

Community Bankers Trust Corp
Form 10-Q
November 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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)

Virginia <i>(State or other jurisdiction of incorporation or organization)</i>	20-2652949 <i>(I.R.S. Employer Identification No.)</i>
--	--

9954 Mayland Drive, Suite 2100 Richmond, Virginia	23233
--	--------------

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

(Address of principal executive offices) (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 September 30, 2015, there were 21,848,489 shares of the Company's common stock outstanding.

COMMUNITY BANKERS TRUST CORPORATION

TABLE OF CONTENTS

FORM 10-Q

September 30, 2015

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

3

Unaudited Consolidated Statements of (Loss) Income

4

Unaudited Consolidated Statements of Comprehensive (Loss) Income

5

Unaudited Consolidated Statements of Changes in Shareholders' Equity

6

Unaudited Consolidated Statements of Cash Flows

7

Notes to Unaudited Consolidated Financial Statements

8

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

32

Item 3. Quantitative and Qualitative Disclosures About Market Risk

47

Item 4. Controls and Procedures

48

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

48

Item 1A. Risk Factors

49

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

49

Item 3. Defaults upon Senior Securities

49

Item 4. Mine Safety Disclosures

49

Item 5. Other Information

49

Item 6. Exhibits

49

SIGNATURES

50

PART I — FINANCIAL INFORMATION**Item 1. Financial Statements****COMMUNITY BANKERS TRUST CORPORATION****CONSOLIDATED BALANCE SHEETS****AS OF SEPTEMBER 30, 2015 AND DECEMBER 31, 2014****(dollars in thousands)**

	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	\$ 10,032	\$ 8,329
Interest bearing bank deposits	2,405	14,024
Total cash and cash equivalents	12,437	22,353
Securities available for sale, at fair value	266,961	274,568
Securities held to maturity, at cost (fair value of \$39,773 and \$37,539, respectively)	38,732	36,197
Equity securities, restricted, at cost	8,610	8,816
Total securities	314,303	319,581
Loans held for sale	673	200
Loans	693,002	660,020
Purchased credit impaired (PCI) loans	61,073	67,460
Total loans	754,075	727,480
Allowance for loan losses (loans of \$9,701 and \$9,267, respectively; PCI loans of \$484 and \$484, respectively)	(10,185)	(9,751)
Net loans	743,890	717,729
FDIC indemnification asset	—	18,609
Bank premises and equipment, net	27,583	29,702
Bank premises and equipment held for sale	2,228	465
Other real estate owned	5,858	7,743
Bank owned life insurance	21,466	21,004
FDIC receivable under shared-loss agreements	—	669

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

Core deposit intangibles, net	3,282	4,713
Other assets	17,465	12,966
Total assets	\$ 1,149,185	\$ 1,155,734

LIABILITIES

Deposits:		
Noninterest bearing	\$ 99,549	\$ 84,564
Interest bearing	834,016	834,381
Total deposits	933,565	918,945
Federal funds purchased and securities sold under agreements to repurchase	958	14,500
Federal Home Loan Bank advances	95,844	96,401
Long-term debt	6,476	9,680
Trust preferred capital notes	4,124	4,124
Other liabilities	5,263	4,434
Total liabilities	1,046,230	1,048,084

SHAREHOLDERS' EQUITY

Common stock (200,000,000 shares authorized, \$0.01 par value; 21,848,489 and 21,791,523 shares issued and outstanding, respectively)	218	218
Additional paid in capital	145,751	145,321
Retained deficit	(43,264	) (38,553)
Accumulated other comprehensive income	250	664
Total shareholders' equity	102,955	107,650
Total liabilities and shareholders' equity	\$ 1,149,185	\$ 1,155,734

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION**UNAUDITED CONSOLIDATED STATEMENTS OF (LOSS) INCOME****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014****(dollars and shares in thousands, except per share data)**

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Interest and dividend income				
Interest and fees on loans	\$ 7,986	\$ 7,924	\$ 23,750	\$ 22,079
Interest and fees on PCI loans	1,730	2,646	6,221	9,058
Interest on federal funds sold	—	—	2	—
Interest on deposits in other banks	12	11	46	46
Interest and dividends on securities				
Taxable	1,396	1,813	4,119	5,221
Nontaxable	599	271	1,568	595
Total interest and dividend income	11,723	12,665	35,706	36,999
Interest expense				
Interest on deposits	1,523	1,504	4,457	4,365
Interest on other borrowed funds	355	279	1,156	685
Total interest expense	1,878	1,783	5,613	5,050
Net interest income	9,845	10,882	30,093	31,949
Provision for loan losses	—	—	—	—
Net interest income after provision for loan losses	9,845	10,882	30,093	31,949
Noninterest income				
Service charges on deposit accounts	583	584	1,668	1,634
Gain on securities transactions, net	74	115	363	494
Gain on sale of other loans, net	—	78	69	153
Income on bank owned life insurance	188	193	562	578
Mortgage loan income	230	42	640	115
Other	178	154	554	463
Total noninterest income	1,253	1,166	3,856	3,437
Noninterest expense				
Salaries and employee benefits	4,803	4,072	13,704	12,023
Occupancy expenses	669	631	1,976	1,966
Equipment expenses	282	255	782	734
FDIC assessment	187	210	644	611
Data processing fees	401	355	1,255	1,312
FDIC indemnification asset amortization	13,803	1,439	16,195	4,415
Amortization of intangibles	477	477	1,431	1,431
Other real estate expense	858	392	1,080	775
Other operating expenses	1,549	1,707	4,924	4,807

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

Total noninterest expense	23,029	9,538	41,991	28,074
(Loss) income before income taxes	(11,931)	2,510	(8,042)	7,312
Income tax (benefit) expense	(4,215)	697	(3,331)	2,055
Net (loss) income	\$(7,716)	\$ 1,813	\$(4,711)	\$ 5,257
Dividends paid on preferred stock	—	—	—	247
Net (loss) income available to common shareholders	\$(7,716)	\$ 1,813	\$(4,711)	\$ 5,010
Net income per share — basic	\$(0.35)	\$ 0.08	\$(0.21)	\$ 0.23
Net income per share — diluted	\$(0.35)	\$ 0.08	\$(0.21)	\$ 0.23
Weighted average number of shares outstanding				
Basic	21,835	21,764	21,819	21,745
Diluted	21,835	21,987	21,819	21,964

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(dollars in thousands)

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net (loss) income	\$ (7,716)	\$ 1,813	\$ (4,711)	\$ 5,257
Other comprehensive income (loss):				
Unrealized gains on investment securities:				
Change in unrealized gain in investment securities	2,571	879	371	6,574
Tax related to unrealized gain in investment securities	(873)	(299)	(126)	(2,235)
Reclassification adjustment for gain in securities sold	(74)	(115)	(363)	(494)
Tax related to realized gain in securities sold	25	39	123	168
Cash flow hedge:				
Change in unrealized gain in cash flow hedge	(470)	-	(634)	-
Tax related to cash flow hedge	158	-	215	-
Total other comprehensive income (loss)	1,337	504	(414)	4,013
Total comprehensive (loss) income	\$ (6,379)	\$ 2,317	\$ (5,125)	\$ 9,270

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(dollars and shares in thousands)

	Preferred Stock	Warrants	Common Shares	Stock Amount	Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance January 1, 2014	\$10,680	\$1,037	21,709	\$ 217	\$ 144,656	\$(45,822)	\$ (4,109)	\$ 106,659
Issuance of common stock	—	—	74	1	188	—	—	189
Dividends paid on preferred stock	—	—	—	—	—	(247)	—	(247)
Issuance of stock options	—	—	—	—	137	—	—	137
Redemption of preferred stock	(10,680)	—	—	—	—	—	—	(10,680)
Redemption of warrants on preferred stock	—	(1,037)	—	—	257	—	—	(780)
Net income	—	—	—	—	—	5,257	—	5,257
Other comprehensive income	—	—	—	—	—	—	4,013	4,013
Balance September 30, 2014	\$—	\$—	21,783	\$ 218	\$ 145,238	\$(40,812)	\$ (96)	\$ 104,548
Balance January 1, 2015	\$—	\$—	21,792	\$ 218	\$ 145,321	\$(38,553)	\$ 664	\$ 107,650
Issuance of common stock	—	—	56	0	197	—	—	197
Issuance of stock options	—	—	—	—	233	—	—	233
Net loss	—	—	—	—	—	(4,711)	—	(4,711)
Other comprehensive loss	—	—	—	—	—	—	(414)	(414)
Balance September 30, 2015	\$—	\$—	21,848	\$ 218	\$ 145,751	\$(43,264)	\$ 250	\$ 102,955

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014****(dollars in thousands)**

	September 30, 2015	September 30, 2014
Operating activities:		
Net (loss) income	\$ (4,711	) \$ 5,257
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and intangibles amortization	2,651	2,558
Non-cash contribution of property	—	68
Issuance of common stock and stock options	430	326
Amortization of purchased loan premium	222	960
Amortization of security premiums and accretion of discounts, net	1,942	2,612
Net gain on sale of securities	(363	) (494
Net loss on sale and valuation of other real estate owned	1,010	700
Net gain on sale of loans	(69	) (153
Originations of mortgages held for sale	(44,876	) (1,520
Proceeds from sales of mortgages held for sale	44,403	1,381
Loss on termination of FDIC shared-loss agreement	13,084	—
Changes in assets and liabilities:		
(Increase) decrease in other assets	(1,870	) 2,679
Increase in accrued expenses and other liabilities	413	580
Net cash provided by operating activities	12,266	14,954
Investing activities:		
Proceeds from available for sale securities	116,364	87,169
Proceeds from held to maturity securities	1,632	5,704
Proceeds from sale of equity securities	1,658	587
Purchase of available for sale securities	(110,605	) (83,479
Purchase of held to maturity securities	(3,893	) (15,777
Purchase of equity securities	(1,452	) (378
Proceeds from sale of other real estate owned	2,572	3,132
Improvements of other real estate, net of insurance proceeds	(488	) (418
Net increase in loans	(31,659	) (54,868
Principal recoveries of loans previously charged off	1,494	520
Purchase of premises and equipment, net	(1,602	) (2,751
Proceeds from termination of FDIC shared-loss agreement	3,100	—
Proceeds from sale of loans	3,380	11,175
Net cash used in investing activities	(19,499	) (49,384

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

Financing activities:

Net increase in noninterest bearing and interest bearing demand deposits	14,620		29,371	
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(13,542	)	(2,713)
Net (decrease) increase in Federal Home Loan Bank borrowings	(557	)	4,459	
Cash dividends paid	—		(247)
Proceeds from long-term debt	—		10,680	
Redemption of preferred stock and relate warrants	—		(11,460)
Payments on long-term debt	(3,204	)	(1,000)
Net cash (used in) provided by financing activities	(2,683	)	29,090	
Net decrease in cash and cash equivalents	(9,916	)	(5,340)

Cash and cash equivalents:

Beginning of the period	\$ 22,353	\$ 23,835
End of the period	\$ 12,437	\$ 18,495

Supplemental disclosures of cash flow information:

Interest paid	\$ 5,639	\$ 4,924
Income taxes paid	1,920	2,249
Transfers of loans to other real estate owned property	791	2,555
Transfer of building premises and equipment to held for sale	2,118	3,237

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Banking Activities and Significant Accounting Policies

Organization

Community Bankers Trust Corporation (the “Company”) is headquartered in Richmond, Virginia and is the holding company for Essex Bank (the “Bank”), a Virginia state bank with 22 full-service offices in Virginia and Maryland. The Bank also operates two loan production offices in 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 industrial loans, consumer and small business loans, real estate and mortgage loans, investment services, on-line and mobile banking products, and safe deposit box facilities.

