Community Bankers Trust Corp
Form 10-K
March 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2014

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	**20-2652949**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9954 Mayland Drive, Suite 2100	**23233**

Richmond, Virginia
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ¨

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 x
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 Act). Yes ¨ No x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. $92,402,613

On February 28, 2015, there were 21,795,273 shares of the registrant's common stock, par value $0.01, outstanding, which is the only class of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be used in conjunction with the registrant's

2015 Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K.

TABLE OF CONTENTS

FORM 10-K

December 31, 2014

		Page
PART I		
Item 1.	Business	3
Item 1A.	Risk Factors	12
Item 1B.	Unresolved Staff Comments	19
Item 2.	Properties	19
Item 3.	Legal Proceedings	20
Item 4.	Mine Safety Disclosures	20
PART II		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	21
Item 6.	Selected Financial Data	23
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	24
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	45
Item 8.	Financial Statements and Supplementary Data	47
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	103
Item 9A.	Controls and Procedures	103
Item 9B.	Other Information	104
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	104
Item 11.	Executive Compensation	104
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	104
Item 13.	Certain Relationships and Related Transactions, and Director Independence	104
Item 14.	Principal Accounting Fees and Services	104
PART IV		
Item 15.	Exhibits, Financial Statement Schedules	105

PART I

ITEM 1. ***BUSINESS***

GENERAL

The Company is headquartered in Richmond, Virginia and is the holding company for Essex Bank (the “Bank”), a Virginia state bank with 21 full-service offices in Virginia and Maryland. The Bank also operates two loan production offices in Virginia.

The Bank was established in 1926. 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. Fourteen full-service offices are located in Virginia, from the Chesapeake Bay to just west of Richmond, and seven are located in Maryland along the Baltimore-Washington corridor.

Essex Services, Inc. is a wholly-owned subsidiary of the Bank. Essex Services and its financial consultants offer a broad range of investment products and alternatives through an affiliation with Infinex Investments, Inc., an independent broker-dealer. It also offers insurance products through an ownership interest in Bankers Insurance, LLC, an independent insurance agency. Essex Services was formed to sell title insurance to the Bank’s mortgage loan customers.

The Company’s corporate headquarters are located at 9954 Mayland Drive, Suite 2100, Richmond, Virginia 23233. The telephone number of the corporate headquarters is (804) 934-9999.

The Company’s common stock trades on the NASDAQ Capital Market under the symbol “ESXB”.

STRATEGY

The Company's strategy is to be recognized as the premier provider of financial services by exceeding the service expectations of all of its customers and shareholders while creating a rewarding environment for its employees. The Company will accomplish this goal while operating in a safe and sound manner to provide a desirable return to its investors.

The Company has adopted and implemented a formal strategic plan that centers on the following key issues:

- Ensuring profitable controlled growth in earnings
- Improving the overall risk profile of the Company through enterprise risk management
- Solidifying strong management practices with a focus on value added

During 2014, the Company focused on growth in its core markets by increasing loan production, decreasing operating expenses and increasing net income The Company accomplished these results as it grew loans by $58.0 million and added two new retail banking offices. The Company also eliminated its obligation to the United States Department of the Treasury (the "Treasury") under its voluntary Capital Purchase Program. (See "– TARP Investment" below.)

The Company expects to continue this growth through a combination of de novo branching, expansion of loan production offices and possible acquisitions that are immediately accretive in value.

Other specific priorities, as outlined in the Company's strategic plan, include the following matters:

- Organically growing the size of the loan portfolio
- Changing the deposit mix to more transaction-based accounts by adding additional demand deposits
- Utilizing technology to attract new customers and lower costs
- Significantly reducing costs associated with non-performing assets and other real estate owned
- Enhancing the delivery system of its fee-based products
- Continuing to control non-interest expense through better technology use and other efficiencies in processes

The Company believes that it has the ability and capacity to successful execute its strategies, which will enhance the major profit drivers of the Company. The implementation of these strategies will lead to an increase in profitability for shareholders.

OPERATIONS

The Company's operating strategy is delineated by business lines and by the functional support areas that help accomplish the stated goals and financial budget of the organization. A major component of future income is growth in three core business lines – retail and small business banking, commercial and industrial banking and real estate lending. These core businesses, combined with the Company's geographic locations, dictate the market position that the Company needs to take to be successful. The majority of new loan growth will occur in all three lines, although the retail segment primarily provides the funding through core deposit relationship growth.

Retail and Small Business Banking

The Company markets to consumers in geographic areas around its branch network not only through existing bricks and mortar, but also with alternative delivery mechanisms and new product development such as online banking, remote deposit capture, mobile banking and telephonic banking. In addition, the Company attracts new customers by making its service through these distribution points convenient. All of the Company's existing markets are prime targets for expanding the consumer side of its business with full loan and deposit relationships, and the Company has restructured its retail group to accommodate growth. In addition, the Company is focused on potential growth in new market areas in which it currently operates loan production offices.

Commercial and Industrial Banking

In the commercial and industrial banking group, the Company focuses on small to mid-sized business customers (sales of $5 million to $15 million each year) who are not targeted by larger banks and for whom smaller community banks have limited expertise. The Company has an experienced team with a strong loan pipeline. The typical relationship consists of working capital lines and equipment loans with the primary deposit accounts of the customer. Most of these relationships will be new to the Company and create strong and positive growth potential.

Commercial Real Estate Lending

The Company has historically held a significant concentration in real estate loans. The current strategy is to manage the existing real estate acquisition, development and construction loans and add income producing property loans to the real estate portfolio. The Company originates both owner occupied and non-owner occupied borrowings where the cash flows provide significant debt coverage for the relationship.

COMPETITION

Within its market areas in Virginia and Maryland, the Company operates in a highly competitive environment, competing for deposits and loans with commercial corporations, savings banks and other financial institutions, including non-bank competitors, many of which possess substantially greater financial resources than those available to the Company. Many of these institutions have significantly higher lending limits than the Company. In addition, there can be no assurance that other financial institutions, with substantially greater resources than the Company, will not establish operations in its service area. The financial services industry remains highly competitive and is constantly evolving.

The activities in which the Company engages are highly competitive. Financial institutions such as credit unions, consumer finance companies, insurance companies, brokerage companies and other financial institutions with varying degrees of regulatory restrictions compete vigorously for a share of the financial services market. Brokerage and insurance companies continue to become more competitive in the financial services arena and pose an ever increasing challenge to banks. Legislative changes also greatly affect the level of competition that the Company faces. Federal legislation allows credit unions to use their expanded membership capabilities, combined with tax-free status, to compete more fiercely for traditional bank business. The tax-free status granted to credit unions provides them a significant competitive advantage. Many of the largest banks operating in Virginia and Maryland, including some of the largest banks in the country, have offices in the Company’s market areas. Many of these institutions have capital resources, broader geographic markets, and legal lending limits substantially in excess of those available to the Company. The Company faces competition from institutions that offer products and services that it does not or cannot currently offer. Some institutions with which the Company competes offer interest rate levels on loan and deposit products that the Company is unwilling to offer due to interest rate risk and overall profitability concerns. The Company expects the level of competition to increase.

Factors such as rates offered on loan and deposit products, types of products offered, and the number and location of branch offices, as well as the reputation of institutions in the market, affect competition for loans and deposits. The Company emphasizes customer service, establishing long-term relationships with its customers, thereby creating customer loyalty, and providing adequate product lines for individuals and small to medium-sized business customers.

The Company would not be materially or adversely impacted by the loss of a single customer. The Company is not dependent upon a single or a few customers.

CORPORATE HISTORY

The Company was initially formed as a special purpose acquisition company under the name "Community Bankers Acquisition Corp." As a "Targeted Acquisition Corporation[SM]" or "TAC[SM]," the Company was formed to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business in the banking industry. In May 2008, the Company acquired each of TransCommunity Financial Corporation, a Virginia corporation (TFC), and BOE Financial Services of Virginia, Inc., a Virginia corporation (BOE). The Company changed its corporate name in connection with the acquisitions.

Formed in 2001, TFC was a financial holding company and the parent company of TransCommunity Bank, N.A. Until June 2007, TFC was the holding company for four separately-chartered banking subsidiaries — Bank of Powhatan, Bank of Goochland, Bank of Louisa and Bank of Rockbridge. In June 2007, these four subsidiaries were consolidated into a new TransCommunity Bank, N.A. Each former subsidiary then operated as a division of TransCommunity Bank, but retained its name and local identity in the community that it served.

BOE was incorporated under Virginia law in 2000 to become the holding company for the Bank.

In connection with the May 2008 mergers, each of the Bank, then a wholly-owned subsidiary of BOE, and TransCommunity Bank, N.A., a wholly-owned subsidiary of TFC, became a wholly-owned subsidiary of the Company, and they were operated initially as separate banking subsidiaries. In July 2008, TransCommunity Bank was consolidated into the Bank under the Bank's state charter. Until 2010, the former branch offices of TFC operated as separate divisions under the Bank's charter, using the names of TFC's former banking subsidiaries.

In November 2008, the Bank acquired certain fixed assets and assumed all deposit liabilities relating to four former branch offices of The Community Bank (TCB), a Georgia state-chartered bank, following its failure. The transaction was consummated pursuant to a Purchase and Assumption Agreement by and among the FDIC, both as Receiver for The Community Bank and in its corporate capacity, and the Bank. The Bank sold those offices and related deposits to Community & Southern Bank on November 8, 2013.

In January 2009, the Bank acquired substantially all assets and assumed all deposit and certain other liabilities relating to seven former branch offices of Suburban Federal Savings Bank, Crofton, Maryland (SFSB), following its failure. The transaction was consummated pursuant to a Purchase and Assumption Agreement by and among the FDIC, both as Receiver for SFSB and in its corporate capacity, and the Bank. The Bank entered into a shared loss arrangement with the FDIC with respect to loans and real estate assets acquired.

On January 1, 2014, the Company completed a reincorporation from Delaware, its original state of incorporation, to Virginia. As a result of the reincorporation, the Company's corporate affairs are now governed by Virginia law. The purpose of the reincorporation to Virginia is expected annual cost savings of over $175,000 that the Company will realize from the difference between Delaware's franchise tax and Virginia's annual corporate fee. The form of the reincorporation was the merger of the then existing Delaware corporation into a newly created Virginia corporation. The Company retained the same name and conducts business in the same manner as before the reincorporation. In addition, all of the issued and outstanding shares of the Company's common stock and preferred stock became shares of a Virginia corporation. The reincorporation had no effect on the Bank and its operations.

TARP INVESTMENT

In December 2008, the Company issued 17,680 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and a related common stock warrant to the Treasury for a total price of $17,680,000. The issuance and receipt of proceeds from the Treasury were made under its voluntary Capital Purchase Program. The Series A Preferred Stock qualifies as Tier 1 capital. The Series A Preferred Stock had a liquidation amount per share equal to $1,000. The Series A Preferred Stock paid cumulative dividends at a rate of 5% per year for the first five years and thereafter at a rate of 9% per year. The Company could have deferred dividend payments, but the dividend is a cumulative dividend that accrues for payment in the future. The common stock warrant permited the Treasury to purchase 780,000 shares of common stock at an exercise price of $3.40 per share.

During 2013 and 2014, the Company repurchased all of the outstanding shares of Series A Preferred Stock. In 2013, the Company repurchased 7,000 shares and funded it through the earnings of its banking subsidiary. The Company paid the Treasury $7.0 million, which represented 100% of the par value of the preferred stock repurchased plus accrued dividends with respect to such shares. On April 23, 2014, the Company repurchased the remaining 10,680 shares and funded it through an unsecured third-party term loan. The Company paid the Treasury $10.9 million, which represented 100% of the par value of the preferred stock repurchased plus accrued dividends with respect to such shares. The form of all repurchases were redemptions under the terms of the Series A Preferred Stock.

On June 4, 2014, the Company paid the Treasury $780,000 to repurchase the warrant that had been associated with the Series A Preferred Stock. The Company used its own funds to repurchase the warrant.

There are no other investments from the Company's participation in the Capital Purchase Program that remain outstanding.

EMPLOYEES

As of December 31, 2014, the Company had 227 full-time equivalent employees, including executive officers, loan and other banking officers, branch personnel, operations personnel and other support personnel. None of the Company’s employees is represented by a union or covered under a collective bargaining agreement. Management of the Company considers its employee relations to be excellent.

AVAILABLE INFORMATION

The Company files with or furnishes to the Securities and Exchange Commission annual, quarterly and current reports, proxy statements, and various other documents under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The public may read and copy any materials that the Company files with or furnishes to the SEC at the SEC’s Public Reference Room, which is located at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. Also, the SEC maintains an internet website at *www.sec.gov* that contains reports, proxy and information statements and other information regarding registrants, including the Company, that file or furnish documents electronically with the SEC.

The Company also makes available free of charge on or through our internet website (*www.cbtrustcorp.com*) its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and, if applicable, amendments to those reports as filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after the Company electronically files such materials with, or furnishes them to, the SEC.

SUPERVISION AND REGULATION

General

As a bank holding company, we are subject to regulation under the Bank Holding Company Act of 1956, as amended (the "BHCA"), and the examination and reporting requirements of the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Other federal and state laws govern the activities of our bank subsidiary, including the activities in which it may engage, the investments that it makes, the aggregate amount of loans that it may grant to one borrower, and the dividends it may declare and pay to us. Our bank subsidiary is also subject to various consumer and compliance laws. As a state-chartered bank, the Bank is primarily subject to regulation, supervision and examination by the Bureau of Financial Institutions of the Virginia State Corporation Commission (the "SCC"). Our bank subsidiary also is subject to regulation, supervision and examination by the FDIC.

The following description discusses certain provisions of federal and state laws and certain regulations and the potential impact of such provisions on the Company and the Bank. These federal and state laws and regulations have been enacted generally for the protection of depositors in banks and not for the protection of shareholders of bank holding companies or banks.

Bank Holding Companies

The Company is registered as a bank holding company under the BHCA and, as a result, is subject to regulation by the Federal Reserve. Accordingly, the Company is subject to periodic examination by the Federal Reserve and is required to file periodic reports regarding its operations and any additional information that the Federal Reserve may require. The BHCA generally limits the activities of a bank holding company and its subsidiaries to that of banking, managing or controlling banks, or any other activity that is so closely related to banking or to managing or controlling banks as to be a proper incident to it. While federal law permits bank holding companies from any states to acquire banks and bank holding companies located in any other state, or to establish interstate de novo branches, the Federal Reserve has jurisdiction under the BHCA to approve any bank or nonbank acquisition, merger or consolidation, or the establishment of any interstate de novo branches, proposed by a bank holding company.

