

Community Bankers Trust Corp  
Form 10-Q  
May 15, 2012  
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**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 March 31, 2012

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)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**4235 Innslake Drive, Suite 200**  
**Glen Allen, Virginia**  
(Address of principal executive offices)

**20-2652949**  
(I.R.S. Employer  
Identification No.)  
**23060**  
(Zip Code)  
**(804) 934-9999**  
(Registrant's telephone number, including area code)  
**n/a**  
(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  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At March 31, 2012, there were 21,627,549 shares of the Company's common stock outstanding.

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**COMMUNITY BANKERS TRUST CORPORATION**

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**COMMUNITY BANKERS TRUST CORPORATION**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
**AS OF MARCH 31, 2012 AND DECEMBER 31, 2011**

(dollars in thousands)

|  | March 31, 2012<br>(Unaudited) | December 31, 2011<br>(Audited) |
|--|-------------------------------|--------------------------------|
| <b>ASSETS</b>  |                               |                                |
| Cash and due from banks  | \$ 14,784                     | \$ 11,078                      |
| Interest-bearing bank deposits   | 18,500                        | 10,673                         |
| Federal funds sold   | 2,500                         |                                |
| <b>Total cash and cash equivalents</b>   | <b>35,784</b>                 | <b>21,751</b>                  |
| Securities available for sale, at fair value   | 235,311                       | 232,764                        |
| Securities held to maturity, at cost (fair value of \$62,834 and \$68,585, respectively)   | 59,117                        | 64,422                         |
| Equity securities, restricted, at cost   | 6,939                         | 6,872                          |
| <b>Total securities</b>  | <b>301,367</b>                | <b>304,058</b>                 |
| Loans held for resale  | 349                           | 580                            |
| Loans not covered by FDIC shared loss agreement  | 548,789                       | 544,718                        |
| Loans covered by FDIC shared loss agreement  | 94,695                        | 97,561                         |
| <b>Total loans</b>   | <b>643,484</b>                | <b>642,279</b>                 |
| Allowance for loan losses (non-covered loans of \$13,935 and \$14,835, respectively; covered loans of \$460 and \$776, respectively) | (14,395)                      | (15,611)                       |
| <b>Net loans</b>   | <b>629,089</b>                | <b>626,668</b>                 |
| FDIC indemnification asset   | 40,232                        | 42,641                         |
| Bank premises and equipment, net   | 34,754                        | 35,084                         |
| Other real estate owned, covered by FDIC shared loss agreement   | 3,974                         | 5,764                          |
| Other real estate owned, non-covered   | 12,696                        | 10,252                         |
| Bank owned life insurance  | 14,730                        | 14,592                         |
| FDIC receivable under shared loss agreement  | 1,402                         | 1,780                          |
| Core deposit intangibles, net  | 11,993                        | 12,558                         |
| Other assets   | 16,308                        | 16,768                         |
| <b>Total assets</b>  | <b>\$ 1,102,678</b>           | <b>\$ 1,092,496</b>            |
| <b>LIABILITIES</b>   |                               |                                |
| Deposits:  |                               |                                |
| Noninterest-bearing  | \$ 77,055                     | \$ 64,953                      |
| Interest-bearing   | 867,002                       | 868,538                        |

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|                                 |                |                |
|---------------------------------|----------------|----------------|
| Total deposits                  | 944,057        | 933,491        |
| Federal Home Loan Bank advances | 37,000         | 37,000         |
| Trust preferred capital notes   | 4,124          | 4,124          |
| Other liabilities               | 6,075          | 6,701          |
| <b>Total liabilities</b>        | <b>991,256</b> | <b>981,316</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  | (399)               | (454)               |
| Common stock (200,000,000 shares authorized, \$0.01 par value; 21,627,549 shares issued and outstanding) | 216                 | 216                 |
| Additional paid in capital   | 144,259             | 144,243             |
| Retained deficit   | (53,047)            | (53,761)            |
| Accumulated other comprehensive income   | 1,676               | 2,219               |
| <b>Total stockholders equity</b>   | <b>111,422</b>      | <b>111,180</b>      |
| <b>Total liabilities and stockholders equity</b>   | <b>\$ 1,102,678</b> | <b>\$ 1,092,496</b> |

See accompanying notes to unaudited consolidated financial statements

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**COMMUNITY BANKERS TRUST CORPORATION**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**  
(dollars and shares in thousands, except per share data)

|  | March 31, 2012 | March 31, 2011 |
|--|----------------|----------------|
| <b>Interest and dividend income</b>                        |                |                |
| Interest and fees on non-covered loans                     | \$ 7,687       | \$ 7,234       |
| Interest and fees on FDIC covered loans                    | 3,914          | 3,820          |
| Interest on federal funds sold                             | 1              | 2              |
| Interest on deposits in other banks                        | 12             | 14             |
| Interest and dividends on securities                       |                |                |
| Taxable  | 2,077          | 1,912          |
| Nontaxable   | 118            | 412            |
| <b>Total interest and dividend income</b>                  | <b>13,809</b>  | <b>13,394</b>  |
| <b>Interest expense</b>                                    |                |                |
| Interest on deposits                                       | 2,353          | 2,979          |
| Interest on federal funds purchased                        |                |                |
| Interest on other borrowed funds                           | 359            | 332            |
| <b>Total interest expense</b>                              | <b>2,712</b>   | <b>3,311</b>   |
| <b>Net interest income</b>                                 | <b>11,097</b>  | <b>10,083</b>  |
| <b>Provision for loan losses</b>                           | <b>250</b>     | <b>1,498</b>   |
| <b>Net interest income after provision for loan losses</b> | <b>10,847</b>  | <b>8,585</b>   |
| <b>Noninterest income</b>                                  |                |                |
| Service charges on deposit accounts                        | 617            | 576            |
| FDIC indemnification asset amortization                    | (1,882)        | (2,745)        |
| Gain (loss) on securities transactions, net                | (116)          | 661            |
| Loss on sale of other real estate, net                     | (177)          | (612)          |
| Other  | 501            | 714            |
| <b>Total noninterest income</b>                            | <b>(1,057)</b> | <b>(1,406)</b> |
| <b>Noninterest expense</b>                                 |                |                |
| Salaries and employee benefits                             | 4,238          | 4,204          |
| Occupancy expenses   | 631            | 814            |
| Equipment expenses   | 295            | 330            |
| Legal fees   | 24             | 105            |
| Professional fees  | 85             | 191            |
| FDIC assessment  | 584            | 872            |
| Data processing fees                                       | 517            | 452            |
| Amortization of intangibles                                | 565            | 565            |
| Other operating expenses                                   | 1,471          | 1,678          |
| <b>Total noninterest expense</b>                           | <b>8,410</b>   | <b>9,211</b>   |

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|  |         |            |
|--|---------|------------|
| Income (loss) before income taxes                    | 1,380   | (2,032)    |
| Income tax (expense) benefit                         | (390)   | 838        |
| Net income (loss)                                    | \$ 990  | \$ (1,194) |
| Dividends paid on preferred stock                    | 221     |            |
| Accretion of discount on preferred stock             | 55      | 51         |
| Accumulated preferred dividends                      |         | 221        |
| Net income (loss) available to common stockholders   | \$ 714  | \$ (1,466) |
| Net income (loss) per share basic                    | \$ 0.03 | \$ (0.07)  |
| Net income (loss) per share diluted                  | \$ 0.03 | \$ (0.07)  |
| <b>Weighted average number of shares outstanding</b> |         |            |
| basic  | 21,631  | 21,468     |
| diluted  | 21,642  | 21,468     |

See accompanying notes to unaudited consolidated financial statements

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## COMMUNITY BANKERS TRUST CORPORATION

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

## FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(dollars in thousands, except per share data)

|  | Three months ended |                   |
|--|--------------------|-------------------|
|  | March 31, 2012     | March 31, 2011    |
| <b>Net income (loss)</b>                                       | \$ 990             | \$ (1,194)        |
| <b>Other comprehensive income (loss):</b>                      |                    |                   |
| Change in unrealized gain (loss) in investment securities      | (938)              | 550               |
| Tax related to unrealized gain (loss) in investment securities | 319                | (187)             |
| Reclassification adjustment for gain (loss) in securities sold | 116                | (661)             |
| Tax related to realized gain (loss) in securities sold         | (40)               | 225               |
| <b>Total other comprehensive income (loss)</b>                 | <b>(543)</b>       | <b>(73)</b>       |
| <b>Total comprehensive income (loss)</b>                       | <b>\$ 447</b>      | <b>\$ (1,267)</b> |

See accompanying notes to unaudited consolidated financial statements



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**COMMUNITY BANKERS TRUST CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND**  
**THE YEAR ENDED DECEMBER 31, 2011**

(dollars and shares in thousands)

|  | Preferred<br>Stock | Warrants | Discount<br>on<br>Preferred<br>Stock | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid in<br>Capital | Retained<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income | Total      |
|--|--------------------|----------|--------------------------------------|------------------------|------------------------|----------------------------------|---------------------|---|------------|
| <b>Balance January 1, 2011</b>             | \$ 17,680          | \$ 1,037 | \$ (660)                             | 21,468                 | \$ 215                 | \$ 143,999                       | \$ (54,999)         | \$ (145)  | \$ 107,127 |
| Amortization of preferred stock warrants   |                    |          | 206                                  |                        |                        |                                  | (206)               |   |            |
| Issuance of common stock                   |                    |          |                                      | 160                    | 1                      | 182                              |                     |   | 183        |
| Issuance of stock options                  |                    |          |                                      |                        |                        | 62                               |                     |   | 62         |
| Net income                                 |                    |          |                                      |                        |                        |                                  | 1,444               |   | 1,444      |
| Other comprehensive income                 |                    |          |                                      |                        |                        |                                  |                     | 2,364   | 2,364      |
| <b>Balance December 31, 2011 (Audited)</b> | \$ 17,680          | \$ 1,037 | \$ (454)                             | 21,628                 | \$ 216                 | \$ 144,243                       | \$ (53,761)         | \$ 2,219  | \$ 111,180 |
| Amortization of preferred stock warrants   |                    |          | 55                                   |                        |                        |                                  | (55)                |   |            |
| Dividends paid on preferred stock          |                    |          |                                      |                        |                        |                                  | (221)               |   | (221)      |
| Issuance of stock options                  |                    |          |                                      |                        |                        | 16                               |                     |   | 16         |
| Net income                                 |                    |          |                                      |                        |                        |                                  | 990                 |   | 990        |
| Other comprehensive income                 |                    |          |                                      |                        |                        |                                  |                     | (543)   | (543)      |
| <b>Balance March 31, 2012 (Unaudited)</b>  | \$ 17,680          | \$ 1,037 | \$ (399)                             | 21,628                 | \$ 216                 | \$ 144,259                       | \$ (53,047)         | \$ 1,676  | \$ 111,422 |

See accompanying notes to unaudited consolidated financial statements

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**COMMUNITY BANKERS TRUST CORPORATION**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**  
**(dollars in thousands)**

|  | March 31, 2012 | March 31, 2011  |
|--|----------------|-----------------|
| <b>Operating activities:</b>   |                |                 |
| Net income (loss)  | \$ 990         | \$ (1,194)      |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                |                 |
| Depreciation and intangibles amortization  | 1,009          | 1,023           |
| Issuance of common stock options   | 16             |                 |
| Provision for loan losses  | 250            | 1,498           |
| Deferred income taxes  | 391            |                 |
| Amortization of security premiums and accretion of discounts, net                        | 793            | 403             |
| Change in loans held for sale  | 231            |                 |
| Net loss (gain) on sale of securities  | 116            | (661)           |
| Net loss on sale and valuation of other real estate                                      | 177            | 612             |
| Changes in assets and liabilities:   |                |                 |
| Decrease in other assets   | 2,997          | 9,468           |
| (Increase) decrease in accrued expenses and other liabilities                            | (626)          | 3,350           |
| <b>Net cash provided by operating activities</b>   | <b>6,344</b>   | <b>14,499</b>   |
| <b>Investing activities:</b>   |                |                 |
| Proceeds from securities sales, calls, maturities, and paydowns                          | 39,491         | 43,188          |
| Purchase of securities   | (38,531)       | (33,800)        |
| Proceeds from sale of other real estate  | 3,354          | 927             |
| Improvements of other real estate, net of insurance proceeds                             | 10             |                 |
| Net (increase) decrease in loans, excluding covered loans                                | (8,774)        | 3,724           |
| Net decrease in loans, covered by FDIC shared loss agreement                             | 1,490          | 6,952           |
| Principal recoveries of loans previously charged off                                     | 417            | 135             |
| Purchase of premises and equipment, net  | (113)          | (76)            |
| <b>Net cash (used in) provided by investing activities</b>                               | <b>(2,656)</b> | <b>21,050</b>   |
| <b>Financing activities:</b>   |                |                 |
| Net increase (decrease) in noninterest-bearing and interest-bearing demand deposits      | 10,566         | (32,183)        |
| Cash dividends paid  | (221)          |                 |
| <b>Net cash provided by (used in) provided by financing activities</b>                   | <b>10,345</b>  | <b>(32,183)</b> |
| <b>Net increase (decrease) in cash and cash equivalents</b>                              | <b>14,033</b>  | <b>(3,366)</b>  |
| <b>Cash and cash equivalents:</b>  |                |                 |
| Beginning of the period  | \$ 21,751      | \$ 33,381       |
| End of the period  | \$ 35,784      | \$ 36,747       |