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, 2014. The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles (GAAP) and to the general practices within the banking industry. The interim financial statements have not been audited; however, in the opinion of management, all adjustments, consisting of normal accruals, were made that are necessary to present fairly the balance sheet of the Company as of September 30, 2015, the statements of changes in shareholders’ equity and cash flows for the nine months ended September 30, 2015, and the statements of (loss) income and comprehensive (loss) income for the three and nine months ended September 30, 2015. Results for the nine month period ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

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

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 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-05, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. Existing GAAP does not include explicit guidance about a customer's accounting for fees paid in a cloud computing arrangement. Examples of cloud computing arrangements include: (a) software as a service; (b) platform as a service; (c) infrastructure as a service; and (d) other similar hosting arrangements. The ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. As a result of the ASU, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets.

For public business entities, the ASU will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), and Health and Welfare Benefit Plans (Topic 965) - I. Fully Benefit-Responsive Investment Contracts; II. Plan Investment Disclosures, and III. Measurement Date Practical Expedient*. This Update reduces complexity in employee benefit plan accounting, which is consistent with the FASB's Simplification initiative. Parts I and III are not applicable to the Company. Regarding Part II, as new disclosure requirements have been issued or amended, employee benefit plan financial statements have been affected. Specifically, the interaction between Topic 820, Fair Value Measurement, and Topics 960, 962, and 965 on employee benefit plan accounting sometimes requires aggregation, or organization of similar investment information, in multiple ways. The objective of Part II of this Update is to simplify and make more effective the investment disclosure requirements under Topic 820 and under Topics 960, 962, and 965 for employee benefit plans. The amendments are effective for fiscal years beginning after December 15, 2015, and should be applied prospectively. Early application is permitted. The Company does not expect the adoption of the guidance to have a material impact on its consolidation financial statements.

Certain reclassifications have been made to prior period balances to conform to the current year presentations. See Notes 3, 4, 5 and 6 for details regarding reclassifications resulting from the termination of the Company's shared-loss agreement with the Federal Deposit Insurance Corporation (FDIC).

Note 2. Securities

Amortized costs and fair values of securities available for sale and held to maturity at September 30, 2015 and December 31, 2014 were as follows (dollars in thousands):

	September 30, 2015			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov't agencies	\$57,668	\$80	\$(721)	\$57,027
U.S. Gov't sponsored agencies	756	—	(10)	746
State, county and municipal	142,673	3,995	(795)	145,873
Corporate and other bonds	20,467	86	(437)	20,116
Mortgage backed – U.S. Gov't agencies	8,715	10	(57)	8,668
Mortgage backed – U.S. Gov't sponsored agencies	34,475	160	(104)	34,531
Total Securities Available for Sale	\$264,754	\$4,331	\$(2,124)	\$266,961
Securities Held to Maturity				
State, county and municipal	\$35,370	\$929	\$(62)	\$36,237
Mortgage backed – U.S. Gov't agencies	3,362	174	—	3,536

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

Mortgage backed – U.S. Gov’t sponsored agencies	—	—	—	—
Total Securities Held to Maturity	\$38,732	\$1,103	\$(62)	\$39,773

December 31, 2014

Gross Unrealized

	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov’t agencies	\$99,608	\$113	\$(1,014)	\$98,707
U.S. Gov’t sponsored agencies	—	—	—	—
State, county and municipal	134,405	3,926	(854)	137,477
Corporate and other bonds	11,921	17	(55)	11,883
Mortgage backed – U.S. Gov’t agencies	2,338	18	(98)	2,258
Mortgage backed – U.S. Gov’t sponsored agencies	24,096	174	(27)	24,243
Total Securities Available for Sale	\$272,368	\$4,248	\$(2,048)	\$274,568
Securities Held to Maturity				
State, county and municipal	\$31,677	\$1,103	\$—	\$32,780
Mortgage backed – U.S. Gov’t agencies	4,293	238	—	4,531
Mortgage backed – U.S. Gov’t sponsored agencies	227	1	—	228
Total Securities Held to Maturity	\$36,197	\$1,342	\$—	\$37,539

The amortized cost and fair value of securities at September 30, 2015 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.

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$1,878	\$ 1,911	\$2,720	\$ 2,683
Due after one year through five years	13,406	14,031	86,793	88,070
Due after five years through ten years	14,070	14,327	133,580	134,846
Due after ten years	9,378	9,504	41,661	41,362
Total securities	\$38,732	\$ 39,773	\$264,754	\$ 266,961

Proceeds from sales of securities available for sale were \$19.3 million and \$17.0 million during the three months ended September 30, 2015 and 2014, respectively, and \$75.5 million and \$61.6 million during the nine months ended September 30, 2015 and 2014, respectively. Gains and losses on the sale of securities are determined using the specific identification method. Gross realized gains and losses on sales of securities available for sale during the three and nine months ended September 30, 2015 and 2014 were as follows (dollars in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Gross realized gains	\$ 95	\$ 202	\$ 670	\$ 698
Gross realized losses	(21)	(87)	(307)	(204)
Net securities gains	\$ 74	\$ 115	\$ 363	\$ 494

In estimating other than temporary impairment (OTTI) losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and short-term prospects for the issuer, and the intent and ability of management to hold its investment for a period of time to allow a recovery in fair value. There were no investments held that had OTTI losses for the nine months ended September 30, 2015 and 2014.

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 September 30, 2015 and December 31, 2014 were as follows (dollars in thousands):

September 30, 2015		
Less than 12 Months	12 Months or More	Total

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

	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available for Sale						
U.S. Treasury issue and other U.S. Gov't agencies	\$10,924	\$ (54)	\$32,347	\$ (667)	\$43,271	\$ (721)
U.S. Treasury issue and other U.S. Gov't sponsored agencies	746	(10)	-	-	746	(10)
State, county and municipal	20,859	(274)	9,965	(521)	30,824	(795)
Corporate and other bonds	8,897	(396)	3,338	(41)	12,235	(437)
Mortgage backed – U.S. Gov't agencies	2,002	(9)	1,949	(48)	3,951	(57)
Mortgage backed – U.S. Gov't sponsored agencies	10,089	(104)	-	-	10,089	(104)
Total	\$53,517	\$ (847)	\$47,599	\$ (1,277)	\$101,116	\$ (2,124)
Securities Held to Maturity						
State, county and municipal	\$4,119	\$ (62)	\$-	\$-	\$4,119	\$ (62)

	December 31, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available for Sale						
U.S. Treasury issue and other U.S. Gov't agencies	\$47,475	\$ (438)	\$35,630	\$ (576)	\$83,105	\$ (1,014)
State, county and municipal	3,673	(8)	32,348	(846)	36,021	(854)
Corporate and other bonds	5,756	(21)	3,113	(34)	8,869	(55)
Mortgage backed – U.S. Gov't agencies	—	—	1,899	(98)	1,899	(98)
Mortgage backed – U.S. Gov't sponsored agencies	2,551	(16)	712	(11)	3,263	(27)
Total	\$59,455	\$ (483)	\$73,702	\$ (1,565)	\$133,157	\$ (2,048)

The unrealized losses (impairments) in the investment portfolio at September 30, 2015 and December 31, 2014 are generally a result of market fluctuations that occur daily. The unrealized losses are from 135 securities at September 30, 2015. Of those, 115 are investment grade, have U.S. government agency guarantees, or are backed by the full faith and credit of local municipalities throughout the United States. Twenty investment grade corporate obligations comprise the remaining securities with unrealized losses at September 30, 2015. 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 or reach maturity.

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 \$58.0 million and \$111.3 million at September 30, 2015 and December 31, 2014, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. At each of September 30, 2015 and December 31, 2014, there were no securities purchased from a single issuer, other than U.S. Treasury issue and other U.S. Government agencies that comprised more than 10% of the consolidated shareholders' equity.

Note 3. Loans and Related Allowance for Loan Losses

During the third quarter of 2015, the Company terminated the shared-loss agreement with the FDIC relating to the single family, residential 1-4 family mortgage assets. As a result of this termination, the Company reclassified the purchased credit impaired (PCI) loans related to the shared-loss agreement that expired March 2014, which had been reported as non-covered loans, as PCI loans for all periods presented. Consequently, loans previously referred to as non-covered loans are referred to as loans. See Notes 4 and 5 for more information.

The Company's loans, net of deferred fees and costs, at September 30, 2015 and December 31, 2014 were comprised of the following (dollars in thousands):

	September 30, 2015		December 31, 2014	
	Amount	% of Loans	Amount	% of Loans
Mortgage loans on real estate:				

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

Residential 1-4 family	\$ 184,256	26.59	% \$ 167,171	25.33	%
Commercial	288,111	41.57	282,127	42.75	
Construction and land development	64,059	9.24	57,027	8.64	
Second mortgages	7,940	1.15	5,997	0.91	
Multifamily	45,609	6.58	33,812	5.12	
Agriculture	6,335	0.91	7,163	1.08	
Total real estate loans	596,310	86.04	553,297	83.83	
Commercial loans	90,295	13.03	99,783	15.12	
Consumer installment loans	5,005	0.73	5,496	0.83	
All other loans	1,392	0.20	1,444	0.22	
Total loans	\$ 693,002	100.00	% \$ 660,020	100.00	%
Loans previously reported	\$ 693,002		\$ 664,736		
Loans previously reported as PCI	—		(4,716)		
Total loans	\$ 693,002		\$ 660,020		

The Company held \$14.5 million and \$18.3 million in balances of loans guaranteed by the United States Department of Agriculture (USDA), which are included in various categories in the table above, at September 30, 2015 and December 31, 2014, respectively. As these loans are 100% guaranteed by the USDA, no loan loss provision is required. These loan balances included an unamortized purchase premium of \$671,000 and \$922,000 at September 30, 2015 and December 31, 2014, respectively. Unamortized purchase premium is recognized as an adjustment of the related loan yield on a straight line basis, which is substantially equivalent to the results obtained using the effective interest method.

At September 30, 2015 and December 31, 2014, 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 Accounting Standards Codification (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.

The following table summarizes information related to impaired loans as of September 30, 2015 (dollars in thousands):

	Recorded Investment ⁽¹⁾	Unpaid Principal Balance ⁽²⁾	Related Allowance
With an allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	\$ 4,027	\$ 4,552	\$ 806
Commercial	312	518	66
Construction and land development	4,511	6,180	665
Second mortgages	13	14	2
Total real estate loans	8,863	11,264	1,539
Commercial loans	2	2	—
Consumer installment loans	81	87	14
Subtotal impaired loans with a valuation allowance	8,946	11,353	1,553
With no related allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	637	656	—
Commercial	1,212	1,392	—
Total real estate loans	1,849	2,048	—
Subtotal impaired loans without a valuation allowance	1,849	2,048	—
Total:			
Mortgage loans on real estate:			
Residential 1-4 family	4,664	5,208	806
Commercial	1,524	1,910	66
Construction and land development	4,511	6,180	665
Second mortgages	13	14	2
Total real estate loans	10,712	13,312	1,539
Commercial loans	2	2	—
Consumer installment loans	81	87	14
Total impaired loans	\$ 10,795	\$ 13,401	\$ 1,553

(1) The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment

- (2) The contractual amount due, which reflects paydowns applied in accordance with loan documents, but which does not reflect any direct write-downs

The following table summarizes information related to impaired loans as of December 31, 2014 (dollars in thousands):

	Recorded Investment ⁽¹⁾	Unpaid Principal Balance ⁽²⁾	Related Allowance
With an allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	\$ 2,754	\$ 2,895	\$ 463
Commercial	308	470	53
Construction and land development	4,903	7,643	627
Second mortgages	61	63	11
Total real estate loans	8,026	11,071	1,154
Commercial loans	7,521	8,721	520
Consumer installment loans	118	120	20
Subtotal impaired loans with a valuation allowance	15,665	19,912	1,694
With no related allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	588	626	—
Commercial	418	550	—
Construction and land development	179	212	—
Total real estate loans	1,185	1,388	—
Consumer installment loans	2	3	—
Subtotal impaired loans without a valuation allowance	1,187	1,391	—
Total:			
Mortgage loans on real estate:			
Residential 1-4 family	3,342	3,521	463
Commercial	726	1,020	53
Construction and land development	5,082	7,855	627
Second mortgages	61	63	11
Total real estate loans	9,211	12,459	1,154
Commercial loans	7,521	8,721	520
Consumer installment loans	120	123	20
Total impaired loans	\$ 16,852	\$ 21,303	\$ 1,694

(1) The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment

(2) The contractual amount due, which reflects paydowns applied in accordance with loan documents, but which does not reflect any direct write-downs

The following table summarizes the average recorded investment of impaired loans for the three and nine months ended September 30, 2015 and 2014 (dollars in thousands):

	Three months ended September 30, 2015		September 30, 2014		Nine months ended September 30, 2015		September 30, 2014	
Mortgage loans on real estate:								
Residential 1-4 family	\$ 4,279		\$ 4,389		\$ 4,003		\$ 4,255	
Commercial	1,631		872		1,125		1,690	
Construction and land development	4,632		5,143		4,796		5,416	
Second mortgages	37		222		37		223	
Agriculture	—		—		—		102	
Total real estate loans	10,579		10,626		9,961		11,686	
Commercial loans	2		22		3,762		68	
Consumer installment loans	83		94		101		74	
Total impaired loans	\$ 10,664		\$ 10,742		\$ 13,824		\$ 11,828	

During each of the three and nine months ended September 30, 2015, all of the impaired loans were also nonaccruing for which no interest income was accrued. During each of the three and nine months ended September 30, 2014, the majority of impaired loans were nonaccruing and no significant amounts of interest income were recognized on accruing impaired loans.