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositor of such depository institutions and to the FDIC's Deposit Insurance Fund (the "DIF") in the event the depository institution becomes in danger of default or in default. For example, under a policy of the Federal Reserve with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so otherwise.

The Federal Deposit Insurance Act (the "FDIA") also provides that amounts received from the liquidation or other resolution of any insured depository institution by any receiver must be distributed (after payment of secured claims) to pay the deposit liabilities of the institution prior to payment of any other general or unsecured senior liability, subordinated liability, general creditor or shareholders in the event that a receiver is appointed to distribute the assets of the Bank.

The Company was required to register in Virginia with the SCC under the financial institution holding company laws of Virginia. Accordingly, the Company is subject to regulation and supervision by the SCC.

The Dodd-Frank Act

In July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"). The Dodd-Frank Act significantly restructures the financial regulatory regime in the United States and has a broad impact on the financial services industry. While some rulemaking under the Dodd-Frank Act has occurred, many of the act's provisions require study or rulemaking by federal agencies, a process which will take years to implement fully.

Among other things, the Dodd-Frank Act provides for new capital standards that eliminate the treatment of trust preferred securities as Tier 1 capital. Existing trust preferred securities are grandfathered for banking entities with less than $15 billion of assets, such as the Company. The Dodd-Frank Act permanently raises deposit insurance levels to $250,000, and until December 31, 2012 provided unlimited deposit insurance coverage for transaction accounts. Pursuant to modifications under the Dodd-Frank Act, deposit insurance assessments will be calculated based on an insured depository institution's assets rather than its insured deposits and the minimum reserve ratio of the FDIC's DIF is to be raised to 1.35%. The payment of interest on business demand deposit accounts is permitted by the Dodd-Frank Act. Further, the Dodd-Frank Act bars banking organizations, such as the Company, from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain limited circumstances.

The Dodd-Frank Act established the Consumer Financial Protection Bureau (the "CFPB") as an independent bureau of the Federal Reserve System. The CFPB has the exclusive authority to prescribe rules governing the provision of consumer financial products and services, which in the case of the Bank will be enforced by the Federal Reserve. The Dodd-Frank Act also provides that debit card interchange fees must be reasonable and proportional to the cost incurred by the card issuer with respect to the transaction. This provision is known as the "Durbin Amendment." In June 2011, the Federal Reserve adopted regulations setting the maximum permissible interchange fee as the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction, with an additional adjustment of up to one cent per transaction if the card issuer implements certain fraud-prevention standards. The interchange fee restriction only applies to financial institutions with assets of $10 billion or more and therefore has no effect on the Company.

The Dodd-Frank Act enhances the requirements for certain transactions with affiliates under Sections 23A and 23B of the Federal Reserve Act, including an expansion of the definition of “covered transactions” and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained. These requirements became effective on July 21, 2011. The Dodd-Frank Act also provides that the appropriate federal regulators must establish standards prohibiting as an unsafe and unsound practice any compensation plan of a bank holding company or other “covered financial institution” that provides an insider or other employee with “excessive compensation” or compensation that gives rise to excessive risk or could lead to a material financial loss to such firm. In June 2010, prior to the Dodd-Frank Act, the bank regulatory agencies promulgated the *Interagency Guidance on Sound Incentive Compensation Policies*, which requires that financial institutions establish metrics for measuring the impact of activities to achieve incentive compensation with the related risk to the financial institution of such behavior.

Although a significant number of the rules and regulations mandated by the Dodd-Frank Act have been finalized, many of the new requirements have yet to be implemented and will likely be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies, the full extent of the impact such requirements will have on the operations of the Company and the Bank is unclear. The changes resulting from the Dodd-Frank Act may affect the profitability of business activities, require changes to certain business practices, impose more stringent capital requirements, liquidity and leverage ratio requirements, or otherwise adversely affect the business of the Company and the Bank. These changes may also require the Company to invest significant management attention and resources to evaluate and make necessary changes to comply with new statutory and regulatory requirements.

Capital Requirements

The Federal Reserve has issued risk-based and leverage capital guidelines applicable to banking organizations that it supervises. Under the risk-based capital requirements, the Company and the Bank are each generally required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) of 8%. At least half of the total capital must be composed of “Tier 1 Capital,” which is defined as common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles. The remainder may consist of “Tier 2 Capital,” which is defined as specific subordinated debt, some hybrid capital instruments and other qualifying preferred stock and a limited amount of the loan loss allowance. In addition, each of the federal banking regulatory agencies has established minimum leverage capital requirements for banking organizations.

On July 2, 2013, the Federal Reserve adopted a final rule (the "Basel III Rule") revising the risk-based and leverage capital requirements and the method for calculating risk-weighted assets to be consistent with the agreements reached by the Basel Committee on Banking Supervision in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (Basel III) and certain provisions of the Dodd-Frank Act. The Basel III Rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more, and top-tier savings and loan holding companies (referred to as "banking organizations"). For community banking organizations, like the Company, these revised capital requirements are being phased in beginning on January 1, 2015.

Under the requirements prior to effectiveness of the Basel III Rule, banking organizations must have maintained a minimum ratio of Tier 1 capital to adjusted average quarterly assets equal to 3% to 5%, subject to federal bank regulatory evaluation of an organization's overall safety and soundness. In summary, the capital measures used by the federal banking regulators are:

- Total risk-based capital ratio (Total Capital Ratio), which is the total of Tier 1 Capital and Tier 2 Capital as a percentage of total risk-weighted assets;
- Tier 1 risk-based capital ratio (Tier 1 Ratio), which is Tier 1 Capital as a percentage of total risk-weighted assets; and
- Leverage Ratio, which is Tier 1 Capital as a percentage of adjusted average total assets.

Under pre-Basel III Rule regulations, a bank was considered:

- "Well capitalized" if it has a Total Capital Ratio of 10% or greater, Tier 1 Ratio of 6% or greater, a Leverage Ratio of 5% or greater, and is not subject to any written agreement, order, capital directive, or prompt corrective action directive by a federal bank regulatory agency to meet and maintain a specific capital level for any capital measure;
- "Adequately capitalized" if it has a Total Capital Ratio of 8% or greater, a Tier 1 Ratio of 4% or greater, and a Leverage Ratio of 4% or greater — or 3% in certain circumstances — and is not well capitalized;
- "Undercapitalized" if it has a Total Capital Ratio of less than 8% or greater, a Tier 1 Ratio of less than 4%, and a Leverage Ratio of less than 4% — or 3% in certain circumstances;
- "Significantly undercapitalized" if it has a Total Capital Ratio of less than 6%, a Tier 1 Ratio of less than 3%, or a Leverage Ratio of less than 3%; or
- "Critically undercapitalized" if its tangible equity is equal to or less than 2% of average quarterly tangible assets.

Among other things, the Basel III Rule establishes a new common equity tier 1 (CET1) minimum capital requirement, introduces a "capital conservation buffer" and raises minimum risk-based capital requirements. Under the new rule, CET1 is defined as comprising Tier 1 Capital, less non-cumulative perpetual preferred stock and grandfathered trust-preferred and other securities, plus certain regulatory deductions. The Basel III Rule establishes a new minimum required ratio of CET1 to risk-weighted assets (CET1 Ratio) of 4.5%, and raises the minimum Tier 1 Ratio to 6.0% (from the prior 4.0% minimum). Furthermore, the minimum required Leverage Ratio is increased in the final Basel III Rule to 4.0% for all banking organizations irrespective of differences in composite supervisory ratings.

8

In conjunction with the changes in the required minimum capital ratios, the Basel III Rule also changes the definitions of the five regulatory capitalization categories set forth above, effective January 1, 2015. A table illustrating these changes is set forth below.

Capitalization Category	Total Capital Ratio (%)	Tier 1 Ratio (%)	CET1 Ratio (%)	Leverage Ratio (%)
Well capitalized (present)	≥ 10	≥ 6	N/A	≥ 5
Well capitalized (Basel III)	≥ 10	≥ 8	≥ 6.5	≥ 5
Adequately capitalized (present)	≥ 8	≥ 4	N/A	≥ 4
Adequately capitalized (Basel III)	≥ 8	≥ 6	≥ 4.5	≥ 4
Undercapitalized (present)	< 8	< 4	N/A	< 4
Undercapitalized (Basel III)	< 8	< 6	< 4.5	< 4
Significantly undercapitalized (present)	< 6	< 3	N/A	< 3
Significantly undercapitalized (Basel III)	< 6	< 4	< 3	< 3
Critically undercapitalized (present)	GAAP tangible equity ≤ 2% of average quarterly assets			
Critically undercapitalized (Basel III)	Basel III tangible equity (Tier 1 Capital plus non-tier 1 perpetual preferred stock) ≤ 2% of total assets			

The new required capital conservation buffer is comprised of an additional 2.5% of CET1 as a percentage of risk-weighted assets. Institutions that do not maintain the required capital buffer will be subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. This capital conservation buffer is in addition to, and not included with, the CET1 Ratio described above. A table illustrating these limitations on the ratio which can be paid out (defined in the Basel III Rule as “maximum payout ratio”) is set forth below.

Capital Conservation Buffer (CET1 as a percentage of total risk-weighted assets)	Maximum payout ratio (as a percentage of eligible retained income)
Greater than 2.5%..	No applicable limitation.
≤ 2.5% and > 1.875%...	60%
≤ 1.875% and > 1.25%...	40%
≤ 1.25% and > 0.625%...	20%
≤ 0.625%..	0%

The Basel III Rule also introduces new methodologies for determining risk-weighted assets, including higher risk weightings, up to a maximum of 150%, for exposures that are more than 90 days past due or are on nonaccrual status

and for certain commercial real estate facilities that finance the acquisition, development or construction of real property. The Basel III Rule also requires unrealized gains and losses on certain securities holdings to be included, or excluded, as applicable, for purposes of calculating certain regulatory capital requirements. Additionally, the Basel III Rule establishes that, for banking organizations with less than $15 billion in assets as of December 31, 2009, the ability to treat trust preferred securities as tier 1 capital would be permanently grandfathered in.

The risk-based capital standards of the Federal Reserve explicitly identify concentrations of credit risk and the risk arising from non-traditional activities, as well as an institution's ability to manage these risks, as important factors to be taken into account by the agency in assessing an institution's overall capital adequacy. The capital guidelines also provide that an institution's exposure to a decline in the economic value of its capital due to changes in interest rates be considered by the agency as a factor in evaluating a banking organization's capital adequacy.

The FDIC may take various corrective actions against any undercapitalized bank and any bank that fails to submit an acceptable capital restoration plan or fails to implement a plan accepted by the FDIC. These powers include, but are not limited to, requiring the institution to be recapitalized, prohibiting asset growth, restricting interest rates paid, requiring prior approval of capital distributions by any bank holding company that controls the institution, requiring divestiture by the institution of its subsidiaries or by the holding company of the institution itself, requiring new election of directors, and requiring the dismissal of directors and officers. The Bank presently maintains sufficient capital to remain in compliance with these capital requirements.

Dividends

The Company is a legal entity, separate and distinct from the Bank. A significant portion of the revenues of the Company result from dividends paid to it by the Bank. There are various legal limitations applicable to the payment of dividends by the Bank to the Company and to the payment of dividends by the Company to its shareholders. The Bank is subject to various statutory restrictions on its ability to pay dividends to the Company. Under current regulations, prior approval from the Federal Reserve is required if cash dividends declared in any given year exceed net income for that year, plus retained net profits of the two preceding years. The payment of dividends by the Bank or the Company may be limited by other factors, such as requirements to maintain capital above regulatory guidelines. Bank regulatory agencies have the authority to prohibit the Bank or the Company from engaging in an unsafe or unsound practice in conducting its respective business. The payment of dividends, depending on the financial condition of the Bank, or the Company, could be deemed to constitute such an unsafe or unsound practice.

Under the FDIA, insured depository institutions such as the Bank, are prohibited from making capital distributions, including the payment of dividends, if, after making such distributions, the institution would become “undercapitalized” (as such term is used in the statute). Based on the Bank’s current financial condition, the Company does not expect that this provision will have any impact on its ability to receive dividends from the Bank.

Deposit Insurance

The Bank’s deposits are insured by the DIF of the FDIC up to the standard maximum insurance amount for each deposit insurance ownership category. As of January 1, 2015, the basic limit on FDIC deposit insurance coverage is $250,000 per depositor. Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC, subject to administrative and potential judicial hearing and review processes.

The DIF is funded by assessments on banks and other depository institutions. As required by the Dodd-Frank Act, in February 2011, the FDIC approved a final rule that changed the assessment base for DIF assessments from domestic deposits to Tier 1 Capital. In addition, as also required by the Dodd-Frank Act, the FDIC has adopted a new large-bank pricing assessment scheme, set a target “designated reserve ratio” (described in more detail below) of 2 percent for the DIF and established a lower assessment rate schedule when the reserve ratio reaches 1.15 percent and, in lieu of dividends, provides for a lower assessment rate schedule, when the reserve ratio reaches 2 percent and 2.5 percent. An institution’s assessment rate depends upon the institution’s assigned risk category, which is based on supervisory evaluations, regulatory capital levels and certain other factors. Initial base assessment rates range from 2.5 to 45 basis points. The FDIC may make the following further adjustments to an institution’s initial base assessment rates: decreases for long-term unsecured debt including most senior unsecured debt and subordinated debt; increases for holding long-term unsecured debt or subordinated debt issued by other insured depository institutions; and increases for broker deposits in excess of 10 percent of domestic deposits for institutions not well rated and well capitalized.

The Dodd-Frank Act transferred to the FDIC increased discretion with regard to managing the required amount of reserves for the DIF, or the “designated reserve ratio.” Among other changes, the Dodd-Frank Act (i) raised the minimum designated reserve ratio to 1.35 percent and removed the upper limit on the designated reserve ratio, (ii) requires that the designated reserve ratio reach 1.35 percent by September 2020, and (iii) requires the FDIC to offset the effect on institutions with total consolidated assets of less than $10 billion by raising the designated reserve ratio from 1.15 percent to 1.35 percent. The FDIA requires that the FDIC consider the appropriate level for the designated reserve ratio on at least an annual basis. On October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35 percent by September 30, 2020, as required by the Dodd-Frank Act.

Incentive Compensation

In June 2010, the federal banking regulators issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's Board of Directors.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies. At December 31, 2014, the Company had not been made aware of any instances of non-compliance with the new guidance.

The Gramm-Leach-Bliley Act of 1999

The Gramm-Leach-Bliley Act of 1999 (Gramm-Leach-Bliley) drew lines between the types of activities that are permitted for banking organizations that are financial in nature and those that are not permitted because they are commercial in nature.

