

Community Bankers Trust Corp  
Form 10-Q  
August 14, 2012  
[Table of Contents](#)

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

Washington, D. C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 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)

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

**Delaware**  
(State or other jurisdiction of

**20-2652949**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**4235 Innslake Drive, Suite 200**

**Glen Allen, Virginia**  
(Address of principal executive offices)

**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 June 30, 2012, there were 21,643,474 shares of the Company's common stock outstanding.

**Table of Contents**

**COMMUNITY BANKERS TRUST CORPORATION**

TABLE OF CONTENTS

FORM 10-Q

June 30, 2012

**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Consolidated Statements of Financial Condition**

3

**Consolidated Statements of Operations (Unaudited)**

4

**Consolidated Statements of Comprehensive Income (Unaudited)**

5

**Consolidated Statements of Stockholders' Equity**

6

**Consolidated Statements of Cash Flows (Unaudited)**

7

**Notes to Unaudited Consolidated Financial Statements**

8

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

34

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

49

**Item 4. Controls and Procedures**

50

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

51

**Item 1A. Risk Factors**

51

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

51

**Item 3. Defaults upon Senior Securities**

51

**Item 4. Mine Safety Disclosures**

51

**Item 5. Other Information**

51

**Item 6. Exhibits**

51

**SIGNATURES**

52

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

**COMMUNITY BANKERS TRUST CORPORATION**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

**AS OF JUNE 30, 2012 AND DECEMBER 31, 2011**

(dollars in thousands)

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
<b>ASSETS</b>		
Cash and due from banks	\$ 11,943	\$ 11,078
Interest-bearing bank deposits	17,808	10,673
Federal funds sold	7,000	
<b>Total cash and cash equivalents</b>	<b>36,751</b>	<b>21,751</b>
Securities available for sale, at fair value	259,427	232,764
Securities held to maturity, at cost (fair value of \$56,672 and \$68,585, respectively)	53,207	64,422
Equity securities, restricted, at cost	6,804	6,872
<b>Total securities</b>	<b>319,438</b>	<b>304,058</b>
Loans held for resale	1,179	580
Loans not covered by FDIC shared loss agreement	549,018	544,718
Loans covered by FDIC shared loss agreement	92,850	97,561
<b>Total loans</b>	<b>641,868</b>	<b>642,279</b>
Allowance for loan losses (non-covered loans of \$13,526 and \$14,835, respectively; covered loans of \$456 and \$776, respectively)	(13,982)	(15,611)
<b>Net loans</b>	<b>627,886</b>	<b>626,668</b>
FDIC indemnification asset	37,915	42,641
Bank premises and equipment, net	34,408	35,084
Other real estate owned, covered by FDIC shared loss agreement	3,923	5,764
Other real estate owned, non-covered	11,869	10,252
Bank owned life insurance	14,869	14,592
FDIC receivable under shared loss agreement	584	1,780
Core deposit intangibles, net	11,428	12,558
Other assets	15,646	16,768
<b>Total assets</b>	<b>\$ 1,115,896</b>	<b>\$ 1,092,496</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 79,909	\$ 64,953
Interest-bearing	873,949	868,538

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

Total deposits	953,858	933,491
Federal Home Loan Bank advances	37,000	37,000
Trust preferred capital notes	4,124	4,124
Other liabilities	7,555	6,701
<b>Total liabilities</b>	<b>1,002,537</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	(344)	(454)
Common stock (200,000,000 shares authorized, \$0.01 par value; 21,643,474 and 21,627,549 shares issued and outstanding, respectively)	216	216
Additional paid in capital	144,303	144,243
Retained deficit	(52,334)	(53,761)
Accumulated other comprehensive income	2,801	2,219
<b>Total stockholders equity</b>	<b>113,359</b>	<b>111,180</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,115,896</b>	<b>\$ 1,092,496</b>

See accompanying notes to unaudited consolidated financial statements

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011**

(dollars and shares in thousands, except per share data)

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<b>Interest and dividend income</b>				
Interest and fees on non-covered loans	\$ 7,574	\$ 7,328	\$ 15,261	\$ 14,562
Interest and fees on FDIC covered loans	4,366	4,838	8,280	8,658
Interest on federal funds sold	3	2	4	4
Interest on deposits in other banks	19	10	31	24
Interest and dividends on securities				
Taxable	2,039	2,085	4,116	3,997
Nontaxable	118	229	236	641
<b>Total interest and dividend income</b>	<b>14,119</b>	<b>14,492</b>	<b>27,928</b>	<b>27,886</b>
<b>Interest expense</b>				
Interest on deposits	2,241	2,711	4,594	5,690
Interest on federal funds purchased	3	1	3	1
Interest on other borrowed funds	343	367	702	699
<b>Total interest expense</b>	<b>2,587</b>	<b>3,079</b>	<b>5,299</b>	<b>6,390</b>
<b>Net interest income</b>	<b>11,532</b>	<b>11,413</b>	<b>22,629</b>	<b>21,496</b>
<b>Provision for loan losses</b>	<b>500</b>		<b>750</b>	<b>1,498</b>
<b>Net interest income after provision for loan losses</b>	<b>11,032</b>	<b>11,413</b>	<b>21,879</b>	<b>19,998</b>
<b>Noninterest income</b>				
Service charges on deposit accounts	674	637	1,291	1,213
FDIC indemnification asset amortization	(1,983)	(2,657)	(3,865)	(5,402)
Gain on securities transactions, net	290	176	174	837
Loss on sale of other real estate, net	(229)	(249)	(406)	(861)
Other	544	662	1,045	1,376
<b>Total noninterest income</b>	<b>(704)</b>	<b>(1,431)</b>	<b>(1,761)</b>	<b>(2,837)</b>
<b>Noninterest expense</b>				
Salaries and employee benefits	4,177	4,171	8,415	8,375
Occupancy expenses	685	733	1,316	1,547
Equipment expenses	270	320	565	650
Legal fees	15	35	39	140
Professional fees	148	198	233	389
FDIC assessment	496	761	1,080	1,633
Data processing fees	499	476	1,016	928
Amortization of intangibles	565	565	1,130	1,130
Other operating expenses	1,790	2,075	3,261	3,753
<b>Total noninterest expense</b>	<b>8,645</b>	<b>9,334</b>	<b>17,055</b>	<b>18,545</b>

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

Income (loss) before income taxes	1,683	648	3,063	(1,384)
Income tax (expense) benefit	(473)	(127)	(863)	711
Net income (loss)	\$ 1,210	\$ 521	\$ 2,200	\$ (673)
Dividends paid on preferred stock	221		442	
Accretion of discount on preferred stock	55	53	110	104
Accumulated preferred dividends		221		442
Net income (loss) available to common stockholders	\$ 934	\$ 247	\$ 1,648	\$ (1,219)
Net income (loss) per share basic	\$ 0.04	\$ 0.01	\$ 0.08	\$ (0.06)
Net income (loss) per share diluted	\$ 0.04	\$ 0.01	\$ 0.08	\$ (0.06)
Weighted average number of shares outstanding				
basic	21,638	21,535	21,634	21,502
diluted	21,706	21,535	21,661	21,502

See accompanying notes to unaudited consolidated financial statements

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE THREE AND SIX MONTHS ENDED  
JUNE 30, 2012 AND 2011**

(dollars in thousands, except per share data)

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<b>Net income (loss)</b>	\$ 1,210	\$ 521	\$ 2,200	\$ (673)
<b>Other comprehensive income:</b>				
Change in unrealized gain in investment securities	1,994	3,985	1,056	4,535
Tax related to unrealized (gain) in investment securities	(678)	(1,355)	(359)	(1,542)
Reclassification adjustment for (gain) in securities sold	(290)	(176)	(174)	(837)
Tax related to realized gain in securities sold	99	60	59	285
<b>Total other comprehensive income</b>	<b>1,125</b>	<b>2,514</b>	<b>582</b>	<b>2,441</b>
<b>Total comprehensive income</b>	<b>\$ 2,335</b>	<b>\$ 3,035</b>	<b>\$ 2,782</b>	<b>\$ 1,768</b>