Interest income on nonaccrual loans, if recognized, is recorded using the cash basis method of accounting. Cash basis income of \$25,000 and \$301,000 was recognized during the three months ended September 30, 2015 and 2014, respectively. Cash basis income of \$487,000 and \$598,000 was recognized during the nine months ended September 30, 2015 and 2014, respectively. For the three months ended September 30, 2015, and 2014, estimated interest income of \$224,000 and \$204,000, respectively, would have been recorded if all such loans had been accruing interest according to their original contractual terms. For the nine months ended September 30, 2015, and 2014, estimated interest income of \$548,000 and \$583,000, respectively, would have been recorded if all such loans had been accruing interest according to their original contractual terms.

The following table presents nonaccrual loans by loan category as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015	December 31, 2014
Mortgage loans on real estate:		
Residential 1-4 family	\$ 4,664	\$ 3,342
Commercial	1,524	607

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

Construction and land development	4,511	4,920
Second mortgages	13	61
Multifamily	—	—
Agriculture	—	—
Total real estate loans	10,712	8,930
Commercial loans	2	7,521
Consumer installment loans	81	120
All other loans	—	—
Total loans	\$ 10,795	\$ 16,571

Troubled debt restructures and some special mention 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. All impaired loans at September 30, 2015 were also nonaccrual loans. Impaired loans of \$16.9 million at December 31, 2014 consisted of \$16.6 million in nonaccrual loans, in addition to \$118,000 in troubled debt restructures and \$163,000 in special mention loans both of which were still accruing.

The following tables present an age analysis of past due status of loans by category as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015					
	30-89					Recorded
	Days	90 Days	Total	Current	Total Loans	Investment 90
	Past	Past Due	Past Due		Receivable	Days Past Due
	Due					and Accruing
Mortgage loans on real estate:						
Residential 1-4 family	\$613	\$ 4,664	\$ 5,277	\$178,979	\$ 184,256	\$ —
Commercial	—	1,524	1,524	286,587	288,111	—
Construction and land development	—	4,511	4,511	59,548	64,059	—
Second mortgages	135	13	148	7,792	7,940	—
Multifamily	—	—	—	45,609	45,609	—
Agriculture	—	—	—	6,335	6,335	—
Total real estate loans	748	10,712	11,460	584,850	596,310	—
Commercial loans	17	2	19	90,276	90,295	—
Consumer installment loans	11	81	92	4,913	5,005	—
All other loans	33	—	33	1,359	1,392	—
Total loans	\$809	\$ 10,795	\$ 11,604	\$681,398	\$ 693,002	\$ —

	December 31, 2014					
	30-89					Recorded
	Days	90 Days	Total	Current	Total Loans	Investment 90
	Past	Past Due	Past Due			Days Past Due
	Due					and Accruing
Mortgage loans on real estate:						
Residential 1-4 family	\$298	\$ 3,342	\$ 3,640	\$163,531	\$ 167,171	\$ —
Commercial	200	607	807	281,320	282,127	—
Construction and land development	128	4,920	5,048	51,979	57,027	—
Second mortgages	26	61	87	5,910	5,997	—
Multifamily	—	—	—	33,812	33,812	—
Agriculture	—	—	—	7,163	7,163	—
Total real estate loans	652	8,930	9,582	543,715	553,297	—
Commercial loans	66	7,521	7,587	92,196	99,783	—
Consumer installment loans	10	120	130	5,366	5,496	—
All other loans	—	—	—	1,444	1,444	—
Total loans	\$728	\$ 16,571	\$ 17,299	\$642,721	\$ 660,020	\$ —

Activity in the allowance for loan losses on loans by segment for the three and nine months ended September 30, 2015 and 2014 is presented in the following tables (dollars in thousands):

Three Months Ended September 30, 2015					
	Beginning of Period	Provision Allocation	Charge-offs	Recoveries	End of Period
Mortgage loans on real estate:					
Residential 1-4 family	\$ 3,612	\$ 82	\$ (25)	\$ 6	\$ 3,675
Commercial	3,559	(432)	—	9	3,136
Construction and land development	1,639	195	(138)	1	1,697
Second mortgages	56	21	—	3	80
Multifamily	251	(59)	—	—	192
Agriculture	77	(44)	—	—	33
Total real estate loans	9,194	(237)	(163)	19	8,813
Commercial loans	561	200	(3)	—	758
Consumer installment loans	78	54	(43)	27	116
All other loans	31	(17)	—	—	14
Total loans	\$ 9,864	\$ —	\$ (209)	\$ 46	\$ 9,701

Three Months Ended September 30, 2014					
	Beginning of Period	Provision Allocation	Charge-offs	Recoveries	End of Period
Mortgage loans on real estate:					
Residential 1-4 family	\$ 3,670	\$ 8	\$ (501)	\$ 17	\$ 3,194
Commercial	2,919	558	(67)	8	3,418
Construction and land development	1,624	(171)	—	—	1,453
Second mortgages	98	29	—	—	127
Multifamily	176	10	—	—	186
Agriculture	64	—	—	—	64
Total real estate loans	8,551	434	(568)	25	8,442
Commercial loans	1,478	(435)	—	148	1,191
Consumer installment loans	102	(3)	(35)	38	102
All other loans	25	4	—	—	29
Total loans	\$ 10,156	\$ —	\$ (603)	\$ 211	\$ 9,764

Nine Months Ended September 30, 2015					
	Beginning of Period	Provision Allocation	Charge-offs	Recoveries	End of Period
Mortgage loans on real estate:					
Residential 1-4 family	\$ 3,100	\$ 837	\$ (325)	\$ 63	\$ 3,675

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

Commercial	2,618	494	—	24	3,136
Construction and land development	1,930	341	(593)	19	1,697
Second mortgages	63	(79)	—	96	80
Multifamily	136	56	—	—	192
Agriculture	66	(33)	—	—	33
Total real estate loans	7,913	1,616	(918)	202	8,813
Commercial loans	1,242	(1,689)	(3)	1,208	758
Consumer installment loans	85	86	(139)	84	116
All other loans	27	(13)	—	—	14
Total loans	\$9,267	\$ —	\$ (1,060)	\$ 1,494	\$ 9,701

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

	Nine Months Ended September 30, 2014				
	Beginning of Period	Provision Allocation	Charge-offs	Recoveries	End of Period
Mortgage loans on real estate:					
Residential 1-4 family	\$3,853	\$ (112)	\$ (611)	\$ 64	\$ 3,194
Commercial	2,333	1,475	(479)	89	3,418
Construction and land development	2,252	(800)	—	1	1,453
Second mortgages	101	24	—	2	127
Multifamily	151	35	—	—	186
Agriculture	81	(17)	—	—	64
Total real estate loans	8,771	605	(1,090)	156	8,442
Commercial loans	1,546	(621)	—	266	1,191
Consumer installment loans	101	13	(110)	98	102
All other loans	26	3	—	—	29
Total loans	\$10,444	\$ —	\$ (1,200)	\$ 520	\$ 9,764

The following tables present information on the loans evaluated for impairment in the allowance for loan losses as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015			Recorded Investment in Loans		
	Allowance for Loan Losses			Individually		
	Individually Evaluated for Impairment (1)	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment (1)	Collectively Evaluated for Impairment	Total
Mortgage loans on real estate:						
Residential 1-4 family	\$906	\$ 2,769	\$3,675	\$7,354	\$ 176,902	\$184,256
Commercial	105	3,031	3,136	6,400	281,711	288,111
Construction and land development	665	1,032	1,697	4,511	59,548	64,059
Second mortgages	2	78	80	13	7,927	7,940
Multifamily	—	192	192	—	45,609	45,609
Agriculture	—	33	33	—	6,335	6,335
Total real estate loans	1,678	7,135	8,813	18,278	578,032	596,310
Commercial loans	1	757	758	63	90,232	90,295
Consumer installment loans	14	102	116	81	4,924	5,005
All other loans	—	14	14	—	1,392	1,392
Total loans	\$1,693	\$ 8,008	\$9,701	\$18,422	\$ 674,580	\$693,002

	December 31, 2014		Recorded Investment in Loans	
	Allowance for Loan Losses		Individually	
	Individually Evaluated for Impairment (1)	Collectively Evaluated for Impairment	Individually Evaluated for Impairment (1)	Collectively Evaluated for Impairment

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

	Individually Evaluated for Impairment (1)		Collectively Evaluated for Impairment		Individually Evaluated for Impairment (1)		Collectively Evaluated for Impairment	
Mortgage loans on real estate:								
Residential 1-4 family	\$598	\$ 2,502	\$3,100	\$7,307	\$ 159,864		\$167,171	
Commercial	54	2,564	2,618	5,122	277,005		282,127	
Construction and land development	628	1,302	1,930	5,096	51,931		57,027	
Second mortgages	11	52	63	61	5,936		5,997	
Multifamily	—	136	136	—	33,812		33,812	
Agriculture	—	66	66	—	7,163		7,163	
Total real estate loans	1,291	6,622	7,913	17,586	535,711		553,297	
Commercial loans	529	713	1,242	7,757	92,026		99,783	
Consumer installment loans	20	65	85	124	5,372		5,496	
All other loans	—	27	27	—	1,444		1,444	
Total loans	\$1,840	\$ 7,427	\$9,267	\$25,467	\$ 634,553		\$660,020	

⁽¹⁾ The category “Individually Evaluated for Impairment” includes loans individually evaluated for impairment and determined not to be impaired. These loans totalled \$7.6 million and \$8.6 million at September 30, 2015 and December 31, 2014, respectively. The allowance for loans losses allocated to these loans was \$140,000 and \$146,000 at September 30, 2015 and December 31, 2014, respectively.

Loans are monitored for credit quality on a recurring basis. These credit quality indicators are defined as follows:

Pass - A pass loan is not adversely classified, as it does not display any of the characteristics for adverse classification. This category includes purchased loans that are 100% guaranteed by U.S. Government agencies of \$14.5 million and \$18.3 million at September 30, 2015 and December 31, 2014, respectively.

