

Community Bankers Trust Corp  
Form 10-Q  
August 15, 2011  
[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, 2011

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

**20-2652949**  
(I.R.S. Employer  
Identification No.)  
**23060**  
(Zip Code)

**(804) 934-9999**  
(Registrant's telephone number, including area code)

n/a

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At June 30, 2011, there were 21,627,549 shares of the Company's common stock outstanding.

**Table of Contents**

**COMMUNITY BANKERS TRUST CORPORATION**

TABLE OF CONTENTS

FORM 10-Q

June 30, 2011

PART I FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	3
<u>Consolidated Statements of Financial Condition (Unaudited)</u>	3
<u>Consolidated Statements of Operations (Unaudited)</u>	4
<u>Consolidated Statements of Stockholders' Equity (Unaudited)</u>	5
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	6
<u>Notes to Unaudited Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	45
<u>Item 4. Controls and Procedures</u>	47
PART II OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	49
<u>Item 1A. Risk Factors</u>	49
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	49
<u>Item 3. Defaults upon Senior Securities</u>	49
<u>Item 4. (Removed and Reserved)</u>	49
<u>Item 5. Other Information</u>	49
<u>Item 6. Exhibits</u>	49
<u>SIGNATURES</u>	50

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

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

**AS OF JUNE 30, 2011 AND DECEMBER 31, 2010**

(dollars in thousands)

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
<b>ASSETS</b>		
Cash and due from banks	\$ 11,065	\$ 8,604
Interest-bearing bank deposits	7,408	22,777
Federal funds sold		2,000
<b>Total cash and cash equivalents</b>	<b>18,473</b>	<b>33,381</b>
Securities available for sale, at fair value	232,278	215,560
Securities held to maturity, at cost (fair value of \$76,689 and \$89,026, respectively)	72,388	84,771
Equity securities, restricted, at cost	6,965	7,170
<b>Total securities</b>	<b>311,631</b>	<b>307,501</b>
Loans held for resale	83	
Loans not covered by FDIC shared loss agreement	501,056	525,548
Loans covered by FDIC shared loss agreement	104,314	115,537
<b>Total loans</b>	<b>605,370</b>	<b>641,085</b>
Allowance for loan losses (non-covered loans of \$16,803 and \$25,543, respectively; covered loans of \$829 and \$829, respectively)	(17,632)	(26,372)
<b>Net loans</b>	<b>587,738</b>	<b>614,713</b>
FDIC indemnification asset	51,127	58,369
Bank premises and equipment, net	35,017	35,587
Other real estate owned, covered by FDIC shared loss agreement	8,674	9,889
Other real estate owned, non-covered	12,393	5,928
Bank owned life insurance	6,961	6,829
FDIC receivable under shared loss agreement	1,570	7,250
Core deposit intangibles, net	13,689	14,819
Other assets	18,127	21,328
<b>Total assets</b>	<b>\$ 1,065,483</b>	<b>\$ 1,115,594</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 64,495	\$ 62,359
Interest-bearing	845,980	899,366

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

Total deposits	910,475	961,725
Federal Home Loan Bank advances	37,000	37,000
Trust preferred capital notes	4,124	4,124
Other liabilities	4,806	5,618
<b>Total liabilities</b>	<b>956,405</b>	<b>1,008,467</b>

**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	(556)	(660)
Common stock (200,000,000 shares authorized, \$0.01 par value; 21,627,549 and 21,468,455 shares issued and outstanding, respectively)	216	215
Additional paid in capital	144,181	143,999
Retained deficit	(55,776)	(54,999)
Accumulated other comprehensive income	2,296	(145)
<b>Total stockholders equity</b>	<b>109,078</b>	<b>107,127</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,065,483</b>	<b>\$ 1,115,594</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, 2011 AND 2010****(dollars and shares in thousands, except per share data)**

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Interest and dividend income</b>				
Interest and fees on non-covered loans	\$ 7,328	\$ 8,478	\$ 14,562	\$ 17,201
Interest and fees on FDIC covered loans	4,838	3,386	8,658	6,979
Interest on federal funds sold	2	3	4	4
Interest on deposits in other banks	10	24	24	54
Interest and dividends on securities				
Taxable	2,085	2,162	3,997	4,167
Nontaxable	229	880	641	1,774
<b>Total interest and dividend income</b>	<b>14,492</b>	<b>14,933</b>	<b>27,886</b>	<b>30,179</b>
<b>Interest expense</b>				
Interest on deposits	2,711	4,486	5,690	9,343
Interest on federal funds purchased	1	1	1	1
Interest on other borrowed funds	367	333	699	664
<b>Total interest expense</b>	<b>3,079</b>	<b>4,820</b>	<b>6,390</b>	<b>10,008</b>
<b>Net interest income</b>	<b>11,413</b>	<b>10,113</b>	<b>21,496</b>	<b>20,171</b>
<b>Provision for loan losses</b>		21,282	1,498	26,324
<b>Net interest income after provision for loan losses</b>	<b>11,413</b>	<b>(11,169)</b>	<b>19,998</b>	<b>(6,153)</b>
<b>Noninterest income</b>				
Service charges on deposit accounts	637	622	1,213	1,187
FDIC indemnification asset amortization	(2,657)	(362)	(5,402)	(739)
Gain (loss) on securities transactions, net	176	(452)	837	(98)
Loss on sale of other real estate, net	(249)	(1,182)	(861)	(3,559)
Other	662	1,259	1,376	3,509
<b>Total noninterest income</b>	<b>(1,431)</b>	<b>(115)</b>	<b>(2,837)</b>	<b>300</b>
<b>Noninterest expense</b>				
Salaries and employee benefits	4,171	4,805	8,375	9,936
Occupancy expenses	733	713	1,547	1,452
Equipment expenses	320	363	650	775
Legal fees	35	96	140	142
Professional fees	198	743	389	1,077
FDIC assessment	761	613	1,633	1,218
Data processing fees	476	572	928	1,078
Amortization of intangibles	565	566	1,130	1,131
Impairment of goodwill		5,727		5,727
Other operating expenses	2,075	1,977	3,753	3,499

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

Total noninterest expense	9,334	16,175	18,545	26,035
Income (loss) before income taxes	648	(27,459)	(1,384)	(31,888)
Income tax (expense) benefit	(127)	7,843	711	9,508
Net income (loss)	\$ 521	\$ (19,616)	\$ (673)	\$ (22,380)
Dividends accrued on preferred stock		221		442
Accretion of discount on preferred stock	53	49	104	97
Accumulated preferred dividends	221		442	
Net income (loss) available to common stockholders	\$ 247	\$ (19,886)	\$ (1,219)	\$ (22,919)
Net income (loss) per share basic	\$ 0.01	\$ (0.93)	\$ (0.06)	\$ (1.07)
Net income (loss) per share diluted	\$ 0.01	\$ (0.93)	\$ (0.06)	\$ (1.07)
Weighted average number of shares outstanding				
basic	21,535	21,468	21,502	21,468
diluted	21,535	21,468	21,502	21,468

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, 2011 AND**  
**THE YEAR ENDED DECEMBER 31, 2010**  
(dollars and shares in thousands)

	Preferred Stock	Warrants	Discount on Preferred Stock	Common Shares	Stock Amount	Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Income	Total
<b>Balance January 1, 2010</b>	\$ 17,680	\$ 1,037	\$ (854)	21,468	\$ 215	\$ 143,999	\$ (32,511)	\$ 1,536	\$ 131,102
Amortization of preferred stock warrants			194				(194)		
Dividends paid on preferred stock							(442)		(442)
Comprehensive income:									
Net loss							(20,993)		(20,993)
Change in unrealized gain/loss in equity securities								(6)	(6)
Change in unrealized gain/loss in investment securities, net of tax of \$2,338								(4,539)	(4,539)
Less: Reclassification adjustment for gain on securities sold, net of tax of \$1,064								2,065	2,065
Less: Reclassification adjustment for loss on securities available for sale related to other than temporary impairments, net of tax of \$156								303	303
Change in funded status of pension plan, net of tax of \$256								496	496
<b>Total comprehensive loss</b>									<b>(22,674)</b>
Dividends paid on common stock (\$0.04 per share)							(859)		(859)
<b>Balance December 31, 2010 (Audited)</b>	\$ 17,680	\$ 1,037	\$ (660)	21,468	\$ 215	\$ 143,999	\$ (54,999)	\$ (145)	\$ 107,127
Amortization of preferred stock warrants			104				(104)		
Issuance of common stock				160	1	182			183
Comprehensive income:									
Net loss							(673)		(673)
Change in unrealized gain/loss in investment securities, net of tax of \$1,542								2,994	2,994
Less: Reclassification adjustment for gain on securities sold, net of tax of \$284								(553)	(553)
<b>Total comprehensive income</b>									<b>1,768</b>



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

<b>Balance June 30, 2011 (Unaudited)</b>	\$ 17,680	\$ 1,037	\$ (556)	21,628	\$ 216	\$ 144,181	\$ (55,776)	\$ 2,296	\$ 109,078
--	-----------	----------	----------	--------	--------	------------	-------------	----------	------------

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, 2011 AND 2010**

(dollars in thousands)

	June 30, 2011	June 30, 2010
<b>Operating activities:</b>		
Net loss	\$ (673)	\$ (22,380)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and intangibles amortization	2,035	2,190
Issuance of common stock	183	
Provision for loan losses	1,498	26,324
Amortization of security premiums and accretion of discounts, net	907	842
Impairment of goodwill		5,727
Net (gain) loss on sale of securities	(837)	98
Net loss on sale and valuation of other real estate	861	3,559
Changes in assets and liabilities:		
Decrease (increase) in other assets	14,649	(15,469)
Decrease in accrued expenses and other liabilities	(812)	(5,380)
Net cash provided by (used in) operating activities	17,811	(4,489)
<b>Investing activities:</b>		
Proceeds from securities sales, calls, maturities, and paydowns	137,479	46,093
Purchase of securities	(137,980)	(63,695)
Proceeds from sale of other real estate	2,317	4,327
Net decrease in loans, excluding covered loans	6,930	10,574
Net decrease in loans, covered by FDIC shared loss agreement	9,898	17,719
Principal recoveries of loans previously charged off	221	893
Purchase of premises and equipment, net	(334)	(298)
Net cash provided by investing activities	18,531	15,613
<b>Financing activities:</b>		
Net (decrease) increase in noninterest-bearing and interest-bearing demand deposits	(51,250)	13,085
Net decrease in federal funds purchased		(8,999)
Cash dividends paid		(1,301)
Net cash (used in) provided by financing activities	(51,250)	2,785
<b>Net increase in cash and cash equivalents</b>	<b>(14,908)</b>	<b>13,909</b>
<b>Cash and cash equivalents:</b>		
Beginning of the period	\$ 33,381	\$ 32,235
End of the period	\$ 18,473	\$ 46,144