See accompanying notes to unaudited consolidated financial statements



Table of Contents

**COMMUNITY BANKERS TRUST CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND**  
**THE YEAR ENDED DECEMBER 31, 2011**

(dollars and shares in thousands)

	Preferred Stock	Warrants	Discount on Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive 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			110				(110)		
Issuance of common stock				15		33			33
Dividends paid on preferred stock							(663)		(663)
Issuance of stock options						27			27
Net income							2,200		2,200
Other comprehensive income								582	582
<b>Balance June 30, 2012 (Unaudited)</b>	\$ 17,680	\$ 1,037	\$ (344)	21,643	\$ 216	\$ 144,303	\$ (52,334)	\$ 2,801	\$ 113,359

See accompanying notes to unaudited consolidated financial statements

**Table of Contents**

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

**FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011**

(dollars in thousands)

	June 30, 2012	June 30, 2011
<b>Operating activities:</b>		
Net income (loss)	\$ 2,200	\$ (673)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and intangibles amortization	2,002	2,035
Issuance of common stock and stock options	60	183
Provision for loan losses	750	1,498
Deferred income taxes	863	
Amortization of security premiums and accretion of discounts, net	1,518	907
Net (gain) on sale of securities	(174)	(837)
Net loss on sale and valuation of other real estate	406	861
Changes in assets and liabilities:		
Change in loans held for sale:	(599)	
Decrease in other assets	5,604	14,649
Decrease (increase) in accrued expenses and other liabilities	854	(812)
<b>Net cash provided by operating activities</b>	<b>13,484</b>	<b>17,811</b>
<b>Investing activities:</b>		
Proceeds from securities sales, calls, maturities, and paydowns	136,476	137,479
Purchase of securities	(152,319)	(137,980)
Proceeds from sale of other real estate	6,370	2,317
Improvements of other real estate, net of insurance proceeds	(69)	
Net (increase) decrease in loans, excluding covered loans	(11,856)	6,930
Net decrease in loans, covered by FDIC shared loss agreement	2,731	9,898
Principal recoveries of loans previously charged off	674	221
Purchase of premises and equipment, net	(195)	(334)
<b>Net cash (used in) provided by investing activities</b>	<b>(18,188)</b>	<b>18,531</b>
<b>Financing activities:</b>		
Net increase (decrease) in noninterest-bearing and interest-bearing demand deposits	20,367	(51,250)
Cash dividends paid	(663)	
<b>Net cash provided by (used in) financing activities</b>	<b>19,704</b>	<b>(51,250)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>15,000</b>	<b>(14,908)</b>
<b>Cash and cash equivalents:</b>		
Beginning of the period	\$ 21,751	\$ 33,381
End of the period	\$ 36,751	\$ 18,473

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

	June 30, 2012	June 30, 2011
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ 5,697	\$ 6,676
Income taxes paid	120	
Transfers of OREO property	6,483	8,428
	See accompanying notes to unaudited consolidated financial statement	

---

**Table of Contents**

**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Unaudited Consolidated Financial Statements**

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

**Organization**

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

The Bank 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 June 30, 2012, changes in stockholders' equity and cash flows for the six months ended June 30, 2012, and the results of operations for the three and six months ended June 30, 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 and six month period ended June 30, 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.



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

measurements, including a consistent meaning of the term fair value for both U.S. GAAP and IFRS (International 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 June 30, 2012 and December 31, 2011 were as follows (dollars in thousands):

	Amortized Cost	June 30, 2012 Gross Unrealized		Fair Value
		Gains	Losses	
<b>Securities Available for Sale</b>				
U.S. Treasury issue and other U.S. Gov't agencies	\$ 90,316	\$ 141	\$ (298)	\$ 90,159
U.S. Gov't sponsored agencies	502	12		514
State, county and municipal	110,069	6,066	(393)	115,742
Corporate and other bonds	7,767	10	(79)	7,698
Mortgage backed U.S. Gov't agencies	19,113	370	(65)	19,418
Mortgage backed U.S. Gov't sponsored agencies	25,840	178	(122)	25,896
Total Securities Available for Sale	\$ 253,607	\$ 6,777	\$ (957)	\$ 259,427
<b>Securities Held to Maturity</b>				
State, county and municipal	\$ 12,154	\$ 1,239	\$	\$ 13,393
Mortgage backed U.S. Gov't agencies	11,218	756		11,974
Mortgage backed U.S. Gov't sponsored agencies	29,835	1,470		31,305
Total Securities Held to Maturity	\$ 53,207	\$ 3,465	\$	\$ 56,672

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

	Amortized Cost	December 31, 2011 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 June 30, 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 Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 4,048	\$ 4,115	\$ 5,498	\$ 5,245
Due after one year through five years	42,898	45,452	55,885	56,404
Due after five years through ten years	6,261	7,105	108,758	113,901
Due after ten years			83,466	83,697
<b>Total securities</b>	<b>\$ 53,207</b>	<b>\$ 56,672</b>	<b>\$ 253,607</b>	<b>\$ 259,427</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		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Gross realized gains	\$ 687	\$ 193	\$ 725	\$ 854
Gross realized losses	(397)	(17)	(551)	(17)
<b>Net securities gains (loss)</b>	<b>\$ 290</b>	<b>\$ 176</b>	<b>\$ 174</b>	<b>\$ 837</b>

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

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 and six months ended June 30, 2012 and 2011.



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

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 June 30, 2012 and December 31, 2011 were as follows (dollars in thousands):

	Less than 12 Months		June 30, 2012 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	\$ 28,813	\$ (298)	\$	\$	\$ 28,813	\$ (298)
U.S. Gov t sponsored agencies						
State, county and municipal	22,600	(393)			22,600	(393)
Corporate and other bonds	3,255	(16)	1,923	(63)	5,178	(79)
Mortgage backed U.S. Gov t agencies	4,574	(65)			4,574	(65)
Mortgage backed U.S. Gov t sponsored agencies	14,414	(122)			14,414	(122)
<b>Total</b>	<b>\$ 73,656</b>	<b>\$ (894)</b>	<b>\$ 1,923</b>	<b>\$ (63)</b>	<b>\$ 75,579</b>	<b>\$ (957)</b>

	Less than 12 Months		December 31, 2011 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 June 30, 2012 and December 31, 2011 are generally a result of market fluctuations that occur daily. The unrealized losses are from 69 securities at June 30, 2012. Of those, 60 are investment grade, U.S. government agency guarantees, or the full faith and credit of local municipalities throughout the United States. Investment grade corporate obligations comprise the remaining nine securities with unrealized losses at June 30, 2012. 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 \$45.6 million and \$34.1 million at June 30, 2012 and December 31, 2011, respectively, were pledged to secure deposits and for other purposes required or permitted by law. At each of June 30, 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 Unaudited Consolidated Financial Statements****3. LOANS NOT COVERED BY FDIC SHARED LOSS AGREEMENT (NON-COVERED LOANS)**

The Company's non-covered loans at June 30, 2012 and December 31, 2011 were comprised of the following (dollars in thousands):

	June 30, 2012		December 31, 2011	
	Amount	% of Non-Covered Loans	Amount	% of Non-Covered Loans
Mortgage loans on real estate:				
Residential 1-4 family	\$ 128,256	23.36%	\$ 127,200	23.34%
Commercial	237,070	43.18	220,471	40.46
Construction and land development	65,044	11.85	75,691	13.89
Second mortgages	8,519	1.55	8,129	1.49
Multifamily	20,308	3.70	19,746	3.62
Agriculture	10,663	1.93	11,444	2.10
Total real estate loans	469,860	85.57	462,681	84.90
Commercial loans	69,682	12.69	72,149	13.24
Consumer installment loans	7,975	1.45	8,461	1.55
All other loans	1,567	0.29	1,659	0.31
Gross loans	549,084	100.00%	544,950	100.00%
Less unearned income on loans	(66)		(232)	
Non-covered loans, net of unearned income	\$ 549,018		\$ 544,718	

The Company held \$41.2 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 June 30, 2012 and December 31, 2011, respectively. As these loans are 100% guaranteed by the USDA, no loan loss provision is required. These loan balances included an unamortized purchase premium of \$3.8 million and \$3.6 million at June 30, 2012 and December 31, 2011, respectively. Unamortized purchase premium is recognized as an adjustment of the related loan yield using the interest method.