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

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

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

The following tables present the composition of loans by credit quality indicator at September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015				
	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential 1-4 family	\$172,184	\$6,277	\$ 5,795	\$ —	\$184,256
Commercial	276,211	8,716	3,184	—	288,111

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

Construction and land development	59,109	439	4,511	—	64,059
Second mortgages	6,518	1,409	13	—	7,940
Multifamily	45,609	—	—	—	45,609
Agriculture	6,210	125	—	—	6,335
Total real estate loans	565,841	16,966	13,503	—	596,310
Commercial loans	89,282	950	63	—	90,295
Consumer installment loans	4,900	61	44	—	5,005
All other loans	1,392	—	—	—	1,392
Total loans	\$611,415	\$17,977	\$13,610	\$—	\$693,002

December 31, 2014

	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential 1-4 family	\$153,699	\$7,540	\$5,932	\$—	\$167,171
Commercial	268,391	10,363	3,373	—	282,127
Construction and land development	51,473	620	4,934	—	57,027
Second mortgages	4,636	1,300	61	—	5,997
Multifamily	33,812	—	—	—	33,812
Agriculture	7,163	—	—	—	7,163
Total real estate loans	519,174	19,823	14,300	—	553,297
Commercial loans	90,035	1,991	7,757	—	99,783
Consumer installment loans	5,351	21	124	—	5,496
All other loans	1,444	—	—	—	1,444
Total loans	\$616,004	\$21,835	\$22,181	\$—	\$660,020

In accordance with FASB ASU 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, the Company assesses all loan modifications to determine whether they are considered troubled debt restructurings (TDRs) under the guidance. The Company had 18 and 16 loans that met the definition of a TDR at September 30, 2015 and 2014, respectively.

The Company had no loan modifications considered to be TDRs during the three months ended September 30, 2015. During the nine months ended September 30, 2015, the Company modified one residential 1-4 family loan that was considered to be a TDR. The Company extended the terms and lowered the interest rate for this loan, which had a pre- and post-modification balance of \$68,000. During the three and nine months ended September 30, 2014, the Company modified one commercial loan that was considered to be a TDR. The Company extended the terms and lowered the interest rate for this loan, which had a pre- and post-modification balance of \$69,000.

A loan is considered to be in default if it is 90 days or more past due. There were no TDRs that had been restructured during the previous 12 months that resulted in default during either of the three and nine months ended September 30, 2015 and 2014.

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

At September 30, 2015, the Company had 1-4 family mortgages in the amount of \$141.7 million pledged as collateral to the Federal Home Loan Bank for a total borrowing capacity of \$123.1 million.

Note 4. PCI Loans and Related Allowance for Loan Losses

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

agreement related to loans other than those secured by single family, residential 1-4 family mortgages expired March 31, 2014. These loans, which had an outstanding principal balance of \$10.0 million and a carrying value of \$5.5 million at March 31, 2014, are being accounted for in accordance with FASB ASC 310-30, *Loans and Debt Securities Acquire with Deteriorated Credit Quality*, are commonly referred to as purchased credit impaired loans, and were classified as non-covered loans effective April 1, 2014 (the “PCI loans”).

During the third quarter of 2015, the Company terminated the shared-loss agreement relating to the single family, residential 1-4 family mortgage assets. As a result of this termination, the Company reclassified the related loans (the “loans previously reported as covered by the FDIC”), as well as the PCI loans related to the shared-loss agreement that expired March 2014, which had been reported as non-covered loans, as PCI loans for all periods presented. These loans continue to be accounted for under the provisions of FASB ASC 310-30. Additionally, the Company has reclassified all interest income related to these loans as interest income on PCI loans for all periods presented.

As of September 30, 2015 and December 31, 2014, the outstanding contractual balance of the PCI loans was \$94.0 million and \$104.0 million, respectively. The carrying amount, by loan type, as of these dates is as follows (dollars in thousands):

	September 30, 2015		December 31, 2014		
	Amount	% of PCI Loans	Amount	% of PCI Loans	
Mortgage loans on real estate:					
Residential 1-4 family	\$ 54,620	89.43	% \$ 60,171	89.20	%
Commercial	865	1.42	1,148	1.70	
Construction and land development	2,365	3.87	2,456	3.64	
Second mortgages	2,945	4.82	3,409	5.05	
Multifamily	278	0.46	276	0.41	
Total real estate loans	61,073	100.00	67,460	100.00	
Total PCI loans	\$ 61,073	100.00	% \$ 67,460	100.00	%
PCI loans previously reported	\$ 61,073		\$ 4,716		
PCI loans previously reported as covered by the FDIC	—		62,744		
Total PCI loans	\$ 61,073		\$ 67,460		

The following table is a summary of interest income on PCI loans for the three and nine months ended September 30, 2015 and 2014 (dollars in thousands):

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Interest income on PCI loans	\$ 1,730	\$ 202	\$ 6,221	\$ 388
Interest income on PCI loans previously reported as covered by the FDIC	—	2,444	—	8,670
Total interest income on PCI loans	\$ 1,730	\$ 2,646	\$ 6,221	\$ 9,058

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

The allowance for loan losses related to the PCI loans of \$98,000 was transferred to the non-covered allowance for loan losses effective April 1, 2014, and was related to commercial real estate loans. The remaining allowance for loan losses on loans previously reported as covered by the FDIC of \$386,000 at December 31, 2014 related to residential 1-4 family loans. All balances have been reclassified to the allowance for loan losses on PCI loans for all periods presented. There was no other activity in the allowance for loan losses on PCI loans for the three and nine months ended September 30, 2015 and 2014.

The following table presents information on the PCI loans collectively evaluated for impairment in the allowance for loan losses at September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015		December 31, 2014	
	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	\$ 386	\$ 54,620	\$ 386	\$ 60,171
Commercial	98	865	98	1,148
Construction and land development	—	2,365	—	2,456
Second mortgages	—	2,945	—	3,409
Multifamily	—	278	—	276
Total real estate loans	484	61,073	484	67,460
Total PCI loans	\$ 484	\$ 61,073	\$ 484	\$ 67,460
PCI loans previously reported	\$ 484	\$ 61,073	\$ 98	\$ 4,716
PCI loans previously reported as covered by the FDIC	—	—	386	62,744
Total PCI loans	\$ 484	\$ 61,073	\$ 484	\$ 67,460

The change in the accretable yield balance for the nine months ended September 30, 2015 and for the year ended December 31, 2014, is as follows (dollars in thousands):

Balance, January 1, 2014	\$51,515
PCI loans	
Accretion	(554)
Reclassification from nonaccretable yield	852
PCI loans previously reported as covered by the FDIC	
Accretion	(10,650)
Reclassification from nonaccretable yield	9,919
Balance, December 31, 2014	\$51,082
PCI loans	\$5,071
PCI loans previously reported as covered by the FDIC	46,011
Balance, December 31, 2014	\$51,082
Accretion	(6,171)
Reclassification from nonaccretable yield	5,764
Balance, September 30, 2015	\$50,675

The PCI loans were not classified as nonperforming assets as of September 30, 2015, 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 PCI loans.

Note 5. FDIC Agreements and FDIC Indemnification Asset

On January 30, 2009, the Company entered into a Purchase and Assumption Agreement with the FDIC to assume all of the deposits and certain other liabilities and acquire substantially all assets of SFSB. Under the shared-loss agreements that are part of that agreement, the FDIC reimbursed the Bank for 80% of losses arising from the acquired loans and foreclosed real estate assets, on the first \$118 million in losses on such loans and foreclosed real estate assets, and for 95% of losses on acquired loans and foreclosed real estate assets thereafter. Under the shared-loss agreements, a “loss” on an acquired loan or foreclosed real estate was defined generally as a realized loss incurred through a permitted disposition, foreclosure, short-sale or restructuring of the acquired loan or foreclosed real estate. The reimbursements for losses on single family, residential 1-4 family mortgage assets were to be made quarterly through March 2019 for losses incurred through January 2019, and the reimbursements for losses on other assets were made quarterly through March 2014. The shared-loss agreements provided for indemnification from the first dollar of losses without any threshold requirement. The reimbursable losses from the FDIC were 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 were not covered by the shared-loss agreements. The fair value of the shared-loss agreements is detailed below.

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

During the third quarter of 2015, the Company terminated the shared-loss agreement relating to the single family, residential 1-4 family mortgage assets. As part of this termination, the FDIC paid the Company \$3.1 million as consideration for the early termination of the shared-loss agreement. All rights and obligations of the parties under the shared-loss agreements, including the provision to reimburse recoveries received related to the agreement that terminated in March 2014, have been eliminated under the termination agreement. The proceeds from the FDIC were first applied to the outstanding FDIC receivable of \$775,000. The remaining FDIC indemnification asset balance of \$13.1 million was charged-off as additional FDIC indemnification asset amortization expense.

The following table presents the balances of the FDIC indemnification asset at September 30, 2015 and December 31, 2014 (dollars in thousands):

	Anticipated Expected Losses	Estimated Loss Sharing Value	Amortizable Premium (Discount) at Present Value	FDIC Indemnification Asset Total
January 1, 2014	\$ 13,514	\$ 10,811	\$ 14,598	\$ 25,409
Increases:				
Writedown of OREO property to FMV	34	27		27
Decreases:				
Net amortization of premium			(5,795)	(5,795)
Reclassifications to FDIC receivable:				
Net loan charge-offs and recoveries	(87)	(69)		(69)
OREO sales	(1,085)	(868)		(868)
Reimbursements requested from FDIC	(118)	(95)		(95)
Reforecasted Change in Anticipated Expected Losses	(6,707)	(5,365)	5,365	—
December 31, 2014	\$ 5,551	\$ 4,441	\$ 14,168	\$ 18,609
Increases:				
Writedown of OREO property to FMV	—	—		—
Decreases:				
Net amortization of premium			(3,104)	(3,104)
Charge-off due to termination of shared-loss agreement			(13,091)	(13,091)
Reclassifications to FDIC receivable:				
Net loan charge-offs and recoveries	34	27		27
OREO sales	(131)	(105)		(105)
Reimbursements requested from FDIC	(2,920)	(2,336)		(2,336)
Reforecasted Change in Anticipated Expected Losses	(2,534)	(2,027)	2,027	—
September 30, 2015	\$ —	\$ —	\$ —	\$ —

Note 6. Other real estate owned

During the third quarter of 2015, the Company terminated the shared-loss agreement with the FDIC relating to the single family, residential 1-4 family mortgage assets. As a result of this termination, the Company reclassified its other real estate owned previously reported as covered by the FDIC to other real estate owned, which was previously reported as other real estate owned, non-covered, for all periods presented.

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

The following table presents the balances of other real estate owned at September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015	December 31, 2014
Residential 1-4 family	\$ 1,491	\$ 2,339
Commercial	679	1,868
Construction and land development	3,688	3,536
Total other real estate owned	\$ 5,858	\$ 7,743
Other real estate owned	5,858	7,743
Other real estate owned previously reported as covered by the FDIC	—	(2,019)
Total other real estate owned	\$ 5,858	\$ 5,724

At September 30, 2015, the Company had \$1.3 million in residential 1-4 family loans and PCI loans that were in the process of foreclosure.