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|   | March 31, 2012   | March 31, 2011 |
|---|--|----------------|
| <b>Supplemental disclosures of cash flow information:</b> |  |                |
| Interest paid   | \$ 3,055   | \$ 3,550       |
| Income taxes paid   |  |                |
| Transfers of OREO property                                | 4,196  | 2,170          |
|   | See accompanying notes to unaudited consolidated financial statement |                |

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**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to 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 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, 2011. In the opinion of management, all adjustments, consisting of normal accruals, were made that are necessary to present fairly the financial position of the Company as of March 31, 2012 and the results of operations, changes in stockholders' equity, and cash flows for the three months ended March 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 only of normal recurring adjustments, necessary for a fair presentation of the consolidated financial statements have been included. Results for the three month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012.

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 May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. This ASU represents the converged guidance of the FASB and the International Accounting Standards Board (the Boards) on fair value measurement. The collective efforts of the Boards have provided common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value" for both U.S. GAAP and IFRS (International



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Financial Reporting Standards) regulations. The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The amendments are effective during interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. The Company adopted this guidance with no material impact on its consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. The ASU eliminates the option to present other comprehensive income as a part of the statement of changes in stockholders' equity and requires consecutive presentation of the statement of net income and other comprehensive income. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and are to be applied retrospectively. In December 2011, the topic was further amended to defer the effective date of presenting reclassification adjustments from other comprehensive income to net income on the face of the financial statements. Companies should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect prior to this ASU while FASB redeliberates future requirements. The Company adopted this guidance, except for the deferred items above, with no material impact on its consolidated financial statements. The Company does not expect the adoption of the deferred items to have a material impact on its consolidated financial statements.

**2. SECURITIES**

Amortized costs and fair values of securities available for sale and held to maturity at March 31, 2012 and December 31, 2011 were as follows (dollars in thousands):

|   | Amortized<br>Cost | March 31, 2012<br>Gross Unrealized |          | Fair<br>Value |
|---|-------------------|------------------------------------|----------|---------------|
|   |                   | Gains                              | Losses   |               |
| <b>Securities Available for Sale</b>              |                   |                                    |          |               |
| U.S. Treasury issue and other U.S. Gov't agencies | \$ 15,381         | \$ 96                              | \$ (22)  | \$ 15,455     |
| U.S. Gov't sponsored agencies                     | 1,003             | 20                                 |          | 1,023         |
| State, county and municipal                       | 78,078            | 3,660                              | (367)    | 81,371        |
| Corporate and other bonds                         | 6,788             | 9                                  | (58)     | 6,739         |
| Mortgage backed U.S. Gov't agencies               | 65,436            | 517                                | (355)    | 65,598        |
| Mortgage backed U.S. Gov't sponsored agencies     | 64,509            | 681                                | (65)     | 65,125        |
| Total Securities Available for Sale               | \$ 231,195        | \$ 4,983                           | \$ (867) | \$ 235,311    |
| <b>Securities Held to Maturity</b>                |                   |                                    |          |               |
| State, county and municipal                       | \$ 12,161         | \$ 1,150                           | \$       | \$ 13,311     |
| Mortgage backed U.S. Gov't agencies               | 11,936            | 786                                |          | 12,722        |
| Mortgage backed U.S. Gov't sponsored agencies     | 35,020            | 1,781                              |          | 36,801        |
| Total Securities Held to Maturity                 | \$ 59,117         | \$ 3,717                           | \$       | \$ 62,834     |

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|   | Amortized<br>Cost | December 31, 2011<br>Gross Unrealized |                 | Fair Value        |
|---|-------------------|---------------------------------------|-----------------|-------------------|
|   |                   | Gains                                 | Losses          |                   |
| <b>Securities Available for Sale</b>              |                   |                                       |                 |                   |
| U.S. Treasury issue and other U.S. Gov t agencies | \$ 7,255          | \$ 159                                | \$              | \$ 7,414          |
| U.S. Gov t sponsored agencies                     | 1,005             | 28                                    |                 | 1,033             |
| State, county and municipal                       | 58,183            | 3,867                                 | (7)             | 62,043            |
| Corporate and other bonds                         | 4,801             | 1                                     | (171)           | 4,631             |
| Mortgage backed U.S. Gov t agencies               | 73,616            | 734                                   | (257)           | 74,093            |
| Mortgage backed U.S. Gov t sponsored agencies     | 82,966            | 778                                   | (194)           | 83,550            |
| <b>Total Securities Available for Sale</b>        | <b>\$ 227,826</b> | <b>\$ 5,567</b>                       | <b>\$ (629)</b> | <b>\$ 232,764</b> |
| <b>Securities Held to Maturity</b>                |                   |                                       |                 |                   |
| State, county and municipal                       | \$ 12,168         | \$ 1,311                              | \$              | \$ 13,479         |
| Mortgage backed U.S. Gov t agencies               | 12,743            | 822                                   |                 | 13,565            |
| Mortgage backed U.S. Gov t sponsored agencies     | 39,511            | 2,030                                 |                 | 41,541            |
| <b>Total Securities Held to Maturity</b>          | <b>\$ 64,422</b>  | <b>\$ 4,163</b>                       | <b>\$</b>       | <b>\$ 68,585</b>  |

The amortized cost and fair value of securities at March 31, 2012 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<br>Cost | Fair Value       | Amortized<br>Cost  | Fair Value        |
| Due in one year or less                | \$ 2,429          | \$ 2,457         | \$ 11,632          | \$ 11,669         |
| Due after one year through five years  | 50,022            | 52,887           | 105,155            | 105,689           |
| Due after five years through ten years | 6,666             | 7,490            | 94,740             | 98,186            |
| Due after ten years                    |                   |                  | 19,668             | 19,767            |
| <b>Total securities</b>                | <b>\$ 59,117</b>  | <b>\$ 62,834</b> | <b>\$ 231,195</b>  | <b>\$ 235,311</b> |

Gains and losses on the sale of securities are recorded on the settlement date and are determined using the specific identification method. Gross realized gains and losses on sales and other than temporary impairments (OTTI) of securities available for sale during the periods were as follows (dollars in thousands):

|                                    | Three Months Ended March 31 |               |
|------------------------------------|-----------------------------|---------------|
|                                    | 2012                        | 2011          |
| Gross realized gains               | \$ 38                       | \$ 661        |
| Gross realized losses              | (154)                       |               |
| <b>Net securities gains (loss)</b> | <b>\$ (116)</b>             | <b>\$ 661</b> |

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In estimating 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 impairment losses other than temporary in nature for the three months ended March 31, 2012 and 2011.



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The fair value and gross unrealized losses for securities, segregated by the length of time that individual securities have been in a continuous gross unrealized loss position, at March 31, 2012 and December 31, 2011 were as follows (dollars in thousands):

|   | Less than 12 Months |                 | March 31, 2012<br>12 Months or More |                 | Total            |                 |
|---|---------------------|-----------------|-------------------------------------|-----------------|------------------|-----------------|
|   | Fair Value          | Unrealized Loss | Fair Value                          | Unrealized Loss | Fair Value       | Unrealized Loss |
| U.S. Treasury issue and other U.S. Gov t agencies | \$ 10,400           | \$ (22)         | \$                                  | \$              | \$ 10,400        | \$ (22)         |
| U.S. Gov t sponsored agencies                     |                     |                 |                                     |                 |                  |                 |
| State, county and municipal                       | 20,281              | (367)           |                                     |                 | 20,281           | (367)           |
| Corporate and other bonds                         | 2,956               | (58)            |                                     |                 | 2,956            | (58)            |
| Mortgage backed U.S. Gov t agencies               | 34,325              | (355)           |                                     |                 | 34,325           | (355)           |
| Mortgage backed U.S. Gov t sponsored agencies     | 16,073              | (65)            |                                     |                 | 16,073           | (65)            |
| <b>Total</b>                                      | <b>\$ 84,035</b>    | <b>\$ (867)</b> | <b>\$</b>                           | <b>\$</b>       | <b>\$ 84,035</b> | <b>\$ (867)</b> |

|   | Less than 12 Months |                 | December 31, 2011<br>12 Months or More |                 | Total            |                 |
|---|---------------------|-----------------|--|-----------------|------------------|-----------------|
|   | Fair Value          | Unrealized Loss | Fair Value                             | Unrealized Loss | Fair Value       | Unrealized Loss |
| U.S. Treasury issue and other U.S. Gov t agencies | \$                  | \$              | \$                                     | \$              | \$               | \$              |
| U.S. Gov t sponsored agencies                     |                     |                 |  |                 |                  |                 |
| State, county and municipal                       | 1,242               | (7)             |  |                 | 1,242            | (7)             |
| Corporate and other bonds                         | 4,380               | (171)           |  |                 | 4,380            | (171)           |
| Mortgage backed U.S. Gov t agencies               | 38,324              | (257)           |  |                 | 38,324           | (257)           |
| Mortgage backed U.S. Gov t sponsored agencies     | 25,435              | (194)           |  |                 | 25,435           | (194)           |
| <b>Total</b>                                      | <b>\$ 69,381</b>    | <b>\$ (629)</b> | <b>\$</b>                              | <b>\$</b>       | <b>\$ 69,381</b> | <b>\$ (629)</b> |

The unrealized losses in the investment portfolio at March 31, 2012 and December 31, 2011 are generally a result of market fluctuations that occur daily. The unrealized losses are from 63 securities at March 31, 2012 that are all of investment grade, backed by insurance, U.S. government agency guarantees, or the full faith and credit of local municipalities throughout the United States. 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 \$46.9 million and \$34.1 million at March 31, 2012 and December 31, 2011, respectively, were pledged to secure deposits and for other purposes required or permitted by law. At March 31, 2012 and December 31, 2011, 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 Consolidated Financial Statements****3. LOANS NOT COVERED BY FDIC SHARED LOSS AGREEMENT (NON-COVERED LOANS)**

The Company's non-covered loans at March 31, 2012 and December 31, 2011 were comprised of the following (dollars in thousands):

|   | March 31, 2012 |                        | December 31, 2011 |                        |
|---|----------------|------------------------|-------------------|------------------------|
|   | Amount         | % of Non-Covered Loans | Amount            | % of Non-Covered Loans |
| Mortgage loans on real estate:            |                |                        |                   |                        |
| Residential 1-4 family                    | \$ 127,111     | 23.15%                 | \$ 127,200        | 23.34%                 |
| Commercial                                | 231,274        | 42.13                  | 220,471           | 40.46                  |
| Construction and land development         | 67,240         | 12.25                  | 75,691            | 13.89                  |
| Second mortgages                          | 8,458          | 1.54                   | 8,129             | 1.49                   |
| Multifamily                               | 19,785         | 3.60                   | 19,746            | 3.62                   |
| Agriculture                               | 10,897         | 1.99                   | 11,444            | 2.10                   |
| Total real estate loans                   | 464,765        | 84.66                  | 462,681           | 84.90                  |
| Commercial loans                          | 73,959         | 13.47                  | 72,149            | 13.24                  |
| Consumer installment loans                | 8,597          | 1.57                   | 8,461             | 1.55                   |
| All other loans                           | 1,659          | 0.30                   | 1,659             | 0.31                   |
| Gross loans                               | 548,980        | 100.00%                | 544,950           | 100.00%                |
| Less unearned income on loans             | (191)          |                        | (232)             |                        |
| Non-covered loans, net of unearned income | \$ 548,789     |                        | \$ 544,718        |                        |

The Company held \$41.8 million and \$36.5 million in purchased government-guaranteed loans of the United States Department of Agriculture (USDA), which are included in various categories in the table above, at March 31, 2012 and December 31, 2011, respectively. As these loans are 100% guaranteed by the USDA, no loan loss provision is required. These loan balances include an unamortized purchase premium of \$4.1 million and \$3.6 million at March 31, 2012 and December 31, 2011, respectively. Unamortized purchase premium is recognized as an adjustment of the related loan yield using the interest method.