Gramm-Leach-Bliley created a new form of financial organization called a financial holding company that may own and control banks, insurance companies and securities firms, thereby repealing the prohibition in the Glass-Steagall Act on bank affiliations with companies that are engaged primarily in securities underwriting activities. A financial holding company is authorized to engage in any activity that is financial in nature or incidental to an activity that is financial in nature or is a complementary activity, including, for example, insurance, securities transactions (including underwriting, broker/dealer activities and investment advisory services) and traditional banking-related activities. The Company is currently not a financial holding company under Gramm-Leach-Bliley.

Gramm-Leach-Bliley directed federal banking regulators to adopt rules limiting the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. Pursuant to these rules, financial institutions must provide: initial notices to customers about their privacy policies, including a description of the conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates; annual notices of their privacy policies to current customers; and a reasonable method for customers to “opt out” of disclosures to nonaffiliated third parties. These privacy provisions affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. The Company, as a bank holding company, is subject to these rules.

Community Reinvestment Act

Under the Community Reinvestment Act (CRA) and related regulations, depository institutions have an affirmative obligation to assist in meeting the credit needs of their market areas, including low and moderate-income areas, consistent with safe and sound banking practice. CRA requires the adoption of a statement for each of its market areas describing the depository institution’s efforts to assist in its community’s credit needs. Depository institutions are periodically examined for compliance with CRA and are periodically assigned ratings in this regard. Banking regulators consider a depository institution’s CRA rating when reviewing applications to establish new branches, undertake new lines of business, and/or acquire part or all of another depository institution. An unsatisfactory rating can significantly delay or even prohibit regulatory approval of a proposed transaction by a bank holding company or its depository institution subsidiaries.

Gramm-Leach-Bliley and federal bank regulators have made various changes to CRA. Among other changes, CRA agreements with private parties must be disclosed and annual reports must be made to a bank's primary federal regulator. A financial holding company or any of its subsidiaries will not be permitted to engage in new activities authorized under Gramm-Leach-Bliley if any bank subsidiary received less than a "satisfactory" rating in its latest CRA examination. The Company believes that it is currently in compliance with CRA.

Fair Lending; Consumer Laws

In addition to CRA, other federal and state laws regulate various lending and consumer aspects of the banking business. Governmental agencies, including the Department of Housing and Urban Development, the Federal Trade Commission and the Department of Justice, have become concerned that prospective borrowers experience discrimination in their efforts to obtain loans from depository and other lending institutions. These agencies have brought litigation against depository institutions alleging discrimination against borrowers. Many of these suits have been settled, in some cases for material sums, short of a full trial.

These governmental agencies have clarified what they consider to be lending discrimination and have specified various factors that they will use to determine the existence of lending discrimination under the Equal Credit Opportunity Act and the Fair Housing Act, including evidence that a lender discriminated on a prohibited basis, evidence that a lender treated applicants differently based on prohibited factors in the absence of evidence that the treatment was the result of prejudice or a conscious intention to discriminate, and evidence that a lender applied an otherwise neutral non-discriminatory policy uniformly to all applicants, but the practice had a discriminatory effect, unless the practice could be justified as a business necessity.

Banks and other depository institutions also are subject to numerous consumer-oriented laws and regulations. These laws, which include the Truth in Lending Act, the Truth in Savings Act, the Real Estate Settlement Procedures Act, the Electronic Funds Transfer Act, the Equal Credit Opportunity Act, and the Fair Housing Act, require compliance by depository institutions with various disclosure requirements and requirements regulating the availability of funds after deposit or the making of some loans to customers.

Governmental Policies

The Federal Reserve regulates money, credit and interest rates in order to influence general economic conditions. These policies influence overall growth and distribution of bank loans, investments and deposits. These policies also affect interest rates charged on loans or paid for time and savings deposits. Federal Reserve monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

11

Future Regulatory Uncertainty

Because federal and state regulation of financial institutions changes regularly and is the subject of constant legislative debate, the Company cannot forecast how federal and state regulation of financial institutions may change in the future and impact its operations. The Company fully expects that the financial institution industry will remain heavily regulated in the near future and that additional laws or regulations may be adopted further regulating specific banking practices.

ITEM 1A. *RISK FACTORS*

Our operations are subject to many risks that could adversely affect our future financial condition and performance and, therefore, the market value of our common stock. The risk factors applicable to us are the following:

Our future success is dependent on our ability to compete effectively in the highly competitive banking and financial services industry.

We face vigorous competition from other commercial banks, savings banks, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds and other types of financial institutions for deposits, loans and other financial services in our market area. A number of these banks and other financial institutions are significantly larger than we are and have substantially greater access to capital and other resources, as well as larger lending limits and branch systems, and offer a wider array of banking services. Many of our nonbank competitors are not subject to the same extensive regulations that govern us. As a result, these non-bank competitors have advantages over us in providing certain services.

While we believe we compete effectively with these other financial institutions in our primary markets, we may face a competitive disadvantage as a result of our smaller size, smaller asset base, lack of geographic diversification and inability to spread our marketing costs across a broader market. If we have to raise interest rates paid on deposits or lower interest rates charged on loans to compete effectively, our net interest margin and income could be negatively affected. Failure to compete effectively to attract new, or to retain existing, clients may reduce or limit our margins and our market share and may adversely affect our results of operations, financial condition, and growth.

Difficult market conditions in the economy continue to adversely affect our industry.

Declines in the housing market in recent years, with falling home prices and higher levels of foreclosures, unemployment and under-employment, have negatively impacted the credit performance of real-estate related and consumer loans and resulted in significant write-downs of asset values by financial institutions. These write-downs spread to other securities and loans and have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. In this environment, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence and reduction of business activity generally. Continuing economic pressure on consumers and lack of confidence in the financial markets may adversely affect our business and results of operations. Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and provision for credit losses. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry.

We may be adversely affected by economic conditions in our market area.

We operate in a mixed market environment with influences from both rural and urban areas. Because our lending operation is concentrated in localized areas in Virginia and Maryland, we will be affected by the general economic conditions in these markets. Changes in the local economy may influence the growth rate of our loans and deposits, the quality of the loan portfolio, and loan and deposit pricing. A significant decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond our control would impact these local economic conditions and the demand for banking products and services generally, which could negatively affect our financial condition and performance. Although we might not have significant credit exposure to all the businesses in our areas, the downturn in any of these businesses could have a negative impact on local economic conditions and real estate collateral values generally, which could negatively affect our profitability.

We may not be able to successfully manage our long-term growth, which may adversely affect our results of operations and financial condition.

A key aspect of our long-term business strategy is our continued growth and expansion. Our ability to continue to grow depends, in part, upon our ability to:

- open new branch offices or acquire existing branches or other financial institutions;
- attract deposits to those locations; and
- identify attractive loan and investment opportunities.

We may not be able to successfully implement our growth strategy if we are unable to identify attractive markets, locations or opportunities to expand in the future, or if we are subject to regulatory restrictions on growth or expansion of our operations. Our ability to manage our growth successfully also will depend on whether we can maintain capital levels adequate to support our growth, maintain cost controls and asset quality and successfully integrate any businesses we acquire into our organization. As we identify opportunities to implement our growth strategy by opening new branches or acquiring branches or other banks, we may incur increased personnel, occupancy and other operating expenses. In the case of new branches, we must absorb those higher expenses while we begin to generate new deposits, and there is a further time lag involved in redeploying new deposits into attractively priced loans and other higher yielding earning assets. Thus, any plans for branch expansion could decrease our earnings in the short run, even if we efficiently execute our branching strategy.

If our allowance for loan losses becomes inadequate, our results of operations may be adversely affected.

An essential element of our business is to make loans. We maintain an allowance for loan losses that we believe is a reasonable estimate of known and inherent losses in our loan portfolio. Through a periodic review and analysis of the loan portfolio, management determines the adequacy of the allowance for loan losses by considering such factors as general and industry-specific market conditions, credit quality of the loan portfolio, the collateral supporting the loans and financial performance of our loan customers relative to their financial obligations to us. The amount of future losses is impacted by changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control. Actual losses may exceed our current estimates. Rapidly growing loan portfolios are, by their nature, unseasoned. Estimating loan loss allowances for an unseasoned portfolio is more difficult than with seasoned portfolios, and may be more susceptible to changes in estimates and to losses exceeding estimates. Although we believe the allowance for loan losses is a reasonable estimate of known and inherent losses in our loan portfolio, we cannot fully predict such losses or assert that our loan loss allowance will be adequate in the future. Future loan losses that are greater than current estimates could have a material impact on our future financial performance.

Banking regulators periodically review our allowance for loan losses and may require us to increase our allowance for loan losses or recognize additional loan charge-offs, based on credit judgments different than those of our management. Any increase in the amount of our allowance or loans charged-off as required by these regulatory agencies could have a negative effect on our operating results.

Our concentration in loans secured by real estate may increase our future credit losses, which would negatively affect our financial results.

We offer a variety of secured loans, including commercial lines of credit, commercial term loans, real estate, construction, home equity, consumer and other loans. Credit risk and credit losses can increase if our loans are concentrated to borrowers who, as a group, may be uniquely or disproportionately affected by economic or market conditions. Approximately 85.4% of our loans are secured by real estate, both residential and commercial, substantially all of which are located in our market area. A major change in the region's real estate market, resulting in a deterioration in real estate values, or in the local or national economy, including changes caused by raising interest rates, could adversely affect our customers' ability to pay these loans, which in turn could adversely impact us. Risk of loan defaults and foreclosures are inherent in the banking industry, and we try to limit our exposure to this risk by carefully underwriting and monitoring our extensions of credit. We cannot fully eliminate credit risk, and as a result credit losses may occur in the future.

We may incur losses if we are unable to successfully manage interest rate risk.

Our profitability depends in substantial part upon the spread between the interest rates earned on investments and loans and interest rates paid on deposits and other interest-bearing liabilities. These rates are normally in line with general market rates and rise and fall based on our view of our financing and liquidity needs. We may selectively pay above-market rates to attract deposits as we have done in some of our marketing promotions in the past. Changes in interest rates will affect our operating performance and financial condition in diverse ways including the pricing of securities, loans and deposits, which, in turn, may affect the growth in loan and retail deposit volume. We attempt to minimize our exposure to interest rate risk, but cannot eliminate it. Our net interest income will be adversely affected if market interest rates change so that the interest we pay on deposits and borrowings increases faster than the interest earned on loans and investments. Our net interest spread will depend on many factors that are partly or entirely outside our control, including competition, federal economic, monetary and fiscal policies and economic conditions generally. Fluctuations in market rates are neither predictable nor controllable and may have a material and negative effect on our business, financial condition and results of operations.

Changes in interest rates also affect the value of our loans. An increase in interest rates could adversely affect our borrowers' ability to pay the principal or interest on existing loans or reduce their desire to borrow more money. This situation may lead to an increase in non-performing assets or a decrease in loan originations, either of which could have a material and negative effect on our results of operations.

We rely heavily on our management team and the unexpected loss of any of those personnel could adversely affect our operations; we depend on our ability to attract and retain key personnel.

We are a customer-focused and relationship-driven organization. We expect our future growth to be driven in a large part by the relationships maintained with our customers by our president and chief executive officer and other senior officers. The unexpected loss of any of our key employees could have an adverse effect on our business and possibly result in reduced revenues and earnings. We do maintain bank-owned life insurance on key officers that would help cover some of the economic impact of a loss caused by death.

The implementation of our business strategy will also require us to continue to attract, hire, motivate and retain skilled personnel to develop new customer relationships as well as new financial products and services. Many experienced banking professionals employed by our competitors are covered by agreements not to compete or to solicit their existing customers if they were to leave their current employment. These agreements make the recruitment of these professionals more difficult. The market for these people is competitive, and we cannot assure you that we will be successful in attracting, hiring, motivating or retaining them.

The Federal Reserve adopted final rules subjecting banks and bank holding companies to more stringent capital and liquidity requirements, the short-term and long-term impact of which is uncertain.

We are subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital which we must maintain. In July 2013, the Federal Reserve and the federal banking agencies issued final rules revising risk-based and leverage capital requirements and the method for calculating risk-weighted assets. The rules implement the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The rules establish a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and a higher minimum Tier 1 risk-based capital requirement (6% of risk-weighted assets) and assign higher risk weightings to loans that are past due and certain loans financing the acquisition, development or construction of commercial real estate. We are required to comply with the new rules beginning on January 1, 2015. These requirements and any other new regulations, could adversely affect our ability to pay dividends, or could require us to reduce business levels or to raise capital, including in ways that may adversely affect our financial condition or results of operations.

New regulations issued by the Consumer Financial Protection Bureau could adversely affect our earnings.

The CFPB has broad rulemaking authority to administer and carry out the provisions of the Dodd-Frank Act with respect to financial institutions that offer covered financial products and services to consumers. The CFPB has also been directed to write rules identifying practices or acts that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. For example, the CFPB issued a final rule effective January 10, 2014, requiring mortgage lenders to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms, or to originate “qualified mortgages” that meet specific requirements with respect to terms, pricing and fees. The new rule also contains new disclosure requirements at mortgage loan origination and in monthly statements.

The requirements under the CFPB’s regulations and policies could limit our ability to make certain types of loans or loans to certain borrowers, or could make it more expensive and/or time consuming to make these loans, which could adversely impact our profitability.

Our information systems may experience an interruption in service or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach of security of these systems could result in failures or disruptions in our customer relationship management, transaction processing systems and various accounting and data management systems. While we have policies and procedures designed to prevent and/or limit the effect of any failure, interruption or security breach of our communication and information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur, or, if they do occur, they will be adequately addressed on a timely basis. The occurrence of failures, interruptions or security breaches of our communication and information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and/or significant financial loss, any of which could have a material adverse effect on its financial condition and results of operations.

We continually encounter technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

We rely on other companies to provide key components of our business infrastructure.

Third parties provide key components of our business operations such as data processing, recording and monitoring transactions, online banking interfaces and services, internet connections and network access. While we have selected these third party vendors carefully, we do not control their actions. Any problem caused by these third parties, including poor performance of services, failure to provide services, disruptions in services provided by a vendor and failure to handle current or higher volumes, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business, and may harm our reputation. Financial or operational difficulties of a third party vendor could also hurt our operations if those difficulties affect the vendor’s ability to serve us. Replacing these third party vendors could also create significant delay and expense. Accordingly, use of such third parties creates an unavoidable inherent risk to our business operations.