At June 30, 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 June 30, 2012 and December 31, 2011, a portion of the construction and land development loans presented above contained interest reserve provisions. The Company follows standard industry practice to include interest reserves and capitalized interest in a construction loan. This practice recognizes interest as an additional cost of the project and, as a result, requires the borrower to put additional equity into the project. In order to monitor the project throughout its life to make sure the property is moving along as planned to ensure appropriateness of continuing to capitalize interest, the Company coordinates an independent property inspection in connection with each disbursement of loan funds. Until completion, there is generally no cash flow from which to make the interest payment. The Company does not advance additional interest reserves to keep a loan from becoming nonperforming.

There were no significant amounts of interest reserves recognized as interest income on construction loans with interest reserves for the three and six months ended June 30, 2012 and 2011. Nonperforming construction loans with interest reserves were \$4.9 million at June 30, 2012 and December 31, 2011.

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

Average investment in impaired loans was \$37.3 million and \$47.1 million as of June 30, 2012 and June 30, 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 and six months ended June 30, 2012 and 2011. For the three months ended June 30, 2012 and 2011, estimated interest income of \$500,000 and \$916,000, respectively, would have been recorded if all such loans had been accruing interest according to their original contractual terms. For the six months ended June 30, 2012 and 2011, estimated interest income of \$944,000 and \$1.7 million, respectively, would have been recorded if all such loans had been accruing interest according to their original contractual terms.

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

The following table summarizes information related to impaired loans as of June 30, 2012 (dollars in thousands):

	Recorded Investment (1)	Unpaid Principal Balance (2)	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>With an allowance recorded:</b>					
Mortgage loans on real estate:					
Residential 1-4 family	\$ 4,436	\$ 4,877	\$ 1,086	\$ 3,915	\$
Commercial	4,995	5,276	435	4,826	
Construction and land development	6,829	10,352	1,190	3,877	7
Second mortgages	62	63	13	150	
Multifamily					
Agriculture				21	
<b>Total real estate loans</b>	<b>16,322</b>	<b>20,568</b>	<b>2,724</b>	<b>12,789</b>	<b>7</b>
Commercial loans	237	241	36	814	
Consumer installment loans	175	189	57	111	
All other loans					
<b>Subtotal impaired loans with valuation allowance</b>	<b>\$ 16,734</b>	<b>\$ 20,998</b>	<b>\$ 2,817</b>	<b>\$ 13,714</b>	<b>\$ 7</b>
<b>With no related allowance recorded:</b>					
Mortgage loans on real estate:					
Residential 1-4 family	\$ 2,868	\$ 3,126	\$	\$ 3,415	\$ 15
Commercial	5,352	5,696		7,704	91
Construction and land development	3,107	4,693		12,078	
Second mortgages	78	82		43	
Multifamily					
Agriculture	54	345		33	
<b>Total real estate loans</b>	<b>11,459</b>	<b>13,942</b>		<b>23,273</b>	<b>106</b>
Commercial loans	458	487		325	
Consumer installment loans	11	11		17	
All other loans					
<b>Subtotal impaired loans without valuation</b>	<b>\$ 11,928</b>	<b>\$ 14,440</b>	<b>\$</b>	<b>\$ 23,615</b>	<b>\$ 106</b>
<b>Total:</b>					
Mortgage loans on real estate:					
Residential 1-4 family	\$ 7,304	\$ 8,003	\$ 1,086	\$ 7,330	\$ 15
Commercial	10,347	10,972	435	12,530	91
Construction and land development	9,936	15,045	1,190	15,955	7
Second mortgages	140	145	13	193	
Multifamily					

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

Agriculture	54	345		54	
Total real estate loans	27,781	34,510	2,724	36,062	113
Commercial loans	695	728	36	1,139	
Consumer installment loans	186	200	57	128	
All other loans					
Total impaired loans	\$ 28,662	\$ 35,438	\$ 2,817	\$ 37,329	\$ 113

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

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

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

	Recorded Investment (1)	Unpaid Principal Balance (2)	Related Allowance	Average Recorded Investment	Interest Income 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	

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

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



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

The following table presents non-covered nonaccruals by loan category as of June 30, 2012 and December 31, 2011 (dollars in thousands):

	June 30, 2012	December 31, 2011
Mortgage loans on real estate:		
Residential 1-4 family	\$ 6,577	\$ 5,320
Commercial	7,768	9,187
Construction and land development	9,759	12,718
Second mortgages	140	189
Multifamily		
Agriculture	54	53
Total real estate loans	24,298	27,467
Commercial loans	695	1,003
Consumer installment loans	175	72
All other loans		
Total loans	\$ 25,168	\$ 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 June 30, 2012 and December 31, 2011, is set forth in the table below (dollars in thousands):

	June 31, 2012	December 31, 2011
Nonaccruals	\$ 25,168	\$ 28,542
Trouble debt restructure and still accruing	3,001	5,946
Substandard and still accruing	493	546
Doubtful and still accruing		124
Total impaired	\$ 28,662	\$ 35,158

The following tables present an age analysis of past due status of non-covered loans by category as of June 30, 2012 and December 31, 2011 (dollars in thousands):

	June 30, 2012				Total Loans	Recorded Investment > 90 Days Past Due and Accruing
	30-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current		
Mortgage loans on real estate:						
Residential 1-4 family	\$ 707	\$ 6,577	\$ 7,284	\$ 120,972	\$ 128,256	\$
Commercial	703	7,768	8,471	228,599	237,070	

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

Construction and land development		9,759	9,759	55,285	65,044
Second mortgages	89	140	229	8,290	8,519
Multifamily				20,308	20,308
Agriculture		54	54	10,609	10,663
<b>Total real estate loans</b>	<b>1,499</b>	<b>24,298</b>	<b>25,797</b>	<b>444,063</b>	<b>469,860</b>
Commercial loans		695	695	68,987	69,682
Consumer installment loans	26	175	201	7,774	7,975
All other loans				1,567	1,567
<b>Total loans</b>	<b>\$ 1,525</b>	<b>\$ 25,168</b>	<b>\$ 26,693</b>	<b>\$ 522,391</b>	<b>\$ 549,084</b>

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

	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	
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	1,003	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

Activity in the allowance for loan losses on non-covered loans for the six months ended June 30, 2012 and the year ended December 31, 2011 was comprised of the following (dollars in thousands):

	December 31, 2011	Provision Allocation	Charge offs	Recoveries	June 30, 2012
Mortgage loans on real estate:					
Residential 1-4 family	\$ 3,451	\$ 1,303	\$ (853)	\$	\$ 3,901
Commercial	3,048	299	(638)	64	2,773
Construction and land development	5,729	(554)	(830)	161	4,506
Second mortgages	296	(63)			233
Multifamily	224	(8)			216
Agriculture	25	9			34
Total real estate loans	12,773	986	(2,321)	225	11,663
Commercial loans	1,810	(58)	(308)	130	1,574
Consumer installment loans	241	68	(75)	40	274
All other loans	11	4			15
Total loans	\$ 14,835	\$ 1,000	\$ (2,704)	\$ 395	\$ 13,526

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

	December 31, 2010	Provision 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
<b>Total real estate loans</b>	<b>22,520</b>	<b>(1,032)</b>	<b>(8,891)</b>	<b>176</b>	<b>12,773</b>
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
<b>Total loans</b>	<b>\$ 25,543</b>	<b>\$ 1,498</b>	<b>\$ (12,794)</b>	<b>\$ 588</b>	<b>\$ 14,835</b>

