Community Bankers Trust Corp
Form 10-Q
May 15, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D. C. 20549**

# FORM 10-Q

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

**For the quarterly period ended March 31, 2012**

**or**

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

**For the transition period from to**

**Commission File Number: 001-32590**

# COMMUNITY BANKERS TRUST CORPORATION

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **20-2652949** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **4235 Innslake Drive, Suite 200 Glen Allen, Virginia** | **23060** |
| **(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 x 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 x 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 | x |

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

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

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**COMMUNITY BANKERS TRUST CORPORATION**

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March 31, 2012

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**PART I FINANCIAL INFORMATION**

**Item 1.** ***Financial Statements***

**COMMUNITY BANKERS TRUST CORPORATION**

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

**AS OF MARCH 31, 2012 AND DECEMBER 31, 2011**

**(dollars in thousands)**

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

| | | |
|---|---|---|
| Total deposits | 944,057 | 933,491 |
| Federal Home Loan Bank advances | 37,000 | 37,000 |
| Trust preferred capital notes | 4,124 | 4,124 |
| Other liabilities | 6,075 | 6,701 |
| Total liabilities | 991,256 | 981,316 |
| Commitment and Contingencies (Note 12) | | |
| **STOCKHOLDERS EQUITY** | | |
| Preferred stock (5,000,000 shares authorized, $0.01 par value; 17,680 shares issued and outstanding) | 17,680 | 17,680 |
| Warrants on preferred stock | 1,037 | 1,037 |
| Discount on preferred stock | (399) | (454) |
| Common stock (200,000,000 shares authorized, $0.01 par value; 21,627,549 shares issued and outstanding) | 216 | 216 |
| Additional paid in capital | 144,259 | 144,243 |
| Retained deficit | (53,047) | (53,761) |
| Accumulated other comprehensive income | 1,676 | 2,219 |
| Total stockholders equity | 111,422 | 111,180 |
| Total liabilities and stockholders equity | $ 1,102,678 | $ 1,092,496 |

See accompanying notes to unaudited consolidated financial statements

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**COMMUNITY BANKERS TRUST CORPORATION**

**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

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

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

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

See accompanying notes to unaudited consolidated financial statements

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**COMMUNITY BANKERS TRUST CORPORATION**

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

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

**(dollars in thousands, except per share data)**

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

See accompanying notes to unaudited consolidated financial statements

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**COMMUNITY BANKERS TRUST CORPORATION**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND**

**THE YEAR ENDED DECEMBER 31, 2011**

**(dollars and shares in thousands)**

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

See accompanying notes to unaudited consolidated financial statements

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**COMMUNITY BANKERS TRUST CORPORATION**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

**(dollars in thousands)**

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

| | March 31, 2012 | March 31, 2011 |
|---|---|---|
| **Supplemental disclosures of cash flow information:** | | |
| Interest paid | $ 3,055 | $ 3,550 |
| Income taxes paid | | |
| Transfers of OREO property | 4,196 | 2,170 |

See accompanying notes to unaudited consolidated financial statement

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**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Consolidated Financial Statements**

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

***Organization***

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

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

***Financial Statements***

The consolidated statements presented include accounts of the Company and the Bank, its wholly-owned subsidiary. All material intercompany balances and transactions have been eliminated. The statements should be read in conjunction with the Company s consolidated financial statements and the accompanying notes to consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. In the opinion of management, all adjustments, consisting of normal accruals, were made that are necessary to present fairly the financial position of the Company as of March 31, 2012 and the results of operations, changes in stockholders equity, and cash flows for the three months ended March 31, 2012.

The accounting and reporting policies of the Company conform to generally accepted accounting principles (GAAP) and to the general practices within the banking industry. The interim financial statements have not been audited; however, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the consolidated financial statements have been included. Results for the three month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012.