At March 31, 2012 and December 31, 2011, 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 March 31, 2012 and December 31, 2011, a portion of the construction and land development loans presented above contain 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.

Interest reserves recognized as interest income on construction loans with interest reserves were \$27,000 and zero for the three months ended March 31, 2012 and 2011, respectively. Nonperforming construction loans with interest reserves were \$4.9 million and zero at March 31, 2012 and 2011, respectively.

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Average investment in impaired loans was \$41.9 million and \$48.3 million as of March 31, 2012 and March 31, 2011, respectively. 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 months ended March 31, 2012 and 2011. For the three months ended March 31, 2012 and 2011, estimated interest income of \$540,000 and \$996,000, 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 Consolidated Financial Statements**

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

|  | Recorded<br>Investment<br>(1) | Unpaid<br>Principal<br>Balance<br>(2) | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|--|-------------------------------|---------------------------------------|----------------------|-----------------------------------|----------------------------------|
| <b>With an allowance recorded:</b>               |                               |                                       |                      |                                   |                                  |
| Mortgage loans on real estate:                   |                               |                                       |                      |                                   |                                  |
| Residential 1-4 family                           | \$ 4,388                      | \$ 4,495                              | \$ 1,231             | \$ 4,034                          | \$ 5                             |
| Commercial                                       | 6,082                         | 6,253                                 | 751                  | 5,471                             |                                  |
| Construction and land development                | 1,867                         | 4,888                                 | 358                  | 4,802                             | 3                                |
| Second mortgages                                 | 234                           | 250                                   | 101                  | 191                               | 1                                |
| Multifamily                                      |                               |                                       |                      |                                   |                                  |
| Agriculture                                      |                               |                                       |                      | 21                                |                                  |
| Total real estate loans                          | 12,571                        | 15,886                                | 2,441                | 14,519                            | 9                                |
| Commercial loans                                 | 581                           | 934                                   | 139                  | 1,115                             |                                  |
| Consumer installment loans                       | 152                           | 163                                   | 53                   | 104                               |                                  |
| All other loans                                  |                               |                                       |                      |                                   |                                  |
| Subtotal impaired loans with valuation allowance | \$ 13,304                     | \$ 16,983                             | \$ 2,633             | \$ 15,738                         | \$ 9                             |
| <b>With no related allowance recorded:</b>       |                               |                                       |                      |                                   |                                  |
| Mortgage loans on real estate:                   |                               |                                       |                      |                                   |                                  |
| Residential 1-4 family                           | \$ 2,724                      | \$ 3,204                              | \$                   | \$ 3,815                          | \$ 9                             |
| Commercial                                       | 7,151                         | 7,469                                 |                      | 7,951                             | 73                               |
| Construction and land development                | 8,715                         | 11,559                                |                      | 14,086                            |                                  |
| Second mortgages                                 |                               |                                       |                      | 43                                |                                  |
| Multifamily                                      |                               |                                       |                      |                                   |                                  |
| Agriculture                                      | 54                            | 68                                    |                      | 32                                |                                  |
| Total real estate loans                          | 18,644                        | 22,300                                |                      | 25,927                            | 82                               |
| Commercial loans                                 | 299                           | 311                                   |                      | 236                               |                                  |
| Consumer installment loans                       | 41                            | 41                                    |                      | 18                                |                                  |
| All other loans                                  |                               |                                       |                      |                                   |                                  |
| Subtotal impaired loans without valuation        | \$ 18,984                     | \$ 22,652                             | \$                   | \$ 26,181                         | \$ 82                            |
| <b>Total:</b>                                    |                               |                                       |                      |                                   |                                  |
| Mortgage loans on real estate:                   |                               |                                       |                      |                                   |                                  |
| Residential 1-4 family                           | \$ 7,112                      | \$ 7,699                              | \$ 1,231             | \$ 7,849                          | \$ 14                            |
| Commercial                                       | 13,233                        | 13,722                                | 751                  | 13,422                            | 73                               |
| Construction and land development                | 10,582                        | 16,447                                | 358                  | 18,888                            | 3                                |
| Second mortgages                                 | 234                           | 250                                   | 101                  | 234                               | 1                                |
| Multifamily                                      |                               |                                       |                      |                                   |                                  |

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|                            |           |           |          |           |       |
|----------------------------|-----------|-----------|----------|-----------|-------|
| Agriculture                | 54        | 68        |          | 53        |       |
| Total real estate loans    | 31,215    | 38,186    | 2,441    | 40,446    | 91    |
| Commercial loans           | 880       | 1,245     | 139      | 1,351     |       |
| Consumer installment loans | 193       | 204       | 53       | 122       |       |
| All other loans            |           |           |          |           |       |
| Total impaired loans       | \$ 32,288 | \$ 39,635 | \$ 2,633 | \$ 41,919 | \$ 91 |

- (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

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The following table summarizes information related to impaired loans as of December 31, 2011 (dollars in thousands):

|  | Recorded<br>Investment<br>(1) | Unpaid<br>Principal<br>Balance<br>(2) | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|--|-------------------------------|---------------------------------------|----------------------|-----------------------------------|----------------------------------|
| <b>With an allowance recorded:</b>               |                               |                                       |                      |                                   |                                  |
| Mortgage loans on real estate:                   |                               |                                       |                      |                                   |                                  |
| Residential 1-4 family                           | \$ 3,432                      | \$ 3,497                              | \$ 1,000             | \$ 4,328                          | \$ 2                             |
| Commercial                                       | 6,240                         | 6,362                                 | 713                  | 4,917                             |                                  |
| Construction and land development                | 3,541                         | 6,611                                 | 653                  | 6,247                             | 1                                |
| Second mortgages                                 | 143                           | 156                                   | 80                   | 177                               |                                  |
| Multifamily                                      |                               |                                       |                      |                                   |                                  |
| Agriculture                                      |                               |                                       |                      | 79                                |                                  |
| Total real estate loans                          | 13,356                        | 16,626                                | 2,446                | 15,748                            | 3                                |
| Commercial loans                                 | 868                           | 874                                   | 306                  | 1,347                             |                                  |
| Consumer installment loans                       | 70                            | 71                                    | 13                   | 73                                |                                  |
| All other loans                                  |                               |                                       |                      |                                   |                                  |
| Subtotal impaired loans with valuation allowance | \$ 14,294                     | \$ 17,571                             | \$ 2,765             | \$ 17,168                         | \$ 3                             |
| <b>With no related allowance recorded:</b>       |                               |                                       |                      |                                   |                                  |
| Mortgage loans on real estate:                   |                               |                                       |                      |                                   |                                  |
| Residential 1-4 family                           | \$ 3,083                      | \$ 3,565                              | \$                   | \$ 4,403                          | \$ 24                            |
| Commercial                                       | 7,972                         | 8,454                                 |                      | 7,295                             | 126                              |
| Construction and land development                | 9,471                         | 12,894                                |                      | 15,098                            | 10                               |
| Second mortgages                                 | 59                            | 59                                    |                      | 86                                |                                  |
| Multifamily                                      |                               |                                       |                      |                                   |                                  |
| Agriculture                                      | 53                            | 53                                    |                      | 21                                |                                  |
| Total real estate loans                          | 20,638                        | 25,025                                |                      | 26,903                            | 160                              |
| Commercial loans                                 | 209                           | 593                                   |                      | 357                               |                                  |
| Consumer installment loans                       | 17                            | 17                                    |                      | 28                                | 1                                |
| All other loans                                  |                               |                                       |                      |                                   |                                  |
| Subtotal impaired loans without valuation        | \$ 20,864                     | \$ 25,635                             | \$                   | \$ 27,288                         | \$ 161                           |
| <b>Total:</b>                                    |                               |                                       |                      |                                   |                                  |
| Mortgage loans on real estate:                   |                               |                                       |                      |                                   |                                  |
| Residential 1-4 family                           | \$ 6,515                      | \$ 7,062                              | \$ 1,000             | \$ 8,731                          | \$ 24                            |
| Commercial                                       | 14,212                        | 14,816                                | 713                  | 12,212                            | 126                              |
| Construction and land development                | 13,012                        | 19,505                                | 653                  | 21,345                            | 10                               |
| Second mortgages                                 | 202                           | 215                                   | 80                   | 263                               |                                  |
| Multifamily                                      |                               |                                       |                      |                                   |                                  |
| Agriculture                                      | 53                            | 53                                    |                      | 100                               |                                  |

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|                             |                  |                  |                 |                  |               |
|-----------------------------|------------------|------------------|-----------------|------------------|---------------|
| Total real estate loans     | 33,994           | 41,651           | 2,446           | 42,651           | 160           |
| Commercial loans            | 1,077            | 1,467            | 306             | 1,704            |               |
| Consumer installment loans  | 87               | 88               | 13              | 101              | 1             |
| All other loans             |                  |                  |                 |                  |               |
| <b>Total impaired loans</b> | <b>\$ 35,158</b> | <b>\$ 43,206</b> | <b>\$ 2,765</b> | <b>\$ 44,456</b> | <b>\$ 161</b> |

- (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



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The following table represents non-covered nonaccruals by loan category as of March 31, 2012 and December 31, 2011 (dollars in thousands):

|                                   | March 31, 2012 | December 31, 2011 |
|-----------------------------------|----------------|-------------------|
| Mortgage loans on real estate:    |                |                   |
| Residential 1-4 family            | \$ 5,677       | \$ 5,320          |
| Commercial                        | 8,240          | 9,187             |
| Construction and land development | 10,388         | 12,718            |
| Second mortgages                  | 185            | 189               |
| Multifamily                       |                |                   |
| Agriculture                       | 54             | 53                |
| Total real estate loans           | 24,544         | 27,467            |
| Commercial loans                  | 880            | 1,003             |
| Consumer installment loans        | 177            | 72                |
| All other loans                   |                |                   |
| Total loans                       | \$ 25,601      | \$ 28,542         |

Troubled debt restructures, 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 March 31, 2012 and December 31, 2011, is set forth in the table below (dollars in thousands):

|   | March 31, 2012 | December 31, 2011 |
|---|----------------|-------------------|
| Nonaccruals                                 | \$ 25,601      | \$ 28,542         |
| Trouble debt restructure and still accruing | 5,695          | 5,946             |
| Substandard and still accruing              | 992            | 546               |
| Doubtful and still accruing                 |                | 124               |
| Total impaired                              | \$ 32,288      | \$ 35,158         |

The following table presents an age analysis of past due status of non-covered loans by category as of March 31, 2012 and December 31, 2011 (dollars in thousands):

|                                   | March 31, 2012               |  |                      |            |                              | Recorded<br>Investment<br>> 90 Days<br>Past Due<br>and<br>Accruing |
|-----------------------------------|------------------------------|--|----------------------|------------|------------------------------|--|
|                                   | 30-89<br>Days<br>Past<br>Due | Greater<br>than 90<br>Days<br>Past Due | Total<br>Past<br>Due | Current    | Total<br>Loans<br>Receivable |  |
| Mortgage loans on real estate:    |                              |  |                      |            |                              |  |
| Residential 1-4 family            | \$ 1,248                     | \$ 5,677                               | \$ 6,925             | \$ 120,186 | \$ 127,111                   | \$   |
| Commercial                        | 2,530                        | 8,240                                  | 10,770               | 220,504    | 231,274                      |  |
| Construction and land development | 276                          | 10,791                                 | 11,067               | 56,173     | 67,240                       | 403  |