The following tables present information on the non-covered loans evaluated for impairment in the allowance for loan losses as of June 30, 2012 and December 31, 2011 (dollars in thousands):

	June 30, 2012					
	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment <sup>(1)</sup>	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment <sup>(1)</sup>	Collectively Evaluated for Impairment	Total
Mortgage loans on real estate:						
Residential 1-4 family	\$ 1,149	\$ 2,752	\$ 3,901	\$ 9,702	\$ 118,554	\$ 128,256
Commercial	521	2,252	2,773	16,759	220,311	237,070
Construction and land development	2,005	2,501	4,506	19,829	45,215	65,044
Second mortgages	32	201	233	324	8,195	8,519
Multifamily		216	216		20,308	20,308
Agriculture		34	34	54	10,609	10,663
<b>Total real estate loans</b>	<b>3,707</b>	<b>7,956</b>	<b>11,663</b>	<b>46,668</b>	<b>423,192</b>	<b>469,860</b>
Commercial loans	58	1,516	1,574	1,194	68,488	69,682
Consumer installment loans	58	216	274	203	7,772	7,975
All other loans		15	15		1,567	1,567
<b>Total loans</b>	<b>\$ 3,823</b>	<b>\$ 9,703</b>	<b>\$ 13,526</b>	<b>\$ 48,065</b>	<b>\$ 501,019</b>	<b>\$ 549,084</b>

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

	December 31, 2011			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 \$19.4 million and \$19.6 million at June 30, 2012 and December 31, 2011, respectively. The allowance for loans losses allocated to these loans is \$1.0 million and \$1.4 million at June 30, 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 \$41.2 million and \$36.5 million at June 30, 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.

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

The following tables present the composition of non-covered loans by credit quality indicator at June 30, 2012 and December 31, 2011 (dollars in thousands):

	<b>June 30, 2012</b>				
	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total</b>
<b>Mortgage loans on real estate:</b>					
Residential 1-4 family	\$ 110,946	\$ 7,608	\$ 9,702	\$	\$ 128,256
Commercial	197,104	23,208	16,758		237,070
Construction and land development	35,168	10,048	19,828		65,044
Second mortgages	7,564	630	325		8,519
Multifamily	19,124	1,184			20,308
Agriculture	10,461	148	54		10,663
<b>Total real estate loans</b>	<b>380,367</b>	<b>42,826</b>	<b>46,667</b>		<b>469,860</b>
Commercial loans	67,243	1,274	1,165		69,682
Consumer installment loans	7,503	271	201		7,975
All other loans	1,538		29		1,567
<b>Total loans</b>	<b>\$ 456,651</b>	<b>\$ 44,371</b>	<b>\$ 48,062</b>	<b>\$</b>	<b>\$ 549,084</b>

	<b>December 31, 2011</b>				
	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total</b>
<b>Mortgage loans on real estate:</b>					
Residential 1-4 family	\$ 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>

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

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

	Three and six months ended June 30, 2012			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	
Mortgage loans on real estate:				
Residential 1-4 family	2	\$ 471	\$ 471	
Commercial	1	1,171	1,171	
Construction and land development	1	675	675	
Second mortgages				
Multifamily				
Agriculture				
Total real estate loans	4	2,317	2,317	
Commercial loans	1	74	74	
Consumer installment loans				
All other loans				
Total loans	5	\$ 2,391	\$ 2,391	

During the three months ended June 30, 2011, the Company modified one commercial real estate loan that was considered to be a TDR. The Company extended the term and lowered the interest rate for this loan, which had a pre and post- modification balance of \$2.6 million

During the six months ended June 30, 2011, the Company modified three loans that were considered to be TDRs. The Company extended the terms for two of these loans and lowered the interest rate for three of these loans. The following table presents information relating to loans modified as TDRs during the six months ended June 30, 2012 and 2011 (dollars in thousands):

	Six months ended June 30, 2011			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	
Mortgage loans on real estate:				
Residential 1-4 family	1	\$ 275	\$ 260	
Commercial	2	5,518	4,132	
Construction and land development		0	0	
Second mortgages		0	0	
Multifamily		0	0	
Agriculture		0	0	
Total real estate loans	3	5,793	4,392	
Commercial loans		0	0	

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

Consumer installment loans			0		0
All other loans			0		0
Total loans	3	\$	5,793	\$	4,392

A loan is considered to be in default if it is 90 days or more past due. There were no TDRs that had been restructured during the previous 12 months that resulted in default during the three and six months ended June 30, 2012. During the three and six months ended June 30, 2011, one commercial real estate loan that had been restructured during the previous 12 months went into default. This loan had a recorded investment of \$1.4 million at June 30, 2012.



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

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*.

At June 30, 2012, the Company had 1-4 family mortgages in the amount of \$157.8 million pledged as collateral to the Federal Home Loan Bank for a total borrowing capacity of \$100.4 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 June 30, 2012 and December 31, 2011, the outstanding contractual balance of the covered loans was \$148.8 million and \$160.0 million, respectively. The carrying amount, by loan type, as of these dates is as follows (dollars in thousands):

	June 30, 2012		December 31, 2011	
	Amount	% of Covered Loans	Amount	% of Covered Loans
Mortgage loans on real estate:				
Residential 1-4 family	\$ 81,132	87.38%	\$ 84,734	86.85%
Commercial	2,084	2.24	2,170	2.22
Construction and land development	3,627	3.91	4,260	4.38
Second mortgages	5,517	5.94	5,894	6.04
Multifamily	312	0.33	316	0.32
Agriculture	175	0.19	179	0.18
Total real estate loans	92,847	99.99	97,553	99.99
Commercial loans				
Consumer installment loans	3	0.01	8	0.01
All other loans				
Total covered loans	\$ 92,850	100.00%	\$ 97,561	100.00%

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

Activity in the allowance for loan losses on covered loans for the six months ended June 30, 2012 and the year ended December 31, 2011 was comprised of the following (dollars in thousands):

	December 31, 2011	Provision Allocation	Charge offs	Recoveries	June 30, 2012
Mortgage loans on real estate:					
Residential 1-4 family	\$ 473	\$ (274)	\$ (12)	\$ 9	\$ 196
Commercial	303	(43)			260
Construction and land development		4	(22)	18	
Second mortgages					
Multifamily		63	(315)	252	
Agriculture					
Total real estate loans	776	(250)	(349)	279	456
Commercial loans					
Consumer installment loans					
All other loans					
Total covered loans	\$ 776	\$ (250)	\$ (349)	\$ 279	\$ 456

	December 31, 2010	Provision Allocation	Charge 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

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

The following table presents information on the covered loans collectively evaluated for impairment in the allowance for loan losses at June 30, 2012 and December 31, 2011 (dollars in thousands):

	June 30, 2012		December 31, 2011	
	Allowance for loan losses	Recorded investment in loans	Allowance for loan losses	Recorded investment in loans
Mortgage loans on real estate:				
Residential 1-4 family	\$ 196	\$ 81,132	\$ 473	\$ 84,734
Commercial	260	2,084	303	2,170
Construction and land development		3,627		4,260
Second mortgages		5,517		5,894
Multifamily		312		316
Agriculture		175		179
Total real estate loans	456	92,847	776	97,553
Commercial loans				
Consumer installment loans		3		8
All other loans				
Total covered loans	\$ 456	\$ 92,850	\$ 776	\$ 97,561

The change in the accretable yield balance for the six months ended June 30, 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	(8,280)
Reclassification from Non-accretable Yield	7,322
Balance, June 30, 2012	\$ 55,352

The covered loans are not classified as nonperforming assets as of June 30, 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.