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

	June 30, 2011	June 30, 2010
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ 6,676	\$ 10,632
Income taxes paid		
Transfers of OREO property	8,428	6,566
	See accompanying notes to unaudited consolidated financial statement	

---

**Table of Contents**

**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Consolidated Financial Statements**

**1. Nature of Banking Activities and Significant Accounting Policies**

**Organization**

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

The Company was initially formed as a special purpose acquisition company to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business in the banking industry. Prior to its acquisition of two bank holding companies in 2008, the Company's activities were limited to organizational matters, completing its initial public offering and seeking and evaluating possible business combination opportunities. On May 31, 2008, the Company acquired each of TransCommunity Financial Corporation, a Virginia corporation (TFC), and BOE Financial Services of Virginia, Inc., a Virginia corporation (BOE). The Company changed its corporate name in connection with the acquisitions. On November 21, 2008, the Bank acquired certain assets and assumed all deposit liabilities relating to four former branch offices of The Community Bank (TCB) in Georgia. On January 30, 2009, the Bank acquired substantially all assets and assumed all deposit and certain other liabilities relating to seven former branch offices of Suburban Federal Savings Bank (SFSB) in Maryland.

The Bank was established in 1926 and is headquartered in Tappahannock, Virginia. 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 consumer loans, travelers checks, safe deposit box facilities, investment services and fixed rate residential mortgages. Thirteen branches are located in Virginia, primarily 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 Bank closed its office in Rockbridge County, Virginia in April 2011.

**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, 2010. 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, changes in stockholder's equity, and its cash flows at June 30, 2011, as well as the results of its operations, for the three and six months ended June 30, 2011.

The accounting and reporting policies of the Company conform to 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. Operating results for the three and six month periods ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ended December 31, 2011.

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 either when 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.

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

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 April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The FASB believes the guidance in this ASU will improve financial reporting by creating greater consistency in the way GAAP is applied for various types of debt restructurings. The ASU clarifies which loan modifications constitute troubled debt restructurings. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. The amendments to *FASB Accounting Standards Codification* (Codification) Topic 310, *Receivables*, clarify the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. The guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In May 2011, the FASB has issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This ASU amends the *FASB Accounting Standards Codification*<sup>TM</sup> (Codification) to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not expect the adoption of the guidance 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, 2011 and December 31, 2010 were as follows:

(dollars in thousands)	Amortized Cost	June 30, 2011 Gross Unrealized		Fair Value
		Gains	Losses	
<b>Securities Available for Sale</b>				
U.S. Treasury issue and other U.S. Government agencies	\$ 9,820	\$ 214	\$ (16)	\$ 10,018
State, county and municipal	48,748	1,737	(177)	50,308
Corporate and other bonds	5,067	11	(3)	5,075
Mortgage backed securities	165,163	1,785	(71)	166,877
Total Securities Available for Sale	\$ 228,798	\$ 3,747	\$ (267)	\$ 232,278

**Securities Held to Maturity**

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

State, county and municipal	\$ 12,181	\$ 916	\$	\$ 13,097
Mortgage backed securities	60,207	3,385		63,592
Total Securities Held to Maturity	\$ 72,388	\$ 4,301	\$	\$ 76,689

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

	Amortized Cost	December 31, 2010 Gross Unrealized		Fair Value
		Gains	Losses	
<b>Securities Available for Sale</b>				
U.S. Treasury issue and other U.S. Government agencies	\$ 90,849	\$ 246	\$ (1,521)	\$ 89,574
State, county and municipal	69,865	1,219	(749)	70,335
Corporate and other bonds	3,576	14	(17)	3,573
Mortgage backed securities	51,489	610	(21)	52,078
<b>Total Securities Available for Sale</b>	<b>\$ 215,779</b>	<b>\$ 2,089</b>	<b>\$ (2,308)</b>	<b>\$ 215,560</b>
<b>Securities Held to Maturity</b>				
State, county and municipal	\$ 13,070	\$ 693	\$	\$ 13,763
Corporate and other bonds	1,002	3		1,005
Mortgage backed securities	70,699	3,559		74,258
<b>Total Securities Held to Maturity</b>	<b>\$ 84,771</b>	<b>\$ 4,255</b>	<b>\$</b>	<b>\$ 89,026</b>

Included in other U.S. Government agencies are U.S. Government sponsored agency securities of \$7.5 million with an amortized cost of \$7.5 million as of June 30, 2011 and \$5.8 million with an amortized cost of \$5.8 million as of December 31, 2010. U.S. Government sponsored agency securities included in mortgage backed securities available for sale totaled \$14.8 million with an amortized cost of \$14.7 million as of June 30, 2011 and \$3.9 million with an amortized cost of \$4.0 million as of December 31, 2010. U.S. Government sponsored agency securities included in mortgage backed securities held to maturity totaled \$45.7 million with a fair value of \$48.2 million as of June 30, 2011 and \$54.3 million with a fair value of \$57.0 million as of December 31, 2010.

The amortized cost and fair value of securities as of June 30, 2011 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	\$ 46	\$ 46	\$ 16,121	\$ 16,375
Due after one year through five years	44,628	46,890	74,531	75,201
Due after five years through ten years	26,390	28,324	124,825	127,217
Due after ten years	1,324	1,429	13,321	13,485
<b>Total securities</b>	<b>\$ 72,388</b>	<b>\$ 76,689</b>	<b>\$ 228,798</b>	<b>\$ 232,278</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 June 30		Six Months Ended June 30	
	2011	2010	2011	2010

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

Gross realized gains	\$ 193	\$ 79	\$ 854	\$ 436
Gross realized losses	17	72	17	75
OTTI		459		459
Net securities gains (loss)	\$ 176	\$ (452)	\$ 837	\$ (98)

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. At June 30, 2010, the financial institution securities were deemed to have



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

impairment losses that were other than temporary in nature in the amount of \$459,000, as management did not intend to hold them until they recovered their value. At June 30, 2011, there were no investments held that had impairment losses other than temporary in nature.

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, 2011 and December 31, 2010 were as follows:

(dollars in thousands)	<b>June 30, 2011</b>					
	<b>Less than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>
U.S. Treasury issue and other						
U.S. Government agencies	\$ 2,483	\$ (16)	\$	\$	\$ 2,483	\$ (16)
State, county and municipal	5,202	(114)	857	(63)	6,059	(177)
Corporate and other bonds	2,784	(3)			2,784	(3)
Mortgage backed securities	19,520	(71)			19,520	(71)
<b>Total</b>	<b>\$ 29,989</b>	<b>\$ (204)</b>	<b>\$ 857</b>	<b>\$ (63)</b>	<b>\$ 30,846</b>	<b>\$ (267)</b>

	<b>December 31, 2010</b>					
	<b>Less than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>
U.S. Treasury issue and other						
U.S. Government agencies	\$ 83,989	\$ (1,521)	\$	\$	\$ 83,989	\$ (1,521)
State, county and municipal	19,103	(644)	818	(105)	19,921	(749)
Corporate and other bonds	3,059	(17)			3,059	(17)
Mortgage backed securities	3,695	(21)			3,695	(21)
<b>Total</b>	<b>\$ 109,846</b>	<b>\$ (2,203)</b>	<b>\$ 818</b>	<b>\$ (105)</b>	<b>\$ 110,664</b>	<b>\$ (2,308)</b>

The unrealized losses in the investment portfolio as of June 30, 2011 and December 31, 2010 are generally a result of market fluctuations that occur daily. The unrealized losses are from 28 securities at June 30, 2011 that are all of investment grade, backed by insurance, U.S. government agency guarantees, or the full faith and credit of local municipalities throughout the United States. The Company considers the reason for impairment, length of impairment and ability to hold until the full value is recovered in determining if the impairment is temporary in nature. Based on this analysis, the Company has determined these impairments to be temporary in nature. The Company does not intend to sell and it is more likely than not that the Company will not be required to sell these securities until they recover in value.

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

Securities with amortized costs of \$40.1 million and \$36.6 million at June 30, 2011 and December 31, 2010, respectively, were pledged to secure deposits and for other purposes required or permitted by law.

**Table of Contents****COMMUNITY BANKERS TRUST CORPORATION****Notes to Consolidated Financial Statements****3. LOANS NOT COVERED BY FDIC SHARED LOSS AGREEMENT (NON-COVERED LOANS)**

The Company's non-covered loans at June 30, 2011 and December 31, 2010 were comprised of the following:

(dollars in thousands)	June 30, 2011		December 31, 2010	
	Amount	% of Non-Covered Loans	Amount	% of Non-Covered Loans
Mortgage loans on real estate:				
Residential 1-4 family	\$ 131,205	26.18%	\$ 137,522	26.15%
Commercial	197,897	39.49	205,034	38.99
Construction and land development	85,002	16.96	103,763	19.73
Second mortgages	8,306	1.66	9,680	1.84
Multifamily	13,397	2.67	9,831	1.87
Agriculture	2,566	0.51	3,820	0.73
Total real estate loans	438,373	87.47	469,650	89.31
Commercial loans	51,511	10.28	44,368	8.44
Consumer installment loans	9,600	1.92	9,811	1.87
All other loans	1,710	0.33	1,993	0.38
Gross loans	501,194	100.00%	525,822	100.00%
Less unearned income on loans	(138)		(274)	
Non-covered loans, net of unearned income	\$ 501,056		\$ 525,548	

At June 30, 2011 and December 31, 2010, 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, 2011 and December 31, 2010, a portion of the construction and land development loans presented above contain interest reserve provisions. The Company follows standard industry practice to include interest reserves and capitalized interest in a construction loan. This practice recognizes interest as an additional cost of the project and, as a result, requires the borrower to put additional equity into the project. In order to monitor the project throughout its life to make sure the property is moving along as planned to ensure appropriateness of continuing to capitalize interest, the Company coordinates an independent property inspection in connection with each disbursement of loan funds. Until completion, there is generally no cash flow from which to make the interest payment. The Company does not advance additional interest reserves to keep a loan from becoming nonperforming.