The operational functions of business counterparties over which the Company may have limited or no control may experience disruptions that could adversely impact the Company.

Multiple major U.S. retailers have recently experienced data systems incursions reportedly resulting in the thefts of credit and debit card information, online account information, and other financial data of tens of millions of the retailers’ customers. Retailer incursions affect cards issued and deposit accounts maintained by many banks, including the Bank. Although the Company’s systems are not breached in retailer incursions, these events can cause the Bank to reissue a significant number of cards and take other costly steps to avoid significant theft loss to the Bank and its customers. In some cases, the Bank may be required to reimburse customers for the losses they incur. Other possible points of intrusion or disruption not within the Bank’s control include internet service providers, electronic mail portal providers, social media portals, distant-server (cloud) service providers, electronic data security providers, telecommunications companies, and smart phone manufacturers.

We may need to raise capital that may not ultimately be available to us.

Regulatory authorities require us to maintain certain levels of capital to support our operations. While we remained "well capitalized" at December 31, 2014, we may need to raise additional capital in the future if we incur losses or due to regulatory mandates. The ability to raise capital, if needed, will depend in part on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we may not be able to raise capital, if and when needed, on terms acceptable to us, or at all. If we cannot raise capital when needed, our ability to increase our capital ratios could be materially impaired, and we could face regulatory challenges.

A substantial decline in the value of our securities portfolio may result in an "other-than-temporary" impairment charge.

The total amount of our available-for-sale securities portfolio was $274.6 million at December 31, 2014. The measurement of the fair value of these securities involves significant judgment due to the complexity of the factors contributing to the measurement. Market volatility makes measurement of the fair value of our securities portfolio even more difficult and subjective. More generally, as market conditions continue to be volatile, we cannot provide assurance with respect to the amount of future unrealized losses in the portfolio. To the extent that any portion of the unrealized losses in these portfolios is determined to be other than temporary, and the loss is related to credit factors, we would recognize a charge to our earnings in the quarter during which such determination is made, and our capital ratios could be adversely affected.

The repeal of federal prohibitions on payment of interest on demand deposits could increase our interest expense.

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act beginning on July 21, 2011. As a result, some financial institutions have commenced offering interest on demand deposits to compete for customers. Our interest expense will increase and net interest margin will decrease if we begin offering interest on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our financial condition and results of operations.

Consumers may increasingly decide not to use us to complete their financial transactions, which would have a material adverse impact on our financial condition and operations.

Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general-purpose reloadable prepaid cards. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

Nonperforming assets adversely affect our results of operations and financial condition.

Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on non-accrual loans, thereby adversely affecting our income and increasing loan administration costs. When we receive collateral through foreclosures and similar proceedings, we are required to mark the related loan to the then fair market value of the collateral less estimated selling costs, which may result in a loss. An increase in the level of nonperforming assets also increases our risk profile and may impact the capital levels our regulators believe is appropriate in light of such risks. We utilize various techniques such as loan sales, workouts and restructurings to manage our problem assets. Decreases in the value of these problem assets, the underlying collateral, or in the borrowers' performance or financial condition, could adversely affect our business, results of operations and financial condition.

In addition, the resolution of nonperforming assets requires significant commitments of time from management and staff, which can be detrimental to performance of their other responsibilities. Such resolution may also require the assistance of third parties, and thus the expense associated with it. There can be no assurance that we will avoid further increases in nonperforming loans in the future.

We rely upon independent appraisals to determine the value of the real estate which secures a significant portion of our loans, and the values indicated by such appraisals may not be realizable if we are forced to foreclose upon such loans.

A significant portion of our loan portfolio consists of loans secured by real estate (85.4% at December 31, 2014). We rely upon independent appraisers to estimate the value of such real estate. Appraisals are only estimates of value and the independent appraisers may make mistakes of fact or judgment which adversely affect the reliability of their

appraisals. In addition, events occurring after the initial appraisal may cause the value of the real estate to increase or decrease. As a result of any of these factors, the real estate securing some of our loans may be more or less valuable than anticipated at the time the loans were made. If a default occurs on a loan secured by real estate that is less valuable than originally estimated, we may not be able to recover the outstanding balance of the loan and will suffer a loss.

We are subject to extensive government regulation and supervision.

We are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, and not security holders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes.

These provisions, or any other aspects of current proposed regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of our business activities or change certain of our business practices, including our ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to our operations in order to comply, and could therefore also materially adversely affect our business, financial condition, and results of operations. Furthermore, failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations.

The realization of the benefits of the FDIC shared loss agreements depends on our compliance with the agreements.

Under the shared loss agreements into which we entered in January 2009, the FDIC will reimburse us for 80% of losses arising from covered loans and foreclosed real estate assets on the first $118 million in losses of such covered loans and foreclosed real estate assets and for 95% of losses on covered loans and foreclosed real estate assets thereafter. The shared loss agreements include a number of obligations for us, including, for example, the submission of detailed certificates, on a monthly basis for losses on single family one-to-four residential mortgage loans and on a quarterly basis for losses on other covered assets, for the FDIC's review.

Because the shared loss agreements subject us to a number of contractual requirements, we must implement effective internal processes over covered assets (including consistency in the treatment of covered and non-covered assets) to maintain the guaranty that the FDIC has agreed to provide, which underpins the FDIC indemnification asset, which totaled $18.6 million at December 31, 2014. Any failure to comply with the contractual requirements of the shared loss agreements may lead to the revocation of the agreements, which would necessitate the write-off of the related

indemnification asset and the receivable that we carry on our balance sheet for amounts that we have billed the FDIC.

Changes in accounting standards could impact reported earnings.

The authorities that promulgate accounting standards, including the Financial Accounting Standards Board, Securities and Exchange Commission and other regulatory authorities, periodically change the financial accounting and reporting standards that govern the preparation of the Company's consolidated financial statements. These changes are difficult to predict and can materially impact how the Company records and reports its financial condition and results of operations. In some cases, the Company could be required to apply a new or revised standard retroactively, resulting in the restatement of financial statements for prior periods. Such changes could also require the Company to incur additional personnel or technology costs.

Our disclosure controls and procedures and internal controls may not prevent or detect all errors or acts of fraud.

Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or omission. Additionally, controls can be circumvented by individual acts, by collusion by two or more people and/or by override of the established controls. Accordingly, because of the inherent limitations in our control systems and in human nature, misstatements due to error or fraud may occur and not be detected.

We can give no assurances that our deferred tax asset will not become impaired in the future because it is based on projections of future earnings, which are subject to uncertainty and estimates that may change based on economic conditions.

We can give no assurances that our deferred tax asset will not become impaired in the future. At December 31, 2014, we recorded net deferred income tax assets of $3.4 million. We assess the realization of deferred income tax assets and record a valuation allowance if it is "more likely than not" that we will not realize all or a portion of the deferred tax asset. We consider all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, we need a valuation allowance. Management's assessment is primarily dependent on historical taxable income and projections of future taxable income, which are directly related to our core earnings capacity and our prospects to generate core earnings in the future. Projections of core earnings and taxable income are inherently subject to uncertainty and estimates that may change given an uncertain economic outlook and current banking industry conditions. Due to the uncertainty of estimates and projections, it is possible that we will be required to record adjustments to the valuation allowance in future reporting periods.

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption in recent years. Recently, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

Deterioration in the soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could create market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Our credit risk may also be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

We may be adversely impacted by changes in the condition of financial markets.

We are directly and indirectly affected by changes in market conditions. Market risk generally represents the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. Market risk is inherent in the financial instruments associated with our operations and activities including loans, deposits, securities, short-term borrowings, long-term debt, trading account assets and liabilities, and derivatives. Just a few of the market conditions that may shift from time to time, thereby exposing us to market risk, include fluctuations in interest and currency exchange rates, equity and futures prices, and price deterioration or changes in value due to changes in market perception or actual credit quality of issuers. Accordingly, depending on the instruments or activities impacted, market risks can have adverse effects on our results of operations and our overall financial condition.

Banking regulators have broad enforcement power, but regulations are meant to protect depositors, and not investors.

We are subject to supervision by several governmental regulatory agencies, including the Federal Reserve Bank of Richmond and Virginia's Bureau of Financial Institutions. Bank regulations, and the interpretation and application of them by regulators, are beyond our control, may change rapidly and unpredictably and can be expected to influence earnings and growth. In addition, these regulations may limit our growth and the return to investors by restricting activities such as the payment of dividends, mergers with, or acquisitions by, other institutions, investments, loans and interest rates, interest rates paid on deposits and the opening of new branch offices. Although these regulations impose costs on us, they are intended to protect depositors, and should not be assumed to protect the interest of shareholders. The regulations to which we are subject may not always be in the best interest of investors.

Our deposit insurance premiums could increase in the future, which may adversely affect our future financial performance.

The FDIC insures deposits at FDIC insured financial institutions, including us. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund (the "DIF") at a certain level. Economic conditions since 2008 have increased the rate of bank failures and expectations for further bank failures, requiring the FDIC to make payments for insured deposits from the DIF and prepare for future payments from the DIF.

During 2009, the FDIC imposed a special deposit insurance assessment on all institutions which it regulates, including us. This special assessment was imposed due to the need to replenish the DIF, as a result of increased bank failures and expected future bank failures. In addition, the FDIC required regulated institutions to prepay their fourth quarter 2009, and full year 2010, 2011 and 2012 assessments in December 2009. Any similar, additional measures taken by the FDIC to maintain or replenish the DIF may have an adverse effect on our financial condition and results of operations.

On April 1, 2011, final rules to implement changes required by the Dodd-Frank Act with respect to the FDIC assessment rules became effective. The rules provide that a depository institution's deposit insurance assessment will be calculated based on the institution's total assets less tangible equity, rather than the previous base of total deposits. These changes have not materially increased our FDIC insurance assessments for comparable asset and deposit levels. However, if our asset size increases or the FDIC takes other actions to replenish the DIF, our FDIC insurance premiums could increase.

Our businesses and earnings are impacted by governmental, fiscal and monetary policy.

We are affected by domestic monetary policy. For example, the Federal Reserve Board regulates the supply of money and credit in the United States and its policies determine in large part our cost of funds for lending, investing and capital raising activities and the return we earn on those loans and investments, both of which affect our net interest margin. The actions of the Federal Reserve Board also can materially affect the value of financial instruments we hold, such as loans and debt securities, and its policies also can affect our borrowers, potentially increasing the risk that they may fail to repay their loans. Our businesses and earnings also are affected by the fiscal or other policies that are adopted by various regulatory authorities of the United States. Changes in fiscal or monetary policy are beyond our control and hard to predict.

Our profitability and the value of any equity investment in us may suffer because of rapid and unpredictable changes in the highly regulated environment in which we operate.

We are subject to extensive supervision by several governmental regulatory agencies at the federal and state levels. Recently enacted, proposed and future banking and other legislation and regulations have had, and will continue to have, or may have a significant impact on the financial services industry. These regulations, which are generally intended to protect depositors and not our shareholders, and the interpretation and application of them by federal and state regulators, are beyond our control, may change rapidly and unpredictably, and can be expected to influence our earnings and growth. Our success depends on our continued ability to maintain compliance with these regulations. Many of these regulations increase our costs and thus place other financial institutions that may not be subject to similar regulation in stronger, more favorable competitive positions.

The trading volume in our common stock is less than that of other larger financial services companies.

The trading volume in our common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall.

Virginia law and the provisions of our articles of incorporation and bylaws could deter or prevent takeover attempts by a potential purchaser of our common stock that would be willing to pay you a premium for your shares of our common stock.

Our Articles of Incorporation and Bylaws contain provisions that may be deemed to have the effect of discouraging or delaying uninvited attempts by third parties to gain control of us. These provisions include the ability of our board to set the price, term, and rights of, and to issue, one or more series of our preferred stock. Our Articles of Incorporation

and Bylaws do not provide for the ability of shareholders to call special meetings.

Similarly, the Virginia Stock Corporation Act contains provisions designed to protect Virginia corporations and employees from the adverse effects of hostile corporate takeovers. These provisions reduce the possibility that a third party could affect a change in control without the support of our incumbent directors. These provisions may also strengthen the position of current management by restricting the ability of shareholders to change the composition of the board, to affect its policies generally, and to benefit from actions that are opposed by the current board.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

None.

ITEM 2. ***PROPERTIES***

The Company operates the following offices:

Corporate Headquarters:

Deep Run at Mayland — 9954 Mayland Drive, Suite 2100, Richmond, VA 23233

Virginia Branch Offices:

Burgess — 14598 Northumberland Highway, Burgess, VA 22432

Callao — 654 Northumberland Highway, Callao, VA 22435

Centerville — 100 Broad Street Road, Manakin-Sabot, VA 23103

Courthouse — 1949 Sandy Hook Road, Goochland, VA 23063

Deep Run at Mayland — 9954 Mayland Drive, Suite 2100, Richmond, VA 23233

Flat Rock — 2320 Anderson Highway, Powhatan, VA 23139

King William — 4935 Richmond-Tappahannock Highway, Manquin, VA 23106

Louisa — 217 East Main Street, Louisa, VA 23093

Mechanicsville — 6315 Mechanicsville Turnpike, Mechanicsville, VA 23111

Prince Street — 323 Prince Street, Tappahannock, VA 22560

Tappahannock — 1325 Tappahannock Boulevard, Tappahannock, VA 22560

Virginia Center — 9951 Brook Road, Glen Allen, VA 23060

West Point — 16th and Main Street, West Point, VA 23181

Winterfield — 3740 Winterfield Road, Midlothian, VA 23113

Maryland Branch Offices:

Annapolis – 1835 West Street, Annapolis, MD 21401

Arnold — 1460 Ritchie Highway, Arnold, MD 21012

Bowie – 6143 High Bridge Road, Bowie, MD 20720

Catonsville — 1000 Ingleside Avenue, Catonsville, MD 21228

Crofton — 2120 Baldwin Avenue, Crofton, MD 21114

Rockville — 1101 Nelson Street, Rockville, MD 20850

Rosedale — 1230 Race Road, Rosedale, MD 21237

The Company owns all of the offices listed above, except that it leases its corporate headquarters, its Winterfield office in the Virginia market and the Arnold and Rockville offices in the Maryland market. The Company also has loan production offices in Fairfax and Lynchburg, Virginia, both of which it leases.

On March 31, 2014, the Company relocated its corporate headquarters to its current location. The Company opened its branch office in Annapolis, Maryland on March 25, 2014 and its branch office at its new headquarters in Richmond, Virginia on April 7, 2014. The Company closed its branch office in Landover Hills, Maryland on October 24, 2014. The Company opened its branch office in Bowie, Maryland on January 12, 2015. The Company expects to open an office, which it owns, in the Bon Air area of Richmond, Virginia in May 2015.

