.0% at December 31, 2012. The tier 1 risk-based capital ratio was 15.7% at June 30, 2013 and 15.8% at December 31, 2012. The Company's tier 1 leverage ratio was 9.7% at June 30, 2013 and 9.4% at December 31, 2012. All capital ratios exceed regulatory minimums. In the fourth quarter of 2003, BOE issued trust preferred subordinated debt that qualifies as regulatory capital. This trust preferred debt, which has been assumed by the Company, has a 30-year maturity with a 5-year call option and was issued at a rate of three month LIBOR plus 3.0%. The weighted average cost of this instrument was 3.28% during the three months ended June 30, 2013.

The Company issued shares of Series A Preferred Stock to the United States Department of the Treasury in connection with the Company's participation in the Treasury's TARP Capital Purchase Program in December 2008. As of June 30, 2013, the Company was current in its payment of dividends with respect to the Series A Preferred Stock.

On July 24, 2013, the Company repurchased 4,500 shares of the original 17,680 shares of Series A Preferred Stock. The Company funded the repurchase through the earnings of its banking subsidiary. The form of the repurchase was a redemption under the terms of the TARP preferred stock. The Company paid the Treasury \$4.5 million, which represented 100% of the par value of the preferred stock repurchased plus accrued dividends with respect to such shares. The repurchase will result in a reduction of \$56,000 in the Company's quarterly dividend payments to the Treasury.

**Liquidity**

Liquidity represents the Company's ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest bearing deposits with banks, federal funds sold, and certain investment securities. As a result of the Company's management of liquid assets and the ability to generate liquidity through liability funding, management believes that the Company maintains overall liquidity sufficient to satisfy its depositors' requirements and meet its customers' credit needs.

The Company's results of operations are significantly affected by its ability to manage effectively the interest rate sensitivity and maturity of its interest-earning assets and interest bearing liabilities. At June 30, 2013 and December 31, 2012, the Company's interest-earning assets exceeded its interest bearing liabilities by \$90.0 million and \$76.1 million, respectively.

**Off-Balance Sheet Arrangements and Contractual Obligations**

A summary of the contract amount of the Bank's exposure to off-balance sheet and balance sheet risk as of June 30, 2013 and December 31, 2012, is as follows (dollars in thousands):

	June 30, 2013	December 31, 2012
<b>Commitments with off-balance sheet risk:</b>		
Commitments to extend credit	\$ 72,978	\$ 64,056
Standby letters of credit	9,444	9,487
<b>Total commitments with off-balance sheet risks</b>	<b>\$ 82,422</b>	<b>\$ 73,543</b>
<b>Commitments with balance sheet risk:</b>		
Loans held for sale	\$ 5,653	\$ 1,266
<b>Total commitments with balance sheet risks</b>	<b>5,653</b>	<b>1,266</b>
<b>Total commitments</b>	<b>\$ 88,075</b>	<b>\$ 74,809</b>

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 many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company



**Table of Contents**

evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties. Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. Those lines of credit may be drawn upon only to the total extent to which the Company is committed.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients. The Company holds certificates of deposit, deposit accounts, and real estate as collateral supporting those commitments for which collateral is deemed necessary.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates or prices such as interest rates, foreign currency exchange rates, commodity prices and equity prices. The Company's primary market risk exposure is interest rate risk. The ongoing monitoring and management of interest rate risk is an important component of the Company's asset/liability management process, which is governed by policies established by its Board of Directors that are reviewed and approved annually. The Board of Directors delegates responsibility for carrying out asset/liability management policies to the Asset/Liability Committee (ALCO) of the Bank. In this capacity, ALCO develops guidelines and strategies that govern the Company's asset/liability management related activities, based upon estimated market risk sensitivity, policy limits and overall market interest rate levels and trends.