For the three and six months ended June 30, 2011, there were no interest reserves recognized as interest income on construction loans with interest reserves. There were \$10.8 million of construction loans with interest reserves that were nonperforming at June 30, 2011.

Average investment in impaired loans was \$47.1 million and \$86.7 million as of June 30, 2011 and June 30, 2010, respectively. Interest income on nonaccrual loans, if recognized, is recorded using the cash basis method of accounting. There were no significant amounts recognized during the three and six months ended June 30, 2011 and 2010. For the three months ended June 30, 2011 and 2010, estimated interest income of \$916,000 and \$705,000, 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, 2011 and 2010, estimated interest income of \$1.7 million and \$1.1 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 Consolidated Financial Statements**

The following table summarizes information related to impaired loans as of June 30, 2011 (dollars in thousands):

	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Interest Income Recognized</b>
<b>With an allowance recorded:</b>				
Mortgage loans on real estate:				
Residential 1-4 family	\$ 4,044	\$ 4,044	\$ 995	\$
Commercial	1,741	1,741	580	
Construction and land development	5,645	5,645	1,190	
Second mortgages	159	159	52	
Multifamily				
Agriculture	53	53	12	
<b>Total real estate loans</b>	<b>11,642</b>	<b>11,642</b>	<b>2,829</b>	
Commercial loans	997	997	119	
Consumer installment loans	55	55	17	
All other loans				
<b>Subtotal impaired loans with valuation allowance</b>	<b>\$ 12,694</b>	<b>\$ 12,694</b>	<b>\$ 2,965</b>	<b>\$</b>
<b>With no related allowance recorded:</b>				
Mortgage loans on real estate:				
Residential 1-4 family	\$ 4,143	\$ 4,116	\$	\$ 27
Commercial	9,905	9,809		96
Construction and land development	17,409	17,401		8
Second mortgages	40	40		
Multifamily				
Agriculture				
<b>Total real estate loans</b>	<b>31,497</b>	<b>31,366</b>		<b>131</b>
Commercial loans	522	522		
Consumer installment loans	19	19		
All other loans				
<b>Subtotal impaired loans without valuation allowance</b>	<b>\$ 32,038</b>	<b>\$ 31,907</b>	<b>\$</b>	<b>\$ 131</b>
<b>Total:</b>				
Mortgage loans on real estate:				
Residential 1-4 family	\$ 8,187	\$ 8,160	\$ 995	\$ 27
Commercial	11,646	11,550	580	96
Construction and land development	23,054	23,046	1,190	8
Second mortgages	199	199	52	
Multifamily				
Agriculture	53	53	12	
<b>Total real estate loans</b>	<b>43,139</b>	<b>43,008</b>	<b>2,829</b>	<b>131</b>
Commercial loans	1,519	1,519	119	

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

Consumer installment loans	74	74	17	
All other loans				
Total impaired loans	\$ 44,732	\$ 44,601	\$ 2,965	\$ 131

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

The following table summarizes information related to impaired loans as of December 31, 2010 (dollars in thousands):

	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Interest Income Recognized</b>
<b>With an allowance recorded:</b>				
Mortgage loans on real estate:				
Residential 1-4 family	\$ 5,886	\$ 5,858	\$ 1,558	\$ 28
Commercial	3,314	3,314	901	
Construction and land development	9,189	9,094	3,605	95
Second mortgages	165	161	161	4
Multifamily				
Agriculture	294	288	100	6
<b>Total real estate loans</b>	<b>18,848</b>	<b>18,715</b>	<b>6,325</b>	<b>133</b>
Commercial loans	1,741	1,741	1,341	
Consumer installment loans				
All other loans				
<b>Subtotal impaired loans with valuation allowance</b>	<b>\$ 20,589</b>	<b>\$ 20,456</b>	<b>\$ 7,666</b>	<b>\$ 133</b>
<b>With no related allowance recorded:</b>				
Mortgage loans on real estate:				
Residential 1-4 family	\$ 5,666	\$ 5,662	\$	\$ 4
Commercial	3,867	3,867		
Construction and land development	13,776	13,774		2
Second mortgages	218	218		
Multifamily				
Agriculture				
<b>Total real estate loans</b>	<b>23,527</b>	<b>23,521</b>		<b>6</b>
Commercial loans	909	907		2
Consumer installment loans	91	90		1
All other loans				
<b>Subtotal impaired loans without valuation allowance</b>	<b>\$ 24,527</b>	<b>\$ 24,518</b>	<b>\$</b>	<b>\$ 9</b>
<b>Total:</b>				
Mortgage loans on real estate:				
Residential 1-4 family	\$ 11,552	\$ 11,520	\$ 1,558	\$ 32
Commercial	7,181	7,181	901	
Construction and land development	22,965	22,868	3,605	97
Second mortgages	383	379	161	4
Multifamily				
Agriculture	294	288	100	6
<b>Total real estate loans</b>	<b>42,375</b>	<b>42,236</b>	<b>6,325</b>	<b>139</b>
Commercial loans	2,650	2,648	1,341	2

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

Consumer installment loans	91	90	1
All other loans			
Total impaired loans	\$ 45,116	\$ 44,974	\$ 7,666 \$ 142

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

The following table represents non-covered nonaccruals by loan category as of June 30, 2011 and December 31, 2010 (dollars in thousands):

	June 30, 2011	December 31, 2010
Mortgage loans on real estate:		
Residential 1-4 family	\$ 7,041	\$ 9,600
Commercial	8,352	7,181
Construction and land development	20,700	16,854
Second mortgages	199	218
Multifamily		
Agriculture	53	
Total real estate loans	36,345	33,853
Commercial loans	1,330	2,619
Consumer installment loans	61	60
All other loans		
Total loans	\$ 37,736	\$ 36,532

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, 2011 and December 31, 2010 is set forth in the table below (dollars in thousands):

	June 30, 2011	December 31, 2010
Nonaccruals	\$ 37,736	\$ 36,532
Substandard and still accruing	6,865	8,088
Doubtful and still accruing		354
Total impaired	\$ 44,601	\$ 44,974

The following table presents an age analysis of past due status of loans by category as of June 30, 2011 and December 31, 2010 (dollars in thousands):

	June 30, 2011				Total Loans Receivable	Recorded Investment > 90 Days and Accruing
	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current		
Mortgage loans on real estate:						
Residential 1-4 family	\$ 2,634	\$ 7,041	\$ 9,675	\$ 121,530	\$ 131,205	\$
Commercial	1,841	8,352	10,193	187,704	197,897	
Construction and land development	2,816	20,700	23,516	61,486	85,002	
Second mortgages	179	199	378	7,928	8,306	



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

Multifamily				13,397	13,397
Agriculture	53	53		2,513	2,566
Total real estate loans	7,470	36,345	43,815	394,558	438,373
Commercial loans	686	1,330	2,016	49,495	51,511
Consumer installment loans	134	61	195	9,405	9,600
All other loans				1,710	1,710
Total loans	\$ 8,290	\$ 37,736	\$ 46,026	\$ 455,168	\$ 501,194

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

	December 31, 2010					Recorded Investment > 90 Days and Accruing
	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	
Mortgage loans on real estate:						
Residential 1-4 family	\$ 3,444	\$ 9,989	\$ 13,433	\$ 124,089	\$ 137,522	\$ 389
Commercial	1,711	7,181	8,892	196,142	205,034	
Construction and land development	8,241	16,854	25,095	78,668	103,763	
Second mortgages	194	218	412	9,268	9,680	
Multifamily				9,831	9,831	
Agriculture	288		288	3,532	3,820	
<b>Total real estate loans</b>	<b>13,878</b>	<b>34,242</b>	<b>48,120</b>	<b>421,530</b>	<b>469,650</b>	<b>389</b>
Commercial loans	610	2,619	3,229	41,139	44,368	
Consumer installment loans	121	60	181	9,630	9,811	
All other loans				1,993	1,993	
<b>Total loans</b>	<b>\$ 14,609</b>	<b>\$ 36,921</b>	<b>\$ 51,530</b>	<b>\$ 474,292</b>	<b>\$ 525,822</b>	<b>\$ 389</b>

Activity in the allowance for loan losses on non-covered loans for the six months ended June 30, 2011 and the year ended December 31, 2010 was comprised of the following (dollars in thousands):

	Six months ended June 30, 2011	Year ended December 31, 2010
Beginning allowance	\$ 25,543	\$ 18,169
Provision for loan losses	1,498	26,483
Recoveries of loans charged off	221	951
Loans charged off	(10,459)	(20,060)
<b>Allowance at end of period</b>	<b>\$ 16,803</b>	<b>\$ 25,543</b>

The following table presents activity in the allowance for loan losses on non-covered loans by loan category for the six months ended June 30, 2011 (dollars in thousands):

	Year ended December 31, 2010	Provision Allocation	Charge offs	Recoveries	Six months ended June 30, 2011
Mortgage loans on real estate:					
Residential 1-4 family	\$ 6,262	\$ (1,317)	\$ (1,504)	\$ 16	\$ 3,457
Commercial	5,287	501	(2,496)	8	3,300
Construction and land development	10,039	139	(3,510)		6,668
Second mortgages	406	(65)	(75)	2	268
Multifamily	260	(86)			174
Agriculture	266	(219)			47

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

Total real estate loans	22,520	(1,047)	(7,585)	26	13,914
Commercial loans	2,691	2,466	(2,698)	34	2,493
Consumer installment loans	257	63	(80)	96	336
All other loans	75	16	(96)	65	60
Total non-covered loans	\$ 25,543	\$ 1,498	\$ (10,459)	\$ 221	\$ 16,803

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

The following table presents charge-offs and recoveries for non-covered loans by loan category for the year ended December 31, 2010 (dollars in thousands):

	Year ended December 31, 2010		
	Charge-offs	Recoveries	Net Charge-offs
Mortgage loans on real estate:			
Residential 1-4 family	\$ 2,461	\$ (1)	\$ 2,460
Commercial	1,352	(508)	844
Construction and land development	12,759	(103)	12,656
Second mortgages	360	(79)	281
Multifamily	375		375
Agriculture			
Total real estate loans	17,307	(691)	16,616
Commercial loans	2,125	(178)	1,947
Consumer installment loans	497	(19)	478
All other loans	131	(63)	68
Total non-covered loans	\$ 20,060	\$ (951)	\$ 19,109