All of the Company’s properties are in good operating condition and are adequate for the Company’s present and anticipated needs.

ITEM 3. ***LEGAL PROCEEDINGS***

There are no material pending legal proceedings to which the Company, including its subsidiaries, is a party or of which its property is the subject.

ITEM 4. ***MINE SAFETY DISCLOSURES***

Not applicable.

20

PART II

ITEM 5. ***MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

MARKET PRICES FOR SECURITIES

The Company's common stock has traded on the NASDAQ Capital Market under the symbol "ESXB" since March 14, 2013. The common stock traded on the NYSE MKT (formerly known as the NYSE Amex) under the symbol "BTC" until March 13, 2013.

The following table sets summarizes the high and low sales prices for the Company's common stock for the quarterly periods during the years ended December 31, 2014 and 2013:

	2014		2013	
	High	Low	High	Low
Quarter ended March 31	$4.10	$3.73	$3.74	$2.54
Quarter ended June 30	4.54	3.85	3.70	3.11
Quarter ended September 30	4.49	4.15	4.00	3.50
Quarter ended December 31	4.54	4.30	3.83	3.09

HOLDERS OF RECORD

As of December 31, 2014, there were 2,856 holders of record of the Company's common stock, not including beneficial holders of securities held in street name.

DIVIDENDS

The Company's dividend policy is subject to the discretion of the board of directors and future cash dividend payments to shareholders will depend upon a number of factors, including future earnings, alternative investment opportunities, financial condition, cash requirements and general business conditions.

The Company's ability to distribute cash dividends will depend primarily on the ability of its banking subsidiary to pay dividends to it. The Bank is subject to legal limitations on the amount of dividends that it is permitted to pay under Section 5199(b) of the Revised Statues (12 U.S.C. 60). The approval of the Federal Reserve would be required if the total of all dividends declared by a state member bank in any calendar year shall exceed the total of its net profits of that year combined with its retained net profits of the preceding two years. Furthermore, neither the Company nor the Bank may declare or pay a cash dividend on any of its capital stock if it is insolvent or if the payment of the dividend would render the entity insolvent or unable to pay its obligations as they become due in the ordinary course of business. For additional information on these limitations, see "Supervision and Regulation — Dividends" in Item 1 above.

Following the payment of a cash dividend in February 2010, the Company determined to suspend the payment of its quarterly dividend to holders of common stock. While the Company believes that its capital and liquidity levels remain above the averages of its peers, the Company utilized dividends from the Bank for the payment of capital funding (Series A Preferred Stock) received from the Department of the Treasury until April 2014, when the Company completed the redemption of such funding. The Company currently utilizes dividends from the Bank for principal and interest payments with respect to an unsecured third party loan that the Company obtained at the same time in connection with such redemption. Additional dividends from the Bank would be utilized for the payment of intercompany expenses and interest payments on trust preferred securities.

The Company currently has no plans to recommence the payment of a dividend to holders of common stock. The Company believes that, given the current economic and regulatory environment, the retention of earnings and the enhancement of capital are best for the long term value for the Company and the shareholders.

PURCHASES OF EQUITY SECURITES BY THE ISSUER

The Company does not currently have in place a repurchase program with respect to any of its securities. In addition, the Company did not repurchase any of its securities during the year ended December 31, 2014.

STOCK PERFORMANCE GRAPH

The stock performance graph set forth below shows the cumulative stockholder return on the Company's common stock during the period from December 31, 2009, to December 31, 2014, as compared with (i) an overall stock market index, the NASDAQ Composite Index, and (ii) a published industry index, the SNL Bank and Thrift Index. The graph assumes that $100 was invested on December 31, 2009 in the Company's common stock and in each of the comparable indices and that dividends were reinvested.

21

	Period Ending					
Index	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Community Bankers Trust Corporation	100.00	32.65	35.76	82.41	116.93	137.45
NASDAQ Composite	100.00	118.15	117.22	138.02	193.47	222.16
SNL Bank and Thrift	100.00	111.64	86.81	116.57	159.61	178.18

ITEM 6 ***SELECTED FINANCIAL DATA***

The following table sets forth selected financial data for the Company over each of the past five years ended December 31. The historical results included below and elsewhere in this report are not indicative of the future performance of the Company and its subsidiaries. **(dollars in thousands, except per share amounts)**

	Year Ended December 31				
	2014	2013	2012	2011	2010
Results of Operations					
Interest and dividend income	$48,725	$50,045	$53,719	$56,035	$58,926
Interest expense	6,933	7,078	9,692	12,228	18,389
Net interest income	41,792	42,967	44,027	43,807	40,537
Provision for loan losses	—	-	1,200	1,498	27,363
Net interest income after provision for loan losses	41,792	42,967	42,827	42,309	13,174
Noninterest income	5,269	4,724	6,206	8,233	9,847
Noninterest expenses	36,817	39,288	41,303	49,038	53,456
Income (loss) before income taxes	10,244	8,403	7,730	1,504	(30,435)
Income tax expense (benefit)	2,728	2,497	2,148	60	(9,442)
Net income (loss)	$7,516	$5,906	$5,582	$1,444	$(20,993)
Financial Condition					
Assets	$1,155,734	$1,089,532	$1,153,288	$1,092,496	$1,115,594
FDIC indemnification asset	18,609	25,409	33,837	42,641	58,369
Loans, covered by FDIC shared-loss agreement	62,744	73,275	84,637	97,561	115,537
Loans, net of unearned income (excluding covered loans)	664,736	596,173	575,482	544,718	525,548
Deposits	918,945	892,341	974,318	933,491	961,725
Shareholders’ equity	107,650	106,659	115,317	111,180	107,127
Ratios					
Return on average assets	0.67%	0.53%	0.50%	0.13%	(1.75%)
Return on average equity	7.09%	5.22%	4.85%	1.32%	(17.53%)
Non-GAAP return on average tangible assets (1)	0.79%	0.66%	0.65%	0.28%	(1.17%)
Non-GAAP return on average tangible common equity (1)	9.09%	8.38%	8.31%	3.80%	(16.60%)
Efficiency ratio (2)	78.23%	82.38%	82.22%	94.23%	106.10%
Equity to assets	9.31%	9.79%	10.00%	10.18%	9.60%
Loan to deposits	79.16%	75.02%	67.75%	68.80%	66.66%
Average tangible common equity / average tangible assets	8.70%	7.90%	7.77%	7.25%	7.04%
Asset Quality					
Allowance for loan losses (non-covered) (3)	$9,267	$10,444	$12,920	$14,835	$25,543

Allowance for loan losses / non-covered loans (3)	1.40	%	1.75	%	2.25	%	2.72	%	4.86	%
Allowance for loan losses / nonperforming assets (3)	41.57	%	56.92	%	39.94	%	36.36	%	59.61	%
Allowance for loan losses / nonaccrual non-covered loans (3)	55.92	%	86.28	%	61.38	%	51.97	%	69.92	%
Non-covered nonperforming assets / non-covered loans and non-covered other real estate (3)	3.35	%	3.05	%	5.52	%	7.35	%	8.06	%
Per Share Data										
Earnings per share, basic	$0.33		$0.22		$0.21		$0.02		$(1.03	)
Earnings per share, diluted	0.33		0.22		0.21		0.02		(1.03	)
Non-GAAP earnings per share, diluted (1)	0.40		0.33		0.33		0.14		(0.64	)
Cash dividends paid	—		—		—		—		859	
Market value per share	4.42		3.76		2.65		1.15		1.05	
Book value per tangible common share	4.72		4.07		3.92		3.58		3.46	
Price to earnings ratio, diluted	13.39		17.09		12.62		57.50		(1.02	)
Price to book value ratio	89.5	%	86.0	%	59.3	%	26.5	%	25.3	%
Dividend payout ratio	n/a		n/a		n/a		n/a		(3.89	%)
Weighted average shares outstanding, basic	21,755,448		21,699,964		21,647,372		21,565,366		21,468,455	
Weighted average shares outstanding, diluted	21,980,979		21,922,132		21,717,499		21,565,366		21,468,455	

	Year Ended December 31				
	2014	2013	2012	2011	2010
Capital Ratios					
Leverage Ratio	9.36 %	9.52 %	9.41 %	8.91 %	8.12 %
Tier 1 risk-based capital ratio	13.52%	15.62%	15.79%	15.01%	14.40%
Total risk-based capital ratio	14.72%	16.82%	16.87%	16.16%	15.58%

(1) Refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations", section "Non GAAP Measures" for a reconciliation.
(2) The efficiency ratio is calculated by dividing noninterest expense over the sum of net interest income plus noninterest income.
(3) Excludes assets covered by FDIC shared-loss agreements and PCI loans.

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

The following discussion and analysis of the financial condition at December 31, 2014 and results of operations for the year ended December 31, 2014 of Community Bankers Trust Corporation (the "Company") should be read in conjunction with the Company's consolidated financial statements and the accompanying notes to consolidated financial statements included in this report.

GENERAL

The Company is a bank holding company that was originally incorporated in 2005. On January 1, 2014, the Company completed a reincorporation from Delaware, its original state of incorporation, to Virginia. The form of the reincorporation was the merger of the then existing Delaware corporation into a newly created Virginia corporation. The Company retained the same name and conducts business in the same manner as before the reincorporation.

The Company is headquartered in Richmond, Virginia and is the holding company for Essex Bank (the "Bank"), a Virginia state bank with 21 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.

Prior to November 8, 2013, the Bank also had four full-service offices in Georgia. The Bank sold those offices and related deposits to Community & Southern Bank on November 8, 2013.

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

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

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

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

· the interest rate environment;

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

· real estate values;

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

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

· the 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 loan pools under the shared-loss agreements;

- 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 “Risk Factors” discussion in Part I, Item 1A, of this report.

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 Non-covered Loans

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

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

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

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

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

<u>Accounting for Certain Loans or Debt Securities Acquired in a Transfer</u>

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

The Company's acquired loans from the SFSB transaction (the "covered loans"), subject to FASB ASC Topic 805, *Business Combinations*, 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 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 purchased credit impaired loans and were classified as non-covered loans effective April 1, 2014 (the "PCI loans").

The covered loans and PCI loans are subject to credit review standards described above for non-covered loans. If and when credit deterioration occurs subsequent to their acquisition date, a provision for credit loss for covered 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

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

Because the acquired loans are subject to shared-loss agreements and a corresponding indemnification asset exists to represent the value of expected payments from the FDIC, increases and decreases in loan accretable yield due to changing loss expectations will also have an impact to the valuation of the FDIC indemnification asset. Improvement in loss expectations will typically increase loan accretable yield and decrease the value of the FDIC indemnification asset, and in some instances, result in an amortizable premium on the FDIC indemnification asset. Increases in loss expectations will typically be recognized as impairment in the current period through allowance for loan losses, resulting in additional noninterest income for the amount of the increase in the FDIC indemnification asset.

Other Intangible Assets

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

Income Taxes

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

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income. Under FASB ASC 740, *Income Taxes,* a valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. In management’s opinion, based on a three year taxable income projection, tax strategies which would result in potential securities gains and the effects of off-setting deferred tax liabilities, it is more likely than not that the deferred tax assets are realizable.

The Company and its subsidiaries are subject to U. S. federal income tax as well as various state income taxes. Years 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.

OVERVIEW

At December 31, 2014, the Company had total assets of $1.156 billion, an increase of $66.2 million, or 6.1%, from total assets of $1.090 billion at December 31, 2013. Total loans were $727.5 million at December 31, 2014, increasing $58.0 million from $669.4 million at December 31, 2013. Total non-covered loans were $664.7 million at December 31, 2014 versus $596.2 million at December 31, 2013. Total non-covered loans increased $68.6 million, or 11.5%, during 2014. The December 31, 2014 total includes $4.7 million of loans formerly categorized under the FDIC shared-loss agreement, which are now categorized as non-covered loans (the “PCI loans”). While these loans no longer have FDIC loss guaranties, they are subject to SOP 03-3 accounting rules; thus, they will not receive consideration under the allowance for loan losses under the normal non-covered portfolio. Excluding the $4.7 million mentioned above, non-covered loans would have increased $63.8 million, or 10.7%, since December 31, 2013. As anticipated, the carrying value of FDIC covered loans declined $10.5 million, or 14.4%, since December 31, 2013 and were $62.7 million at December 31, 2014.

The Company’s securities portfolio increased $16.9 million, or 5.6%, from $302.7 million at December 31, 2013 to $319.6 million at December 31, 2014. Realized gains of $1.1 million occurred during 2014 through sales and call activity.

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 $274.6 million and $265.8 million at December 31, 2014 and 2013, respectively. The Company had a net unrealized gain of $2.2 million and a net unrealized loss of $6.0 million in the AFS portfolio at December 31, 2014 and 2013, respectively.

Interest bearing deposits at December 31, 2014 were $834.4 million, an increase of $12.2 million, or 1.5%, from December 31, 2013. NOW, MMDA and savings account balances increased $21.6 million, $7.6 million and $3.3 million, respectively, since December 31, 2013. Retail time deposit account balances increased $51.6 million, or 10.8%, during 2014, while brokered time deposits declined $31.6 million, or 30.1%, since year end. Management allowed brokered time deposits to mature as needed and were replaced with FHLB borrowings. Brokered funding was used, in part, to fund the sale of the Georgia branches in 2013, and the corresponding generation of retail deposits was precipitated by an overall improvement in the sales culture of the Bank's branch system.

FHLB advances were $96.4 million at December 31, 2014, compared with $77.1 million at December 31, 2013. The Company increased the level of FHLB advances due to the low cost nature of this funding source and to assist with funding the sale of the Georgia franchise in the fourth quarter of 2013. Furthermore, management increased its FHLB funding during the fourth quarter of 2014 by $14.8 million, while entering into a $30 million notional value balance sheet swap.

Long term debt totaled $9.7 million at December 31, 2014. This borrowing, initially in the amount of $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 made a $1.0 million principal payment during the third quarter of 2014.

Shareholders' equity was $107.7 million at December 31, 2014 and $106.7 million at December 31, 2013. In April 2014, $11.5 million in equity was redeemed in connection with the repurchase of the TARP preferred stock and the associated warrant. Despite this reduction, shareholders' equity increased $991,000, or 0.9%. The increase was from earnings retention as well as a $4.8 million improvement in other comprehensive income related primarily to the unrealized gains and losses in the investment portfolio. Despite the reduction in capital with the redemption of the TARP preferred stock, the equity-to-asset ratios remained solid at 9.3%, and 9.8% at December 31, 2014 and December 31, 2013, respectively.