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|                            |          |           |           |            |            |        |
|----------------------------|----------|-----------|-----------|------------|------------|--------|
| Second mortgages           | 31       | 185       | 216       | 8,242      | 8,458      |        |
| Multifamily                |          |           |           | 19,785     | 19,785     |        |
| Agriculture                |          | 54        | 54        | 10,843     | 10,897     |        |
| Total real estate loans    | 4,085    | 24,947    | 29,032    | 435,733    | 464,765    | 403    |
| Commercial loans           | 46       | 880       | 926       | 73,033     | 73,959     |        |
| Consumer installment loans | 35       | 177       | 212       | 8,385      | 8,597      |        |
| All other loans            |          |           |           | 1,659      | 1,659      |        |
| Total loans                | \$ 4,166 | \$ 26,004 | \$ 30,170 | \$ 518,810 | \$ 548,980 | \$ 403 |

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|                                   | December 31, 2011   |                               |                |            |                        | Recorded Investment > 90 Days Past Due and Accruing |
|-----------------------------------|---------------------|-------------------------------|----------------|------------|------------------------|---|
|                                   | 30-89 Days Past Due | Greater than 90 Days Past Due | Total Past Due | Current    | Total Loans Receivable |   |
| Mortgage loans on real estate:    |                     |                               |                |            |                        |   |
| Residential 1-4 family            | \$ 1,743            | \$ 5,320                      | \$ 7,063       | \$ 120,137 | \$ 127,200             | \$  |
| Commercial                        | 1,085               | 11,192                        | 12,277         | 208,194    | 220,471                | 2,005   |
| Construction and land development | 2,924               | 12,718                        | 15,642         | 60,049     | 75,691                 |   |
| Second mortgages                  | 709                 | 189                           | 898            | 7,231      | 8,129                  |   |
| Multifamily                       |                     |                               |                | 19,746     | 19,746                 |   |
| Agriculture                       |                     | 53                            | 53             | 11,391     | 11,444                 |   |
| Total real estate loans           | 6,461               | 29,472                        | 35,933         | 426,748    | 462,681                | 2,005   |
| Commercial loans                  | 87                  | 1003                          | 1,090          | 71,059     | 72,149                 |   |
| Consumer installment loans        | 93                  | 72                            | 165            | 8,296      | 8,461                  |   |
| All other loans                   |                     |                               |                | 1,659      | 1,659                  |   |
| Total loans                       | \$ 6,641            | \$ 30,547                     | \$ 37,188      | \$ 507,762 | \$ 544,950             | \$ 2,005  |

The following table presents activity in the allowance for loan losses on non-covered loans by loan category for the three months ended March 31, 2012 (dollars in thousands):

|                                   | December 31, 2011 | Provision Allocation | Charge offs | Recoveries | March 31, 2012 |
|-----------------------------------|-------------------|----------------------|-------------|------------|----------------|
| Mortgage loans on real estate:    |                   |                      |             |            |                |
| Residential 1-4 family            | \$ 3,451          | \$ 911               | \$ (458)    | \$         | \$ 3,904       |
| Commercial                        | 3,048             | 299                  |             | 58         | 3,405          |
| Construction and land development | 5,729             | (958)                | (830)       | 49         | 3,990          |
| Second mortgages                  | 296               | (1)                  |             |            | 295            |
| Multifamily                       | 224               | (1)                  |             |            | 223            |
| Agriculture                       | 25                | 7                    |             |            | 32             |
| Total real estate loans           | 12,773            | 257                  | (1,288)     | 107        | 11,849         |
| Commercial loans                  | 1,810             | 205                  | (222)       | 27         | 1,820          |
| Consumer installment loans        | 241               | 34                   | (47)        | 23         | 251            |
| All other loans                   | 11                | 4                    |             |            | 15             |
| Total loans                       | \$ 14,835         | \$ 500               | \$ (1,557)  | \$ 157     | \$ 13,935      |

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The following table presents activity in the allowance for loan losses on non-covered loans by loan category for the year ended December 31, 2011 (dollars in thousands):

|                                   | December 31, 2010 | Provision<br>Allocation | Charge offs | Recoveries | December 31, 2011 |
|-----------------------------------|-------------------|-------------------------|-------------|------------|-------------------|
| Mortgage loans on real estate:    |                   |                         |             |            |                   |
| Residential 1-4 family            | \$ 6,262          | \$ (998)                | \$ (1,831)  | \$ 18      | \$ 3,451          |
| Commercial                        | 5,287             | 563                     | (2,856)     | 54         | 3,048             |
| Construction and land development | 10,039            | (288)                   | (4,123)     | 101        | 5,729             |
| Second mortgages                  | 406               | (32)                    | (81)        | 3          | 296               |
| Multifamily                       | 260               | (36)                    |             |            | 224               |
| Agriculture                       | 266               | (241)                   |             |            | 25                |
| Total real estate loans           | 22,520            | (1,032)                 | (8,891)     | 176        | 12,773            |
| Commercial loans                  | 2,691             | 2,527                   | (3,615)     | 207        | 1,810             |
| Consumer installment loans        | 257               | 67                      | (288)       | 205        | 241               |
| All other loans                   | 75                | (64)                    |             |            | 11                |
| Total loans                       | \$ 25,543         | \$ 1,498                | \$ (12,794) | \$ 588     | \$ 14,835         |

The following table presents information on the non-covered loans evaluated for impairment in the allowance for loan losses as of March 31, 2012 and December 31, 2011 (dollars in thousands):

|                                   | March 31, 2012   |   |           |  |   |            |
|-----------------------------------|--|---|-----------|--|---|------------|
|                                   | Allowance for Loan Losses                                  |   |           | Recorded Investment in Loans                               |   |            |
|                                   | Individually<br>Evaluated for<br>Impairment <sup>(1)</sup> | Collectively<br>Evaluated for<br>Impairment | Total     | Individually<br>Evaluated for<br>Impairment <sup>(1)</sup> | Collectively<br>Evaluated for<br>Impairment | Total      |
| Mortgage loans on real estate:    |  |   |           |  |   |            |
| Residential 1-4 family            | \$ 1,322   | \$ 2,582                                    | \$ 3,904  | \$ 9,997   | \$ 117,114                                  | \$ 127,111 |
| Commercial                        | 811  | 2,594                                       | 3,405     | 18,029   | 213,245                                     | 231,274    |
| Construction and land development | 1,360  | 2,630                                       | 3,990     | 20,758   | 46,482                                      | 67,240     |
| Second mortgages                  | 114  | 181   | 295       | 406  | 8,052                                       | 8,458      |
| Multifamily                       |  | 223   | 223       |  | 19,785                                      | 19,785     |
| Agriculture                       |  | 32  | 32        | 53   | 10,844                                      | 10,897     |
| Total real estate loans           | 3,607  | 8,242                                       | 11,849    | 49,243   | 415,522                                     | 464,765    |
| Commercial loans                  | 167  | 1,653                                       | 1,820     | 1,310  | 72,649                                      | 73,959     |
| Consumer installment loans        | 56   | 195   | 251       | 204  | 8,393                                       | 8,597      |
| All other loans                   |  | 15  | 15        |  | 1,659                                       | 1,659      |
| Total loans                       | \$ 3,830   | \$ 10,105                                   | \$ 13,935 | \$ 50,757  | \$ 498,223                                  | \$ 548,980 |

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|                                   | December 31, 2011                                    |                                       |           |  |                                       |            |
|-----------------------------------|--|---------------------------------------|-----------|--|---------------------------------------|------------|
|                                   | 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            | \$ 1,088   | \$ 2,363                              | \$ 3,451  | \$ 8,921   | \$ 118,279                            | \$ 127,200 |
| Commercial                        | 829  | 2,219                                 | 3,048     | 20,780   | 199,691                               | 220,471    |
| Construction and land development | 1,792  | 3,937                                 | 5,729     | 22,538   | 53,153                                | 75,691     |
| Second mortgages                  | 105  | 191                                   | 296       | 418  | 7,711                                 | 8,129      |
| Multifamily                       |  | 224                                   | 224       |  | 19,746                                | 19,746     |
| Agriculture                       | 2  | 23                                    | 25        | 330  | 11,114                                | 11,444     |
| Total real estate loans           | 3,816  | 8,957                                 | 12,773    | 52,987   | 409,694                               | 462,681    |
| Commercial loans                  | 308  | 1,502                                 | 1,810     | 1,250  | 70,899                                | 72,149     |
| Consumer installment loans        | 32   | 209                                   | 241       | 348  | 8,113                                 | 8,461      |
| All other loans                   | 1  | 10                                    | 11        | 127  | 1,532                                 | 1,659      |
| Total loans                       | \$ 4,157   | \$ 10,678                             | \$ 14,835 | \$ 54,712  | \$ 490,238                            | \$ 544,950 |

<sup>(1)</sup> The category Individually Evaluated for Impairment includes loans individually evaluated for impairment and determined not to be impaired. These loans total \$18.5 million and \$19.6 million at March 31, 2012 and December 31, 2011, respectively. The allowance for loans losses allocated to these loans is \$1.2 million and \$1.4 million at March 31, 2012 and December 31, 2011, 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 \$41.8 million and \$36.5 million at March 31, 2012 and December 31, 2011, 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.

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The following tables present the composition of non-covered loans by credit quality indicator at March 31, 2012 and December 31, 2011 (dollars in thousands):

|                                       | <b>March 31, 2012</b> |                            |                    |                 |                   |
|---------------------------------------|-----------------------|----------------------------|--------------------|-----------------|-------------------|
|                                       | <b>Pass</b>           | <b>Special<br/>Mention</b> | <b>Substandard</b> | <b>Doubtful</b> | <b>Total</b>      |
| <b>Mortgage loans on real estate:</b> |                       |                            |                    |                 |                   |
| Residential 1-4 family                | \$ 109,548            | \$ 7,925                   | \$ 9,638           | \$              | \$ 127,111        |
| Commercial                            | 185,129               | 28,936                     | 17,209             |                 | 231,274           |
| Construction and land development     | 29,417                | 17,820                     | 20,003             |                 | 67,240            |
| Second mortgages                      | 7,541                 | 570                        | 347                |                 | 8,458             |
| Multifamily                           | 15,646                | 4,139                      |                    |                 | 19,785            |
| Agriculture                           | 10,505                | 338                        | 54                 |                 | 10,897            |
| <b>Total real estate loans</b>        | <b>357,786</b>        | <b>59,728</b>              | <b>47,251</b>      |                 | <b>464,765</b>    |
| Commercial loans                      | 71,085                | 1,474                      | 1,340              | 60              | 73,959            |
| Consumer installment loans            | 8,091                 | 274                        | 232                |                 | 8,597             |
| All other loans                       | 1,659                 |                            |                    |                 | 1,659             |
| <b>Total loans</b>                    | <b>\$ 438,621</b>     | <b>\$ 61,476</b>           | <b>\$ 48,823</b>   | <b>\$ 60</b>    | <b>\$ 548,980</b> |

|                                       | <b>December 31, 2011</b> |                            |                    |                 |                   |
|---------------------------------------|--------------------------|----------------------------|--------------------|-----------------|-------------------|
|                                       | <b>Pass</b>              | <b>Special<br/>Mention</b> | <b>Substandard</b> | <b>Doubtful</b> | <b>Total</b>      |
| <b>Mortgage loans on real estate:</b> |                          |                            |                    |                 |                   |
| Residential 1-4 family                | \$ 107,926               | \$ 10,519                  | \$ 8,688           | \$ 67           | \$ 127,200        |
| Commercial                            | 162,744                  | 39,506                     | 18,221             |                 | 220,471           |
| Construction and land development     | 34,391                   | 18,876                     | 22,424             |                 | 75,691            |
| Second mortgages                      | 7,135                    | 576                        | 418                |                 | 8,129             |
| Multifamily                           | 16,199                   | 3,547                      |                    |                 | 19,746            |
| Agriculture                           | 10,897                   | 494                        | 53                 |                 | 11,444            |
| <b>Total real estate loans</b>        | <b>339,292</b>           | <b>73,518</b>              | <b>49,804</b>      | <b>67</b>       | <b>462,681</b>    |
| Commercial loans                      | 68,511                   | 1,983                      | 1,597              | 58              | 72,149            |
| Consumer installment loans            | 7,878                    | 235                        | 343                | 5               | 8,461             |
| All other loans                       | 1,659                    |                            |                    |                 | 1,659             |
| <b>Total loans</b>                    | <b>\$ 417,340</b>        | <b>\$ 75,736</b>           | <b>\$ 51,744</b>   | <b>\$ 130</b>   | <b>\$ 544,950</b> |

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In accordance with ASU 2011-02, the Company assesses all loan modifications to determine whether they are considered troubled debt restructurings (TDRs) under the guidance. No loans were modified during the three months ended March 31, 2012 in a manner in which they would be considered TDRs.