The following table presents information on the non-covered loans evaluated for impairment in the allowance for loan losses as of June 30, 2011 and December 31, 2010 (dollars in thousands):

	June 30, 2011			June 30, 2010		Total
	Allowance for Loan Losses Individually Evaluated for Impairment	Allowance for Loan Losses Collectively Evaluated for Impairment	Allowance for Loan Losses Total	Recorded Investment in Loans Individually Evaluated for Impairment	Recorded Investment in Loans Collectively Evaluated for Impairment	
Mortgage loans on real estate:						
Residential 1-4 family	\$ 1,104	\$ 2,353	\$ 3,457	\$ 11,156	\$ 120,049	\$ 131,205
Commercial	1,121	2,179	3,300	46,333	151,564	197,897
Construction and land development	2,623	4,045	6,668	35,854	49,148	85,002
Second mortgages	70	198	268	351	7,955	8,306
Multifamily		174	174		13,397	13,397
Agriculture	12	35	47	222	2,344	2,566
Total real estate loans	4,930	8,984	13,914	93,916	344,457	438,373
Commercial loans	247	2,246	2,493	3,735	47,776	51,511
Consumer installment loans	30	306	336	234	9,366	9,600
All other loans	3	57	60	276	1,434	1,710
Total loans	\$ 5,210	\$ 11,593	\$ 16,803	\$ 98,161	\$ 403,033	\$ 501,194



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

	December 31, 2010					
	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Mortgage loans on real estate:						
Residential 1-4 family	\$ 2,753	\$ 3,509	\$ 6,262	\$ 14,347	\$ 123,175	\$ 137,522
Commercial	2,967	2,320	5,287	48,552	156,482	205,034
Construction and land development	5,392	4,647	10,039	39,712	64,051	103,763
Second mortgages	179	227	406	339	9,341	9,680
Multifamily		260	260		9,831	9,831
Agriculture	174	92	266	1,027	2,793	3,820
Total real estate loans	11,465	11,055	22,520	103,977	365,673	469,650
Commercial loans	1,347	1,344	2,691	4,975	39,393	44,368
Consumer installment loans	30	227	257	209	9,602	9,811
All other loans		75	75		1,993	1,993
Total loans	\$ 12,842	\$ 12,701	\$ 25,543	\$ 109,161	\$ 416,661	\$ 525,822

Loans individually evaluated for impairment include all loans reviewed regardless of whether or not they were deemed impaired.

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

**Pass** - A pass related loan is not adversely classified, as it does not display any of the characteristics for adverse classification.

**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 Consolidated Financial Statements**

The following tables present the composition of non-covered loans by credit quality indicator at June 30, 2011 and December 31, 2010 (dollars in thousands):

	<b>June 30, 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	\$ 110,189	\$ 9,830	\$ 10,613	\$ 573	\$ 131,205
Commercial	134,551	17,011	45,835	500	197,897
Construction and land development	35,627	13,523	35,806	46	85,002
Second mortgages	7,335	620	192	159	8,306
Multifamily	9,823	3,574			13,397
Agriculture	1,985	373	208		2,566
<b>Total real estate loans</b>	<b>299,510</b>	<b>44,931</b>	<b>92,654</b>	<b>1,278</b>	<b>438,373</b>
Commercial loans	45,911	1,606	3,994		51,511
Consumer installment loans	8,979	379	232	10	9,600
All other loans	1,354	356			1,710
<b>Total loans</b>	<b>\$ 355,754</b>	<b>\$ 47,272</b>	<b>\$ 96,880</b>	<b>\$ 1,288</b>	<b>\$ 501,194</b>

	<b>December 31, 2010</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	\$ 112,595	\$ 8,444	\$ 13,839	\$ 2,644	\$ 137,522
Commercial	140,064	15,619	48,816	535	205,034
Construction and land development	45,448	17,156	39,183	1,976	103,763
Second mortgages	8,615	550	352	163	9,680
Multifamily	6,726	3,105			9,831
Agriculture	2,440	345	1,035		3,820
<b>Total real estate loans</b>	<b>315,888</b>	<b>45,219</b>	<b>103,225</b>	<b>5,318</b>	<b>469,650</b>
Commercial loans	36,452	1,506	4,604	1,806	44,368
Consumer installment loans	9,028	471	278	34	9,811
All other loans	1,993				1,993
<b>Total loans</b>	<b>\$ 363,361</b>	<b>\$ 47,196</b>	<b>\$ 108,107</b>	<b>\$ 7,158</b>	<b>\$ 525,822</b>

At June 30, 2011, the Company had 1-4 family mortgages in the amount \$176.2 million pledged as collateral to the FHLB for a total borrowing capacity of \$109.9 million.

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

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

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

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.



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

As of June 30, 2011 and December 31, 2010, the outstanding balance of the covered loans was \$173.3 million and \$191.5 million, respectively. The carrying amount, by loan type, as of these dates is as follows (dollars in thousands):

	June 30, 2011		December 31, 2010	
	Amount	% of Covered Loans	Amount	% of Covered Loans
Mortgage loans on real estate:				
Residential 1-4 family	\$ 91,121	87.35 %	\$ 99,312	85.96 %
Commercial	1,901	1.82	2,800	2.42
Construction and land development	4,672	4.48	5,751	4.98
Second mortgages	6,567	6.30	7,542	6.53
Multifamily	30	0.03	38	0.03
Agriculture				
Total real estate loans	104,291	99.98	115,443	99.92
Commercial loans				
Consumer installment loans	23	0.02	94	0.08
All other loans				
Gross covered loans	\$ 104,314	100.00 %	\$ 115,537	100.00 %

Activity in the allowance for loan losses on covered loans for the six months ended June 30, 2011 and the year ended December 31, 2010 was comprised of the following (dollars in thousands):

	Six months ended	Year ended
	June 30, 2011	December 31, 2010
Beginning allowance	\$ 829	\$ 880
Provision for loan losses		880
Recoveries of loans charged off		205
Loans charged off		(256)
Allowance at end of period	\$ 829	\$ 829

The following table presents information on the covered loans collectively evaluated for impairment in the allowance for loan losses at June 30, 2011 and December 31, 2010 (dollars in thousands):

	June 30, 2011		December 31, 2010	
	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	\$ 526	\$ 91,121	\$ 526	\$ 99,312

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

Commercial	303	1,901	303	2,800
Construction and land development		4,672		5,751
Second mortgages		6,567		7,542
Multifamily		30		38
Agriculture				
Total real estate loans	829	104,291	829	115,443
Commercial loans				
Consumer installment loans		23		94
All other loans				
Gross covered loans	\$ 829	\$ 104,314	\$ 829	\$ 115,537

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

The change in the accretable yield balance for the six months ended June 30, 2011 and the year ended December 31, 2010 is as follows (dollars in thousands):

Balance, January 1, 2010	\$ 56,792
Accretion	(13,759)
Reclassification from (to) Non-accretable Yield	32,685
Balance, December 31, 2010	75,718
Accretion	(8,607)
Reclassification from (to) Non-accretable Yield	(4,697)
Balance, June 30, 2011	\$ 62,414

The covered loans are not classified as nonperforming assets as of June 30, 2011, as the loans are accounted for on a pooled basis, and interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased loans. As of June 30, 2011, there was an allowance for loan losses recorded on covered loans of \$829,000. This allowance is the result of a change in the timing of expected cash flows for one of the covered loan pools.

At December 31, 2010, the acquisition, construction and development (ADC) pool originally purchased from the FDIC in 2009 had a carrying value of \$410,000 in accordance with FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. The amount and timing of future cash flows on the ADC pool, based on an analysis of the loans in the pool, were determined to be not reasonably estimatable. As a result, during the quarter ended March 31, 2011, management applied the cost recovery method to the ADC loan pool, which requires that all cash payments first be applied to principal. During the first quarter of 2011, sufficient cash payments were received on the ADC pool to lower the carrying value to \$0, with excess payments being applied to interest income. Any subsequent payments will now be recognized as interest income.

**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 of the 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 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 monthly until the end of the month in which the tenth anniversary of the closing of the SFSB 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 SFSB transaction occurs. 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 SFSB transaction. New loans made after that date are not covered by the shared loss agreements. The carrying value of the shared loss agreements is detailed below.

The Company is accounting for the shared loss agreements as an indemnification asset pursuant to the guidance in FASB ASC 805, *Business Combinations*. The FDIC indemnification asset was measured at fair value at the time of acquisition, as it 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 at the acquisition date was estimated using projected cash flows available for loss sharing based on the credit adjustments estimated for each loan pool and other real estate owned and the loss sharing percentages outlined in the shared loss agreements. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from

the FDIC.

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

Because the acquired loans are subject to a shared loss agreement and the 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 on 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 other real estate owned (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 related to the SFSB transaction at June 30, 2011 and December 31, 2010 (dollars in thousands):

	Anticipated Expected Losses	Estimated Loss Sharing Value	Amortizable Premium (Discount) at PV	FDIC Indemnification Asset Total
January 1, 2010	\$ 88,943	\$ 71,090	\$ 5,017	\$ 76,107
Increases:				
Writedown of OREO property to FMV	3,028	2,422		2,422
Decreases:				
Net accretion of premium			(3,165)	(3,165)
Reclassifications to FDIC receivable:				
Net loan charge-offs and recoveries	(8,521)	(6,817)		(6,817)
OREO sales	(8,858)	(7,086)		(7,086)
Reimbursements requested from FDIC	(3,865)	(3,092)		(3,092)
Reforecasted Change in Anticipated Expected Losses	(24,477)	(19,517)	19,517	
December 31, 2010	46,250	37,000	21,369	58,369
Increases:				
Writedown of OREO property to FMV	586	469		469
Decreases:				
Net amortization of premium			(5,402)	(5,402)
Reclassifications to FDIC receivable:				
Net loan charge-offs and recoveries	(920)	(736)		(736)
OREO sales	(921)	(737)		(737)
Reimbursements requested from FDIC	(1,045)	(836)		(836)
Reforecasted Change in Anticipated Expected Losses	(4,177)	(3,342)	3,342	
June 30, 2011	\$ 39,773	\$ 31,818	\$ 19,309	\$ 51,127

**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 TFC and BOE, the Company recorded \$15.0 million in core deposit intangible assets. Core deposit intangibles resulting from the Georgia and Maryland

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

transactions equaled \$3.2 million and \$2.2 million, respectively, and will be amortized over approximately 9 years.