**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 covered loans and foreclosed real estate assets, and for 95% of losses on covered loans and foreclosed real estate assets thereafter. Under the

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

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 agreements provide for indemnification from the first dollar of losses without any threshold requirement. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction, January 30, 2009. New loans made after that date are not covered by the shared loss agreements. The fair value of the shared loss agreements is detailed below.

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

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 June 30, 2012 and December 31, 2011 (dollars in thousands):

	Anticipated Expected Losses	Estimated Loss Sharing Value	Amortizable Premium (Discount) at Present Value	FDIC Indemnification 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 amortization 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	283	226		226
Decreases:				
Net amortization of premium			(3,865)	(3,865)
Reclassifications to FDIC receivable:				
Net loan charge offs and recoveries	(692)	(553)		(553)
OREO sales	(430)	(344)		(344)
Reimbursements requested from FDIC	(237)	(190)		(190)
Reforecasted Change in Anticipated Expected Losses	(3,116)	(2,493)	2,493	

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

June 30, 2012	\$ 24,521	\$ 19,617	\$ 18,298	\$ 37,915
---------------	-----------	-----------	-----------	-----------

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

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 Intangibles</b>
Balance, January 1, 2011	\$ 14,819
Amortization	(2,261)
Balance, December 31, 2011	12,558
Amortization	(1,130)
Balance, June 30, 2012	\$ 11,428

**7. DEPOSITS**

The following table provides interest-bearing deposit information, by type, as of June 30, 2012 and December 31, 2011 (dollars in thousands):

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
NOW	\$ 131,040	\$ 128,758
MMDA	115,813	115,397
Savings	73,332	69,872
Time deposits less than \$100,000	305,226	326,383
Time deposits \$100,000 and over	248,538	228,128
Total interest-bearing deposits	\$ 873,949	\$ 868,538

**8. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following tables present activity in accumulated other comprehensive income for the three and six months ended June 30, 2012 and 2011 (dollars in thousands):

	<b>Three months ended June 30, 2012</b>		
	<b>Unrealized Gain/Loss on Securities</b>	<b>Defined Benefit Pension Plan</b>	<b>Total Other Comprehensive Income</b>

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

Beginning balance	\$ 2,714	\$ (1,038)	\$ 1,676
Current period other comprehensive income	1,125		1,125
Ending balance	\$ 3,839	\$ (1,038)	\$ 2,801



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

	Three months ended June 30, 2011		
	Unrealized Gain/Loss on Securities	Defined Benefit Pension Plan	Total Other Comprehensive Income
Beginning balance	\$ (218)	\$	\$ (218)
Current period other comprehensive income	2,514		2,514
Ending balance	\$ 2,296	\$	\$ 2,296

	Six months ended June 30, 2012		
	Unrealized Gain/Loss on Securities	Defined Benefit Pension Plan	Total Other Comprehensive Income
Beginning balance	\$ 3,257	\$ (1,038)	\$ 2,219
Current period other comprehensive income	582		582
Ending balance	\$ 3,839	\$ (1,038)	\$ 2,801

	Six months ended June 30, 2011		
	Unrealized Gain/Loss on Securities	Defined Benefit Pension Plan	Total Other Comprehensive Income
Beginning balance	\$ (145)	\$	\$ (145)
Current period other comprehensive income	2,441		2,441
Ending balance	\$ 2,296	\$	\$ 2,296

**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.

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

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

FASB ASC 825, *Financial Instruments*, allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Company has not made any material ASC 825 elections as of June 30, 2012.

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited 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	June 30, 2012		
		Level 1	Level 2	Level 3
Investment securities available for sale				
U.S. Treasury issue and other U.S. Gov t agencies	\$ 90,159	\$ 83,326	\$ 6,833	\$
U.S. Gov t sponsored agencies	514		514	
State, county, and municipal	115,742	3,207	112,535	
Corporate and other bonds	7,698	747	6,951	
Mortgage backed U.S. Gov t agencies	19,418		19,418	
Mortgage backed U.S. Gov t sponsored agencies	25,896		25,896	
Total investment securities available for sale	259,427	87,280	172,147	
Loans held for resale	1,179		1,179	
Total assets at fair value	\$ 260,606	\$ 87,280	\$ 173,326	\$
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

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

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 Unaudited 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 June 30, 2012, the following table provides the fair value measures by level of valuation assumptions used for those assets.

	<b>Total</b>	<b>June 30, 2012</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Impaired loans, non-covered	\$ 18,022	\$	\$ 8,857	\$ 9,165
Other real estate owned (OREO), non-covered	11,869			11,869
Other real estate owned (OREO), covered	3,923		80	3,843
Total assets at fair value	\$ 33,814	\$	\$ 8,937	\$ 24,877
Total liabilities at fair value	\$	\$	\$	\$

	<b>Total</b>	<b>December 31, 2011</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
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 June 30, 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

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

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.

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited 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)	June 30, 2012				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Securities held to maturity	\$ 53,207	\$ 56,672	\$	\$ 56,672	\$
Loans, non-covered	535,493	526,362		526,362	
Loans, covered	92,394	104,191			104,191
FDIC indemnification asset	37,915	19,509			19,509
<b>Financial liabilities:</b>					
Interest-bearing deposits	873,949	875,448		875,448	
Borrowings	41,124	45,132		45,132	

(dollars in thousands)	December 31, 2011				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
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
<b>Financial liabilities:</b>					
Interest-bearing deposits	868,538	870,909		870,909	
Borrowings	41,124	45,002		45,002	

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

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value as of June 30, 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.



**Table of Contents**

**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Unaudited 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.



**Table of Contents**

**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Unaudited 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 Unaudited 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	Weighted	
	Income	Average	Per
	(loss)	Shares	Common
	(Numerator)	(Denominator)	Share
(dollars and shares in thousands, except per share data)			Amount
<b>For the three months ended June 30, 2012</b>			
Shares issued		21,631	
Unissued vested restricted stock		7	
Basic EPS	\$ 934	21,638	\$ 0.04
Effect of dilutive stock awards		68	
Diluted EPS	\$ 934	21,706	\$ 0.04
<b>For the three months ended June 30, 2011</b>			
Basic EPS	\$ 247	21,535	\$ 0.01
Effect of dilutive stock awards			
Diluted EPS	\$ 247	21,535	\$ 0.01
<b>For the six months ended June 30, 2012</b>			
Shares issued		21,627	
Unissued vested restricted stock		7	
Basic EPS	\$ 1,648	21,634	\$ 0.08
Effect of dilutive stock awards		27	
Diluted EPS	\$ 1,648	21,661	\$ 0.08
<b>For the six months ended June 30, 2011</b>			
Basic EPS	\$ (1,219)	21,502	\$ (0.06)
Effect of dilutive stock awards			
Diluted EPS	\$ (1,219)	21,502	\$ (0.06)

Excluded from the computation of diluted earnings per share were 1.3 million and 3.7 million common shares issuable under awards, options or warrants, during the three and six months ended June 30, 2012 and 2011, respectively, because their inclusion would be anti-dilutive.

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

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 June 30, 2012, the Company had outstanding five deferred 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 \$1.1 million as of June 30, 2012. Interest on these deferred payments was insignificant and has been accrued in accordance with GAAP. The Company had paid, on May 15, 2012, two quarterly cash dividends, including the one that was due on May 15, 2012, and all outstanding interest through May 15, 2012 on the dividend payments that the Company had previously deferred.

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Unaudited Consolidated Financial Statements****11. DEFINED BENEFIT PLAN**

On May 31, 2008, the Company adopted the Bank of Essex noncontributory defined benefit pension plan for all full-time pre-merger Bank employees over 21 years of age. Benefits are generally based upon years of service and the employees' compensation. The Company funds pension costs in accordance with the funding provisions of the Employee Retirement Income Security Act. The Company has frozen the plan benefits for all participants effective December 31, 2010, resulting in a curtailment gain included in pension expense of \$210,000 in 2010.