RESULTS OF OPERATIONS

Net Income

Net income was $7.5 million for the year ended December 31, 2014, compared with $5.9 million for the 2013 fiscal year. The $1.6 million, or 27.3%, improvement year over year was primarily driven by a $2.5 million reduction in noninterest expenses. Net income available to common shareholders was $7.3 million for the year ended December 31, 2014, compared with $4.8 million for fiscal year 2013, an increase of 51.8%. Earnings per common share, basic and fully diluted, were $0.33 per share and $0.22 per share for the respective time frames.

When comparing the 2012 and 2013 years, net income increased $324,000, or 5.8%, from net income of $5.6 million in 2012 to net income of $5.9 million in 2013. Net income available to common shareholders was $4.8 million, or $0.22 per common share on a diluted basis, for the year ended December 31, 2013 compared with net income available to common shareholders of $4.5 million, or $0.21 per common share on a diluted basis, for the year ended December 31, 2012. While the net interest margin and net interest earnings were squeezed, as has been typical in the industry, the Company benefitted from no provision for loan losses during 2013 as asset quality improved.

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 $1.2 million to $41.8 million for fiscal 2014 versus fiscal 2013. The 2.7% decline in net interest income was primarily driven by a decline in covered loan interest income of $1.3 million, or 10.6%. Overall, interest income declined $1.3 million, or 2.6%, while interest expense declined $145,000, or 2.0%. Significant cash payments on loans related to pools that were previously written down to a zero carrying value equaled $1.3 million in each of 2013 and 2014. The Company's net interest spread declined from 4.25% for the year ended December 31, 2013 to 4.12% for the same period in 2014. Interest spread is the product of yield on earning assets less cost of total interest bearing liabilities. While the cost of interest bearing liabilities improved by two basis points during the comparison period, the yield on earning assets declined by 15 basis points to 4.87% for the 2014 year. The result was a net interest margin of 4.18% for the year ended December 31, 2014, compared with 4.32% for the 2013 year.

For the year ended December 31, 2013, net interest income of $43.0 million decreased $1.1 million, or 2.4%, from net interest income of $44.0 million for the year ended December 31, 2012. The Company's net interest spread declined from 4.46% for the year ended December 31, 2012 to 4.25% for the same period in 2013. This was the product of a 29 basis point decline in the cost of interest bearing liabilities and a 50 basis point decline in the yield on earning assets during the comparison period. Correspondingly, the net interest margin declined 21 basis points from 4.53% for the year ended December 31, 2012 year to 4.32% for the 2013 year.

Interest and fees on non-covered loans were $30.2 million compared with $29.7 million for the years ended December 31, 2014 and 2013, respectively. While average non-covered loan balances increased $39.4 million over this time frame, the yield earned on these balances declined 24 basis points to 4.83%. Competitive pricing to garner quality loans drove lower non-covered loan yields. Securities interest income declined $551,000, or 6.6%, over the same time frame and was partially offset by the $495,000, or 1.7%, increase in non-covered loan interest income mentioned above. Average balances on securities decreased $12.4 million during fiscal 2014 versus fiscal 2013, and the tax equivalent yield on the portfolio declined only two basis points to 2.76%.

Interest and fees on non-covered loans decreased $962,000, or 3.1%, to $29.7 million during 2013. Interest and fee income on covered loans equaled $11.9 million during 2013. Cost of interest bearing liabilities during 2013 totaled $7.1 million, of which interest on deposits was $6.4 million. This compares with $9.7 million in total interest expense and $8.5 million in interest on deposits in 2012.

The Company’s total loan to deposit ratio was 79.16% at December 31, 2014 versus 75.02% at December 31, 2013 The increase in the loan to deposit ratio is the direct result of the robust non-covered loan growth previously mentioned.

The Company’s total loan to deposit ratio was 75.02% at December 31, 2013 versus 67.75% at December 31, 2012. While total loans increased $9.3 million in 2013 compared to 2012, the 7.3% increase is mainly attributable to the $82 million decline in deposit balances in 2013, due to the Georgia branch sale.

The following table presents the total amount of average balances, interest income from average interest earning assets and the resulting yields, as well as the interest expense on average interest bearing liabilities, expressed both in dollars and rates. Except as indicated in the footnote, no tax equivalent adjustments were made. Any non-accruing loans have been included in the table as loans carrying a zero yield.

NET INTEREST MARGIN ANALYSIS

AVERAGE BALANCE SHEETS

(Dollars in thousands)

	Year ended December 31, 2014			Year ended December 31, 2013			Year ended December 31, 2012		
	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid
ASSETS									
Loans, including fees	$624,766	$30,191	4.83 %	$585,343	$29,696	5.07 %	$556,113	$30,658	5.51 %
Loans covered by FDIC loss share	66,868	10,672	15.96	79,140	11,936	15.08	91,489	14,105	15.42
Total loans	691,634	40,863	5.91	664,483	41,632	6.27	647,602	44,763	6.91
Interest bearing bank balances	19,103	61	0.32	22,423	58	0.26	22,425	54	0.24
Federal funds sold	389	0	0.10	3,453	3	0.10	4,254	5	0.11
Investments (taxable)	268,324	6,835	2.55	292,618	7,693	2.63	289,617	8,408	2.90
Investments (tax exempt) [1]	32,237	1,463	4.54	20,294	998	4.92	13,168	741	5.63
Total earning assets	1,011,687	49,222	4.87	1,003,271	50,384	5.02	977,066	53,971	5.52
Allowance for loan losses	(10,742)			(12,352)			(14,601)		
Non-earning assets	114,545			130,033			145,507		
Total assets	$1,115,490			$1,120,952			$1,107,972		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Demand - interest bearing	$204,386	$595	0.29 %	$238,545	$742	0.31 %	$238,418	$859	0.36 %
Savings	77,138	253	0.33	81,368	277	0.34	74,129	256	0.35

Time deposits	552,709	5,010	0.91	546,788	5,351	0.98	556,784	7,393	1.33
Total deposits	834,233	5,858	0.70	866,701	6,370	0.73	869,331	8,508	0.98
Short-term borrowings	1,855	11	0.59	1,452	8	0.56	1,348	9	0.64
FHLB and other borrowings	85,661	776	0.91	55,376	700	1.26	45,359	1,175	2.59
Long-term debt	7,077	288	4.07	-	-	-	-	-	-
Total interest bearing liabilities	928,826	6,933	0.75	923,528	7,078	0.77	916,038	9,692	1.06
Non-interest bearing deposits	76,515			80,326			72,391		
Other liabilities	4,184			3,933			4,532		
Total liabilities	1,009,525			1,007,787			992,961		
Shareholders' equity	105,965			113,165			115,011		
Total liabilities and shareholders' equity	$1,115,490			$1,120,952			$1,107,972		
Net interest earnings		$42,289			$43,306			$44,279	
Interest spread			4.12 %			4.25 %			4.46 %
Net interest margin			4.18 %			4.32 %			4.53 %

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

The following table presents changes in interest income and interest expense and distinguishes between the changes related to increases or decreases in average outstanding balances of interest earning assets and interest bearing liabilities (volume), and the changes related to increases or decreases in average interest rates on such assets and liabilities (rate). No tax equivalent adjustments were made.

EFFECT OF RATE-VOLUME CHANGE ON NET INTEREST INCOME

FOR THE YEAR ENDED DECEMBER 31, 2014 AND 2013

(Dollars in thousands)

	2014 compared to 2013 Increase (Decrease)			2013 compared to 2012 Increase (Decrease)		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans, including fees	$2,000	$(1,505)	$495	$1,611	$(2,573)	$(962)
Loans covered by FDIC	(1,851)	587	(1,264)	(1,904)	(265)	(2,169)
Interest bearing bank balances	(9)	11	2	-	4	4
Federal funds sold	(3)	1	(2)	(1)	(1)	(2)
Investments	(330)	(221)	(551)	298	(843)	(545)
Total Earning Assets	(193)	(1,127)	(1,320)	4	(3,678))	(3,674)
Interest Expense:						
Demand deposits	(106)	(41)	(147)	-	(117)	(117)
Savings deposits	(14)	(10)	(24)	25	(4)	21
Time deposits	58	(399)	(341)	(133)	(1,909)	(2,042)
Total deposits	(62)	(450)	(512)	(108)	(2,030)	(2,138)
Other borrowed funds	470	(103)	367	256	(731)	(475)
Total interest-bearing liabilities	408	(553)	(145)	150	(2,761)	(2,613)
Net increase (decrease) in net interest income	$(601)	$(574)	$(1,175)	$(144)	$(917)	$(1,061)

Provision for Loan Losses

Management actively monitors the Company’s asset quality and provides specific loss provisions when necessary. Provisions for loan losses are charged to income to bring the total allowance for loan losses to a level deemed

appropriate by management of the Company based on such factors as historical credit loss experience, industry diversification of the commercial loan portfolio, the amount of nonperforming loans and related collateral, the volume growth and composition of the loan portfolio, current economic conditions that may affect the borrower's ability to pay and the value of collateral, the evaluation of the loan portfolio through the internal loan review function and other relevant factors. See *Allowance for Loan Losses on Non-covered Loans* in the Critical Accounting Policies section above for further discussion.

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

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

The Company did not record a provision for loan losses in 2014 or 2013. The Company records a separate provision for loan losses for its non-covered loan portfolio and its FDIC covered loan portfolio. There was no provision for loan losses on the FDIC covered loan portfolio during 2014 or 2013. Likewise, there was no provision for loan losses on the non-covered loan portfolio during 2014 or 2013. With respect to the non-covered loan portfolio, this was the direct result of continued improvement in loan quality as evidenced by the lower net charge-offs than in prior years coupled with lower levels of classified assets.

The provision for loan losses was $1.2 million for the year ended December 31, 2012. The provision for loan losses on non-covered loans was $1.5 million for the year ended December 31, 2012 and the provision for loan losses on covered loans was a $250,000 credit for the year ended December 31, 2012, which was the result of improvement in expected losses on the Company's FDIC covered portfolio, which the Company recognized in the first quarter of the year.

The allowance for loan losses equaled 55.9% of non-covered nonaccrual loans at December 31, 2014, compared with 86.3% at December 31, 2013. The ratio of the allowance for loan losses to total nonperforming assets was 41.6% at December 31, 2014 compared with 56.9% at December 31, 2013. The ratio of the allowance for loan losses to total non-covered loans, excluding PCI loans, was 1.40% at December 31, 2014, compared with 1.75% at December 31, 2013. Net charged-off loans were $1.2 million in 2014, compared with $2.5 million in 2013.

One loan relationship, aggregating $8.7 million, already identified as "substandard" was placed on non-accrual status during the fourth quarter of 2014. This one relationship precipitated the decline in the coverage ratios noted above. Management is currently working closely with the borrower.

While the covered loan portfolio contains significant risk, it was considered in determining the initial fair value, which was reflected in adjustments recorded at the time of the SFSB transaction, less the FDIC guaranteed portion of losses on covered assets. See the *Asset Quality* discussion below for further analysis.

Noninterest Income

For the year ended December 31, 2014, noninterest income totaled $5.3 million, a $545,000 or 11.5% increase from the fiscal year ended December 31, 2013. Net gain on the sale of securities and net gain on the sale of loans more than offset a reduction in service charge income, year-over-year. Net securities gains equaled $1.1 million in fiscal 2014 versus $518,000 in fiscal 2013. The $571,000 increase in net securities gains was partially the result of a divestiture of mortgage backed investments which were subsequently re-invested into higher yielding municipal securities. Net gain on the sale of loans increased $560,000 from 2013 to 2014. While net loan sale gains totaled $201,000 in fiscal 2014, the Company recorded a net loss of $359,000 on the sale of loans in fiscal 2013. Throughout 2013 and 2014, management selectively sold USDA loans to mitigate accelerated premium amortization, due to early payoff of loans held above par value. The recorded net loss noted in fiscal 2013 was precipitated by a $614,000 loss on the sale of a non-USDA loan. These changes, year over year, more than offset a $539,000 reduction in service charge income. The loss of service fee income was primarily due to the sale of the Georgia branches.

Noninterest income declined $1.5 million, or 23.9%, when comparing the years ended December 31, 2013 and December 31, 2012. Noninterest income of $4.7 million for 2013 compares with $6.2 million for 2012. A decrease of $974,000 in gains on sales of securities represented the largest decrease. Realized gains were $1.5 million in 2012 compared with $518,000 in 2013. During much of 2012, the Company repositioned the securities portfolio to reduce interest rate risk in a rising rate environment. Gain/(loss) on sale of other loans declined $359,000 and other noninterest income declined $152,000, the result of fewer billable losses under shared-loss agreements reimbursed by the FDIC.

Noninterest Expenses

Noninterest expenses declined $2.5 million, or 6.3%, when comparing fiscal 2013 and fiscal 2014. The vast share of the decline was evidenced in four categories: OREO expenses, FDIC indemnification asset amortization, data processing fees, and amortization of intangibles. OREO expenses declined $1.5 million, or 73.5%, during fiscal 2014 when compared to fiscal 2013. The Company benefitted from a reduction of $654,000, or 10.1%, in indemnification asset amortization during fiscal 2014 versus the same time frame in 2013. Data processing fees were $346,000, or 16.7%, lower for the year ended December 31, 2014 compared with year ended December 31, 2013, and intangible amortization was $294,000, or 13.4%, lower over the same time frame. These two expense reductions were due in part to the sale of the Georgia branches. Other operating expenses and salaries and wages increased $401,000, or 6.7%, and $155,000, or 1.0%, respectively, year over year.

For the year ended December 31, 2013, noninterest expenses were $39.3 million, a decrease of $2.0 million from noninterest expenses of $41.3 million for the year ended December 31, 2012. FDIC assessment declined $642,000, or 43.2%, from $1.5 million for the year ended December 31, 2012 to $843,000 for the year ended December 31, 2013 due to rate decreases by the FDIC. Salaries and employee benefits were down $530,000, or 3.2%, for the same time frame. This was the result of a combination of the decrease in workforce due to the Georgia branch sale and attrition absorbed by the Company. FDIC indemnification asset amortization of $6.4 million for the year ended December 31, 2013 represented a decrease of $487,000, or 7.0%, from $6.9 million during 2012. Amortization of the FDIC indemnification asset is the result of better than expected performance on the covered loan portfolio. This better than expected performance also resulted in increased accretable yield and interest income on the covered loan portfolio.