Note 7. Deposits

The following table provides interest bearing deposit information, by type, as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015	December 31, 2014
NOW	\$ 112,277	\$ 123,682
MMDA	109,748	101,784
Savings	87,368	78,478
Time deposits less than \$250,000	407,765	416,628
Time deposits \$250,000 and over	116,858	113,809
Total interest bearing deposits	\$ 834,016	\$ 834,381

Note 8. Accumulated Other Comprehensive Income (Loss)

The following tables present activity net of tax in accumulated other comprehensive income (loss) (AOCI) for the three and nine months ended September 30, 2015 and 2014 (dollars in thousands):

	Three months ended September 30, 2015			
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Gain/Loss on Cash Flow Hedge	Total Other Comprehensive Income (Loss)
Beginning balance	\$ (192)	\$ (811)	\$ (84)	\$ (1,087)
Other comprehensive income (loss) before reclassifications	1,698	-	(312)	1,386
Amounts reclassified from AOCI	(49)	-	-	(49)
Net current period other comprehensive income (loss)	1,649	-	(312)	1,337
Ending balance	\$ 1,457	\$ (811)	\$ (396)	\$ 250

Three months ended September 30, 2014			
Unrealized Gain (Loss) on	Defined Benefit Pension Plan	Total Other Comprehensive Income (Loss)	

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

Securities

Beginning balance	\$ (445)	\$ (155)	\$ (600)
Other comprehensive income before reclassifications	580	-	580
Amounts reclassified from AOCI	(76)	-	(76)
Net current period other comprehensive income	504	-	504
Ending balance	\$ 59	\$ (155)	\$ (96)

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

	Nine months ended September 30, 2015			
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Gain/Loss on Cash Flow Hedge	Total Other Comprehensive Income (Loss)
Beginning balance	\$ 1,452	\$ (811)	\$ 23	\$ 664
Other comprehensive income (loss) before reclassifications	245	-	(419)	(174)
Amounts reclassified from AOCI	(240)	-	-	(240)
Net current period other comprehensive income (loss)	5	-	(419)	(414)
Ending balance	\$ 1,457	\$ (811)	\$ (396)	\$ 250

	Nine months ended September 30, 2014		
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Total Other Comprehensive Income (Loss)
Beginning balance	\$ (3,954)	\$ (155)	\$ (4,109)
Other comprehensive income before reclassifications	4,339	-	4,339
Amounts reclassified from AOCI	(326)	-	(326)
Net current period other comprehensive income	4,013	-	4,013
Ending balance	\$ 59	\$ (155)	\$ (96)

The following tables present the effects of reclassifications out of AOCI on line items of consolidated income for the three and nine months ended September 30, 2015 and 2014 (dollars in thousands):

Details about AOCI Components	Amount Reclassified from AOCI		Affected Line Item in the Unaudited Consolidated Statement of Income
	Three months ended September 30, 2015	September 30, 2014	
Unrealized gain on securities available for sale	\$ (74)	\$ (115)	Gain on securities transactions, net
	25	39	Income tax (benefit) expense
	\$ (49)	\$ (76)	Net of tax
Details about AOCI Components	Amount Reclassified from AOCI		Affected Line Item in the Unaudited Consolidated Statement of Income
	Nine months ended		

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

	September 30, 2015	September 30, 2014	
Unrealized gain on securities available for sale	\$ (363)	\$ (494)	Gain on securities transactions, net
	123	168	Income tax (benefit) expense
	\$ (240)	\$ (326)	Net of tax

Note 9. Fair Values of Assets and Liabilities

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

- Level 1—Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2—Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Valuation is determined using model-based techniques with significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of third party pricing services, option pricing models, discounted cash flow models and similar techniques.

FASB ASC 825, *Financial Instruments*, allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Company has not made any material FASB ASC 825 elections as of September 30, 2015.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

	September 30, 2015			
	Total	Level 1	Level 2	Level 3
Investment securities available for sale				
U.S. Treasury issue and other U.S. Gov't agencies	\$57,027	\$50,355	\$6,672	\$ -
U.S. Gov't sponsored agencies	746	-	746	-
State, county and municipal	145,873	245	145,628	-
Corporate and other bonds	20,116	-	20,116	-
Mortgage backed – U.S. Gov't agencies	8,668	4,524	4,144	-
Mortgage backed – U.S. Gov't sponsored agencies	34,531	7,246	27,285	-
Total investment securities available for sale	266,961	62,370	204,591	-
Loans held for sale	673	-	673	-
Total assets at fair value	\$267,634	\$62,370	\$205,264	\$ -
Cash flow hedge	\$(599)	\$-	\$(599)	\$ -
Total liabilities at fair value	\$(599)	\$-	\$(599)	\$ -

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Investment securities available for sale				
U.S. Treasury issue and other U.S. Gov't agencies	\$98,707	\$94,464	\$4,243	\$ -
State, county and municipal	137,477	5,596	131,881	-
Corporate and other bonds	11,883	-	11,883	-
Mortgage backed – U.S. Gov't agencies	2,258	-	2,258	-
Mortgage backed – U.S. Gov't sponsored agencies	24,243	-	24,243	-
Total investment securities available for sale	274,568	100,060	174,508	-
Loans held for sale	200	-	200	-
Cash flow hedge	23	-	23	-
Total assets at fair value	\$274,791	\$100,060	\$174,731	\$ -
Total liabilities at fair value	\$-	\$-	\$-	\$ -

Investment securities available for sale

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

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

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

Loans held for sale

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

Cash flow hedge

The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company is also required to measure and recognize certain other financial assets at fair value on a nonrecurring basis on the consolidated balance sheet. The following tables present assets measured at fair value on a nonrecurring basis as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015			
	Total	Level 1	Level 2	Level 3
Impaired loans	\$8,604	\$ —	\$ 1,212	\$7,392
Bank premises and equipment held for sale	2,228		2,118	110
Other real estate owned	5,858	—	—	5,858
Total assets at fair value	\$16,690	\$ —	\$ 3,330	\$13,360
Total liabilities at fair value	\$—	\$ —	\$—	\$—

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Impaired loans	\$14,286	\$ —	\$ —	\$14,286
Other real estate owned	7,743	—	—	7,743
Total assets at fair value	\$22,029	\$ —	\$ —	\$22,029
Total liabilities at fair value	\$—	\$ —	\$ —	\$—

Impaired loans

Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures the impairment in accordance with FASB ASC 310, *Receivables*. The fair value of impaired loans is estimated using one of several methods, including collateral value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investments in such loans. At September 30, 2015 and December 31, 2014, a majority of total impaired loans were evaluated based on the fair value of the collateral. The Company frequently obtains appraisals prepared by external professional appraisers for classified loans greater than \$250,000 when the most recent appraisal is greater than 12 months old. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan within Level 2.

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

Bank premises and equipment held for sale

The fair value of bank premises and equipment held for sale within Level 2 relates to the pending branch office sale and reflects the value agreed upon in the sale agreement. The amount recorded within Level 3 was determined using the adjusted appraisal methodology described in the other real estate owned (OREO) asset section below.

Other real estate owned

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

Fair Value of Financial Instruments

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

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

September 30, 2015					
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Securities held to maturity	\$38,732	\$ 39,773	\$ —	\$39,773	\$—
Loans	683,301	686,119	—	678,727	7,392
PCI loans	60,589	67,662	—	—	67,662
FDIC indemnification asset	—	—	—	—	—
Financial liabilities:					
Interest bearing deposits	834,016	835,535	—	835,535	—
Long-term borrowings	106,444	106,593	—	106,593	—

December 31, 2014					
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Securities held to maturity	\$36,197	\$ 37,539	\$ —	\$37,539	\$—
Loans	650,754	656,931	—	642,645	14,286
PCI loans	66,975	74,358	—	—	74,358
FDIC indemnification asset	18,609	4,242	—	—	4,242
Financial liabilities:					
Interest bearing deposits	834,381	836,658	—	836,658	—
Long-term borrowings	110,205	110,218	—	110,218	—

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 September 30, 2015. The Company applied the provisions of FASB ASC 820 to the fair value measurements of financial instruments not recognized on the consolidated balance sheet at fair value. The provisions requiring the Company to maximize the use of observable inputs and to measure fair value using a notion of exit price were factored into the Company's selection of inputs into its established valuation techniques.

Financial Assets

Cash and cash equivalents

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

Securities held for investment

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

Restricted securities

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

Loans held for sale

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

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of impaired loans is consistent with the methodology used for the FASB ASC 820 disclosure for assets recorded at fair value on a nonrecurring basis presented above.

PCI loans

Fair values for PCI 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 PCI assets as they are not contractually embedded in the PCI 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 PCI 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.

Federal funds purchased and securities sold under agreements to repurchase

The carrying amount of federal funds purchased and securities sold under agreements to repurchase approximates fair value

Long-term borrowings

The fair values of the Company's long-term borrowings, such as FHLB advances and long-term debt, 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.

Note 10. Earnings (Loss) Per Common Share

Basic earnings (loss) per common share (EPS) is computed by dividing net income or loss available to common shareholders 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. The following table presents basic and diluted EPS for the three and nine months ended September 30, 2015 and 2014 (dollars and shares in thousands, except per share data):

	Net (Loss) Income Available to Common Shareholders (Numerator)	Weighted Average Common Shares (Denominator)	Per Common Share Amount
For the three months ended September 30, 2015			
Basic EPS	\$ (7,716)	21,835	\$ (0.35)
Effect of dilutive stock awards	—	—	—
Diluted EPS	\$ (7,716)	21,835	\$ (0.35)
For the three months ended September 30, 2014			
Basic EPS	\$ 1,813	21,764	\$ 0.08
Effect of dilutive stock awards	—	223	—
Diluted EPS	\$ 1,813	21,987	\$ 0.08
For the nine months ended September 30, 2015			
Basic EPS	\$ (4,711)	21,819	\$ (0.21)
Effect of dilutive stock awards	—	—	—
Diluted EPS	\$ (4,711)	21,819	\$ (0.21)
For the nine months ended September 30, 2014			
Basic EPS	\$ 5,010	21,745	\$ 0.23
Effect of dilutive stock awards	—	219	—
Diluted EPS	\$ 5,010	21,964	\$ 0.23

Antidilutive common shares issuable under awards or options of 1.0 million and 30,000 were excluded from the computation of diluted earnings per common share during the three and nine months ended September 30, 2015, and 2014, respectively.

Note 11. Employee 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 the defined benefit plan participants effective December 31, 2010.

The following table provides the components of net periodic benefit cost for the plan for the three and nine months ended September 30, 2015 and 2014 (dollars in thousands):

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Interest cost	\$ 47	\$ 55	\$ 141	\$ 167
Expected return on plan assets	(88)	(99)	(264)	(297)
Amortization of prior service cost	1	1	3	3
Recognized net actuarial loss	11	3	33	9
Net periodic benefit cost	\$ (29)	\$ (40)	\$ (87)	\$ (118)

Note 12. Cash Flow Hedge

On November 7, 2014, the Company entered into an interest rate swap with a total notional amount of \$30 million. The Company designated the swap as a cash flow hedge intended to protect against the variability in the expected future cash flows on the designated variable rate borrowings. The swap hedges the interest rate risk, wherein the Company will receive an interest rate based on the three month LIBOR from the counterparty and pays an interest rate of 1.69% to the same counterparty calculated on the notional amount for a term of five years. The Company intends to sequentially issue a series of three month fixed rate debt as part of a planned roll-over of short term debt for five years. The forecasted funding will be provided through one of the following wholesale funding sources: a new FHLB advance, a new repurchase agreement, or a pool of brokered CDs, based on whichever market offers the most

advantageous pricing at the time that pricing is first initially determined for the effective date of the swap and each reset period thereafter. Each quarter when the Company rolls over the three month debt, it will decide at that time which funding source to use for that quarterly period.

The swap was entered into with a counterparty that met the Company's credit standards, and the agreement contains collateral provisions protecting the at-risk party. The Company believes that the credit risk inherent in the contract is not significant. As of September 30, 2015, the Company had \$530,000 of cash pledged as collateral.

Amounts receivable or payable are recognized as accrued under the terms of the agreements. In accordance with FASB ASC 815, *Derivatives and Hedging*, the Company has designated the swap as a cash flow hedge, with the effective portions of the derivatives' unrealized gains or losses recorded as a component of other comprehensive income. The ineffective portions of the unrealized gains or losses, if any, would be recorded in other operating expense. The Company has assessed the effectiveness of each hedging relationship by comparing the changes in cash flows on the designated hedged item. The Company's cash flow hedge is deemed to be effective. At September 30, 2015, the fair value of the Company's cash flow hedge was an unrealized loss of \$599,000 and was recorded in other liabilities. The loss was recorded as a component of other comprehensive income.