During the three months ended March 31, 2011 the Company modified five loans that were considered to be TDRs. The Company extended the terms for four of these loans and lowered the interest rate for five of these loans. These restructures included payments of \$562,000 for five of these loans and a charge-off of \$896,000 for one loan. The following table presents information relating to loans modified as TDRs during the three months ended March 31, 2011 (dollars in thousands):

|                                   | Number<br>of<br>Contracts | March 31, 2011  |  |
|-----------------------------------|---------------------------|---|--|
|                                   |                           | Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
| Mortgage loans on real estate:    |                           |   |  |
| Residential 1-4 family            | 3                         | \$ 722  | \$ 679   |
| Commercial                        | 1                         | 2,926   | 1,540  |
| Construction and land development |                           |   |  |
| Second mortgages                  |                           |   |  |
| Multifamily                       |                           |   |  |
| Agriculture                       |                           |   |  |
| Total real estate loans           | 4                         | 3,648   | 2,219  |
| Commercial loans                  | 1                         | 560   | 531  |
| Consumer installment loans        |                           |   |  |
| All other loans                   |                           |   |  |
| Total loans                       | 5                         | \$ 4,208  | \$ 2,750   |

During the three months ended March 31, 2012, two loans that had been restructured during the previous 12 months went into default. A loan is considered to be in default if it is 90 days or more past due. The following table presents information relating to TDRs that resulted in default during the three months ended March 31, 2012 (dollars in thousands):

|                                   | March 31, 2012            |                        |
|-----------------------------------|---------------------------|------------------------|
|                                   | Number<br>of<br>Contracts | Recorded<br>Investment |
| Mortgage loans on real estate:    |                           |                        |
| Residential 1-4 family            | 1                         | \$ 100                 |
| Commercial                        |                           |                        |
| Construction and land development | 1                         | 54                     |
| Second mortgages                  |                           |                        |
| Multifamily                       |                           |                        |
| Agriculture                       |                           |                        |
| Total real estate loans           | 2                         | 154                    |

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|                            |   |    |     |
|----------------------------|---|----|-----|
| Commercial loans           |   |    |     |
| Consumer installment loans |   |    |     |
| All other loans            |   |    |     |
| Total loans                | 2 | \$ | 154 |

There were no defaults on loans restructured during the previous 12 months during the three months ended March 31, 2011. 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 ASC 310-10-35, *Receivables, Subsequent Measurement*.]



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At March 31, 2012, the Company had 1-4 family mortgages in the amount of \$157.9 million pledged as collateral to the Federal Home Loan Bank for a total borrowing capacity of \$107.0 million.

**4. LOANS COVERED BY FDIC SHARED LOSS AGREEMENT (COVERED LOANS)**

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 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 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 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.

As of March 31, 2012 and December 31, 2011, the outstanding balance of the covered loans was \$154.0 million and \$160.0 million, respectively. The carrying amount, by loan type, as of these dates is as follows (dollars in thousands):

|                                   | March 31, 2012 |                    | December 31, 2011 |                    |
|-----------------------------------|----------------|--------------------|-------------------|--------------------|
|                                   | Amount         | % of Covered Loans | Amount            | % of Covered Loans |
| Mortgage loans on real estate:    |                |                    |                   |                    |
| Residential 1-4 family            | \$ 82,533      | 87.15%             | \$ 84,734         | 86.85%             |
| Commercial                        | 2,119          | 2.24               | 2,170             | 2.22               |
| Construction and land development | 3,688          | 3.89               | 4,260             | 4.38               |
| Second mortgages                  | 5,860          | 6.19               | 5,894             | 6.04               |
| Multifamily                       | 314            | 0.33               | 316               | 0.32               |
| Agriculture                       | 176            | 0.19               | 179               | 0.18               |
| Total real estate loans           | 94,690         | 99.99              | 97,553            | 99.99              |
| Commercial loans                  |                |                    |                   |                    |
| Consumer installment loans        | 5              | 0.01               | 8                 | 0.01               |
| All other loans                   |                |                    |                   |                    |
| Total covered loans               | \$ 94,695      | 100.00%            | \$ 97,561         | 100.00%            |

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Activity in the allowance for loan losses on covered loans for the three months ended March 31, 2012 and the year ended December 31, 2011 was comprised of the following the following (dollars in thousands):

|                                   | \$(327) 00        | \$(327) 00              | \$(327) 00     | \$(327) 00 | \$(327) 00     |
|-----------------------------------|-------------------|-------------------------|----------------|------------|----------------|
|                                   | December 31, 2011 | Provision<br>Allocation | Charge<br>offs | Recoveries | March 31, 2012 |
| Mortgage loans on real estate:    |                   |                         |                |            |                |
| Residential 1-4 family            | \$ 473            | \$ (260)                | \$ (12)        | \$ 9       | \$ 210         |
| Commercial                        | 303               | (53)                    |                |            | 250            |
| Construction and land development |                   |                         |                |            |                |
| Second mortgages                  |                   |                         |                |            |                |
| Multifamily                       |                   | 63                      | (315)          | 252        |                |
| Agriculture                       |                   |                         |                |            |                |
| Total real estate loans           | 776               | (250)                   | (327)          | 261        | 460            |
| Commercial loans                  |                   |                         |                |            |                |
| Consumer installment loans        |                   |                         |                |            |                |
| All other loans                   |                   |                         |                |            |                |
| Total covered loans               | \$ 776            | \$ (250)                | \$ (327)       | \$ 261     | \$ 460         |

|                                   | December 31, 2010 | Provision<br>Allocation | Charge<br>offs | Recoveries | December 31, 2011 |
|-----------------------------------|-------------------|-------------------------|----------------|------------|-------------------|
| Mortgage loans on real estate:    |                   |                         |                |            |                   |
| Residential 1-4 family            | \$ 526            | \$                      | \$ 53          | \$         | \$ 473            |
| Commercial                        | 303               |                         |                |            | 303               |
| Construction and land development |                   |                         |                |            |                   |
| Second mortgages                  |                   |                         |                |            |                   |
| Multifamily                       |                   |                         |                |            |                   |
| Agriculture                       |                   |                         |                |            |                   |
| Total real estate loans           | 829               |                         | 53             |            | 776               |
| Commercial loans                  |                   |                         |                |            |                   |
| Consumer installment loans        |                   |                         |                |            |                   |
| All other loans                   |                   |                         |                |            |                   |
| Total covered loans               | \$ 829            | \$                      | \$ 53          | \$         | \$ 776            |

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The following table presents information on the covered loans collectively evaluated for impairment in the allowance for loan losses at March 31, 2012 and December 31, 2011 (dollars in thousands):

|                                   | March 31, 2012                  |                                    | December 31, 2011               |                                    |
|-----------------------------------|---------------------------------|------------------------------------|---------------------------------|------------------------------------|
|                                   | Allowance for<br>loan<br>losses | Recorded<br>investment<br>in loans | Allowance for<br>loan<br>losses | Recorded<br>investment<br>in loans |
| Mortgage loans on real estate:    |                                 |                                    |                                 |                                    |
| Residential 1-4 family            | \$ 210                          | \$ 82,533                          | \$ 473                          | \$ 84,734                          |
| Commercial                        | 250                             | 2,119                              | 303                             | 2,170                              |
| Construction and land development |                                 | 3,688                              |                                 | 4,260                              |
| Second mortgages                  |                                 | 5,860                              |                                 | 5,894                              |
| Multifamily                       |                                 | 314                                |                                 | 316                                |
| Agriculture                       |                                 | 176                                |                                 | 179                                |
| Total real estate loans           | 460                             | 94,690                             | 776                             | 97,553                             |
| Commercial loans                  |                                 |                                    |                                 |                                    |
| Consumer installment loans        |                                 | 5                                  |                                 | 8                                  |
| All other loans                   |                                 |                                    |                                 |                                    |
| Total covered loans               | \$ 460                          | \$ 94,695                          | \$ 776                          | \$ 97,561                          |

The change in the accretable yield balance for the three months ended March 31, 2012 and the year ended December 31, 2011 is as follows (dollars in thousands):

|  |           |
|--|-----------|
| Balance, January 1, 2011                   | \$ 75,718 |
| Accretion                                  | (17,525)  |
| Reclassification to Non-accretable Yield   | (1,883)   |
| Balance, December 31, 2011                 | 56,310    |
| Accretion                                  | (3,914)   |
| Reclassification from Non-accretable Yield | 608       |
| Balance, March 31, 2012                    | \$ 53,004 |

The covered loans are not classified as nonperforming assets as of March 31, 2012, 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 purchased loans. As of March 31, 2012, there was an allowance for loan losses recorded on covered loans of \$460,000. This allowance is the result of a change in the timing of expected cash flows for one of the covered loan pools.

**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

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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 loans are to be made quarterly until the end of the quarter in which the tenth anniversary of the closing of the transaction occurs, and the reimbursements for losses on other covered assets are to be made quarterly until the end of the quarter in which the eighth anniversary of the closing of the transaction occurs. Prior to the third quarter of 2011,

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reimbursements for losses on single family one-to-four mortgage loans were made monthly. 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 agreement 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 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 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 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 while 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.

The following table presents the balances of the FDIC indemnification asset at March 31, 2012 and December 31, 2011 (dollars in thousands):

|  | Anticipated<br>Expected<br>Losses | Estimated<br>Loss<br>Sharing<br>Value | Amortizable<br>Premium<br>(Discount)<br>at Present<br>Value | FDIC<br>Indemnification<br>Asset Total |
|--|-----------------------------------|---------------------------------------|---|--|
| January 1, 2011                                    | 46,250                            | 37,000                                | 21,369  | 58,369                                 |
| Increases:   |                                   |                                       |   |  |
| Writedown of OREO property to FMV                  | 1,902                             | 1,522                                 |   | 1,522                                  |
| Decreases:   |                                   |                                       |   |  |
| Net accretion of premium                           |                                   |                                       | (10,364)  | (10,364)                               |
| Reclassifications to FDIC receivable:              |                                   |                                       |   |  |
| Net loan charge offs and recoveries                | (3,319)                           | (2,655)                               |   | (2,655)                                |
| OREO sales   | (2,764)                           | (2,211)                               |   | (2,211)                                |
| Reimbursements requested from FDIC                 | (2,525)                           | (2,020)                               |   | (2,020)                                |
| Reforecasted Change in Anticipated Expected Losses | (10,831)                          | (8,665)                               | 8,665   |  |
| December 31, 2011                                  | \$ 28,713                         | \$ 22,971                             | \$ 19,670   | \$ 42,641                              |
| Increases:   |                                   |                                       |   |  |
| Writedown of OREO property to FMV                  | 134                               | 107                                   |   | 107                                    |
| Decreases:   |                                   |                                       |   |  |
| Net amortization of premium                        |                                   |                                       | (1,882)   | (1,882)                                |

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Reclassifications to FDIC receivable:

|  |           |           |                     |
|--|-----------|-----------|---------------------|
| Net loan charge offs and recoveries                | (283)     | (226)     | (226)               |
| OREO sales   | (366)     | (293)     | (293)               |
| Reimbursements requested from FDIC                 | (144)     | (115)     | (115)               |
| Reforecasted Change in Anticipated Expected Losses | (2,390)   | (1,912)   | 1,912               |
| March 31, 2012                                     | \$ 25,664 | \$ 20,532 | \$ 19,700 \$ 40,232 |

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Core deposit intangible assets are amortized over the period of expected benefit, ranging from 2.6 to 9 years. 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. Core deposit intangibles resulting from the Georgia and Maryland transactions equaled \$3.2 million and \$2.2 million, respectively, and will be amortized over approximately 9 years.