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

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

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

***Recent Accounting Pronouncements***

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

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**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Consolidated Financial Statements**

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

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

**2. SECURITIES**

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

| | March 31, 2012 | | | |
|---|---|---|---|---|
| | | Gross Unrealized | | |
| | Amortized Cost | Gains | Losses | Fair Value |
| **Securities Available for Sale** | | | | |
| U.S. Treasury issue and other U.S. Gov t agencies | $ 15,381 | $ 96 | $ (22) | $ 15,455 |
| U.S. Gov t sponsored agencies | 1,003 | 20 | | 1,023 |
| State, county and municipal | 78,078 | 3,660 | (367) | 81,371 |
| Corporate and other bonds | 6,788 | 9 | (58) | 6,739 |
| Mortgage backed U.S. Gov t agencies | 65,436 | 517 | (355) | 65,598 |
| Mortgage backed U.S. Gov t sponsored agencies | 64,509 | 681 | (65) | 65,125 |
| Total Securities Available for Sale | $ 231,195 | $ 4,983 | $ (867) | $ 235,311 |
| **Securities Held to Maturity** | | | | |
| State, county and municipal | $ 12,161 | $ 1,150 | $ | $ 13,311 |
| Mortgage backed U.S. Gov t agencies | 11,936 | 786 | | 12,722 |
| Mortgage backed U.S. Gov t sponsored agencies | 35,020 | 1,781 | | 36,801 |
| Total Securities Held to Maturity | $ 59,117 | $ 3,717 | $ | $ 62,834 |

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**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Consolidated Financial Statements**

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

The amortized cost and fair value of securities at March 31, 2012 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without any penalties.

| | Held to Maturity | | Available for Sale | |
|---|---|---|---|---|
| (dollars in thousands) | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $ 2,429 | $ 2,457 | $ 11,632 | $ 11,669 |
| Due after one year through five years | 50,022 | 52,887 | 105,155 | 105,689 |
| Due after five years through ten years | 6,666 | 7,490 | 94,740 | 98,186 |
| Due after ten years | | | 19,668 | 19,767 |
| Total securities | $ 59,117 | $ 62,834 | $ 231,195 | $ 235,311 |

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

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

In estimating OTTI losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and short-term prospects for the issuer, and the intent and ability of management to hold its investment for a period of time to allow a recovery in fair value. There were no investments held that had impairment losses other than temporary in nature for the three months ended March 31, 2012 and 2011.

**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Consolidated Financial Statements**

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

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

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

The unrealized losses in the investment portfolio at March 31, 2012 and December 31, 2011 are generally a result of market fluctuations that occur daily. The unrealized losses are from 63 securities at March 31, 2012 that are all of investment grade, backed by insurance, U.S. government agency guarantees, or the full faith and credit of local municipalities throughout the United States. The Company considers the reason for impairment, length of impairment and ability to hold until the full value is recovered in determining if the impairment is temporary in nature. Based on this analysis, the Company has determined these impairments to be temporary in nature. The Company does not intend to sell and it is more likely than not that the Company will not be required to sell these securities until they recover in value.

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

Securities with amortized costs of $46.9 million and $34.1 million at March 31, 2012 and December 31, 2011, respectively, were pledged to secure deposits and for other purposes required or permitted by law. At March 31, 2012 and December 31, 2011, there were no securities purchased from a single issuer, other than U.S. Treasury issue and other U.S. Government agencies, that comprised more than 10% of the consolidated shareholders equity.

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**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Consolidated Financial Statements**

**3. LOANS NOT COVERED BY FDIC SHARED LOSS AGREEMENT (NON-COVERED LOANS)**

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

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

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

At March 31, 2012 and December 31, 2011, the Company s allowance for credit losses was comprised of the following: (i) specific valuation allowances calculated in accordance with FASB ASC 310, *Receivables,* (ii) general valuation allowances calculated in accordance with FASB ASC 450, *Contingencies*, based on economic conditions and other qualitative risk factors, and (iii) historical valuation allowances calculated using historical loan loss experience. Management identified loans subject to impairment in accordance with ASC 310.

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

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

Average investment in impaired loans was $41.9 million and $48.3 million as of March 31, 2012 and March 31, 2011, respectively. Interest income on nonaccrual loans, if recognized, is recorded using the cash basis method of accounting. There were no significant amounts recognized during either of the three months ended March 31, 2012 and 2011. For the three months ended March 31, 2012 and 2011, estimated interest income of $540,000 and $996,000, respectively, would have been recorded if all such loans had been accruing interest according to their original contractual terms.

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**COMMUNITY BANKERS TRUST CORPORATION**

**Notes to Consolidated Financial Statements**

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

| | Recorded Investment (1) | Unpaid Principal Balance (2) | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| **With an allowance recorded:** | | | | | |
| Mortgage loans on real estate: | | | | | |
| Residential 1-4 family | $ 4,388 | $ 4,495 | $ 1,231 | $ 4,034 | $ 5 |
| Commercial | 6,082 | 6,253 | 751 | | |