**Components of Net Periodic Benefit Cost**

(dollars in thousands)	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Service cost	\$	\$	\$	\$
Interest cost	62	65	125	130
Expected return on plan assets	(102)	(75)	(204)	(150)
Recognized net actuarial (gain) loss	16		33	
Net periodic benefit cost	\$ (24)	\$ (10)	\$ (46)	\$ (20)

At June 30, 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 August 14, 2012, these issues remain open.

---

**Table of Contents**

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

The following discussion and analysis of the financial condition at June 30, 2012 and results of operations of Community Bankers Trust Corporation (the Company) for the three and six months ended June 30, 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 salaries and benefits, occupancy and equipment costs, professional fees, the amortization of intangible assets and other operational expenses. The provision for loan losses and income taxes materially affect income.

**CAUTION ABOUT FORWARD-LOOKING STATEMENTS**

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

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

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

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

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

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





**Table of Contents**

the interest rate environment;

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

real estate values;

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

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

the 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.

---

## **Table of Contents**

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

## **Table of Contents**

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.

---

## **Table of Contents**

### ***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 \$4.4 million at June 30, 2012. 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***

Net income available to common stockholders was \$934,000, or \$0.04 per common share on a diluted basis, for the quarter ended June 30, 2012, compared with net income available to common stockholders of \$247,000, or \$0.01 per common share on a diluted basis, for the quarter ended June 30, 2011. The increase in net income was the result of an improvement of \$727,000 in noninterest income and a decrease of \$689,000 in noninterest expenses. Additionally, net interest income improved by \$119,000 in the three month period ended June 30, 2012 compared with the three month period ended June 30, 2011.

During the second quarter of 2012, the Company recorded a \$500,000 provision for loan losses, primarily to bolster specific reserves on two impaired loans, as a precaution to meet potential future losses. During the second quarter of 2011, the Company had no provision for loan losses.

For the six months ended June 30, 2012, net income available to common stockholders was \$1.6 million, compared with a net loss available to common stockholders of \$1.2 million for the six months ended June 30, 2011. The \$2.8 million improvement for the six month comparison periods was the result of a reduction of \$1.5 million in noninterest expense, a decrease of \$1.1 million in interest expense, an increase of \$1.1 million in noninterest income and a reduction of \$748,000 in provision for loan losses.

***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 \$119,000 or 1.0%, year over year, from \$11.4 million in the second quarter of 2011 to \$11.5 million in the second quarter of 2012. The Company's net interest margin declined from 5.01% in the second quarter of 2011 to 4.78% for the same period in 2012. A decline in the yield on earning assets, from 6.34% in the second quarter of 2011 to 5.84% in the second quarter of 2012, was the primary impetus for the decline in net interest margin. Competitive pricing on new loans, coupled with growth in lower yielding government-guaranteed USDA loans, contributed to the 30 basis point decline in non-covered loan yield over this time frame. The impact of the decline in the yield on average earning assets was partially offset by a decrease in the cost of total interest bearing liabilities, from 1.37% in the second quarter of 2011 to 1.13% in the second quarter of 2012.

Net interest income was \$22.6 million for the six months ended June 30, 2012, compared with \$21.5 million for the six months ended June 30, 2011. The increase in net interest income was primarily the result of decreases in rates paid on interest bearing liabilities, which reduced interest expense 17.1%, from \$6.4 million in the first six months of 2011 to \$5.3 million for the first six months of 2012. The tax equivalent net interest margin increased to 4.71% in the first six months of 2012, from 4.65% in the first six months of 2011.

**Table of Contents**

Additionally, the cost of interest-bearing liabilities declined 24 basis points, or \$492,000. The net interest spread was 4.97% and 4.71% and the net interest margin was 5.01% and 4.78%, respectively, in the second quarter of 2011 and the second quarter of 2012.

The following tables set forth, for each category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding, the interest earned or paid on such amounts, and the average rate earned or paid for the three months and six months ended June 30, 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**

	Three months ended June 30, 2012			Three months ended June 30, 2011		
	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid
<b>(dollars in thousands)</b>						
<b>ASSETS:</b>						
Loans, non-covered, including fees	\$ 553,227	\$ 7,574	5.48%	\$ 506,752	\$ 7,328	5.78%
FDIC covered loans, including fees	93,018	4,366	18.77	105,842	4,838	18.28
Total loans	646,245	11,940	7.39	612,594	12,166	7.94
Interest-bearing bank balances	33,499	19	0.23	12,222	10	0.33
Federal funds sold	10,621	3	0.12	5,827	2	0.13
Securities (taxable)	268,628	2,039	3.04	266,929	2,085	3.12
Securities (tax exempt) <sup>(1)</sup>	12,158	179	5.89	23,517	347	5.90
Total earning assets	971,151	14,180	5.84	921,089	14,610	6.34
Allowance for loan losses	(14,249)			(20,440)		
Non-earning assets	145,880			171,930		
Total assets	\$ 1,102,782			\$ 1,072,579		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Demand - interest-bearing	\$ 238,501	\$ 236	0.40	\$ 236,189	\$ 347	0.59
Savings	73,057	70	0.38	66,661	88	0.53
Time deposits	558,658	1,935	1.39	552,425	2,276	1.65
Total deposits	870,216	2,241	1.03	855,275	2,711	1.27
Federal funds purchased	1,491	3	0.71	571	1	0.64
FHLB and other borrowings	41,124	343	3.33	41,124	367	3.57
Total interest-bearing liabilities	912,831	2,587	1.13	896,970	3,079	1.37
Noninterest-bearing deposits	72,131			58,008		
Other liabilities	4,424			10,888		
Total liabilities	989,386			965,866		
Stockholders equity	113,396			106,713		
Total liabilities and stockholders equity	\$ 1,102,782			\$ 1,072,579		

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

Net interest earnings	\$ 11,593	\$ 11,531
Net interest spread	4.71%	4.97%
Net interest margin	4.78%	5.01%

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



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

(dollars in thousands)	Six months ended June 30, 2012			Six months ended June 30, 2011		
	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid
<b>ASSETS:</b>						
Loans, non-covered, including fees	\$ 551,537	\$ 15,261	5.53%	\$ 512,203	\$ 14,562	5.69%
FDIC covered loans, including fees	94,282	8,280	17.56	109,134	8,658	15.87
Total loans	645,819	23,541	7.29	621,337	23,220	7.47
Interest-bearing bank balances	25,032	31	0.24	13,445	24	0.36
Federal funds sold	6,794	4	0.11	5,222	4	0.16
Securities (taxable)	275,569	4,116	2.99	265,939	3,997	3.01
Securities (tax exempt) <sup>(1)</sup>	12,236	358	5.85	33,639	971	5.77
Total earning assets	965,450	28,050	5.81	939,582	28,216	6.01
Allowance for loan losses	(14,980)			(22,667)		
Non-earning assets	147,659			166,660		
Total assets	\$ 1,098,129			\$ 1,083,575		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Demand - interest-bearing	\$ 237,082	\$ 480	0.41	\$ 234,346	\$ 693	0.59
Savings	72,102	142	0.39	65,814	173	0.52
Time deposits	559,184	3,972	1.42	566,390	4,824	1.70
Total deposits	868,368	4,594	1.06	866,550	5,690	1.31
Federal funds purchased	838	3	0.70	357	1	0.63
FHLB and other borrowings	41,124	702	3.42	41,124	699	3.40
Total interest-bearing liabilities	910,330	5,299	1.16	908,031	6,390	1.41
Noninterest-bearing deposits	70,583			62,870		
Other liabilities	4,640			5,240		
Total liabilities	985,553			976,141		
Stockholders equity	112,576			107,434		
Total liabilities and stockholders equity	\$ 1,098,129			\$ 1,083,575		
Net interest earnings		\$ 22,751			\$ 21,826	
Net interest spread			4.65%			4.60%
Net interest margin			4.71%			4.65%

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

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

### ***Provision for Loan Losses***

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

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.