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

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

	<b>Core Deposit Intangibles</b>
Balance January 1, 2010	\$ 17,080
Amortization	(2,261)
Balance December 31, 2010	14,819
Amortization	(1,130)
Balance June 30, 2011	\$ 13,689

**7. DEPOSITS**

The following table provides interest-bearing deposit information, by type, as of June 30, 2011 and December 31, 2010 (dollars in thousands):

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
NOW	\$ 111,268	\$ 106,248
MMDA	121,210	127,594
Savings	67,564	64,121
Time deposits less than \$100,000	332,895	367,333
Time deposits \$100,000 and over	213,043	234,070
Total interest-bearing deposits	\$ 845,980	\$ 899,366

**8. 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, 2011.



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

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

	<b>June 30, 2011</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Investment securities available for sale</b>				
U.S. Treasury issue and U.S. government agencies	\$ 10,018	\$ 5,477	\$ 4,541	\$
State, county, and municipal	50,308	1,206	49,102	
Corporate and other bonds	5,075		5,075	
Mortgage backed securities	166,877	65,510	101,367	
<b>Total investment securities available for sale</b>	<b>232,278</b>	<b>72,193</b>	<b>160,085</b>	
Loans held for resale	83		83	
<b>Total assets at fair value</b>	<b>\$ 232,361</b>	<b>\$ 72,193</b>	<b>\$ 160,168</b>	<b>\$</b>
<b>Total liabilities at fair value</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

	<b>December 31, 2010</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Investment securities available for sale</b>				
U.S. Treasury issue and U.S. government agencies	\$ 89,574	\$ 3,254	\$ 86,320	\$
State, county, and municipal	70,335		70,335	
Corporate and other bonds	3,573		3,573	
Mortgage backed securities	52,078		52,078	
<b>Total investment securities available for sale</b>	<b>215,560</b>	<b>3,254</b>	<b>212,306</b>	
<b>Total assets at fair value</b>	<b>\$ 215,560</b>	<b>\$ 3,254</b>	<b>\$ 212,306</b>	<b>\$</b>
<b>Total liabilities at fair value</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

***Investment securities available for sale***

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

The Company utilizes a third party vendor to provide fair value data for purposes of determining the fair value of its available for sale securities portfolio. The third party vendor uses a reputable pricing company for security market data. The third party vendor has controls and edits in place for month-to-month market checks and zero pricing and an AICPA Statement on Auditing Standard Number 70 (SAS 70) report is

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

obtained from the third party vendor on an annual basis. The Company makes no adjustments to the pricing service data received for its securities available for sale.

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

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

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

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

The Company is also required to measure and recognize certain other financial assets at fair value on a nonrecurring basis on the consolidated balance sheet. For assets measured at fair value on a nonrecurring basis in 2010 and still held on the consolidated balance sheet at June 30, 2011, the following table provides the fair value measures by level of valuation assumptions used for those assets.

	June 30, 2011			
	Total	Level 1	Level 2	Level 3
Impaired loans, non-covered	\$ 25,141	\$	\$ 20,703	\$ 4,438
Other real estate owned (OREO), non-covered	12,393		95	12,298
Other real estate owned (OREO), covered	8,674		1,480	7,194
Total assets at fair value	\$ 46,208	\$	\$ 22,278	\$ 23,930
Total liabilities at fair value	\$	\$	\$	\$

	December 31, 2010			
	Total	Level 1	Level 2	Level 3
Impaired loans, non-covered	\$ 14,083	\$	\$ 8,741	\$ 5,342
Other real estate owned (OREO), non-covered	5,928			5,928
Other real estate owned (OREO), covered	9,889		1,060	8,829
Total assets at fair value	\$ 29,900	\$	\$ 9,801	\$ 20,099
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, market value of similar debt, enterprise value, liquidation 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. The Bank 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. The appraisal, based on the date of preparation, becomes only a part of the determination of the amount of any loan write-off, with current market conditions and the collateral's location being other determinants. 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.

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

Internally prepared estimates generally result from current market data and actual sales data related to the Company's collateral or where the collateral is located. When management determines that the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3. In instances where an appraisal received subsequent to an internally prepared estimate reflects a higher collateral value, management does not revise the carrying amount. Reviews of classified loans are performed by management on a quarterly basis.

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

Other real estate owned (OREO) assets are adjusted to fair value upon transfer of the related loans to OREO property. Subsequent to the transfer, valuations are periodically performed by management and the assets are carried

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

at the lower of carrying value or fair value. 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 and there is no observable market price, 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 (dollars in thousands).

	June 30, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 18,473	\$ 18,473	\$ 33,381	\$ 33,381
Securities available for sale	232,278	232,278	215,560	215,560
Securities held to maturity	72,388	76,689	84,771	89,027
Equity securities, restricted	6,965	6,965	7,170	7,170
Loans held for resale	83	83		
Loans, non-covered	484,252	475,673	500,005	491,621
Loans, covered	103,485	122,540	114,708	139,952
FDIC indemnification asset	51,127	31,547	58,369	49,765
Accrued interest receivable	3,381	3,381	3,826	3,826
<b>Financial liabilities:</b>				
Noninterest-bearing deposits	64,495	64,495	62,359	62,359
Interest-bearing deposits	845,980	848,992	899,366	898,508
Borrowings	41,124	45,293	41,124	45,210
Accrued interest payable	1,271	1,271	1,557	1,557

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, 2011. 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, which include unimpaired non-covered loans, interest receivable, noninterest-bearing and interest-bearing deposits, other borrowings, and interest payable. The provisions requiring the Company to maximize the use of observable inputs and to measure fair value using a notion of exit price were factored into the Company's selection of inputs into its established valuation techniques.

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

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



**Table of Contents**

**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Consolidated Financial Statements**

***Securities held for investment***

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

***Restricted securities***

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

***Loans 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.

**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.





**Table of Contents**

**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Consolidated Financial Statements**

***Long-term borrowings***

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

***Accrued interest payable***

The carrying amounts of accrued interest payable approximate fair value.

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

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

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

Table of Contents

## COMMUNITY BANKERS TRUST CORPORATION

## Notes to Consolidated Financial Statements

**9. 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.

	Income	Weighted Average Shares	Per Common Share Amount
(dollars and shares in thousands, except per share data)	(Numerator)	(Denominator)	Amount
<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 three months ended June 30, 2010</b>			
Basic EPS	\$ (19,886)	21,468	\$ (0.93)
Effect of dilutive stock awards			
Diluted EPS	\$ (19,886)	21,468	\$ (0.93)
<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)
<b>For the six months ended June 30, 2010</b>			
Basic EPS	\$ (22,919)	21,468	\$ (1.07)
Effect of dilutive stock awards			
Diluted EPS	\$ (22,919)	21,468	\$ (1.07)

Excluded from the computation of diluted earnings per share were an average of 3.7 million and 5.2 million of awards, options or warrants for the three months ended June 30, 2011 and 2010, respectively and an average of 4.4 million and 5.2 million for the six months ended June 30, 2011 and 2010, respectively, because their inclusion would be anti-dilutive.

As of June 30, 2011, the Company has deferred four payments of its regular quarterly cash dividend with respect to its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, which the Company issued to the United States Department of Treasury in connection with the Company's participation in the Treasury's TARP Capital Purchase Program in December 2008. The Company will also defer the August 2011 dividend payment. The total amount of accumulated dividends was \$884,000 as of June 30, 2011, and that amount will increase to \$1.1 million with the

deferral of the August 2011 payment.

**10. DEFINED BENEFIT PLAN**

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

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

(In thousands)	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Service cost	\$	\$ 92	\$	\$ 184
Interest cost	65	91	130	182
Expected return on plan assets	(75)	(71)	(150)	(142)
Amortization of prior service cost		1		2
Amortization of net obligation at transition		(1)		(2)
Amortization of net loss		15		30
Net periodic benefit cost	\$ (10)	\$ 127	\$ (20)	\$ 254

At June 30, 2011, employer contributions totalled \$105,000 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.

**11. CONTINGENCIES**

See the Annual Report on Form 10-K for the period ended December 31, 2010 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 15, 2011, 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, 2011 and results of operations of Community Bankers Trust Corporation (the Company) for the three and six months ended June 30, 2011 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, 2010.

#### **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 was established in 1926 and is headquartered in Tappahannock, Virginia. 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 consumer loans, travelers checks, safe deposit box facilities, investment services and fixed rate residential mortgages. Thirteen branches are located in Virginia, primarily 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 Bank closed its office in Rockbridge County, Virginia in April 2011.

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 loans sales, transactions involving bank-owned property, and income from Bank Owned Life Insurance (BOLI) policies. The Company's income is offset by noninterest expense, which consists of goodwill impairment and other charges, salaries and benefits, occupancy and equipment costs, professional fees, and other operational expenses. The provision for loan losses and income taxes materially affect income.

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

The Company makes certain forward-looking statements in this Form 10-Q 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, growth 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, 2010 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 either when 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



## **Table of Contents**

differ significantly from the historical factors that the Company uses. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of the Company's transactions would be the same, the timing of events that would impact its transactions could change.

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

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

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

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

The allowance consists of specific and general components. For loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

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

### ***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 monthly until the end of the month 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. 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.

## **Table of Contents**

The Company evaluated the acquired covered loans and has elected to account for them under ASC 310-30.

The covered loans are subject to 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.

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

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

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

In the Company's acquisition of TFC and BOE, the fair value of ASC 310 loans was determined based on assigned risk ratings, expected cash flows and the fair value of the collateral. The fair value of non ASC 310 loans was determined based on preliminary estimates of default probabilities. The Company determined which purchased loans were impaired at the time of the acquisition and considered those loans for ASC 310 application. Those loans that were not considered impaired at the time of acquisition were not considered for ASC 310.

As a result of the acquisitions of TFC and BOE, the Company had loans of \$5.0 million at December 31, 2008 that met the criteria of ASC 310. Due to the immateriality of these loans in relation to the overall financial condition of the Company, detailed disclosures have not been included in the financial statements.

The covered loans from the SFSB transaction, subject to FASB ASC Topic 805, *Business Combinations*, were recorded at fair value and no separate valuation allowance was recorded at the date of acquisition. FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, 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 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 a 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

## **Table of Contents**

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 accretible yield with the amount of periodic accretion adjusted over the remaining life of the pool.