Income Taxes

Income tax expense was $2.7 million and $2.5 million for the years ended December 31, 2014 and 2013, respectively. The effective tax rate for 2014 equaled 26.6% versus 29.7% in 2013. This decline was due to the increase in tax free municipal bonds purchased during the year and non-taxable bank owned life insurance proceeds of $406,000.

For the year ended December 31, 2012 income tax expense was $2.1 million, which equated to an effective tax rate of 27.8%.

The Company has evaluated the need for a deferred tax valuation allowance for the years ended December 31, 2014 and 2013 in accordance with FASB ASC 740, *Income Taxes.* 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, the Company believes that it is more likely than not that the deferred tax assets are realizable. Therefore, no allowance was required.

Loans

Total loans were $727.5 million at December 31, 2014, increasing $58.0 million from $669.4 million at December 31, 2013. Total non-covered loans were $664.7 million at December 31, 2014 versus $596.2 million at December 31, 2013. Total non-covered loans increased $68.6 million, or 11.5%, during 2014. The December 31, 2014 total includes $4.7 million of loans formerly categorized under the FDIC shared-loss agreement, which are now categorized as non-covered loans (the "PCI loans"). While these loans no longer have FDIC loss guaranties, they are subject to SOP 03-3 accounting rules; thus, they will not receive consideration under the allowance for loan losses under the normal non-covered portfolio. Excluding the $4.7 million mentioned above, non-covered loans would have increased $63.8 million, or 10.7%, since December 31, 2013. The majority of the loan growth as evidenced by the chart below has been in the commercial real estate and residential real estate categories. Commercial real estate loans grew $36.1 million, or 14.6%, while residential real estate loans grew $24.0 million, or 16.6%, during 2014. As anticipated, the carrying value of FDIC covered loans declined $10.5 million, or 14.4%, since December 31, 2013 and were $62.7 million at December 31, 2014.

The following tables indicate the total dollar amount of loans outstanding and the percentage of gross loans as of December 31 of the years presented (dollars in thousands):

	2014 Non-Covered Loans		Covered Loans		Total Loans	
Mortgage loans on real estate:						
Residential 1-4 family	$168,358	25.32 %	$59,075	94.15 %	$227,433	31.26 %
Commercial	283,430	42.63	—	—	283,430	38.95
Construction and land development	59,515	8.95	—	—	59,515	8.18
Second mortgages	6,016	0.90	3,393	5.41	9,409	1.29
Multifamily	33,830	5.09	276	0.44	34,106	4.69
Agriculture	7,167	1.08	—	—	7,167	0.99
Total real estate loans	558,316	83.97	62,744	100.00	621,060	85.36
Commercial loans	99,634	14.99	—	—	99,634	13.69
Consumer installment loans	5,470	0.82	—	—	5,470	0.75

All other loans	1,444	0.22	—	—	1,444	0.20
Gross loans	664,864	100.00 %	62,744	100.00 %	727,608	100.00 %
Less unearned income on loans	(128)		—		(128)	
Non-covered loans, net of unearned income	$664,736		$62,744		$727,480	

	2013 Non-Covered Loans		Covered Loans		Total Loans	
Mortgage loans on real estate:						
Residential 1-4 family	$144,382	24.21 %	$64,610	88.18 %	$208,992	31.22 %
Commercial	247,284	41.47	1,389	1.90	248,673	37.15
Construction and land development	55,278	9.27	2,940	4.01	58,218	8.70
Second mortgages	6,854	1.15	3,898	5.32	10,752	1.61
Multifamily	35,774	6.00	266	0.36	36,040	5.38
Agriculture	9,565	1.60	172	0.23	9,737	1.45
Total real estate loans	499,137	83.70	73,275	100.00	572,412	85.51
Commercial loans	90,142	15.12	—	—	90,142	13.47
Consumer installment loans	5,623	0.94	—	—	5,623	0.84
All other loans	1,435	0.24	—	—	1,435	0.18
Gross loans	596,337	100.00 %	73,275	100.00 %	669,612	100.00 %
Less unearned income on loans	(164)		—		(164)	
Non-covered loans, net of unearned income	$596,173		$73,275		$669,448	

	2012 Non-Covered Loans		Covered Loans		Total Loans	
Mortgage loans on real estate:						
Residential 1-4 family	$135,420	23.53 %	$74,046	87.47 %	$209,466	31.73 %
Commercial	246,521	42.83	1,986	2.35	248,507	37.64
Construction and land development	61,127	10.62	3,264	3.86	64,391	9.75
Second mortgages	7,230	1.26	4,864	5.75	12,094	1.83
Multifamily	28,683	4.98	304	0.36	28,987	4.39
Agriculture	10,359	1.79	172	0.20	10,531	1.59
Total real estate loans	489,340	85.01	84,636	99.99	573,976	86.93
Commercial loans	77,835	13.52	—	—	77,835	11.79
Consumer installment loans	6,929	1.20	1	0.01	6,930	1.05
All other loans	1,526	0.27	—	—	1,526	0.23
Gross loans	575,630	100.00%	84,637	100.00%	660,267	100.00%
Less unearned income on loans	(148)		—		(148)	
Non-covered loans, net of unearned income	$575,482		$84,637		$660,119	

	2011 Non-Covered Loans		Covered Loans		Total Loans	
Mortgage loans on real estate:						
Residential 1-4 family	$127,200	23.34 %	$84,734	86.85 %	$211,934	32.99 %
Commercial	220,471	40.46	2,170	2.22	222,641	34.65
Construction and land development	75,691	13.89	4,260	4.38	79,951	12.44
Second mortgages	8,129	1.49	5,894	6.04	14,023	2.18
Multifamily	19,746	3.62	316	0.32	20,062	3.12
Agriculture	11,444	2.10	179	0.18	11,623	1.81
Total real estate loans	462,681	84.90	97,553	99.99	560,234	87.19
Commercial loans	72,149	13.24	—	—	72,149	11.23
Consumer installment loans	8,461	1.55	8	0.01	8,469	1.32
All other loans	1,659	0.31	—	—	1,659	0.26
Gross loans	544,950	100.00%	97,561	100.00%	642,511	100.00%
Less unearned income on loans	(232)		—		(232)	
Non-covered loans, net of unearned income	$544,718		$97,561		$642,279	

	2010 Non-Covered Loans		Covered Loans		Total Loans	
Mortgage loans on real estate:						
Residential 1-4 family	$137,522	26.15 %	$99,312	85.96 %	$236,834	36.92 %
Commercial	205,034	38.99	2,800	2.42	207,834	32.40
Construction and land development	103,763	19.73	5,751	4.98	109,514	17.08
Second mortgages	9,680	1.84	7,542	6.53	17,222	2.69
Multifamily	9,831	1.87	38	0.03	9,869	1.54
Agriculture	3,820	0.73	—	—	3,820	0.60

Total real estate loans	469,650	89.31	115,433	99.92	585,083	91.23
Commercial loans	44,368	8.44	—	—	44,368	6.92
Consumer installment loans	9,811	1.87	94	0.08	9,905	1.54
All other loans	1,993	0.38	—	—	1,993	0.31
Gross loans	525,822	100.00%	115,537	100.00%	641,359	100.00%
Less unearned income on loans	(274)		—		(274)	
Non-covered loans, net of unearned income	$525,548		$115,537		$641,085	

34

The following table indicates the contractual maturity of commercial and construction and land development loans as of December 31, 2014 (dollars in thousands):

	Commercial	Construction and land development
Within 1 year	$ 50,839	$ 36,260
Variable Rate		
One to Five Years	$ 3,903	$ 1,268
After Five Years	8,640	3,561
Total	$ 12,543	$ 4,829
Fixed Rate		
One to Five Years	$ 32,355	$ 17,469
After Five Years	3,897	957
Total	$ 36,252	$ 18,426
Total Maturities	$ 99,634	$ 59,515

Asset Quality – non-covered assets

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

Non-covered loan quality is continually monitored, and the Company's management has established an allowance for loan losses that it believes is appropriate for the risks inherent in the loan portfolio. Among other factors, management considers the Company's historical loss experience, the size and composition of the loan portfolio, the value and appropriateness of collateral and guarantors, 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 Non-covered Loans* in the Critical Accounting Policies section above for further discussion.

The Company maintains a list of non-covered loans that have potential weaknesses and thus may need special attention. This nonperforming loan list is used to monitor such loans and is used in the determination of the appropriateness of the allowance for loan losses. At December 31, 2014, nonperforming assets totaled $22.3 million and net charge-offs were $1.2 million. Nonperforming assets totaled $18.3 million and net charge-offs were $2.5 million for the year ended December 31, 2013.

Nonperforming non-covered loans were $16.6 million at December 31, 2014 compared to $12.1 million at December 31, 2013, a $4.5 million increase. Additions to nonaccrual loans during 2014 totaled $11.7 million, of which $8.7 million was one commercial loan relationship. The remaining increase related primarily to smaller residential and commercial property relationships, which are also secured by real estate. There were $2.4 million in charge-offs taken during 2014 of which $1.2 million were centered in commercial loans. There were $2.0 million in pay-downs during the period and $1.7 million in loans returned to accruing status. Foreclosures for the period totaled $1.1 million.

The following table sets forth selected asset quality data and ratios with respect to non-covered assets, excluding PCI loans, at December 31 of the years presented (dollars in thousands):

	2014	2013	2012	2011	2010
Nonaccrual loans	$16,571	$12,105	$21,048	$28,542	$36,532
Loans past due 90 days and accruing interest	—	—	509	2,005	389
Total nonperforming non-covered loans	16,571	12,105	21,557	30,547	36,921
OREO – non-covered	5,724	6,244	10,793	10,252	5,928
Total nonperforming non-covered assets	$22,295	$18,349	$32,350	$40,799	$42,849
Accruing troubled debt restructure loans	$6,195	$9,922	$9,990	$5,946	$4,007
Balances					
Specific reserve on impaired loans	1,694	1,604	2,656	2,765	7,666
General reserve related to impaired loans evaluated as a pool (1)	—	—	—	—	1,882
General reserve related to unimpaired loans	7,573	8,840	10,264	12,070	15,995
Total allowance for loan losses	9,267	10,444	12,920	14,835	25,543
Average loans during the year, net of unearned income	621,213	585,343	556,113	510,940	562,581
Impaired loans	16,852	13,801	22,365	35,158	44,974
Non-impaired loans	643,168	582,372	553,117	509,560	480,574
Total loans, net of unearned income	660,020	596,173	575,482	544,718	525,548
Ratios					
Allowance for loan losses to loans	1.40 %	1.75 %	2.25 %	2.72 %	4.86 %
Allowance for loan losses to nonperforming assets	41.57	56.92	39.94	36.36	59.61
Allowance for loan losses to nonaccrual loans	55.92	86.28	61.38	51.98	69.92
General reserve to non-impaired loans	1.18	1.52	1.86	2.37	3.33
Nonaccrual loans to loans	2.51	2.03	3.66	5.24	6.95
Nonperforming assets to loans and OREO	3.35	3.05	5.52	7.35	8.06
Net charge-offs to average loans	0.19	0.42	0.60	2.39	3.40

(1) As of first quarter 2011, the Company included the reserve on impaired loans evaluated as a pool as part of the specific reserve. The amount of this reserve was $346,000 as of December 31, 2011.

At December 31, 2014, the Company had eight 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 all of such projects are in the Company's central Virginia market. The total amount of the credit exposure outstanding at December 31, 2014 was $4.9 million. These loans have either been charged down or sufficiently reserved against to equate to the current expected realizable value.

The total amount of the allowance for loan losses attributed to all eight relationships was $599,000 at December 31, 2014, or 12.18% of the total credit exposure outstanding. The Company establishes its reserves as described above in *Allowance for Loan Losses on Non-covered Loans* in the "Critical Accounting Policies" section. In conjunction with the impairment analysis the Company performs as part of its allowance methodology, the Company orders 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.

The Company performs troubled debt restructures (TDR) and other various loan workouts whereby an existing loan may be restructured into multiple new loans. The Company had 17 loans for each of the years ended December 31, 2014 and 2013, 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. There were four loans for each of the years ended December 31, 2014 and 2013 that were restructured using multiple new loans. At December 31, 2014 and 2013, the aggregated outstanding principal of all TDRs was $7.0 million and $11.1 million, respectively, of which $757,000 and $1.2 million, respectively, 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 loan 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.

The following table presents the composition of the Company’s nonaccrual loans as of December 31 of the years presented (dollars in thousands):

	2014	2013	2012	2011	2010
Mortgage loans on real estate:					
Residential 1-4 family	$3,342	$4,229	$5,562	$5,320	$9,600
Commercial	607	1,382	5,818	9,187	7,181
Construction and land development	4,920	5,882	8,815	12,718	16,854
Second mortgages	61	225	141	189	218
Multifamily	—	—	—	—	—
Agriculture	—	205	250	53	—
Total real estate loans	8,930	11,923	20,586	27,467	33,853
Commercial loans	7,521	127	385	1,003	2,619
Consumer installment loans	120	55	77	72	60
All other loans	—	—	—	—	—
Total loans	$16,571	$12,105	$21,048	$28,542	$36,352

As of December 31, 2014 and 2013, total impaired non-covered loans equaled $16.9 million and $13.8 million, respectively.

Asset Quality – covered assets

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

For more information regarding the shared-loss agreements, see the discussion of the allowance for covered loans under the "Critical Accounting Policies" section of this item.

Allowance for Credit Losses on Non-covered loans

The following table indicates the dollar amount of the allowance for loan losses on non-covered loans, excluding PCI loans, including charge-offs and recoveries by loan type and related ratios as of December 31 of the years presented (dollars in thousands):

	2014	**2013**	**2012**	**2011**	**2010**
Balance, beginning of year	$10,444	$12,920	$14,835	$25,543	$18,169
Loans charged-off:					
Commercial	1,217	325	695	3,615	2,125
Real estate	1,179	2,999	4,582	8,891	17,307
Consumer and other loans	134	167	220	288	628
Total loans charged-off	2,530	3,491	5,497	12,794	20,060
Recoveries:					
Commercial	1,065	82	242	207	178
Real estate	178	857	1,807	176	691
Consumer and other loans	110	76	83	205	82
Total recoveries	1,353	1,015	2,132	588	951
Net charge-offs (recoveries)	1,177	2,476	3,365	12,206	19,109
Provision for loan losses	-	-	1,450	1,498	26,483
Balance, end of year	$9,267	$10,444	$12,920	$14,835	$25,543
Allowance for loan losses to non-covered loans	1.40 %	1.75 %	2.25 %	2.72 %	4.86 %
Net charge-offs (recoveries) to average non-covered loans	0.19 %	0.42 %	0.61 %	2.39 %	3.40 %
Allowance to nonperforming non-covered loans	55.92 %	86.28 %	59.93 %	48.56 %	69.18 %

During 2014, the Bank’s net charge-offs decreased $1.3 million from the prior year and were primarily centered in real estate. Net charge-offs by loan category to total net charge-offs were the following for 2014: 12.9% for commercial loans, 85.1% for real estate loans, and 2.0% for consumer loans.