Note 13. Branch sale

During the third quarter of 2015, the Company executed a contract for the sale/leaseback of its branch office in Crofton, Maryland with an expected close date of November 6, 2015. In accordance with FASB ASC 360, *Property, Plant and Equipment*, the net book value of the branch office, excluding furniture and equipment, of \$2.5 million was written down by \$383,000 to reflect the fair market value of \$2.1 million classified as held for sale at September 30, 2015. As part of the contract, the Company will enter into a five year lease of the branch space, which is approximately 14% of the total office space, for approximately \$105,000 per year and a one year lease of an additional 11% of the office space for \$45,000 per year.

In addition, the branch office in Catonsville, Maryland continues to be included in bank premises and equipment held for sale. In accordance with FASB ASC 360, the Company wrote this property down \$301,000 to a fair market value of \$110,000 at September 30, 2015.

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

The following discussion and analysis of the financial condition at September 30, 2015 and results of operations of Community Bankers Trust Corporation (the "Company") for the three and nine months ended September 30, 2015 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, 2014.

OVERVIEW

Community Bankers Trust Corporation (the “Company”) is headquartered in Richmond, Virginia and is the holding company for Essex Bank (the “Bank”), a Virginia state bank with 22 full-service offices in Virginia and Maryland. The Bank also operates two loan production offices in 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 industrial loans, consumer and small business loans, real estate and mortgage loans, investment services, on-line and mobile banking products, and safe deposit box facilities.

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

The Company continues on a strategy of growth throughout Virginia and Maryland. The Company opened two new branch offices earlier this year in Bowie, Maryland and in the Bon Air area of Richmond, Virginia. The Company most recently signed a lease for a full service branch office in Fairfax, Virginia where it currently operates a loan production office. Besides growth in retail offices, the Company continues to make headway in other operating lines of business, especially in the small business banking group. Earlier this year, the Company added lenders to this group, as well as the commercial banking group, and the production numbers are showing good progress. Moving into 2016, the Company will continue to stress organic loan growth funded by growth in non-interest bearing and other low cost deposits.

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

- assumptions that underlie the Company’s allowance for loan losses;

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

- the interest rate environment;

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

- real estate values;

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

- the demand for deposit, loan, and investment products and other financial services;
- the demand, development and acceptance of new products and services;
- the performance of vendors or other parties with which the Company does business;
- time and costs associated with de novo branching, acquisitions, dispositions and similar transactions;
- the realization of gains and expense savings from acquisitions, dispositions and similar transactions;
- assumptions and estimates that underlie the accounting for purchased credit impaired loans;
- consumer profiles and spending and savings habits;
- levels of fraud in the banking industry;
- the level of attempted cyber attacks in the banking industry;

- the securities and credit markets;
- costs associated with the integration of banking and other internal operations;
- 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, 2014 and other reports filed from time to time by the Company with the Securities and Exchange Commission.

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

CRITICAL ACCOUNTING POLICIES

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

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 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, 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.

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

Accounting for Certain Loans or Debt Securities Acquired in a Transfer

FASB ASC 310, *Receivables*, requires acquired loans to be recorded at fair value and prohibits carrying over valuation allowances in the initial accounting for acquired impaired loans. Loans carried at fair value, mortgage loans held for sale, and loans to borrowers in good standing under revolving credit arrangements are excluded from the scope of FASB ASC 310, which limits the yield that may be accreted to the excess of the undiscounted expected cash flows over the investor's initial investment in the loan. The excess of the contractual cash flows over expected cash flows may not be recognized as an adjustment of yield. Subsequent increases in cash flows to be collected are recognized prospectively through an adjustment of the loan's yield over its remaining life. Decreases in expected cash flows are recognized as impairments through allowance for loan losses.

The Company's acquired loans from the Suburban Federal Savings Bank (SFSB) transaction (the "PCI loans"), subject to FASB ASC Topic 805, *Business Combinations*, are 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 FASB ASC 310-30 to all loans acquired in the SFSB transaction. The Company has grouped loans together based on common risk characteristics including product type, delinquency status and loan documentation requirements among others.

The shared-loss agreement with the Federal Deposit Insurance Corporation (FDIC) related to the acquisition of SFSB for loans other than those secured by single family, residential 1-4 family mortgages expired March 31, 2014. These loans will continue to be accounted for in accordance with FASB ASC 310-30 as PCI loans and were classified as such effective April 1, 2014.

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

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

FDIC Indemnification Asset

During the third quarter of 2015, the Company terminated the shared-loss agreement relating to the single family, residential 1-4 family mortgage assets. As part of this termination, the FDIC paid the Company \$3.1 million as consideration for the early termination of the shared-loss agreement. All rights and obligations of the parties under the shared-loss agreements, including the provision to reimburse recoveries received related to the agreement that terminated in March 2014, have been eliminated under the termination agreement. The proceeds from the FDIC were first applied to the outstanding FDIC receivable of \$775,000. The remaining FDIC indemnification asset balance of \$13.1 million was charged-off as additional FDIC indemnification asset amortization expense.

The Company accounted for the shared-loss agreements with the FDIC as an indemnification asset pursuant to the guidance in FASB ASC 805, *Business Combinations*. The FDIC indemnification asset was required to be measured in the same manner as the asset or liability to which it related. The FDIC indemnification asset was measured separately from the acquired loans and other real estate owned assets (OREO) because it was not contractually embedded in the acquired loan and OREO and was 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 OREO 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.

Other Intangible Assets

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

Income Taxes

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

Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the consolidated financial statements when it is more likely than not that the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. The Company provides for interest and, in some cases, penalties on tax positions that may be challenged by the taxing authorities. Interest expense is recognized beginning in the first period that such interest would begin accruing. Penalties are recognized in the period that the Company claims the position in the tax return. Interest and penalties on income tax uncertainties are classified within income tax expense in the consolidated statement of income. Under FASB ASC 740, *Income Taxes*, a valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. In management's opinion, based on a three year taxable income projection, tax strategies that 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.

The Company and its subsidiaries are subject to U. S. federal income tax as well as Virginia and Maryland state income taxes. All years from 2011 through 2014 are open to examination by the respective tax authorities.

Other Real Estate Owned

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

RESULTS OF OPERATIONS

Overview

Net loss was \$7.7 million for the third quarter of 2015, compared with net income of \$1.8 million in the third quarter of 2014. Net loss available to common shareholders was \$7.7 million in the third quarter of 2015, compared with net income available to common shareholders of \$1.8 million in the third quarter of 2014. The decline in net income over the respective time periods was the direct result of the termination of the shared-loss agreement with the FDIC. As part of the termination, the FDIC paid \$3.1 million in cash to the Bank, and the remaining \$13.1 million FDIC indemnification asset related to the agreement was charged off. Earnings per common share, basic and fully diluted, were \$(0.35) per share for the third quarter of 2015, compared with \$0.08 per share for the third quarter of 2014.

Net loss was \$4.7 million for the nine months ended September 30, 2015 compared with net income of \$5.3 million for the nine months ended September 30, 2014. Net loss available to common shareholders equaled \$4.7 million for the nine months ended September 30, 2015 versus net income available to common shareholders of \$5.0 million for the same period in 2015. Earnings per common share, basic and fully diluted, were \$(0.21) per share and \$0.23 per share for the nine months ended September 30, 2015 and 2014, respectively.

Net Interest Income

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

Net interest income declined \$1.1 million from \$10.9 million in the third quarter of 2014 to \$9.8 million in the same period in 2015. This decline was driven by a reduction in income recognized in PCI loans, which was \$2.6 million for the three months ended September 30, 2014 and \$1.7 million for the same period in 2015. This reduction in PCI interest income of \$916,000 was due to \$221,000 in cash payments on zero carrying value ADC loans in the third quarter of 2014 versus no such payments for the same period in 2015. Additionally, the average balance of PCI loans declined by \$7.2 million in the year-over-year quarters coupled with lower yields on the remaining balances, causing lower PCI interest income.

The yield on earning assets declined from 4.97% for the third quarter of 2014 to 4.45% for the third quarter of 2015. The most notable decline was in PCI loan yields, which fell from 15.05% in the third quarter of 2014 to 10.97% in the third quarter of 2015. The yield on loans, excluding PCI loans, declined from 4.95% in the third quarter of 2014 to 4.60% in the third quarter of 2015. Securities yields, on a tax-equivalent basis, increased from 2.94% in the third quarter of 2014 to 2.97% in the third quarter of 2015.

Interest expense, year-over-year, was \$1.9 million in the third quarter of 2015 versus \$1.8 million in the third quarter of 2014. The cost of total interest bearing deposits increased only \$19,000 year-over-year on an increase of \$2.2 million in average balances. The expense of FHLB and other borrowings increased \$106,000 on an increase of \$6.4 million in average balances.

The rate paid on total interest bearing liabilities increased slightly, from 0.75% in the third quarter of 2014 to 0.79% in the third quarter of 2015. The increase was primarily the result of the Company locking in \$30 million of five-year funding in the fourth quarter of 2014 through the use of a swap agreement, at a rate of 1.69%. As a result of this transaction, the rate paid on FHLB and other borrowings increased from 0.79% in the third quarter of 2014 to 1.19% for the same period in 2015.

The combination of the items described above resulted in a decrease in the interest spread of 56 basis points, from 4.22% in the third quarter of 2014 to 3.66% in the third quarter of 2015. The tax-equivalent net interest margin declined from 4.28% in the third quarter of 2014 to 3.75% for the same period in 2015.

Net interest income was \$30.1 million for the nine months ended September 30, 2015 versus \$31.9 million for the nine months ended September 30, 2014. This decrease in net interest income of \$1.8 million, or 5.8%, was the result of lower interest income of \$1.3 million coupled with higher interest expense of \$563,000. While the income on loans, excluding PCI loans, has increased \$1.7 million from the first nine months of 2014 to the same period in 2015, the income derived from PCI loans has dropped by \$2.8 million. Cash payments on zero carrying value ADC loans were \$825,000 greater during the 2014 nine month time frame when compared with the first nine months of 2015. Interest income on securities declined 6.1%, or \$373,000, during the same time frame.

The tax-equivalent yield on earning assets dropped 37 basis points, from 4.98% for the first nine months of 2014 to 4.61% for the first nine months of 2015. The yield on total loans declined 70 basis points, from 6.09% in 2014 to 5.39% in 2015. PCI loan yield fell from 17.02% to 12.83% and the yield on loans, excluding PCI loans, declined 15 basis points, from 4.82% to 4.67%. The tax-equivalent yield on securities increased from 2.74% for the first nine months of 2014 to 2.93% for the same period in 2015. The average balance of tax-exempt securities increased \$47.8 million over the time frame and is responsible for the increase in yield on the portfolio.

Interest expense increased \$563,000, or 11.2%, from \$5.1 million for the nine months ended September 30, 2014 to \$5.6 million for the first nine months of 2015. Interest on FHLB and other borrowings increased \$405,000 during this time frame on average balance increases of \$13.3 million, coupled with an increase in rate from 0.80% to 1.25%, as noted above, due to locking in five year funding in the fourth quarter of 2014.

The rate paid on total interest bearing liabilities increased from 0.74% for the first nine months of 2014 to 0.80% for the same period in 2015. Again, the increase in FHLB and other borrowings was the main factor for this increase.

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 nine months ended September 30, 2015 and 2014. The tables also set forth the average rate paid on total interest bearing liabilities, and the net interest margin on average total interest earning assets for the same periods. Except as indicated in the footnotes, no tax equivalent adjustments were made and all average balances are daily average balances. Any nonaccruing loans have been included in the table, as loans carrying a zero yield.