### ***FDIC Indemnification Asset***

The Company is accounting for the shared loss agreements as an indemnification asset pursuant to the guidance in FASB ASC 805. 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 accretible 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 accretible 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***

FASB ASC 805, *Business Combinations*, requires that the purchase method of accounting be used for all business combinations after June 30, 2001. With purchase acquisitions, the Company is required to record assets acquired, including any intangible assets, and liabilities assumed at fair value, which involves relying on estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analysis or other valuation methods. The Company records other intangibles per ASC 350, *Intangibles-Goodwill and Others.*, Under 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. ASC 350 discontinues any amortization of goodwill and other intangible assets with indefinite lives, but requires an impairment review at least annually or more often if certain conditions exist. The Company followed ASC 350 and determined that any core deposit intangibles will be amortized over the estimated useful life.

### ***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.

---

**Table of Contents**

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income.

As of June 30, 2011, the Company did not have any tax benefit disallowed 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 \$10.5 million. Management expects to utilize all of these carryforward amounts prior to expiration.

The Company and its subsidiaries are subject to U. S. federal income tax as well as various state income taxes. All years from 2006 through 2010 are open to examination by the respective tax authorities.

***Other Real Estate Owned***

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

***RESULTS OF OPERATIONS***

Net income available to common stockholders was \$247,000, or \$0.01 per common share on a diluted basis, for the quarter ended June 30, 2011 compared with a net loss available to common stockholders of \$19.9 million, or \$0.93 per common share on a diluted basis, for the quarter ended June 30, 2010. Net income was driven by an increase in net interest income from aggressive deposit pricing and noninterest expense controls. Additionally, there was no provision for loan losses in the second quarter of 2011 compared with \$21.3 million in the second quarter of 2010. Also positively influencing the performance in earnings in the second quarter of 2011 compared to the second quarter of 2010 was the recognition of \$5.7 million in goodwill impairment charges in the second quarter of 2010. This eliminated the Company's goodwill balances, generated by the formation of the Company in 2008.

Furthermore, the Company has focused on improvement in noninterest expenses by lowering staffing levels, consolidating certain administrative functions, and lowering its use of temporary or outside staffing resources. Noninterest expenses declined from \$16.2 million for the three months ended June 30, 2010 to \$9.3 million for the three months ended June 30, 2011. Excluding goodwill impairment charges, noninterest expenses would have declined from \$10.4 million in the second quarter of 2010, to \$9.3 million in the second quarter of 2011. Offsetting these improvements was a decline in total noninterest income, from negative \$115,000 in the second quarter of 2010, to negative \$1.4 million in the second quarter of 2011 as the Company recognized \$2.7 million in FDIC indemnification asset amortization. This recognition resulted in a reduction in the amount carried on the balance sheet that the Company anticipates it will collect from the FDIC on the loans covered by FDIC shared loss agreements.

***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.

---

**Table of Contents**

Net interest income increased \$1.3 million year over year, from \$10.1 million in the second quarter of 2010 to \$11.4 million in the second quarter of 2011. This represents an increase of 12.9% and was the result primarily of an increase in the Company's interest spread, from 3.99% in the second quarter of 2010 to 4.97% in the second quarter of 2011. This increased the Company's net interest margin from 4.04% in the second quarter of 2010 to 5.01% for the same period in 2011. A decline in the cost of interest bearing liabilities, from 1.89% for the second quarter of 2010 to 1.37% for the second quarter of 2011, coupled with an increase in the yield on FDIC covered loans noted above, were the drivers of this increase.

Net interest income was \$21.5 million for the six months ended June 30, 2011, compared with \$20.2 million for the six months ended June 30, 2010. The increase in net interest income was primarily the result of decreases in the average balances of interest-bearing liabilities of \$112.9 million, or 11.1%, coupled with lower rates, which has reduced interest expense 36.2%, from \$10.0 million in the first six months of 2010 to \$6.4 million for the first six months of 2011. The tax equivalent net interest margin increased to 4.65% in the first six months of 2011 from 4.04% in the first six months of 2010.

An additional benefit to the net interest margin was the improved yield on FDIC covered loans. The yield on covered loans equaled 18.28% for the quarter ended June 30, 2011, an improvement of 852 basis points from 9.76% for the quarter ended June 30, 2010. For the six months ended June 30, 2011, the yield on covered loans equaled 15.87%, an improvement of 608 basis points from 9.79% for the six months ended June 30, 2010. This is primarily the result of better than expected performance on these loans since the forecast at the acquisition date. FDIC covered loans are held on the balance sheet at carrying value.

At December 31, 2010, the acquisition, construction and development (ADC) pool originally purchased from the FDIC in 2009 had a carrying value of \$410,000 in accordance with FASB Accounting Standards Codification (ASC) 310-30 (originally issued as AICPA Statement of Position No. 03-3, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*). The amount and timing of future cash flows on the ADC pool, based on an analysis of the loans in the pool, were determined to be not reasonably estimatable. As a result, during the quarter ended March 31, 2011, management applied the cost recovery method to the ADC loan pool, which requires that all cash payments first be applied to principal. During the first quarter of 2011, sufficient cash payments were received on the ADC pool to lower the carrying value to \$0, with excess payments being applied to interest income. Any subsequent payments will now be recognized as interest income. In the second quarter of 2011, the Company received \$1.9 million in cash payments applied based on the cost recovery method against loans from the ADC pool.

The following tables set forth, for each category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding, the interest earned or paid on such amounts, and the average rate earned or paid for the three and six months ended June 30, 2011 and 2010. 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.

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

(dollars in thousands)	Three months ended June 30, 2011			Three months ended June 30, 2010		
	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	\$ 506,752	\$ 7,328	5.78 %	\$ 575,457	\$ 8,478	5.89 %
FDIC covered loans, including fees	105,842	4,838	18.28	138,675	3,386	9.76
Total loans	612,594	12,166	7.94	714,132	11,864	6.65
Interest-bearing bank balances	12,222	10	0.33	16,885	24	0.56
Federal funds sold	5,827	2	0.13	6,521	3	0.18
Securities (taxable)	266,929	2,085	3.12	217,695	2,162	3.97
Securities (tax exempt) <sup>(1)</sup>	23,517	347	5.90	91,206	1,333	5.84
Total earning assets	921,089	14,610	6.34	1,046,439	15,386	5.88
Allowance for loan losses	(20,440)			(23,358)		
Non-earning assets	171,930			196,591		
Total assets	\$ 1,072,579			\$ 1,219,672		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Demand - interest-bearing	\$ 236,189	\$ 347	0.59	\$ 227,433	\$ 393	0.69
Savings	66,661	88	0.53	62,386	87	0.56
Time deposits	552,425	2,276	1.65	691,278	4,006	2.32
Total deposits	855,275	2,711	1.27	981,097	4,486	1.83
Federal funds purchased	571	1	0.64	106	1	0.53
FHLB and other borrowings	41,124	367	3.57	41,124	333	3.25
Total interest-bearing liabilities	896,970	3,079	1.37	1,022,327	4,820	1.89
Noninterest-bearing deposits	58,008			64,070		
Other liabilities	10,888			6,646		
Total liabilities	965,866			1,093,043		
Stockholders equity	106,713			126,629		
Total liabilities and stockholders equity	\$ 1,072,579			\$ 1,219,672		
Net interest earnings		\$ 11,531			\$ 10,566	
Net interest spread			4.97 %			3.99 %
Net interest margin			5.01 %			4.04 %



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

(dollars in thousands)	Six months ended June 30, 2011			Six months ended June 30, 2010		
	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	\$ 512,203	\$ 14,562	5.69 %	\$ 576,579	\$ 17,201	5.97 %
FDIC covered loans, including fees	109,134	8,658	15.87	142,546	6,979	9.79
Total loans	621,337	23,220	7.47	719,125	24,180	6.72
Interest-bearing bank balances	13,445	24	0.36	19,744	54	0.54
Federal funds sold	5,222	4	0.16	4,121	4	0.19
Securities (taxable)	265,939	3,997	3.01	209,353	4,167	3.98
Securities (tax exempt) <sup>(1)</sup>	33,639	971	5.77	91,777	2,689	5.86
Total earning assets	939,582	28,216	6.01	1,044,121	31,094	5.96
Allowance for loan losses	(22,667)			(21,015)		
Non-earning assets	166,660			201,722		
Total assets	\$ 1,083,575			\$ 1,224,827		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Demand - interest-bearing	\$ 234,346	\$ 693	0.59	\$ 219,682	\$ 793	0.72
Savings	65,814	173	0.52	61,368	180	0.59
Time deposits	566,390	4,824	1.70	698,428	8,370	2.40
Total deposits	866,550	5,690	1.31	979,478	9,343	1.91
Federal funds purchased	357	1	0.63	320	1	0.21
FHLB and other borrowings	41,124	699	3.40	41,124	664	3.23
Total interest-bearing liabilities	908,031	6,390	1.41	1,020,922	10,008	1.96
Noninterest-bearing deposits	62,870			62,420		
Other liabilities	5,240			11,358		
Total liabilities	976,141			1,094,700		
Stockholders equity	107,434			130,127		
Total liabilities and stockholders equity	\$ 1,083,575			\$ 1,224,827		
Net interest earnings		\$ 21,826			\$ 21,086	
Net interest spread			4.60 %			4.00 %
Net interest margin			4.65 %			4.04 %



## 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 for non-covered loans was \$0 for the quarter ended June 30, 2011, compared with a provision of \$21.3 million for the quarter ended June 30, 2010. The ratio of the allowance for loan losses to nonperforming assets was 33.52% at June 30, 2011, compared with 84.27% at June 30, 2010. The ratio of allowance for loan losses to total non-covered loans was 3.35% at June 30, 2011 compared with 6.89% at June 30, 2010. The decrease in the allowance for loan losses to total non-covered loans from June 2010 to June 2011 was primarily the result of aggressive charge-offs for non-performing loans. Net charged-off loans were \$4.7 million for the quarter ended June 30, 2011 compared with net charged-off loans of \$1.4 million for the quarter ended June 30, 2010. Since the beginning of 2010, the Company has charged-off \$30.5 million in loans and realized \$1.2 million in recoveries.

Provision for loan losses on non covered loans was \$1.5 million for the six months ended June 30, 2011 compared with \$26.3 million for the six months ended June 30, 2010. Charged-off loans were \$10.5 million for the six months ended June 30, 2011 compared to \$5.5 million for the six months ended June 30, 2010. Loan recoveries were \$221,000 for the first six months of 2011 compared to \$687,000 for the same period in 2010.