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

|                            | <b>Core Deposit<br/>Intangibles</b> |
|----------------------------|-------------------------------------|
| Balance, January 1, 2011   | \$ 14,819                           |
| Amortization               | (2,261)                             |
| Balance, December 31, 2011 | 12,558                              |
| Amortization               | (565)                               |
| Balance, March 31, 2012    | \$ 11,993                           |

**7. DEPOSITS**

The following table provides interest-bearing deposit information, by type, as of March 31, 2012 and December 31, 2011 (dollars in thousands):

|                                   | <b>March 31, 2012</b> | <b>December 31, 2011</b> |
|-----------------------------------|-----------------------|--------------------------|
| NOW                               | \$ 119,356            | \$ 128,758               |
| MMDA                              | 113,365               | 115,397                  |
| Savings                           | 72,587                | 69,872                   |
| Time deposits less than \$100,000 | 318,016               | 326,383                  |
| Time deposits \$100,000 and over  | 243,678               | 228,128                  |
| Total interest-bearing deposits   | \$ 867,002            | \$ 868,538               |

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The following table presents activity in accumulated other comprehensive income as of March 31, 2012 and 2011 (dollars in thousands):

|   | Three months ended March 31, 2012        |                                 |  |
|---|--|---------------------------------|--|
|   | Unrealized<br>Gain/Loss on<br>Securities | Defined Benefit<br>Pension Plan | Total Other<br>Comprehensive<br>Income |
| Beginning balance                         | \$ 3,257                                 | \$ (1,038)                      | \$ 2,219                               |
| Current period other comprehensive income | (543)                                    |                                 | (543)                                  |
| Ending balance                            | \$ 2,714                                 | \$ (1,038)                      | \$ 1,676                               |

|   | Three months ended March 31, 2011        |                                    |  |
|---|--|------------------------------------|--|
|   | Unrealized<br>Gain/Loss on<br>Securities | Defined Benefit<br>Pension<br>Plan | Total Other<br>Comprehensive<br>Income |
| Beginning balance                         | \$ (145)                                 | \$                                 | \$ (145)                               |
| Current period other comprehensive income | (73)                                     |                                    | (73)                                   |
| Ending balance                            | \$ (218)                                 | \$                                 | \$ (218)                               |

**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. 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



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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 ASC 825 elections as of March 31, 2012.

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Consolidated Financial Statements****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 are recorded at fair value on a recurring basis. The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis (dollars in thousands).

|   | Total      | March 31, 2012 |            |         |
|---|------------|----------------|------------|---------|
|   |            | Level 1        | Level 2    | Level 3 |
| Investment securities available for sale          |            |                |            |         |
| U.S. Treasury issue and other U.S. Gov t agencies | \$ 15,455  | \$ 10,194      | \$ 5,261   | \$      |
| U.S. Gov t sponsored agencies                     | 1,023      |                | 1,023      |         |
| State, county, and municipal                      | 81,371     | 4,212          | 77,159     |         |
| Corporate and other bonds                         | 6,739      |                | 6,739      |         |
| Mortgage backed U.S. Gov t agencies               | 65,598     |                | 65,598     |         |
| Mortgage backed U.S. Gov t sponsored agencies     | 65,125     |                | 65,125     |         |
| Total investment securities available for sale    | 235,311    | 14,406         | 220,905    |         |
| Loans held for resale                             | 349        |                | 349        |         |
| Total assets at fair value                        | \$ 235,660 | \$ 14,406      | \$ 221,254 | \$      |
| Total liabilities at fair value                   | \$         | \$             | \$         | \$      |

|   | Total      | December 31, 2011 |            |         |
|---|------------|-------------------|------------|---------|
|   |            | Level 1           | Level 2    | Level 3 |
| Investment securities available for sale          |            |                   |            |         |
| U.S. Treasury issue and other U.S. Gov t agencies | \$ 7,414   | \$ 2,099          | \$ 5,315   | \$      |
| U.S. Gov t sponsored agencies                     | 1,033      |                   | 1,033      |         |
| State, county and municipal                       | 62,043     | 1,821             | 60,222     |         |
| Corporate and other bonds                         | 4,631      |                   | 4,631      |         |
| Mortgage backed U.S. Gov t agencies               | 74,093     |                   | 74,093     |         |
| Mortgage backed U.S. Gov t sponsored agencies     | 83,550     |                   | 83,550     |         |
| Total investment securities available for sale    | 232,764    | 3,920             | 228,844    |         |
| Loans held for resale                             | 580        |                   | 580        |         |
| Total assets at fair value                        | \$ 233,344 | \$ 3,920          | \$ 229,424 | \$      |
| 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

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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.

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Consolidated Financial Statements*****Loans held for resale***

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

**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. For assets measured at fair value on a nonrecurring basis in 2012 and still held on the consolidated balance sheet at March 31, 2012, the following table provides the fair value measures by level of valuation assumptions used for those assets.

|   | Total     | March 31, 2012 |          |           |
|---|-----------|----------------|----------|-----------|
|   |           | Level 1        | Level 2  | Level 3   |
| Impaired loans, non-covered                 | \$ 20,916 | \$             | \$ 9,511 | \$ 11,405 |
| Other real estate owned (OREO), non-covered | 12,696    |                |          | 12,696    |
| Other real estate owned (OREO), covered     | 3,974     |                | 38       | 3,936     |
| Total assets at fair value                  | \$ 37,586 | \$             | \$ 9,549 | \$ 28,037 |
| Total liabilities at fair value             | \$        | \$             | \$       | \$        |

|   | Total     | December 31, 2011 |          |           |
|---|-----------|-------------------|----------|-----------|
|   |           | Level 1           | Level 2  | Level 3   |
| Impaired loans, non-covered                 | \$ 22,082 | \$ 308            | \$ 8,857 | \$ 12,917 |
| Other real estate owned (OREO), non-covered | 10,252    |                   |          | 10,252    |
| Other real estate owned (OREO), covered     | 5,764     |                   | 533      | 5,231     |
| Total assets at fair value                  | \$ 38,098 | \$ 308            | \$ 9,390 | \$ 28,400 |
| 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 March 31, 2012 and December 31, 2011, 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

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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 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.

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## COMMUNITY BANKERS TRUST CORPORATION

## Notes to Consolidated Financial Statements

*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.

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)      | March 31, 2012 |            |         |         |         |
|-----------------------------|----------------|------------|---------|---------|---------|
|                             | Carrying Value | Estimated  | Level 1 | Level 2 | Level 3 |
|                             |                | Fair Value |         |         |         |
| Financial assets:           |                |            |         |         |         |
| Securities held to maturity | 59,117         | 62,834     |         | 62,834  |         |
| Loans, non-covered          | 534,854        | 528,014    |         | 528,014 |         |
| Loans, covered              | 94,235         | 107,806    |         |         | 107,806 |
| FDIC indemnification asset  | 40,232         | 21,013     |         |         | 21,013  |
| Financial liabilities:      |                |            |         |         |         |
| Interest-bearing deposits   | 867,002        | 868,997    |         | 868,997 |         |
| Borrowings                  | 41,124         | 44,833     |         | 44,833  |         |

| (dollars in thousands)      | December 31, 2011 |            |         |         |         |
|-----------------------------|-------------------|------------|---------|---------|---------|
|                             | Carrying Value    | Estimated  | Level 1 | Level 2 | Level 3 |
|                             |                   | Fair Value |         |         |         |
| Financial assets:           |                   |            |         |         |         |
| Securities held to maturity | 64,422            | 68,585     |         | 68,585  |         |
| Loans, non-covered          | 529,883           | 522,960    |         | 522,960 |         |
| Loans, covered              | 96,785            | 99,008     |         |         | 99,008  |
| FDIC indemnification asset  | 42,641            | 22,892     |         |         | 22,892  |
| Financial liabilities:      |                   |            |         |         |         |
| Interest-bearing deposits   | 868,538           | 870,909    |         | 870,909 |         |
| Borrowings                  | 41,124            | 45,002     |         | 45,002  |         |

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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 March 31, 2012. The Company applied the provisions of 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.

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**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Consolidated Financial Statements**

**Financial Assets**

***Cash and cash equivalents***

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

***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.

***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.





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**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Consolidated Financial Statements**

**Financial Liabilities**

***Noninterest-bearing deposits***

The carrying amount of noninterest-bearing deposits approximates fair value.

***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.

***Long-term borrowings***

The fair values of the Company's long-term 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 Consolidated Financial Statements****10. EARNINGS PER SHARE**

Basic earnings per 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.

|  | Net<br>Income<br>(loss) | Weighted<br>Average<br>Shares | Per Common Share<br>Amount |
|--|-------------------------|-------------------------------|----------------------------|
| (dollars and shares in thousands, except per share data) | (Numerator)             | (Denominator)                 |                            |
| <b>For the three months ended March 31, 2012</b>         |                         |                               |                            |
| Shares issued  |                         | 21,628                        |                            |
| Unissued vested restricted stock                         |                         | 3                             |                            |
| Basic EPS  | \$ 714                  | 21,631                        | \$ 0.03                    |
| Effect of dilutive stock awards                          |                         | 11                            |                            |
| Diluted EPS  | \$ 714                  | 21,642                        | \$ 0.03                    |
| <b>For the three months ended March 31, 2011</b>         |                         |                               |                            |
| Basic EPS  | \$ (1,466)              | 21,468                        | \$ (0.07)                  |
| Effect of dilutive stock awards                          |                         |                               |                            |
| Diluted EPS  | \$ (1,466)              | 21,468                        | \$ (0.07)                  |

Excluded from the computation of diluted earnings per share were 1.9 million and 5.1 million common shares issuable under awards, options or warrants, during the three months ended March 31, 2012 and 2011, 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. Cumulative dividends on the Series A Preferred Stock are payable at 5% per annum through December 19, 2013, and at a rate of 9% per annum thereafter. 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 March 31, 2012, the Company had deferred six payments of its regular quarterly cash dividend, each in the amount of \$221,000, with respect to the Series A Preferred Stock. The total amount of accumulated dividends was \$1.3 million as of March 31, 2012. Interest on these deferred payments was insignificant and has been accrued in accordance with GAAP. The Company had paid, on March 16, 2012, one quarterly cash dividend and all outstanding interest through March 16, 2012 on both that payment, which had been deferred since February 15, 2012, and the six dividend payments that the Company had previously deferred.

**11. DEFINED BENEFIT PLAN**

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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, resulting in a curtailment gain included in pension expense of \$210,000 in 2010.

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Consolidated Financial Statements****Components of Net Periodic Benefit Cost**

| (dollars in thousands)               | Three months ended |                |
|--------------------------------------|--------------------|----------------|
|                                      | March 31, 2012     | March 31, 2011 |
| Service cost                         | \$                 | \$             |
| Interest cost                        | 63                 | 65             |
| Expected return on plan assets       | (102)              | (75)           |
| Recognized net actuarial (gain) loss | 17                 |                |
| Net periodic benefit cost            | \$ (23)            | \$ (10)        |

At March 31, 2012, employer contributions totalled \$2.0 million 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, 2011 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 May 15, 2012, these issues remain open.

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

The following discussion and analysis of the financial condition at March 31, 2012 and results of operations of Community Bankers Trust Corporation (the Company) for the three months ended March 31, 2012 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, 2011.

#### **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 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 goodwill impairment and other charges, salaries and benefits, occupancy and equipment costs, professional fees, 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;



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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 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;

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

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, 2011 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.



***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.

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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.

### ***Allowance for Loan Losses on Covered Loans***

The assets acquired in the Suburban Federal Savings Bank (SFSB) transaction are covered by shared loss agreements with the FDIC. Under the shared loss agreements, 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 of such 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 loans are to be made quarterly until the end of the quarter in which the tenth anniversary of the closing of the transaction occurs, and the reimbursements for losses on other covered assets are to be made quarterly until the end of the quarter in which the eighth anniversary of the closing of the transaction occurs. Prior to the third quarter of 2011, reimbursements for losses on single family one to-four mortgage loans were made monthly. The shared loss

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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 Company evaluated the acquired covered loans and has elected to account for them under FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (formerly SOP 03-3).