## **Table of Contents**

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 provision for loan losses on non-covered loans was \$500,000 for the quarter ended June 30, 2012 compared with no provision for the quarter ended June 30, 2011. The provision for loan losses on non-covered loans was \$1.0 million for the six months ended June 30, 2012 compared with \$1.5 million for the six months ended June 30, 2011.

The Company's loan loss provision for the first six months of 2012 equaled \$750,000 and differed from the \$1.0 million non-covered provision. The Company had provision for loan losses of \$250,000 during the first quarter of 2012, which included a \$500,000 provision for non-covered loans and a \$250,000 credit to the provision related to FDIC covered loans. Improvement in expected losses on the Company's FDIC covered portfolio resulted in the \$250,000 provision benefit during the first quarter of the year.

Charged-off loans were \$1.1 million in the second quarter of 2012 compared with charged-off loans of \$4.8 million in the second quarter of 2011. Recoveries were \$238,000 and \$86,000 in the second quarters of 2012 and 2011, respectively. This resulted in net charged-off loans of \$909,000 for the quarter ended June 30, 2012, compared with net charged-off loans of \$4.7 million for the second quarter of 2011. Since the beginning of 2011, the Company has charged-off \$15.5 million in loans and realized \$983,000 in recoveries.

Charged-off loans were \$2.7 million for the six months ended June 30, 2012, compared with \$10.5 million for the six months ended June 30, 2011. Loan recoveries were \$395,000 for the first six months of 2012, compared with \$221,000 for the same period in 2011. Net charged-off loans were \$2.3 million for the six months ended June 30, 2012 and \$10.2 million for the six months ended June 30, 2011.

### ***Noninterest Income***

Noninterest income improved from negative \$1.4 million in the second quarter of 2011 to negative \$704,000 in the second quarter of 2012. This \$727,000 increase was driven by a reduction in FDIC indemnification asset amortization of \$674,000, from \$2.7 million in the second quarter of 2011 to \$2.0 million in the second quarter of 2012. Securities gains increased \$114,000 for the respective second quarters, year over year. Service charges on deposit accounts increased by \$37,000 in the second quarter of 2012 versus the same period in 2011, and the Company realized \$20,000 less in losses on OREO sales.

For the six months ended June 30, 2012, noninterest income equaled negative \$1.8 million compared with negative \$2.8 million for the six months ended June 30, 2011. This change was due primarily to a reduction of \$1.5 million in FDIC indemnification asset amortization from \$5.4 million for the first six months of 2011 to \$3.9 million for the same period in 2012. The indemnification asset amortization will continue to decline over the life of the shared-loss agreements; correspondingly, interest and fees on FDIC covered loans also will decline as the carrying value of the FDIC covered portfolio is reduced.

Also exhibiting improvement was loss on sale of OREO, which declined \$455,000, from \$861,000 for the first six months of 2011 to \$406,000 for the first six months of 2012. Management continually reviews OREO properties and has made a concerted effort to conservatively mark foreclosed properties at the time of transfer. This, coupled with stabilization in real estate values, has resulted in lower write-downs taken this year. Service charges on deposit accounts increased \$78,000 year over year and were \$1.3 million for the six month period ended June 30, 2012. Offsetting these increases in noninterest income was a \$663,000 decline in gain on sale of securities and a \$331,000 reduction in other noninterest income.

### ***Noninterest Expense***

Noninterest expenses were \$8.6 million in the second quarter of 2012, down from \$9.3 million in the second quarter of 2011, which represents a decline of \$689,000, or 7.4%. Other operating expenses exhibited the largest decline, \$285,000, or 13.7%, from \$2.1 million in the second quarter of 2011 to \$1.8 million in the second quarter of 2012. The decrease within other operating expenses reflected declines in advertising, bank franchise tax and

---

**Table of Contents**

directors expenses. Also contributing to the decline in noninterest expenses in the second quarter of 2012 compared with the same period in 2011 was a \$265,000 decline in FDIC assessment, a \$50,000 decline in equipment expense and professional fees, a \$48,000 decline in occupancy expenses and a \$20,000 decline in legal fees. Offsetting these declines in noninterest expenses, when comparing the second quarter of 2012 to the same period in 2011, were increases of \$23,000 to data processing and \$6,000 to salaries and employee benefits.

For the six months ended June 30, 2012, noninterest expenses declined \$1.5 million, or 8.0%, when compared with the same period in 2011. Noninterest expenses were \$17.1 million for the first two quarters of 2012, compared with \$18.5 million for the same period in 2011. FDIC assessment, which was \$1.1 million for the first six months of 2012, compared with \$1.6 million in the first six months of 2011, was the largest component within the decline in noninterest expenses. Other operating expenses declined \$492,000, from \$3.8 million for the first two quarters of 2011 to \$3.3 million for the first two quarters of 2012. Declines within other operating expenses included external audit, bank franchise tax, directors expense and advertising expenses.

***Income Taxes***

Income tax expense was \$473,000 for the three months ended June 30, 2012, compared with income tax expense of \$127,000 in the second quarter of 2011. For the six months ended June 30, 2012, income tax expense totaled \$863,000, compared with income tax benefit of \$711,000 for the six months ended June 30, 2011.

***FINANCIAL CONDITION***

***General***

At June 30, 2012, the Company had total assets of \$1.116 billion, an increase of \$23.4 million, or 2.1%, from total assets of \$1.093 billion at December 31, 2011. Total loans were \$641.9 million at June 30, 2012, decreasing \$411,000, or 0.1%, from \$642.3 million at December 31, 2011. The carrying value of FDIC covered loans declined \$4.7 million, or 4.8%, from December 31, 2011 and was \$92.9 million at June 30, 2012. Non-covered loans equaled \$549.0 million at June 30, 2012, increasing \$4.3 million, or 0.8%, since December 31, 2011.

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. During the first six months of 2012, \$4.7 million in USDA loan balances were added, bringing the total to \$41.2 million at June 30, 2012. USDA balances are reflected in non-covered loans and are classified according to collateral and purpose.

The Company's securities portfolio, excluding equity securities, increased \$18.2 million, or 6.2%, during the quarter ended June 30, 2012 to \$312.6 million. The Company performed a fairly substantive change in the mix of the securities portfolio during the second quarter of 2012. The Company lessened its amortized cost in available-for-sale mortgage backed securities (MBS) by \$85.0 million and reinvested \$75.5 million in SBA floating rate securities balances. This was done to mitigate substantive market losses within a large MBS portfolio in a rising interest rate environment. Furthermore, management increased its investment in available-for-sale state, county and municipal securities by \$32.0 million during the second quarter. The most recent shift in securities mix reflected strategic balance sheet management to protect the Company from rising interest rates while not fully compromising yield.

The Company had cash and cash equivalents of \$36.8 million at June 30, 2012, compared with \$21.8 million at December 31, 2011. There were Federal funds sold of \$7.0 million at June 30, 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 \$259.4 million at June 30, 2012 and \$232.8 million at December 31, 2011. At June 30, 2012, the Company had a net unrealized gain on the AFS portfolio of \$5.8 million compared with a net unrealized gain of \$4.9 million at December 31, 2011.

---

**Table of Contents**

Total deposits at June 30, 2012 were \$953.9 million, an increase of \$20.4 million from December 31, 2011. Demand deposit balances grew \$15.0 million, or 23.0%, during the first half of 2012, to equal \$79.9 million at quarter-end. Interest bearing deposits at June 30, 2012 were \$873.9 million, an increase of \$5.4 million from December 31, 2011. NOW accounts increased \$2.3 million and savings accounts increased \$3.5 million, while overall time deposit balances declined by \$747,000.

The Company had Federal Home Loan Bank (FHLB) advances of \$37.0 million at each of June 30, 2012 and December 31, 2011.