(Dollars in thousands)

Three months ended September 30, 2015	Average	Three months ended September 30, 2014	Average
--	---------	--	---------

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

	Average Balance Sheet	Interest Income/ Expense	Rates Earned/ Paid		Average Balance Sheet	Interest Income/ Expense	Rates Earned/ Paid	
ASSETS:								
Loans	\$ 688,200	\$ 7,986	4.60	%	\$ 635,477	\$ 7,924	4.95	%
PCI loans	62,584	1,730	10.97		69,741	2,646	15.05	
Total loans	750,784	9,716	5.13		705,218	10,570	5.95	
Interest bearing bank balances	12,724	12	0.36		14,191	11	0.32	
Federal funds sold	-	-	-		179	-	0.10	
Investments (taxable)	224,479	1,396	2.49		266,321	1,813	2.72	
Investments (tax exempt)	85,803	908	4.23		36,311	410	4.53	
Total earning assets	1,073,790	12,032	4.45		1,022,220	12,804	4.97	
Allowance for loan losses	(10,306)				(10,670)			
Non-earning assets	94,075				113,927			
Total assets	\$ 1,157,559				\$ 1,125,477			
LIABILITIES AND STOCKHOLDERS' EQUITY								
Demand - interest bearing	\$ 232,357	\$ 189	0.32	%	\$ 207,080	\$ 151	0.29	%
Savings	86,431	69	0.31		77,287	60	0.31	
Time deposits	523,868	1,265	0.96		556,079	1,293	0.92	
Total deposits	842,655	1,523	0.72		840,446	1,504	0.71	
Short-term borrowings	1,371	2	0.62		1,744	2	0.61	
FHLB and other borrowings	91,913	276	1.19		85,550	170	0.79	
Long-term debt	7,268	77	4.14		10,387	107	4.02	
Total interest bearing liabilities	943,208	1,878	0.79		938,127	1,783	0.75	
Non-interest bearing deposits	101,582				79,434			
Other liabilities	4,252				4,109			
Total liabilities	1,049,042				1,021,670			
Stockholders' equity	108,517				103,807			
Total liabilities and stockholders' equity	\$ 1,157,559				\$ 1,125,477			
Net interest earnings		\$ 10,154				\$ 11,021		
Interest spread			3.66	%			4.22	%
Net interest margin			3.75	%			4.28	%

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

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

	Nine months ended September 30, 2015				Nine months ended September 30, 2014			
	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid		Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid	
ASSETS:								
Loans	\$ 679,262	\$ 23,750	4.67	%	\$ 612,771	\$ 22,079	4.82	%
PCI loans	64,805	6,221	12.83		71,160	9,058	17.02	
Total loans	744,067	29,971	5.39		683,931	31,137	6.09	
Interest bearing bank balances	16,663	46	0.37		19,757	46	0.31	
Federal funds sold	2,476	2	0.10		520	-	0.10	
Investments (taxable)	221,052	4,119	2.48		271,680	5,221	2.56	
Investments (tax exempt)	74,118	2,376	4.27		26,322	901	4.56	
Total earning assets	1,058,376	36,514	4.61		1,002,210	37,305	4.98	
Allowance for loan losses	(9,913)				(10,808)			
Non-earning assets	98,238				115,194			
Total assets	\$ 1,146,701				\$ 1,106,596			
LIABILITIES AND STOCKHOLDERS' EQUITY								
Demand - interest bearing	\$ 226,497	\$ 511	0.30	%	\$ 199,297	\$ 441	0.30	%
Savings	83,570	194	0.31		76,654	192	0.34	
Time deposits	525,309	3,751	0.95		556,915	3,732	0.90	
Total deposits	835,376	4,457	0.71		832,866	4,365	0.70	
Short-term borrowings	1,062	5	0.57		986	4	0.57	
FHLB and other borrowings	95,921	898	1.25		82,629	493	0.80	
Long-term debt	8,125	253	4.10		6,200	188	4.00	
Total interest bearing liabilities	940,484	5,613	0.80		922,681	5,050	0.74	
Non-interest bearing deposits	92,619				73,962			
Other liabilities	4,187				4,186			
Total liabilities	1,037,290				1,000,829			
Stockholders' equity	109,411				105,767			
Total liabilities and stockholders' equity	\$ 1,146,701				\$ 1,106,596			
Net interest earnings		\$ 30,901				\$ 32,255		
Interest spread			3.81	%			4.24	%
Net interest margin			3.90	%			4.30	%

(1) 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 Loans* in the Critical Accounting Policies section above for further discussion.

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

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

The Company did not record a provision for loan losses in either the three or nine month periods ended September 30, 2015 or 2014 with respect to either its loan portfolio or its PCI loan portfolio. With respect to the loan portfolio, this was the direct result of nominal charge-offs and the ongoing stabilization of asset quality.

There were net charge-offs of \$163,000 in the third quarter of 2015, compared with net charge-offs of \$392,000 in the third quarter of 2014. Total charge-offs for the third quarter of 2015 were \$209,000 compared with \$603,000 in the third quarter of 2014. Recoveries of previously charged-off loans were \$46,000 for the third quarter of 2015 compared with \$211,000 in the third quarter of 2014.

There were net recoveries of \$434,000 in the nine months ended September 30, 2015, compared with net charge-offs of \$680,000 in the nine months ended September 30, 2014. Total charge-offs for the first nine months of 2015 were \$1.1 million compared with \$1.2 million for the same period in 2014. Recoveries of previously charged-off loans were \$1.5 million in the nine months ended September 30, 2015 compared with \$520,000 for the same period in 2014.

Noninterest Income

Noninterest income increased \$87,000 and was \$1.3 million in the third quarter of 2015 versus \$1.2 million for the same period in 2014. Mortgage loan fees increased \$188,000 and were \$230,000 in the third quarter of 2015 compared with \$42,000 in the third quarter of 2014. The mortgage division began operations in the second quarter of 2014 and has progressively increased its production. Other noninterest income also reflected a year-over-year increase and was \$178,000 in the third quarter of 2015 versus \$154,000 one year ago. Declines year-over-year were in gain on sale of other loans, which were none for the current quarter versus \$78,000 one year ago when the Company sold certain SBA loans at a gain. Gain on sale of securities of \$74,000 in the third quarter of 2015 was \$41,000 less than the \$115,000 realized one year ago.

Noninterest income was \$3.9 million for the nine months ended September 30, 2015 versus \$3.4 million for the nine months ended September 30, 2014. This is an increase of \$419,000, or 12.2%. Mortgage loan income of \$640,000 was a \$525,000 increase for the nine months ended September 30, 2015 versus \$115,000 for the first nine months of 2014. Also increasing for the nine months ended September 30, 2015 over the nine months ended September 30, 2014 were other income, which increased 19.7%, to \$554,000 and service charges on deposit accounts, which increased \$34,000 and were \$1.7 million for the period. Offsetting these increases in noninterest income were a decrease in gain on sale of securities of \$131,000, which was \$363,000 for the nine months ended September 30, 2015, and a decrease in gain on sale of other loans of \$84,000, which was \$69,000 for the nine months ended September 30, 2015.

Noninterest Expense

Noninterest expenses were \$23.0 million for the third quarter of 2015 versus \$9.5 million for the third quarter of 2014. Again, the \$13.5 million increase in noninterest expense in the year-over-year quarters was primarily the result of the termination of the FDIC shared-loss agreement, which resulted in the write-off of the remaining FDIC indemnification asset, causing an increase in indemnification asset amortization of \$12.4 million. Also increasing in the third quarter of 2015 over the same period in 2014 was salaries and employee benefits, which increased \$731,000. Of this increase, \$161,000 was related to severance payments in the third quarter of 2015 as the Company right-sized its workforce to improve efficiencies. Beginning in the fourth quarter of 2015, this is expected to result in approximately \$157,000 per quarter in lower salaries and employee benefit costs. Other real estate expenses increased \$466,000 year-over-year and were \$858,000 in the third quarter of 2015 versus \$392,000 in the third quarter of 2014. Management wrote down the value of two branch buildings that are held for sale by a total of \$684,000 in the third quarter of 2015. Additionally, the Company further wrote down a piece of other real estate by \$392,000 to reflect management's assessment of current market value. Other operating expenses of \$1.6 million were \$158,000 lower in the third quarter of 2015 versus the third quarter of 2014.

Noninterest expenses were \$42.0 million for the nine months ended September 30, 2015. This compares with noninterest expenses of \$28.1 million for the nine months ended September 30, 2014. This is an increase of \$13.9 million. This included the \$13.1 million loss on termination of the shared-loss agreement offset by lower amortization expense of the indemnification asset of \$1.3 million during the nine months ended September 30, 2015 when compared with the same period in 2014. The second largest increase was reflected in salaries and employee benefits, which increased \$1.7 million, primarily through the addition of loan production employees, including the mortgage division in the second quarter of 2014. Other real estate expenses of \$1.1 million increased \$305,000 for the nine months ended September 30, 2015 versus \$775,000 for the nine months ended September 30, 2014. Other operating expenses of \$4.9 million for the nine months ended September 30, 2015 increased \$117,000, or 2.4%, over the same period in 2014.

Income Taxes

Income tax reflected a benefit of \$4.2 million in the third quarter of 2015 as a result of the loss reported for the quarter through the termination of the FDIC shared-loss agreements. Income tax expense was \$697,000 in the third quarter of 2014. Income tax reflects a benefit of \$3.3 million for the nine months ended September 30, 2015 versus income tax expense of \$2.1 million for the nine months ended September 30, 2014. The effective tax rate, as a result of an increase in non-taxable income in municipal securities, was a 41.4% benefit for the nine months ended September 30, 2015 and an effective tax rate of 28.1% for the nine months ended September 30, 2014.

FINANCIAL CONDITION

General

Total assets of \$1.149 billion at September 30, 2015 were relatively unchanged, \$6.5 million less than the \$1.156 billion at December 31, 2014. Total loans, excluding PCI loans, were \$693.0 million at September 30, 2015, increasing \$33.0 million, or 5.0%, since year-end 2014. Residential 1-4 family mortgage loans increased \$17.1 million, or 10.2%, over this time frame and were \$184.3 million at September 30, 2015. Multifamily loans increased \$11.8 million, or 34.9%, and were \$45.6 million at September 30, 2015. Commercial and land development loans of \$64.1 million at September 30, 2015 reflect an increase of 10.3%, or \$7.0 million since year end 2014. The largest component of the loan portfolio, commercial real estate loans, were \$288.1 million at September 30, 2015, with an increase of \$6.0 million during 2015. PCI loans were \$61.1 million at September 30, 2015, \$6.4 million lower than at year-end 2014.

Total securities of \$314.3 million at September 30, 2015 reflected a decrease of \$5.3 million from year-end 2014. The fair value of securities available-for-sale was \$267.0 million at September 30, 2015, and state, county and municipal bonds were 54.6% of this total, at \$145.9 million. The book value of securities held-to-maturity was \$38.7 million at September 30, 2015 with state, county and municipal bonds totaling \$35.4 million. Gains on the sale of securities of \$74,000 were realized in the third quarter of 2015.

The Company had cash and cash equivalents of \$12.4 million at September 30, 2015 versus \$22.4 million at December 31, 2014. During the third quarter of 2015, management implemented a system that will result in lower reserve requirements and increase the level of earning assets.

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 \$267.0 million at September 30, 2015 and \$274.6 million at December 31, 2014. At September 30, 2015, the Company had a net unrealized gain on the AFS portfolio of \$2.2 million compared with a net unrealized gain of \$2.2 million at December 31, 2014. Municipal securities comprised 57% of the total AFS portfolio at September 30, 2015. These securities exhibit more price volatility in a changing interest rate environment because of their longer weighted average life, than other categories contained within the rest of the portfolio.

Interest bearing deposits were \$834.0 million at September 30, 2015, a slight decrease of \$365,000 since year-end 2014. However, there has been a change in the composition of the deposit mix. NOW accounts have declined \$11.4 million during 2015 while MMDA and savings accounts have increased collectively in a greater amount, \$16.9 million. Time deposits less than or equal to \$250,000 have declined \$8.9 million during 2015 as management has not been aggressively pricing this deposit class. Time deposits \$250,000 and over have increased \$3.0 million during 2015.