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 FDIC shared loss agreements. The Company makes an estimate of the total cash flows it expects to collect from a pool of covered loans, which includes 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 impairments in the current period through 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.

### ***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 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 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 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.

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### ***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 purchase and assumption 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 while resulting in additional noninterest income for the amount of the increase in the FDIC indemnification asset.

### ***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 income. 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 \$4.7 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 2008 through 2011 are open to examination by the respective tax authorities.

**Table of Contents*****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***

For the quarter ended March 31, 2012, net income available to common stockholders was \$714,000, or \$0.03 per common share on a diluted basis, compared with a net loss available to common stockholders of \$1.5 million, or \$0.07 per common share on a diluted basis, for the quarter ended March 31, 2011. The change in earnings was the result of a reduction of \$1.2 million in provision for loan losses, an increase of \$1.0 million in net interest income, a reduction of \$801,000 in noninterest expenses and an increase of \$349,000 in noninterest income.

Interest income increased \$415,000, or 3.1%, from \$13.4 million in the first quarter of 2011 to \$13.8 million for the same period in 2012. Increases in both the amount of average interest-earning assets and the yield on interest-earning assets contributed to this increase. Average interest-earning assets increased from \$950.7 million in the first quarter of 2011 to \$958.9 million in the first quarter of 2012. The yield on interest-earning assets increased from 5.73% for the first quarter of 2011 to 5.79% for the first quarter of 2012.

Interest expense declined 18.1%, or \$599,000, from \$3.3 million in the first quarter of 2011 to \$2.7 million for the first quarter of 2012. The average balance of interest-bearing liabilities declined over this time frame, from \$919.2 in the first quarter of 2011 to \$907.8 million in the first quarter of 2012. Additionally, the cost of interest-bearing liabilities declined from 1.44% in the first quarter of 2011 to 1.20% in the first quarter of 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.

Net interest income increased \$1.0 million, or 10.1%, from \$10.1 million in the first quarter of 2011 to \$11.1 million in the first quarter of 2012. The net interest margin improved due to an increase in the yield on earning assets, from 5.73% in the first quarter of 2011, to 5.79% in the first quarter of 2012. This improvement was driven by performance on loans covered by the shared loss agreements with the FDIC. The yield on covered loans equaled 16.39% for the quarter ended March 31, 2012, an improvement of 280 basis points from 13.59% for the quarter ended March 31, 2011. This is primarily the result of better than expected performance on these loans since the forecast at the acquisition date. FDIC covered loans are held on the balance sheet at carrying value.

Additionally, the cost of interest-bearing liabilities declined 24 basis points, or \$599,000, providing additional improvements in both the interest spread and net interest margin. The net interest spread was 4.29% and 4.59% and the net interest margin was 4.33% and 4.65%, respectively, in the first quarter of 2011 and the first quarter of 2012.

At December 31, 2010, the acquisition, construction and development (ADC) pool originally purchased from the FDIC in 2009 had a carrying value of \$410,000 in accordance with FASB ASC 310-30 (originally issued as AICPA Statement of Position No. 03-3, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*). The

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amount and timing of future cash flows on the ADC pool, based on an analysis of the loans in the pool, were determined to be not reasonably estimatable. As a result, during the quarter ended March 31, 2011, management applied the cost recovery method to the ADC loan pool, which requires that all cash payments first be applied to principal. During the first quarter of 2011, sufficient cash payments were received on the ADC pool to lower the carrying value to \$0, with excess payments being applied to interest income. Any subsequent payments will now be recognized as interest income.

The following table sets 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 months ended March 31, 2012 and 2011. 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 tables as loans carrying a zero yield.

**COMMUNITY BANKERS TRUST CORPORATION****NET INTEREST MARGIN ANALYSIS****AVERAGE BALANCE SHEETS**

| (dollars in thousands)                     | Three months ended March 31, 2012 |                                |                                 | Three months ended March 31, 2011 |                                |                                 |
|--|-----------------------------------|--------------------------------|---------------------------------|-----------------------------------|--------------------------------|---------------------------------|
|  | Average<br>Balance<br>Sheet       | Interest<br>Income/<br>Expense | Average<br>Rates<br>Earned/Paid | Average<br>Balance<br>Sheet       | Interest<br>Income/<br>Expense | Average<br>Rates<br>Earned/Paid |
| <b>ASSETS:</b>                             |                                   |                                |                                 |                                   |                                |                                 |
| Loans, non-covered, including fees         | \$ 549,019                        | \$ 7,687                       | 5.60%                           | \$ 517,805                        | \$ 7,234                       | 5.59%                           |
| FDIC covered loans, including fees         | 95,546                            | 3,914                          | 16.39                           | 112,463                           | 3,820                          | 13.59                           |
| Total loans                                | 644,565                           | 11,601                         | 7.20                            | 630,268                           | 11,054                         | 7.02                            |
| Interest-bearing bank balances             | 16,565                            | 12                             | 0.28                            | 14,681                            | 14                             | 0.39                            |
| Federal funds sold                         | 2,967                             | 1                              | 0.10                            | 4,611                             | 2                              | 0.19                            |
| Securities (taxable)                       | 282,510                           | 2,077                          | 2.94                            | 257,244                           | 1,912                          | 2.97                            |
| Securities (tax exempt) <sup>(1)</sup>     | 12,314                            | 179                            | 5.81                            | 43,874                            | 624                            | 5.69                            |
| Total earning assets                       | 958,921                           | 13,870                         | 5.79                            | 950,678                           | 13,606                         | 5.73                            |
| Allowance for loan losses                  | (15,711)                          |                                |                                 | (24,918)                          |                                |                                 |
| Non-earning assets                         | 150,278                           |                                |                                 | 169,080                           |                                |                                 |
| Total assets                               | \$ 1,093,488                      |                                |                                 | \$ 1,094,840                      |                                |                                 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |                                   |                                |                                 |                                   |                                |                                 |
| Demand - interest-bearing                  | \$ 235,663                        | \$ 244                         | 0.41                            | \$ 232,483                        | \$ 346                         | 0.60                            |
| Savings                                    | 71,148                            | 72                             | 0.41                            | 64,958                            | 85                             | 0.52                            |
| Time deposits                              | 559,709                           | 2,037                          | 1.46                            | 580,509                           | 2,548                          | 1.76                            |
| Total deposits                             | 866,520                           | 2,353                          | 1.09                            | 877,950                           | 2,979                          | 1.36                            |
| Federal funds purchased                    | 185                               | 0                              | 0.61                            | 140                               | 1                              | 0.61                            |
| FHLB and other borrowings                  | 41,124                            | 359                            | 3.50                            | 41,124                            | 331                            | 3.22                            |
| Total interest-bearing liabilities         | 907,829                           | 2,712                          | 1.20                            | 919,214                           | 3,311                          | 1.44                            |
| Noninterest-bearing deposits               | 69,036                            |                                |                                 | 62,459                            |                                |                                 |
| Other liabilities                          | 4,868                             |                                |                                 | 5,548                             |                                |                                 |
| Total liabilities                          | 981,733                           |                                |                                 | 987,221                           |                                |                                 |

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|  |              |              |
|--|--------------|--------------|
| Stockholders' equity                       | 111,755      | 107,619      |
| Total liabilities and stockholders' equity | \$ 1,093,488 | \$ 1,094,840 |
| Net interest earnings                      | \$ 11,158    | \$ 10,295    |
| Net interest spread                        | 4.59%        | 4.29%        |
| Net interest margin                        | 4.65%        | 4.33%        |

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

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***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.

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 reported total provision for loan losses of \$250,000 at March 31, 2012. The provision for loan losses for non-covered loans was \$500,000 for the quarter ended March 31, 2012. This compares with a provision for loan losses of \$1.5 million for the first quarter of 2011. The allowance for loan losses for covered loans was reduced by \$250,000 in the first quarter of 2012 as a result of an improved risk profile within the covered loan portfolio. While the covered loan portfolio contains significant risk, this risk was considered in determining the initial fair value, which was reflected as the carrying value recorded at the time of the SFSB transaction, less the FDIC guaranteed portion of losses on covered assets.

The ratio of the allowance for loan losses to non-covered nonaccrual loans was 54.4% at March 31, 2012, compared with 51.3% at March 31, 2011. The ratio of the allowance for loan losses to total non-covered loans was 2.54% at March 31, 2012, compared with 4.19% at March 31, 2011. The decrease in this ratio from March 31, 2011 to March 31, 2012 is the result of the Company's aggressive charge-off strategy, coupled with a lower volume of nonperforming loans. In addition, the Bank held \$41.8 million in government-guaranteed loans of the United States Department of Agriculture (USDA) at March 31, 2012, with no allowance for loan losses required because of the guarantee. Net charged-off loans have trended lower since March 31, 2011 and were \$1.4 million for the first quarter of 2012, compared with \$5.5 million in the first quarter of 2011.

***Noninterest Income***

When comparing the first quarter of 2012 to the first quarter of 2011, noninterest income increased 24.8%, or \$349,000. Noninterest income was negative \$1.4 million in the first quarter of 2011 compared with negative \$1.1 million for the same period in 2012. Indemnification asset amortization was the largest contributor to the increase, as it declined by \$863,000, from negative \$2.7 million in the first quarter of 2011 to negative \$1.9 million in the first quarter of 2012. Gain/(loss) on sale of OREO declined from a loss of \$612,000 in the first quarter of 2011 to a loss of \$177,000 in the first quarter of 2012. The decline is the result of stabilization in market prices on real estate in the Virginia and Maryland markets, coupled with a lower volume of properties classified as OREO within the covered portfolio in the first quarter of 2012 compared with the first quarter of 2011. This had a positive impact of \$435,000 on noninterest income for the comparison period. Service charges on deposit accounts increased \$41,000 from the first quarter of 2011 to the same period in 2012 and were \$576,000 and \$617,000, respectively.

Offsetting these increases in noninterest income in the first quarter of 2012 compared to the same period in 2011 were reductions in gains/(loss) on sale of securities and other noninterest income. Gains/(loss) on sale of securities decreased by \$777,000, from a \$661,000 gain in the first quarter of 2011 to a loss of \$116,000 for the same period in 2012. Other noninterest income decreased \$213,000 over the reporting period and was \$714,000 in the first quarter of 2011 and \$501,000 in the first quarter of 2012. This decrease is the result of fewer reimbursable losses from the FDIC for problem credit dispositions under the shared loss agreements.



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### ***Noninterest Expense***

Noninterest expense was \$8.4 million in the first quarter of 2012 and decreased by 8.7%, or \$801,000, from noninterest expense of \$9.2 million in the first quarter of 2011. Several line items within noninterest expense exhibited decreases, led by a \$288,000 reduction in FDIC assessment, due to the smaller deposit base and a revision in the FDIC methodology, and a decline of \$207,000 in other operating expense. When comparing the first quarter of 2012 to the first quarter of 2011, occupancy expenses declined \$183,000, professional fees declined \$106,000, legal fees declined \$81,000, and equipment expense declined \$35,000. Within other operating expenses, bank franchise tax declined \$107,000, credit expense declined \$58,000, and advertising expense declined \$38,000.

Offsetting these expense decreases were increases over the same periods of \$65,000 in data processing fees, and \$34,000 in salaries and employee benefits.

### ***Income Taxes***

Income tax expense was \$390,000 for the three months ended March 31, 2012, compared with an income tax benefit of \$838,000 that was recognized in the first quarter of 2011.

## ***FINANCIAL CONDITION***

### ***General***

At March 31, 2012, the Company had total assets of \$1.103 billion, an increase of \$10.2 million, or 1.0%, from total assets of \$1.092 billion at December 31, 2011. Total loans, including \$94.7 million in loans covered by the FDIC shared loss agreements, were \$643.5 million at March 31, 2012, increasing from \$642.3 million at December 31, 2011. The carrying value of covered loans declined \$2.9 million, or 2.9%, from December 31, 2011 to March 31, 2012. Non-covered loans increased \$4.1 million, from \$544.7 million at December 31, 2011 to \$548.8 million at March 31, 2012. The largest increase occurred in commercial real estate loans, which increased \$10.8 million, or 4.9%, from \$220.5 million at December 31, 2011 to \$231.3 million at March 31, 2012. Construction and land development loans declined \$8.5 million, or 11.2%, from \$75.7 million at December 31, 2011 to \$67.2 million at March 31, 2012.