Stockholders' equity at June 30, 2012 was \$113.4 million, or 10.2% 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 \$37.0 million at June 30, 2012 and net charge offs were \$2.3 million for the six months ended June 30, 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 \$5.4 million during the six months ended June 30, 2012. Additions to nonaccrual loans totaled \$6.9 million, primarily attributable to 23 relationships relating to loans for construction and land development and loans for residential property, totaling \$4.4 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 \$2.7 million in charge offs taken during the period centered in commercial real estate, construction and land development, and residential real estate loans. There were \$2.5 million in paydowns during the period. Foreclosures for the period totaled \$4.9 million, and \$2.2 million of non-covered loans were reinstated to accruing status.

The ratio of the allowance for loan losses to nonperforming assets was 36.52% at June 30, 2012, compared with 36.01% at March 31, 2012 and 33.52% at June 30, 2011. The ratio of allowance for loan losses to total non-covered loans was 2.46% at June 30, 2012, compared with 2.54% at March 31, 2012 and 2.72% at December 31, 2011. The decrease in the allowance for loan losses to total non-covered loans ratio from June 2011 to June 2012 was the result of aggressive charge-offs for non-performing loans and a lesser volume of loans migrating to a non-performing status. This situation has resulted in a stabilization of allowance coverage ratios.

**Table of Contents**

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

See Note 3 to the Company's financial statements for information related to the allowance for loan losses. At June 30, 2012 and December 31, 2011, total impaired non-covered loans equaled \$28.7 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)	June 30, 2012	December 31, 2011
Nonaccrual loans	\$ 25,168	\$ 28,542
Loans past due over 90 days and accruing interest		2,005
<b>Total nonperforming non-covered loans</b>	<b>25,168</b>	<b>30,547</b>
Other real estate owned (OREO) non-covered	11,869	10,252
<b>Total nonperforming non-covered assets</b>	<b>\$ 37,037</b>	<b>\$ 40,799</b>
Accruing troubled debt restructure loans	\$ 5,665	\$ 5,946
<b>Balances</b>		
Specific reserve on impaired loans	2,817	2,765
General reserve related to unimpaired loans	10,709	12,070
Total allowance for loan losses	13,526	14,835
Average loans during quarter, net of unearned income	553,227	521,194
Impaired loans	28,662	35,158
Non-impaired loans	520,356	509,560
Total loans, net of unearned income	549,018	544,718
<b>Ratios</b>		
Allowance for loan losses to loans	2.46%	2.72%
Allowance for loan losses to nonperforming assets	36.52%	36.36%
Allowance for loan losses to nonaccrual loans	53.74%	51.98%
General reserve to non-impaired loans	2.06%	2.37%
Nonperforming assets to loans and other real estate	6.60%	7.35%
Net charge offs for quarter to average loans, annualized	0.66%	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 June 30, 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 ( TDR ) and other various loan workouts whereby an existing loan may be restructured into multiple new loans. At June 30, 2012, the Company had 16 loans that met the

**Table of Contents**

definition of a TDR, which are loans that for reasons related to the debtor's financial difficulties have been restructured on terms and conditions that would otherwise not be offered or granted. Two of these loans were restructured using multiple new loans. The aggregated outstanding principal of TDR loans at June 30, 2012 was \$9.9 million, of which \$4.2 million were classified as nonaccrual.

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

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

A further breakout of nonaccrual loans, excluding covered loans, at June 30, 2012 and December 31, 2011 is below (dollars in thousands):

	June 30, 2012		December 31, 2011	
	Amount of Nonaccrual Loans	% of Non-covered Loans	Amount of Nonaccrual Loans	% of Non-covered Loans
Mortgage loans on real estate:				
Residential 1-4 family	\$ 6,577	1.20%	\$ 5,320	0.98%
Commercial	7,768	1.41%	9,187	1.69%
Construction and land development	9,759	1.78%	12,718	2.33%
Second mortgages	140	0.03%	189	0.04%
Multifamily				
Agriculture	54	0.01%	53	0.01%
Total real estate loans	24,298	4.43%	27,467	5.04%
Commercial loans	695	0.13%	1,003	0.18%
Consumer installment loans	175	0.03%	72	0.01%
All other loans				
Gross loans	\$ 25,168	4.58%	\$ 28,542	5.24%

At June 30, 2012, the Company had 13 construction and land development credit relationships in nonaccrual status. The borrowers for two of these relationships are commercial land developers and ten 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 June 30, 2012 was \$9.8 million. These loans have either been charged-down or sufficiently reserved against to equal the current expected realizable value.

There were no charge-offs related to these relationships during the first six months of 2012. The total amount of the allowance for loan losses attributed to all 11 relationships was \$925,000 at June 30, 2012, or 9.5% 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

**Table of Contents**

Company orders an automated valuation for balances between \$100,000 and \$250,000 and uses a ratio analysis for balances less than \$100,000. The Company maintains detailed analysis and other information for its allowance methodology, both for internal purposes and for review by its regulators.

**Asset Quality covered assets**

Loans accounted for under 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 June 30, 2012 and December 31, 2011 are as follows (dollars in thousands):

	June 30, 2012	December 31, 2011
Nonaccrual covered loans	\$ 10,851	\$ 11,469
Other real estate owned (OREO) - covered	3,923	5,764
<b>Total nonperforming covered assets</b>	<b>\$ 14,774</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 16.6% at June 30, 2012 compared to 16.2% at December 31, 2011. The tier 1 risk-based capital ratio was 15.4% at June 30, 2012 and 15.0% at December 31, 2011. The Company's tier 1 leverage ratio was 9.1% at June 30, 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 3.47% during the three months ended June 30, 2012.



**Table of Contents**

On May 15, 2012, the Company paid two quarterly cash dividends, each in the amount of \$221,000, including the one that was due on May 15, 2012, 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 the dividend payments that the Company had previously deferred.

As of June 30, 2012, the Company had five 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.

**Liquidity**

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

The Company's results of operations are significantly affected by its ability to manage effectively the interest rate sensitivity and maturity of its interest-earning assets and interest-bearing liabilities. At June 30, 2012 and December 31, 2011, the Company's interest-earning assets exceeded its interest-bearing liabilities by \$72.2 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 June 30, 2012 and December 31, 2011, is as follows (dollars in thousands):

	June 30, 2012	December 31, 2011
<b>Commitments with off-balance sheet risk:</b>		
Commitments to extend credit	\$ 55,442	\$ 51,964
Standby letters of credit	9,094	9,278
<b>Total commitments with off-balance sheet risks</b>	<b>\$ 64,536</b>	<b>\$ 61,242</b>
<b>Commitments with balance sheet risk:</b>		
Loans held for sale	\$ 1,179	\$ 580
<b>Total commitments with balance sheet risks</b>	<b>\$ 1,179</b>	<b>\$ 580</b>
<b>Total commitments</b>	<b>\$ 65,715</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

**Table of Contents**

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 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 June 30, 2012:

Change in Yield curve	Change in net interest income	
	%	\$
+200 bp	3.0%	\$ 1,069
+100 bp	1.8%	640
most likely	0%	
100 bp	0.3%	101
200 bp	(3.2)%	(1,146)

At June 30, 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 increase by 3.0%. 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 3.2%. 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

## **Table of Contents**

flows. While assumptions are developed based upon current economic and local market conditions, the Company cannot make any assurances about the predictive nature of these assumptions, including how customer preferences or competitor influences might change.

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

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

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

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

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

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

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

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. *Legal Proceedings***

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

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

As of the date of this report, there were no material changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 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 No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification for Chief Executive Officer*
31.2	Rule 13a-14(a)/15d-14(a) Certification for Chief Financial Officer*
32.1	Section 1350 Certifications*
101	Interactive Data File with respect to the following materials from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 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, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements*

\* Filed herewith.

**Table of Contents**

**SIGNATURES**

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

**COMMUNITY BANKERS TRUST CORPORATION**  
(Registrant)

/s/ Rex L. Smith, III  
Rex L. Smith, III  
President and Chief Executive Officer  
(principal executive officer)

Date: August 14, 2012

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

Date: August 14, 2012