FHLB advances were \$95.8 million at September 30, 2015, \$557,000 less than at year-end 2014. Long term debt was \$6.5 million at September 30, 2015, declining \$3.2 million since year-end 2014. This debt, originally totaling \$10.7 million, was obtained in April 2014, and the proceeds were used to redeem the Company's remaining outstanding TARP preferred stock. The Company has repaid \$4.2 million of this debt since it was obtained.

Shareholder's equity was \$103.0 million at September 30, 2015. This is a decrease of \$4.7 million since December 31, 2014 when shareholder's equity was \$107.7 million. The primary reason for the decline was the termination of the FDIC shared-loss agreements and the resulting loss for the third quarter. Management anticipates that the earn-back period on the elimination of the indemnification assets is approximately two years.

Asset Quality – excluding PCI loans

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

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

The Company maintains a list of 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. Nonperforming assets totaled \$16.7 million at September 30, 2015 and net recoveries were \$434,000 for the nine months ended September 30, 2015. This compares with nonperforming assets of \$24.3 million and net charge-offs of \$1.2 million at and for the year ended December 31, 2014.

Nonperforming loans were \$10.8 million at September 30, 2015, a decrease from \$16.6 million at December 31, 2014. The \$5.8 million decrease in nonperforming loans since December 31, 2014 was the net result of \$4.4 million in additions to nonperforming loans and \$10.2 million in reductions. With respect to the reductions to nonperforming

loans, \$7.7 million were payoffs, \$7.4 million of which was related to one nonaccrual commercial relationship. Other reductions consisted of \$1.2 million of payments to existing credits, \$927,000 of charge-offs, \$292,000 of loans returned to accruing status, and \$50,000 transferred to OREO.

The allowance for loan losses equaled 89.87% of nonaccrual loans at September 30, 2015 compared with 55.92% at December 31, 2014. The ratio of the allowance for loan losses to total nonperforming assets was 61.16% at September 30, 2015, compared with 40.10% at December 31, 2014. The ratio of nonperforming assets to loans and OREO continued to decline. The ratio was 2.38% at September 30, 2015 versus 3.64% at December 31, 2014.

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

See Note 3 to the Company's financial statements for information related to the allowance for loan losses. At September 30, 2015 and December 31, 2014, total impaired loans, excluding PCI loans, equaled \$10.8 million and \$16.9 million, respectively.

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

	September 30, 2015	December 31, 2014
Nonaccrual loans	\$ 10,795	\$ 16,571
Loans past due 90 days and accruing interest	—	—
Total nonperforming loans	10,795	16,571
OREO	5,858	7,743
Total nonperforming assets	\$ 16,653	\$ 24,314
Accruing troubled debt restructure loans	\$ 4,629	\$ 6,195
Balances		
Specific reserve on impaired loans	1,553	1,694
General reserve related to unimpaired loans	8,148	7,573
Total allowance for loan losses	9,701	9,267
Average loans during the year, net of unearned income	679,262	621,213
Impaired loans	10,795	16,852
Non-impaired loans	682,207	643,168
Total loans, net of unearned income	693,002	660,020
Ratios		
Allowance for loan losses, excluding PCI loans, to loans	1.40	% 1.40
Allowance for loan losses to nonperforming assets	61.16	40.10
Allowance for loan losses, excluding PCI loans, to nonaccrual loans	89.87	55.92
General reserve to non-impaired loans	1.19	1.18
Nonaccrual loans to loans	1.56	2.51
Nonperforming assets to loans and OREO	2.38	3.64
Net (recoveries) charge-offs to average loans	(0.09)	) 0.19

The Company performs troubled debt restructures (TDR) and other various loan workouts whereby an existing loan may be restructured into multiple new loans. At September 30, 2015, the Company had 18 loans that met the definition of a TDR, which are loans that for reasons related to the debtor's financial difficulties have been restructured on terms and conditions that would otherwise not be offered or granted. Four of these loans were restructured using multiple new loans. The aggregated outstanding principal of TDR loans at September 30, 2015 was \$6.6 million, of which \$1.9 million were classified as nonaccrual.

The primary benefit of the restructured multiple loan workout strategy is to maximize the potential return by restructuring the loan into a "good loan" (the A loan) and a "bad loan" (the B loan). The impact on interest is positive because the Bank is collecting interest on the A loan rather than potentially not collecting interest on the entire original loan structure. The A loan is underwritten pursuant to the Bank's standard requirements and graded

accordingly. The B loan is classified as either “doubtful” or “loss”. An impairment analysis is performed on the B loan and, based on its results, all or a portion of the B note is charged-off or a specific loan loss reserve is established.

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

A further breakout of nonaccrual loans, excluding PCI loans, at September 30, 2015 and December 31, 2014 is below (dollars in thousands):

	September 30, 2015	December 31, 2014
Mortgage loans on real estate:		
Residential 1-4 family	\$ 4,664	\$ 3,342
Commercial	1,524	607
Construction and land development	4,511	4,920
Second mortgages	13	61
Multifamily	—	—
Agriculture	—	—
Total real estate loans	10,712	8,930
Commercial loans	2	7,521
Consumer installment loans	81	120
All other loans	—	—
Total loans	\$ 10,795	\$ 16,571

At September 30, 2015, the Company had six construction and land development credit relationships in nonaccrual status. The borrowers for all of these relationships are residential land developers. All of the relationships are secured by the real estate to be developed and are in the Company's central Virginia market. The total amount of the credit exposure outstanding at September 30, 2015 was \$4.5 million. These loans have either been charged-down or sufficiently reserved against to equal the current expected realizable value.

The Company charged off \$455,000 related to one of these relationships during the first nine months of 2015. The total amount of the allowance for loan losses attributed to all six relationships was \$665,000 at September 30, 2015, or 14.7% of the total credit exposure outstanding. The Company establishes its reserves as described above in *Allowance for Loan Losses on 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 – PCI loans

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

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

Capital Requirements

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

Under the final rule on Enhanced Regulatory Capital Standards, commonly referred to as Basel III which became effective January 1, 2015, the federal banking regulators have defined four tests for assessing the capital strength and adequacy of banks, based on three definitions of capital. “Common equity tier 1 capital” is defined as common equity, retained earnings, and accumulated other comprehensive income (AOCI), less certain intangibles. “Tier 1 capital” is defined as common equity tier 1 capital plus qualifying perpetual preferred stock, tier 1 minority interests, and grandfathered trust preferred securities. “Tier 2 capital” is defined as specific subordinated debt, some hybrid capital instruments and other qualifying preferred stock, non-tier 1 minority interests and a limited amount of the loan loss allowance. “Total capital” is defined as tier 1 capital plus tier 2 capital. Four risk-based capital ratios are computed using the above capital definitions, total assets and risk-weighted assets, and the ratios 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. “Common equity tier 1 capital ratio” is common equity tier 1 capital divided by risk-weighted assets. “Tier 1 risk-based capital ratio” is tier 1 capital divided by risk-weighted assets. “Total risk-based capital ratio” 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 13.5% at September 30, 2015 compared with 14.7% at December 31, 2014. The tier 1 risk-based capital ratio was 12.4% at September 30, 2015 and 13.5% at December 31, 2014. The Company’s tier 1 leverage ratio was 9.2% at September 30, 2015 and 9.4% at December 31, 2014. All capital ratios exceed regulatory minimums to be considered well capitalized. As discussed above, Basel III introduced the common equity tier 1 capital ratio, which was 11.9% at September 30, 2015.

Under Basel III, a capital conservation buffer of 2.5% above the minimum risk-based capital thresholds was established. Dividend and executive compensation restrictions begin if the Company does not maintain the full amount of the buffer. The capital conservation buffer will be phased in between January 1, 2016 and January 1, 2019.

On its March 31, 2015 regulatory Call Report, the Bank made the one-time AOCI opt-out election, which allows banks under \$250 billion in assets that make the one-time opt-out election to remove the impact of certain unrealized capital gains and losses from the calculation of regulatory capital. There is no opportunity to change methodology in future periods.

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. A summary of the Company's liquid assets at September 30, 2015 and December 31, 2014 was as follows (dollars in thousands):

	September 30, 2015	December 31, 2014	
Cash and due from banks	\$ 10,032	\$ 8,329	
Interest bearing bank deposits	2,405	14,024	
Available for sale securities, at fair value, unpledged	244,729	199,067	
Total liquid assets	\$ 257,166	\$ 221,420	
Deposits and other liabilities	\$ 1,046,230	\$ 1,048,084	
Ratio of liquid assets to deposits and other liabilities	24.58	% 21.13	%

Off-Balance Sheet Arrangements and Contractual Obligations

A summary of the contract amount of the Company's exposure to off-balance sheet and balance sheet risk as of September 30, 2015 and December 31, 2014, is as follows (dollars in thousands):

	September 30, 2015	December 31, 2014
Commitments with off-balance sheet risk:		
Commitments to extend credit	\$ 101,635	\$ 87,017
Standby letters of credit	7,219	7,358
Total commitments with off-balance sheet risks	\$ 108,854	\$ 94,375

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 Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

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

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

On November 7, 2014, the Company entered into an interest rate swap with a total notional amount of \$30 million. The Company designated the swap as a cash flow hedge intended to protect against the variability in the expected future cash flows on the designated variable rate borrowings. The swap hedges the interest rate risk, wherein the Company will receive an interest rate based on the three month LIBOR from the counterparty and pays an interest rate of 1.69% to the same counterparty calculated on the notional amount for a term of five years. The Company intends to sequentially issue a series of three month fixed rate debt as part of a planned roll-over of short term debt for five years. The forecasted funding will be provided through one of the following wholesale funding sources: a new FHLB

advance, a new repurchase agreement, or a pool of brokered CDs, based on whichever market offers the most advantageous pricing at the time that pricing is first initially determined for the effective date of the swap and each reset period thereafter. For the avoidance of doubt, each quarter when the Company rolls over the three month debt it will decide at that time which funding source to use for that quarterly period.

At September 30, 2015, the fair value of the Company's cash flow hedge was an unrealized loss of \$599,000, which was recorded in other liabilities. The Company's cash flow hedge is deemed to be effective. Therefore, the loss was recorded as a component of other comprehensive income recorded in the Company's Consolidated Statements of Comprehensive Income.

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

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

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

The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all assets and liabilities reflected on the Company's balance sheet. The simulation model is prepared and results are analyzed at least quarterly. 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 400 basis point upward shift and a 400 basis point downward shift in interest rates. The downward shift of 300 or 400 basis points is included in the analysis, although less meaningful in the current rate environment, because all results are monitored regardless of likelihood. 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, 200, 300 and 400 basis points at September 30, 2015 (dollars in thousands):

Change in net interest income

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

	%	\$	
Change in Yield curve			
+400 bp	(6.5)	(2,517)	
+300 bp	(5.4)	(2,092)	
+200 bp	(3.8)	(1,445)	
+100 bp	(2.2)	(835)	
most likely	—	—	
-100 bp	2.1	798	
-200 bp	0.6	250	
-300 bp	0.6	231	
-400 bp	0.6	231	

At September 30, 2015, the Company's interest rate risk model indicated that, in a rising rate environment of 400 basis points over a 12 month period, net interest income could decrease by 6.5%. For the same time period, the interest rate risk model indicated that in a declining rate environment of 400 basis points, net interest income could increase by 0.6%. While these percentages are subjective based upon assumptions used within the model, management believes the balance sheet is appropriately balanced with acceptable risk to changes in interest rates.

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Internal Control over Financial Reporting

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

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, 2014.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
----------------	-------------

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

- 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 September 30, 2015 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of (Loss) Income, (iii) the Unaudited Consolidated Statements of Comprehensive (Loss) Income, (iv) the Unaudited Consolidated Statements of Changes in Shareholders' Equity, (v) the Unaudited Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Consolidated Financial Statements*

* Filed herewith.

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: November 6, 2015

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

Date: November 6, 2015