During the third quarter of 2011, the Bank began purchasing government-guaranteed loans under programs administered by the USDA. The Bank has purchased only the government-guaranteed portion of any of the loans that have been originated by other financial institutions. In the first quarter of 2012, \$5.3 million in USDA loan balances were added, bringing the total to \$41.8 million at March 31, 2012. USDA balances are reflected in non-covered loans and are classified according to collateral and purpose.

The allowance for loan losses to non-covered loans was 2.54% at March 31, 2012 compared with 2.72% at December 31, 2011. Excluding USDA government-guaranteed loan balances, the allowance for loan losses to total non-covered loans would have been 2.75% at March 31, 2012 and 2.92% at December 31, 2011.

The Company's securities portfolio, excluding equity securities, decreased \$2.8 million, or 1.0%, during the quarter ended March 31, 2012 to \$294.4 million. The Company had cash and cash equivalents of \$35.8 million at March 31, 2012, compared with \$21.8 million at December 31, 2011. There were Federal funds sold of \$2.5 million at March 31, 2012 compared with no Federal funds sold at December 31, 2011.

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 \$235.3 million at March 31, 2012 and \$232.8 million at December 31, 2011. At March 31, 2012, the Company had a net unrealized gain on the AFS portfolio of \$4.1 million compared with a net unrealized gain of \$4.9 million at December 31, 2011.

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Total deposits at March 31, 2012 were \$944.1 million, an increase of \$10.6 million from December 31, 2011. Interest-bearing deposits at March 31, 2012 were \$867.0 million, a decrease of \$1.5 million from December 31, 2011. Noninterest-bearing deposits increased \$12.1 million during the first quarter of 2012 and were \$77.1 million at March 31, 2012. Management continues to focus on increasing noninterest-bearing balances and, as a result, prices interest-bearing balances to encourage migration within its deposit base.

The Company had Federal Home Loan Bank (FHLB) advances of \$37.0 million at each of March 31, 2012 and December 31, 2011.

Stockholders' equity at March 31, 2012 was \$111.4 million, or 10.1% of total assets, compared with stockholders' equity of \$111.2 million, or 10.2% of total assets, at December 31, 2011.

***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, non-performing 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.

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 \$38.7 million at March 31, 2012 and net charge offs were \$1.4 million for the three months ended March 31, 2012. This compares with nonperforming assets of \$40.8 million and net charge offs of \$12.2 million at and for the year ended December 31, 2011.

Nonperforming non-covered loans decreased \$4.5 million during the first quarter of 2012. Additions to nonaccrual loans totaled \$3.2 million, primarily attributable to ten relationships relating to loans for construction and land development and loans for residential property, totaling \$2.0 million, which are secured by real estate. The remaining increase related primarily to loans for commercial real estate, which are also secured by real estate. There were \$1.6 million in charge offs taken during the quarter centered in commercial real estate, construction and land development, and residential real estate loans. There were \$1.4 million in paydowns during the quarter. Foreclosures for the quarter totaled \$3.1 million, and \$1.6 million of non-covered loans were reinstated to accruing status.

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.

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See Note 3 to the Company's financial statements for information related to the allowance for loan losses. At March 31, 2012 and December 31, 2011, total impaired non-covered loans equaled \$32.3 million and \$35.2 million, respectively.

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

| (dollars in thousands)                                   | March 31, 2012   | December 31, 2011 |
|--|------------------|-------------------|
| Nonaccrual loans   | \$ 25,601        | \$ 28,542         |
| Loans past due over 90 days and accruing interest        | 403              | 2,005             |
| <b>Total nonperforming non-covered loans</b>             | <b>26,004</b>    | <b>30,547</b>     |
| Other real estate owned (OREO) non-covered               | 12,696           | 10,252            |
| <b>Total nonperforming non-covered assets</b>            | <b>\$ 38,700</b> | <b>\$ 40,799</b>  |
| Accruing troubled debt restructure loans                 | \$ 5,695         | \$ 5,946          |
| <b>Balances</b>  |                  |                   |
| Specific reserve on impaired loans                       | 2,633            | 2,765             |
| General reserve related to unimpaired loans              | 11,302           | 12,070            |
| Total allowance for loan losses                          | 13,935           | 14,835            |
| Average loans during quarter, net of unearned income     | 549,019          | 521,194           |
| Impaired loans   | 32,288           | 35,158            |
| Non-impaired loans                                       | 516,501          | 509,560           |
| Total loans, net of unearned income                      | 548,789          | 544,718           |
| <b>Ratios</b>  |                  |                   |
| Allowance for loan losses to loans                       | 2.54%            | 2.72%             |
| Allowance for loan losses to nonperforming assets        | 36.01%           | 36.36%            |
| Allowance for loan losses to nonaccrual loans            | 54.43%           | 51.98%            |
| General reserve to non-impaired loans                    | 2.19%            | 2.37%             |
| Nonperforming assets to loans and other real estate      | 6.89%            | 7.35%             |
| Net charge offs for quarter to average loans, annualized | 1.02%            | 0.71%             |

Reductions in the ratios related to the allowance to loan losses reflect the charge offs taken on the impaired loans and the improvement in the general component of the allowance. The percent of the general component portion of the allowance to the non-impaired portfolio has declined since year end due to the reduction of accruing substandard loans from December 31, 2011 to March 31, 2012 coupled with a decrease in the historical loss factor used in this calculation as a result of an improved unemployment forecast.

The Company performs troubled debt restructures and other various loan workouts whereby an existing loan may be restructured into multiple new loans. At March 31, 2012, the Company had 12 loans that met the definition of a troubled debt restructure ( 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. Two of these loans were restructured using multiple new loans. The aggregated outstanding principal of TDR loans at March 31, 2012 was \$7.7 million, of which \$2.0 million were classified as nonaccrual.

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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 foregoing 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 March 31, 2012 and December 31, 2011 is below (dollars in thousands):

|                                   | March 31, 2012                      |                              | December 31, 2011                   |                              |
|-----------------------------------|-------------------------------------|------------------------------|-------------------------------------|------------------------------|
|                                   | Amount<br>of<br>Nonaccrual<br>Loans | % of<br>Non-covered<br>Loans | Amount<br>of<br>Nonaccrual<br>Loans | % of<br>Non-covered<br>Loans |
| Mortgage loans on real estate:    |                                     |                              |                                     |                              |
| Residential 1-4 family            | \$ 5,677                            | 1.03%                        | \$ 5,320                            | 0.98%                        |
| Commercial                        | 8,240                               | 1.50%                        | 9,187                               | 1.69%                        |
| Construction and land development | 10,388                              | 1.89%                        | 12,718                              | 2.33%                        |
| Second mortgages                  | 185                                 | 0.03%                        | 189                                 | 0.04%                        |
| Multifamily                       |                                     |                              |                                     |                              |
| Agriculture                       | 54                                  | 0.01%                        | 53                                  | 0.01%                        |
| Total real estate loans           | 24,544                              | 4.47%                        | 27,467                              | 5.04%                        |
| Commercial loans                  | 880                                 | 0.16%                        | 1,003                               | 0.18%                        |
| Consumer installment loans        | 177                                 | 0.03%                        | 72                                  | 0.01%                        |
| All other loans                   |                                     |                              |                                     |                              |
| Gross loans                       | \$ 25,601                           | 4.66%                        | \$ 28,542                           | 5.24%                        |

At March 31, 2012, the Company had 11 construction and land development credit relationships in nonaccrual status. The borrowers for two of these relationships are commercial land developers and eight are residential land developers. The remaining relationship is for the construction of a 1-4 family residence. All of the relationships are secured by the real estate to be developed, and almost all of such projects are in the Company's central Virginia market. The total amount of the credit exposure outstanding at March 31, 2012 was \$10.4 million. These loans have either been charged-down or sufficiently reserved against to equate to the current expected realizable value.

During the first quarter of 2012, the Company charged off \$60,000 with respect to one of these relationships. The total amount of the allowance for loan losses attributed to all 11 relationships was \$345,000 at March 31, 2012, or 3.3% 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.

**Table of Contents****Asset Quality covered assets**

Loans accounted for under 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.

Covered assets that would normally be considered nonperforming except for the accounting requirements regarding purchased impaired loans and other real estate owned covered by the shared loss agreements at March 31, 2012 and December 31, 2011 are as follows (dollars in thousands):

|   | March 31, 2012   | December 31, 2011 |
|---|------------------|-------------------|
| Nonaccrual covered loans                  | \$ 11,721        | \$ 11,469         |
| Other real estate owned (OREO) - covered  | 3,974            | 5,764             |
| <b>Total nonperforming covered assets</b> | <b>\$ 15,695</b> | <b>\$ 17,233</b>  |

**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.

The Company's ratio of total risk-based capital was 16.4% at March 31, 2012 compared to 16.2% at December 31, 2011. The tier 1 risk-based capital ratio was 15.2% at March 31, 2012 and 15.0% at December 31, 2011. The Company's tier 1 leverage ratio was 9.0% at March 31, 2012 and 8.9% at December 31, 2011. 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 3.58% during the three months ended March 31, 2012.

On March 16, 2012, the Company paid one regular quarterly cash dividend, in the amount of \$221,000, with respect to its Fixed Rate Cumulative Perpetual Preferred Stock, Series A. The Company issued the 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. The Company also paid all outstanding interest on

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both that payment, which had been deferred since February 15, 2012, and the six dividend payments that the Company had previously deferred. Furthermore, the Company paid all outstanding interest payments that the Company had deferred under its trust preferred securities since September 30, 2010.

As of March 31, 2012, the Company had six quarterly dividend payments with respect to the Preferred Stock that remained accrued and unpaid. The failure to pay dividends for six dividend periods triggers the right for the holder of the Preferred Stock to appoint two directors to the Company's board. The Treasury has not requested to exercise this right to date.

**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 March 31, 2012 and December 31, 2011, the Company's interest-earning assets exceeded its interest-bearing liabilities by \$58.1 million and \$47.9 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 March 31, 2012 and December 31, 2011, is as follows (dollars in thousands):

|   | March 31, 2012   | December 31, 2011 |
|---|------------------|-------------------|
| <b>Commitments with off-balance sheet risk:</b>       |                  |                   |
| Commitments to extend credit                          | \$ 51,740        | \$ 51,964         |
| Standby letters of credit                             | 9,007            | 9,278             |
| <b>Total commitments with off-balance sheet risks</b> | <b>\$ 60,747</b> | <b>\$ 61,242</b>  |
| <b>Commitments with balance sheet risk:</b>           |                  |                   |
| Loans held for sale                                   | \$ 349           | \$ 580            |
| <b>Total commitments with balance sheet risks</b>     | <b>\$ 349</b>    | <b>\$ 580</b>     |
| <b>Total commitments</b>                              | <b>\$ 61,096</b> | <b>\$ 61,822</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 evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank 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 Bank is committed.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing.



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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 Bank 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 March 31, 2012:

| Change in Yield curve | Change in net interest income |         |
|-----------------------|-------------------------------|---------|
|                       | %                             | \$      |
| +200 bp               | (0.1)%                        | \$ (31) |
| +100 bp               | (0.1)%                        | (32)    |
| most likely           | 0%                            |         |
| 100 bp                | 0.3%                          | 111     |
| 200 bp                | (1.5)%                        | (558)   |

At March 31, 2012, 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.



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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.

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**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, 2011.

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

None.

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

Not applicable.

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

Not applicable.

**Item 5. *Other Information***

None.

**Item 6. *Exhibits***

| Exhibit<br>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 March 31, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements* |

\* Filed herewith.

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**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: May 15, 2012

/s/ Bruce E. Thomas  
Bruce E. Thomas  
Executive Vice President and Chief Financial Officer  
(principal financial officer)

Date May 15, 2012