Interest rate risk represents the sensitivity of earnings to changes in market interest rates. As interest rates change, the interest income and expense streams associated with the Company's financial instruments also change, affecting net interest income, the primary component of the Company's earnings. ALCO uses the results of a detailed and dynamic simulation model to quantify the estimated exposure of net interest income to sustained interest rate changes. While ALCO routinely monitors simulated net interest income sensitivity over various periods, it also employs additional tools to monitor potential longer-term interest rate risk.

The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all assets and liabilities reflected on the Company's balance sheet. The simulation model is prepared and updated monthly. This sensitivity analysis is compared to ALCO policy limits, which specify a maximum tolerance level for net interest income exposure over a one-year horizon, assuming no balance sheet growth, given a 200 basis point upward shift and a 200 basis point downward shift in interest rates. A parallel shift in rates over a 12-month period is assumed. The following table represents the change to net interest income given interest rate shocks up and down 100 and 200 basis points at June 30, 2013:

Change in Yield curve	Change in net interest income	
	%	\$
+200 bp	(0.1)%	\$ (51)
+100 bp	(0.4)	(145)
most likely	0	
-100 bp	0.2	104
-200 bp	(1.5)	(630)

## **Table of Contents**

At June 30, 2013, the Company's interest rate risk model indicated that, in a rising rate environment of 200 basis points over a 12 month period, net interest income could decrease by 0.1%. For the same time period, the interest rate risk model indicated that in a declining rate environment of 200 basis points, net interest income could decrease by 1.5%. While these percentages are subjective based upon assumptions used within the model, management believes the balance sheet is appropriately balanced with acceptable risk to changes in interest rates.

The preceding sensitivity analysis does not represent a forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions, including the nature and timing of interest rate levels such as yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment or replacement of asset and liability cash flows. While assumptions are developed based upon current economic and local market conditions, the Company cannot make any assurances about the predictive nature of these assumptions, including how customer preferences or competitor influences might change.

Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to factors such as prepayment and refinancing levels likely deviating from those assumed, the varying impact of interest rate change, caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other internal and external variables. Furthermore, the sensitivity analysis does not reflect actions that ALCO might take in response to, or in anticipation of, changes in interest rates.

### **Item 4. *Controls and Procedures***

#### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this Form 10-Q, the Company's management, with the participation of the Company's chief executive officer and its chief financial officer (the Certifying Officers), conducted evaluations of the Company's disclosure controls and procedures. As defined under Section 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act), the term disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including the Certifying Officers, to allow timely decisions regarding required disclosures.

Based on this evaluation, the Certifying Officers have concluded that the Company's disclosure controls and procedures were effective to ensure that material information is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the Company's disclosure obligations under the Exchange Act and the rules and regulations promulgated under it.

#### **Internal Control over Financial Reporting**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Certifying Officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles. There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation of it that occurred during the Company's last fiscal quarter that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. *Legal Proceedings***

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the Company's business, to which the Company, including its subsidiaries, is a party or of which the property of the Company is subject.

**Item 1A. *Risk Factors***

As of the date of this report, there were no material changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

**Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds***

None.

**Item 3. *Defaults upon Senior Securities***

None.

**Item 4. *Mine Safety Disclosures***

Not applicable

**Item 5. *Other Information***

None.

**Item 6. *Exhibits***

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification for Chief Executive Officer*
31.2	Rule 13a-14(a)/15d-14(a) Certification for Chief Financial Officer*
32.1	Section 1350 Certifications*
101	Interactive Data File with respect to the following materials from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Income, (iii) the Unaudited Consolidated Statements of Comprehensive Income, (iv) the Unaudited Consolidated Statements of Stockholders' Equity, (v) the Unaudited Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Consolidated Financial Statements*

\* Filed herewith.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**COMMUNITY BANKERS TRUST CORPORATION**

(Registrant)

/s/ Rex L. Smith, III  
Rex L. Smith, III

President and Chief Executive Officer

(principal executive officer)

Date: August 13, 2013

/s/ Bruce E. Thomas  
Bruce E. Thomas

Executive Vice President and Chief Financial Officer

(principal financial officer)

Date: August 13, 2013