While the covered loan portfolio contains significant risk, it was considered in determining the initial fair value, which was reflected as the carrying value recorded at the time of the SFSB transaction, less the FDIC guaranteed portion of losses on covered assets. There was no provision expense related to this portfolio in the first six months of 2011.

### ***Noninterest Income***

Noninterest income declined from negative \$115,000 in the second quarter of 2010 to negative \$1.4 million for the second quarter of 2011. FDIC indemnification asset amortization was the largest factor in this decline and was \$2.7 million for the second quarter of 2011 compared with \$362,000 in the second quarter of 2010. Other noninterest income also decreased and was \$662,000 in the second quarter of 2011 compared with \$1.3 million for the second quarter of 2010. Other categories offset these decreases in noninterest income. Gain/(loss) on sale of OREO increased from losses of \$1.2 million in the second quarter of 2010 to losses of \$249,000 in the second quarter of 2011. Gain/(loss) on sales of securities were a loss of \$452,000 in the second quarter of 2010 and increased to gains of \$176,000 for the second quarter of 2011. Service charges on deposit accounts were \$622,000 in the second quarter of 2010 and increased to \$637,000 in the second quarter of 2011.

For the six months ended June 30, 2011, noninterest income equaled negative \$2.8 million versus \$300,000 for the six months ended June 30, 2010. Again, this change was due primarily to accelerated FDIC indemnification asset amortization of \$4.7 million, from \$739,000 for the first six months of 2010 to \$5.4 million for the same period in 2011. The increase in FDIC indemnification asset amortization has resulted in the increased yield realized in interest and fees on FDIC covered loans over the same time frame, as projected losses carried within the FDIC indemnification asset have been realized instead, through payment performance of the associated borrowers. Service charges on deposit accounts increased \$26,000 and were \$1.2 million each six month period.

Also positively affecting noninterest income over the six months comparison periods was a reduction in losses on sales of OREO properties of \$2.7 million, from \$3.6 million for 2010 to \$861,000 in 2011. Additionally, gains/(losses) on sales of securities increased by \$935,000, from a loss of \$98,000 in the first six months of 2010 to gains realized for the same period in 2011 of \$837,000.

Other noninterest income decreased \$2.1 million year over year from \$3.5 million in the first six months of 2010 to \$1.4 million for the same period in 2011. This decrease reflects fewer reimbursable loss events in FDIC covered loans.

The increased FDIC indemnification asset amortization is the result of improved forecasted performance from the loan pools acquired from the FDIC. Based on current forecasts, as both projected losses and FDIC reimbursements decline, the FDIC indemnification asset amortization increases to reduce the FDIC indemnification

**Table of Contents**

asset over the life of the FDIC shared loss agreements. During the first six months of 2011, the Company's projected expected loan pool losses declined by \$6.5 million, requiring the Company to increase the rate of FDIC indemnification asset amortization. As a result, the Company's FDIC indemnification asset amortization increased from \$362,000 in the second quarter of 2010 to \$2.7 million in the second quarter of 2011. Additionally, the FDIC indemnification asset amortization increased \$4.7 million, to \$5.4 million for the six month period ended June 30, 2011. Although loss projections could change, this level of quarterly amortization could continue based on current forecasts. However, lower losses also improve future accretion interest income performance and reduce the losses that the Company must absorb under the FDIC shared loss agreements, which is currently twenty percent of losses up to \$118 million (and 5% thereafter).

***Noninterest Expense***

Noninterest expenses declined \$6.8 million, from \$16.2 million to \$9.3 million, when comparing the second quarter of 2011 to the same period in 2010. Excluding non-cash goodwill impairment charges of \$5.7 million realized in the second quarter of 2010, noninterest expenses would have declined \$1.1 million, from \$10.4 million in the second quarter of 2010 to \$9.3 million in the second quarter of 2011. Salaries and employee benefits were the largest category decrease and were \$4.8 million in the second quarter of 2010 and \$4.2 million in the second quarter of 2011, a decrease of \$634,000, or 13.2%. Also seeing a significant decline were professional fees, which decreased \$545,000, or 73.4%, from \$743,000 in the second quarter of 2010 to \$198,000 in the second quarter of 2011.

Noninterest expenses were \$18.5 million for the six months ended June 30, 2011, a decline of \$7.5 million from \$26.0 million for the six months ended June 30, 2010. For the six months ended June 30, 2011, excluding the goodwill impairment charge noted above, noninterest expenses would have declined \$1.8 million from \$20.3 million for the first six months of 2010 to \$18.5 million for the first six months in 2011. The two major drivers of this 8.7% decrease were salaries and employee benefits, which declined \$1.6 million over the six months comparison periods, and professional fees, which decreased \$688,000. Salaries and employee benefits were \$9.9 million for the first six months of 2010 and \$8.4 million for the first six months of 2011, a decrease of 15.7%. Professional fees were \$1.1 million for the first six months of 2010 and \$389,000 for the first six months of 2011, a decrease of 63.9% due to a reduced reliance on outsourced staffing.

***Income Taxes***

Income tax expense was \$127,000 for the three months ended June 30, 2011, compared with an income tax benefit of \$7.8 million in the second quarter of 2010. For the six months ended June 30, 2011, income tax benefit totaled \$711,000 compared with income tax benefit of \$9.5 million for the six months ended June 30, 2010.

***FINANCIAL CONDITION***

At June 30, 2011, the Company had total assets of \$1.065 billion, a decrease of \$50.1 million, or 4.5%, from total assets of \$1.116 billion at December 31, 2010. Total loans, including \$104.3 million in loans covered by the FDIC shared loss agreements, were \$605.4 million at June 30, 2011, decreasing \$35.7 million, or 5.6%, from \$641.1 million at December 31, 2010. The carrying value of covered loans declined \$11.2 million, or 9.7%, from December 31, 2010. Non-covered loans equaled \$501.1 million at June 30, 2011, declining \$24.5 million, or 4.7%, since December 31, 2010. The decline in loan volume within the non-covered loan portfolio was the direct result of \$10.5 million in loan charge-offs coupled with loan run-off and an overall weak loan demand.

Due to declining loan balances and lower cash and cash equivalents, the Company's securities portfolio increased \$4.1 million, or 1.3%, during the first six months of 2011 to equal \$311.6 million. The Company had Federal funds sold of \$0 at June 30, 2011 versus \$2.0 million at December 31, 2010. During the second quarter of 2011 the Company decreased holdings, through sales activity, in U.S. Treasury and U.S. Government agencies, realized gains of \$176,000, and reinvested in agency mortgage backed securities. The primary reinvestment choice was GNMA mortgage backed securities, which are higher yielding, but carry the same zero percent risk weighting as U.S. Treasury and U.S. Government agencies for regulatory capital purposes. The Company does not hold private label mortgage backed securities.

---

**Table of Contents**

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 \$232.3 million at June 30, 2011 and \$215.6 million at December 31, 2010. At June 30, 2011, the Company had a net unrealized gain on the AFS portfolio of \$3.5 million compared with a net unrealized loss of \$219,000 at December 31, 2010.

Total deposits at June 30, 2011 were \$910.5 million, a decrease of \$51.3 million from December 31, 2010. Time deposits declined \$55.5 million during the first six months of 2011 as management kept rates low among all regions as loan demand remained weak and covered loans continued to decline in volume. The Company is attempting to restructure the deposit mix away from higher priced time deposits and more into lower cost transactional accounts. The most notable change was the increase in NOW accounts, which increased \$5.0 million, or 4.7%, from \$106.2 million at December 31, 2010 to \$111.2 million at June 30, 2011. Additionally, savings accounts increased \$3.4 million, or 5.4%, during the first six months of 2011. The Company's total loan-to-deposit ratio was 66.5% at June 30, 2011 compared to 66.7% at December 31, 2010.

The Company had Federal Home Loan Bank (FHLB) advances of \$37.0 million at each of June 30, 2011 and December 31, 2010.

Stockholders' equity at June 30, 2011 was \$109.1 million, or 10.2% of total assets, and increased from stockholders' equity of \$107.1 million, or 9.6% of total assets, at December 31, 2010 due mainly to an increase in unrealized gains on securities of \$2.4 million.

***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 \$50.1 million at June 30, 2011 and net charge-offs were \$10.2 million for the six month period ended June 30, 2011. This compares with nonperforming assets of \$42.8 million and net charge-offs of \$19.1 million at and for the year ended December 31, 2010.

Nonperforming non-covered loans increased \$815,000 during the second quarter of 2011. Additions to nonaccrual loans totaled \$20.9 million, primarily attributable to approximately seven relationships relating to loans for construction and land development and income producing commercial property, totaling \$15.8 million, which are secured by real estate. The remaining increase related primarily to loans for residential property and commercial real estate, which are also secured by real estate. There were \$10.5 million in charge-offs taken during the quarter, of which two commercial loan customers aggregated \$2.4 million. The remaining charge-offs were centered in commercial real estate, construction and land development, and residential real estate loans. Foreclosures for the quarter totaled \$7.0 million and \$1.5 million were reinstated to accruing status.

In accordance with GAAP, an individual loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due in accordance with contractual terms of the loan

**Table of Contents**

agreement. The Company has modified its application of the definition of impaired loans to include all troubled debt restructured and nonaccrual 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.

The Company has identified a material weakness related to its process of identifying impaired loans. See Item 4 of this report for further discussion.

See Note 3 to the Company's financial statements for information related to the allowance for loan losses. At June 30, 2011 and December 31, 2010, total impaired non-covered loans equaled \$44.6 million and \$45.0 million, respectively. Management has adopted a nine point risk rating system for which credits are continually monitored for proper classification.

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

<b>(dollars in thousands)</b>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Nonaccrual loans	\$ 37,736	\$ 36,532
Loans past due over 90 days and accruing interest		389
<b>Total nonperforming non-covered loans</b>	<b>37,736</b>	<b>36,921</b>
Other real estate owned (OREO) non-covered	12,393	5,928
<b>Total nonperforming non-covered assets</b>	<b>\$ 50,129</b>	<b>\$ 42,849</b>
Accruing troubled debt restructure loans	\$ 3,959	\$ 4,007
<b><u>Balances</u></b>		
Specific reserve on impaired loans	2,965	7,666
General reserve related to impaired loans evaluated as a pool <sup>(1)</sup>		1,882
General reserve related to unimpaired loans	13,838	15,995
<b>Total Allowance for loan losses</b>	<b>16,803</b>	<b>25,543</b>
Average loans during quarter, net of unearned income	506,752	539,503
<b>Impaired loans</b>	<b>44,601</b>	<b>44,974</b>
Unimpaired loans	456,455	480,574
<b>Total Loans, net of unearned income</b>	<b>501,056</b>	<b>525,548</b>
<b><u>Ratios</u></b>		
Allowance for loan losses to loans	3.35%	4.86%
Allowance for loan losses to nonperforming assets	33.52%	59.61%
Allowance for loan losses to nonaccrual loans	44.53%	69.92%
General reserve to unimpaired loans	3.03%	3.33%
Nonperforming assets to loans and other real estate	9.76%	8.06%
Net charge-offs for quarter to average loans, annualized	3.74%	6.47%

<sup>(1)</sup> As of first quarter 2011, the Company includes the reserve on impaired loans evaluated as a pool as part of the specific reserve. The amount of this reserve was \$805,000 as of June 30, 2011.

Reductions in the ratios related to the allowance for 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 for the non-impaired portfolio has declined since year end due to the reduction of accruing substandard loans from December 31, 2010 to June 30, 2011 coupled with a decrease in the

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

historical loss factor used in this calculation as a result of an improved unemployment forecast.

The Company performs troubled debt restructures and other various loan workouts whereby an existing loan may be restructured into multiple new loans. At June 30, 2011, the Company had 20 loans that met the definition of a troubled debt restructure ( TDR ), which are loans that for reasons related to the debtor s financial difficulties have been restructured on terms and conditions that would otherwise not be offered or granted. Two of these loans were restructured using multiple new loans. The aggregated outstanding principal of TDR loans at June 30, 2011 was \$11.0 million, of which \$7.0 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 foregoing interest on the entire original loan structure. The A loan is underwritten pursuant to the Bank s standard requirements and graded accordingly. The B loan is classified as either doubtful or loss . An impairment analysis is performed on the B loan and, based on its results, all or a portion of the B note is charged-off or a specific loan loss reserve is established.

**Table of Contents**

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 the time of its 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. Once the A loan has received 12 consecutive payments, it may no longer be reported as a TDR. 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, 2011 and December 31, 2010 is below (dollars in thousands):

	June 30, 2011		December 31, 2010	
	Amount of Nonaccrual	% of Non-Covered Loans	Amount of Nonaccrual	% of Non-Covered Loans
Mortgage loans on real estate:				
Residential 1-4 family	\$ 7,041	5.37%	\$ 9,600	6.98%
Commercial	8,352	4.22%	7,181	3.50%
Construction and land development	20,700	24.35%	16,854	16.24%
Second mortgages	199	2.40%	218	2.25%
Multifamily				
Agriculture	53	2.07%		
Total real estate loans	36,345	8.29%	33,853	7.21%
Commercial loans	1,330	2.58%	2,619	5.90%
Consumer installment loans	61	.64%	60	0.61%
All other loans				
Gross loans	\$ 37,736	7.53%	\$ 36,532	6.95%

At June 30, 2011, the Company had 24 construction and land development credit relationships in nonaccrual status. The borrowers for 17 of these relationships are residential land developers, and the borrowers under the remaining seven are commercial land developers. 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, 2011 was \$20.7 million. These loans have either been charged-down or sufficiently reserved against to equate to the current expected realizable value.

During the second quarter of 2011, the Company charged off \$3.5 million with respect to 12 of these relationships. The total amount of the allowance for loan losses attributed to all 24 relationships was \$990,000 million at June 30, 2011, or 4.8% of the total credit exposure outstanding. The Company establishes its reserves as described above in *Allowance for Loan Losses on Non-covered loans* in the Critical Accounting Policies section. In conjunction with the impairment analysis the Company performs as part of its allowance methodology, the Company ordered appraisals for all loans with balances in excess of \$250,000 unless there existed an appraisal that was not older than 12 months. The Company orders an automated valuation for balances between \$100,000 and \$250,000 and uses a ratio analysis for balances less than \$100,000. The Company maintains detailed analysis and other information for its allowance methodology, both for internal purposes and for review by its regulators.

**Asset Quality covered assets**

Loans accounted for under 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.

**Table of Contents**

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 FDIC shared loss agreements at June 30, 2011 and December 31, 2010 are as follows:

(dollars in thousands)	June 30, 2011	December 31, 2010
Nonaccrual covered loans	\$ 9,363	\$ 9,556
Other real estate owned (OREO) - covered	8,674	9,889
<b>Total nonperforming covered assets</b>	<b>\$ 18,037</b>	<b>\$ 19,445</b>

**Capital Requirements**

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

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

The Company's ratio of total risk-based capital was 16.4% at June 30, 2011 compared to 15.6% at December 31, 2010. The tier 1 risk-based capital ratio was 15.3% at June 30, 2011 and 14.4% at December 31, 2010. The Company's tier 1 leverage ratio was 8.9% at June 30, 2011 and 8.1% at December 31, 2010. 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 3.3% during the three and six months ended June 30, 2011.

The Company will defer the August 2011 payment of its regular quarterly cash dividend with respect to its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, which the Company issued to the United States Department of Treasury in connection with the Company's participation in the Treasury's TARP Capital Purchase Program in December 2008. The Company had previously deferred four payments. The Company has also deferred, beginning in September 2010, the interest payments that it makes with respect to trust preferred subordinated debt.



**Table of Contents****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, 2011 and December 31, 2010, the Company's interest-earning assets exceeded its interest-bearing liabilities by approximately \$37.3 million and \$32.9 million, respectively.

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

A summary of the contract amount of the Bank's exposure to off-balance sheet risk as of June 30, 2011 and December 31, 2010, is as follows (dollars in thousands):

	June 30, 2011	December 31, 2010
Commitments to extend credit	\$ 55,768	\$ 63,659
Standby letters of credit	10,708	12,114
<b>Total commitments with off-balance sheet risks</b>	<b>\$ 66,476</b>	<b>\$ 75,773</b>

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

Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. Those lines of credit may be drawn upon only to the total extent to which the Bank is committed.

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

**Table of Contents**

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, 2011:

Change in Yield curve	Change in net interest income	
	%	\$
+200 bp	(2.3) %	\$ (810)
+100 bp	(1.4) %	(510)
most likely	0 %	
100 bp	2.1 %	716
200 bp	(0.3) %	(100)

At June 30, 2011, the Company's interest rate risk model indicated that, in a rising rate environment of 200 basis points over a 12 month period, net interest income could decrease by 2.3%. 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 0.3%. While these percentages are subjective based upon assumptions used within the model, management believes the balance sheet is appropriately balanced with acceptable risk to changes in interest rates.

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

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

---

## **Table of Contents**

### **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 not 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. The Certifying Officers based this conclusion on the fact that the Company had a material weakness with respect to its process for identifying impaired loans. Additional information with respect to this issue is included in the discussion below.

#### **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.

In the Company's Annual Report on Form 10-K for the year ended December 31, 2010, management's assessment of the effectiveness of the Company's internal control over financial reporting cited a material weakness in the Company's internal controls relating to its process for identifying impaired loans, as described below. A material weakness is a significant deficiency (as defined in the Public Company Accounting Oversight Board's Auditing Standard No. 5), or combination of deficiencies, such that there is a reasonable possibility that a material misstatement in the annual or interim financial statements will not be prevented or detected on a timely basis by employees in the normal course of their work. While management believes that it has properly remediated this issue, the Company has not completed its validation of such remediation and, thus, the Company has determined that the material weakness continues to exist as of June 30, 2011, as described below.

In the fourth quarter of 2010, the Company determined that, as a result of credit downgrades reported in the second quarter of 2010 due to perceived credit weaknesses, the loans that the Company identified as impaired included all loans risk-rated substandard and doubtful and thus included some loans that were not impaired under generally accepted accounting principles (GAAP). The GAAP definition states that 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 the contractual terms of the loan agreement. As a consequence, the Company determined that it inadvertently overstated the total amount of impaired loans during the second and third quarters of 2010, as the substandard and doubtful loans included in the second and third quarters were rated as such due to collateral deficiencies or financial documentation weaknesses but did not necessarily indicate impairment under the GAAP definition. Notwithstanding this situation, the Company does not believe that this overstatement has had any material impact on the allowance for loan losses calculation for any period, as the portion of the allowance that was attributable to loans inaccurately designated as impaired would have nevertheless been incorporated in the general component of the allowance.

In the second quarter of 2011, the Company modified its application of the definition of impaired loans to include all troubled debt restructured and nonaccrual loans. In addition, the Company reviewed all substandard and doubtful loans that were 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.

## **Table of Contents**

As result of the steps that the Company has taken to improve its process for identifying impaired loans, as described in the next section below, management believes that this issue has been properly remediated. However, due to required testing and validation of this issue, as part of the assessment of the Company's internal control over financial reporting, the Company continues to recognize this issue as a material weakness as of June 30, 2011.

### **Remediation Steps to Address Material Weakness**

To address the issues described above, the Company has taken the remediation steps discussed below.

The Company has centralized key credit administration functions, and these efforts are resulting in a number of improvements in these functions, including the current remediation of the material weakness in the Company's internal controls relating to its process for identifying impaired loans. During 2010, the Company implemented an entity-wide credit processing program that includes a risk rating tool, requires detailed documentation for use in the underwriting process, enhances management's ability to measure risk and standardizes underwriting across the Bank. In the first quarter of 2011, the Company hired a new chief credit officer with nearly 40 years of credit experience in the banking industry and appointed a new senior credit officer with 22 years of credit experience in the banking industry. Also, during the first quarter of 2011, the Company enhanced its oversight of potential troubled assets by creating a new internal special assets committee, and oversight at the Board of Directors level has been enhanced by a new credit committee. These actions have resulted in the implementation of key processes and procedures for credit administration, including a clear definition for credits that are deemed to be impaired.

During the second quarter of 2011, management implemented procedures for the actual evaluation of potentially impaired loans on an entity-wide basis, including clear documentation to ensure consistent and accurate assessments. The Company also conducted appropriate training across the organization on this and related issues, as lenders in the organization must analyze and evaluate key credit issues on a consistent basis. Notwithstanding these additional necessary steps, the restructuring of the credit administration function now provides for the review of all evaluations of impaired loans for accuracy.

**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, 2010.

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

None.

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

None.

**Item 4. *(Removed and Reserved)***

**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, 2011, 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 Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) 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 15, 2011

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

Date: August 15, 2011