During 2013, the Bank’s net charge-offs decreased $889,000 from the prior year and were primarily centered in real estate. Net charge-offs by loan category to total net charge-offs were the following for 2013: 9.8% for commercial loans, 86.5% for real estate loans, and 3.7% for consumer loans.

While the entire allowance is available to cover charge-offs from all loan types, the following table indicates the dollar amount allocation of the allowance for loan losses by loan type, as well as the ratio of the related outstanding loan balances to non-covered loans, excluding PCI loans, as of December 31 of the years presented (dollars in thousands):

	2014		2013		2012		2011		2010	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial	$1,242	15.2%	$1,546	15.1%	$1,961	13.5%	$1,810	13.2%	$2,691	8.4
Construction and land development	1,930	8.6	2,252	9.3	3,773	10.6	5,729	13.9	10,039	19.7
Real estate mortgage	5,983	75.2	6,519	74.4	6,973	74.4	7,044	71.0	12,481	69.6
Consumer and other	112	1.0	127	1.2	213	1.5	252	1.9	332	2.3
Total allowance	$9,267	100 %	$10,444	100 %	$12,920	100 %	$14,835	100 %	$25,543	100

Allowance for Credit Losses on Covered Loans

The covered loans are subject to credit review standards for non-covered loans. If and when credit deterioration occurs subsequent to the date that they were acquired, a provision for credit loss for covered loans will be charged to earnings for the full amount without regard to the shared-loss agreements. The Company makes an estimate of the total cash flows it expects to collect from a pool of covered loans, which includes undiscounted expected principal and interest. Over the life of the loan or pool, the Company continues to estimate cash flows expected to be collected. Subsequent decreases in cash flows expected to be collected over the life of the pool are recognized as 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.

Securities

The Company's securities portfolio increased $16.9 million, or 5.6%, from $302.7 million at December 31, 2013 to $319.6 million at December 31, 2014. At December 31, 2014, the Company had $274.6 million in securities available for sale and $36.2 million of securities held to maturity. Equity securities totaled $8.8 million. Realized gains of $1.1 million occurred during 2014 through sales and call activity.

As of December 31, 2013, securities equaled $302.7 million, a decrease of $56.1 million, or 15.6%, from the prior year end. At December 31, 2013, the Company had securities designated available for sale of $265.8 million and held to maturity of $28.6 million, with equity securities totaling $8.4 million. In 2013, the Company realized $342,000 in gains on sales of securities, net of tax. The Company took a short-term position in a $40 million U.S. Treasury issue at December 31, 2012 to fully invest short-term excess cash balances on deposit by local municipal governments. The issue matured in the first quarter of 2013 and is the primary factor for the decrease in securities balances from December 31, 2012. The maturity of these funds was not reinvested but was offset by a decline in public funds.

The following table summarizes the securities portfolio by contractual maturity and issuer, including weighted average yields, excluding restricted stock, as of December 31, 2014 (dollars in thousands):

	1 Year or Less	1-5 Years	5-10 Years	Over 10 Years	Total
U.S. Treasury Issue and other U.S. Government agencies					
Amortized Cost	$ 20,169	$ 25,689	$ 28,019	$ 25,730	$ 99,607
Fair Value	20,173	25,403	27,720	25,410	98,706
Weighted Avg Yield	0.08 %	(0.36 %)	1.54 %	2.22 %	0.93 %
State, county and municipal					
Amortized Cost	3,059	28,246	114,323	20,454	166,082
Fair Value	3,086	29,648	116,824	20,699	170,257
Weighted Avg Yield	3.22 %	3.72 %	3.42 %	3.43 %	3.47 %
Corporate bonds & other securities					
Amortized Cost	750	2,922	8,250	-	11,922
Fair Value	756	2,930	8,197	-	11,883
Weighted Avg Yield	3.47 %	2.11 %	1.77 %	-	1.96 %
Mortgage Backed securities					
Amortized Cost	570	19,629	10,754	-	30,953
Fair Value	589	19,976	10,696	-	31,261
Weighted Avg Yield	2.23 %	2.24 %	2.38 %	-	2.29 %
Total					
Amortized Cost	24,548	76,486	161,346	46,184	308,564
Fair Value	24,604	77,957	163,437	46,109	312,107

Weighted Avg Yield	0.62 %	1.91 %	2.94 %	2.76 %	2.47 %

39

The amortized cost and fair value of securities available for sale and held to maturity as of December 31 of the years presented are as follows (dollars in thousands):

	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
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

	December 31, 2013			
	Gross Unrealized			
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov't agencies	$99,789	$165	$(967)	$98,987
U.S. Gov't sponsored agencies	487	—	(1)	486
State, county and municipal	138,884	1,297	(6,085)	134,096
Corporate and other bonds	6,369	27	(47)	6,349
Mortgage backed – U.S. Gov't agencies	3,608	29	(198)	3,439
Mortgage backed – U.S. Gov't sponsored agencies	22,631	69	(280)	22,420
Total Securities Available for Sale	$271,768	$1,587	$(7,578)	$265,777
Securities Held to Maturity				
State, county and municipal	$9,385	$718	$—	$10,103
Mortgage backed – U.S. Gov't agencies	6,604	398	—	7,002
Mortgage backed – U.S. Gov't sponsored agencies	12,574	626	—	13,200
Total Securities Held to Maturity	$28,563	$1,742	$—	$30,305

	December 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	$153,480	$362	$(565)	$153,277
U.S. Gov't sponsored agencies	500	3	—	503
State, county and municipal	112,110	5,757	(271)	117,596
Corporate and other bonds	7,530	96	(8)	7,618
Mortgage backed – U.S. Gov't agencies	15,192	378	(10)	15,560
Mortgage backed – U.S. Gov't sponsored agencies	14,349	258	(83)	14,524
Total Securities Available for Sale	$303,161	$6,854	$(937)	$309,078
Securities Held to Maturity				
State, county and municipal	$11,825	$1,142	$—	$12,967
Mortgage backed – U.S. Gov't agencies	9,112	615	—	9,727
Mortgage backed – U.S. Gov't sponsored agencies	21,346	1,188	—	22,534
Total Securities Held to Maturity	$42,283	$2,945	$—	$45,228

Deposits

The Company's lending and investing activities are funded primarily through its deposits. The following table summarizes the average balance and average rate paid on deposits by product for the periods ended December 31 of the years presented (dollars in thousands):

	2014		2013		2012	
	Average **Balance**	Average Rate Paid	Average **Balance**	Average Rate Paid	Average **Balance**	Average Rate Paid
NOW	$109,272	0.22 %	$128,965	0.21 %	$124,456	0.28 %
MMDA	95,115	0.37	109,580	0.43	113,962	0.45
Savings	77,138	0.33	81,368	0.34	74,129	0.35
Time deposits less than $100,000	248,107	0.93	287,908	1.00	314,559	1.34
Time deposits $100,000 and over	304,601	0.89	258,880	0.95	242,225	1.31
Total deposits	$834,233	0.70	$866,701	0.73	$869,331	0.98

The Company derives a significant amount of its deposits through time deposits, and certificates of deposit specifically. The following table summarizes the contractual maturity of time deposits $100,000 or more, as of December 31, 2014 (dollars in thousands):

Within 3 months	$50,737
3-6 months	52,076
6-12 months	58,311
over 12 months	137,671
Total	$298,795

Short-term Borrowings

The Company uses short-term borrowings in conjunction with deposits to fund lending and investing activities. Short-term funding includes overnight borrowings from correspondent banks. The following information is provided for borrowings balances, rates, and maturities as of December 31 of the years presented (dollars in thousands):

	As of December 31	
	2014	2013
Short-term:		
Federal Funds purchased	$14,500	$—
Securities sold under agreements to repurchase	—	6,000
Total short-term borrowings	$14,500	$6,000
Maximum month-end outstanding balance	$14,500	$9,722
Average outstanding balance during the year	$1,855	$1,451
Average interest rate during the year	0.57 %	0.56 %
Average interest rate at end of year	0.51 %	0.45 %

41

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 December 31, 2014 and 2013 was as follows (dollars in thousands):

	December 31, 2014		December 31, 2013	
Cash and due from banks	$ 8,329		$ 10,857	
Interest bearing bank deposits	14,024		12,978	
Available for sale securities, at fair value, unpledged	199,067		185,278	
Total liquid assets	$ 221,420		$ 209,113	
Deposits and other liabilities	1,048,084		982,873	
Ratio of liquid assets to deposits and other liabilities	21.13	%	21.28	%

Capital Resources

The determination of capital adequacy depends upon a number of factors, such as asset quality, liquidity, earnings, growth trends and economic conditions. The Company seeks to maintain a strong capital base to support its growth and expansion plans, provide stability to current operations and promote public confidence in the Company. The adequacy of the Company’s capital is reviewed by management on an ongoing basis with reference to size, composition, and quality of the Company’s balance sheet. Moreover, capital levels are regulated and compared with industry standards. Management seeks to maintain a capital level exceeding regulatory statutes of “well capitalized” that is consistent to its overall growth plans, yet allows the Company to provide the optimal return to its shareholders.

The federal banking regulators have defined three tests for assessing the capital strength and adequacy of banks, based on two definitions of capital. “Tier 1 capital” is defined as common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles. “Tier 2 capital” is defined as specific subordinated debt, some hybrid capital instruments and other qualifying preferred stock and a limited amount of the allowance for loan losses. “Total capital” is defined as tier 1 capital plus tier 2 capital. Three risk-based capital ratios are computed using the above capital

definitions, total assets and risk-weighted assets and are measured against regulatory minimums to ascertain adequacy. All assets and off-balance sheet risk items are grouped into categories according to degree of risk and assigned a risk-weighting, and the resulting total is risk-weighted assets. “Tier 1 risk-based capital” is tier 1 capital divided by risk-weighted assets. “Total risk-based capital” is total capital divided by risk-weighted assets. The leverage ratio is tier 1 capital divided by adjusted average total assets.

The following table shows the Company’s capital ratios at the dates indicated (dollars in thousands):

	December 31, 2014		December 31, 2013	
	Amount	Ratio	Amount	Ratio
Total Capital to risk weighted assets				
Company	$115,805	14.72%	$113,805	16.82%
Bank	117,395	14.92%	113,624	16.79%
Tier 1 Capital to risk weighted assets				
Company	106,397	13.52%	105,672	15.62%
Bank	107,987	13.73%	105,489	15.59%
Tier 1 Capital to adjusted average total assets				
Company	106,397	9.36 %	105,672	9.52 %
Bank	107,987	9.50 %	105,489	9.50 %

All capital ratios exceed regulatory minimums for well capitalized institutions as referenced in Note 20 to the Consolidated Financial Statements.

On December 12, 2003, BOE Statutory Trust I, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable capital securities. On December 12, 2003, $4.124 million of trust preferred securities were issued through a direct placement. The securities have a LIBOR-indexed floating rate of interest. The average interest rate at December 31, 2014, 2013 and 2012 was 3.24%, 3.28% and 3.57%, respectively. The securities have a mandatory redemption date of December 12, 2033 and are subject to varying call provisions that began December 12, 2008. The principal asset of the Trust is $4.124 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the capital securities.

On December 19, 2008, the Company entered into a Purchase Agreement with the U.S. Treasury pursuant to which it issued 17,680 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share, for a total price of $17.68 million. The issuance was made pursuant to the Treasury's Capital Purchase Plan under TARP. The Preferred Stock paid a cumulative dividend at a rate of 5% per year during the first five years and thereafter at 9% per year. As part of its purchase of the Series A Preferred Stock, the Treasury received a warrant to purchase 780,000 shares of the Company's common stock at an initial per share exercise price of $3.40.

During 2013, the Company repurchased 7,000 shares of the original 17,680 shares of Series A Preferred Stock. The Company funded the repurchase through the earnings of its banking subsidiary. The form of the repurchase was a redemption under the terms of the Series A Preferred Stock. The Company paid the Treasury $7.0 million, which represented 100% of the par value of the preferred stock repurchased plus accrued dividends with respect to such shares.

On April 23, 2014, the Company repurchased the remaining 10,680 shares of Series A Preferred Stock. The Company funded the repurchase through an unsecured third-party term loan. The form of the repurchase was a redemption under the terms of the TARP preferred stock. The Company paid the Treasury $10.9 million, which represented 100% of the par value of the preferred stock repurchased plus accrued dividends with respect to such shares.

On June 4, 2014, the Company paid the Treasury $780,000 to repurchase the warrant that had been associated with the Series A Preferred Stock. There are no other investments from the Company's participation in TARP that remain outstanding.

Off-Balance Sheet Arrangements

A summary of the contract amount of the Bank's exposure to off-balance sheet risk as of December 31, 2014 and 2013, is as follows (dollars in thousands):

	December 31, 2014	December 31, 2013
Commitments with off-balance sheet risk:		
Commitments to extend credit	$ 87,017	$ 72,183
Standby letters of credit	7,358	9,978
Total commitments with off-balance sheet risks	$ 94,375	$ 82,161

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 customers. 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 December 31, 2014, the fair value of the Company's cash flow hedge was an unrealized gain of $23,000, which was recorded in other assets. The Company's cash flow hedge is deemed to be effective. Therefore, the gain was recorded as a component of other comprehensive income recorded in the Company's Consolidated Statements of Comprehensive Income.

Contractual Obligations

A summary of the Company's contractual obligations at December 31, 2014 is as follows (dollars in thousands):

	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Trust preferred debt	$4,124	$—	$—	$—	$4,124
Federal Home Loan Bank advances	96,401	70,746	16,560	9,095	—
Long term debt	9,680	4,005	5,675	—	—
Operating leases	5,467	709	1,247	1,174	2,337
Total contractual obligations	$115,672	$75,460	$23,482	$10,269	$6,461

Financial Ratios

Financial ratios give investors a way to compare companies within industries to analyze financial performance. Return on average assets is net income as a percentage of average total assets. It is a key profitability ratio that indicates how effectively a bank has used its total resources. Return on average equity is net income as a percentage of average stockholders' equity. It provides a measure of how productively a Company's equity has been employed. Dividend payout ratio is the percentage of net income paid to common shareholders as cash dividends during a given period. The Company did not pay dividends to common shareholders during the years ended December 31, 2014, 2013 and 2012. It is computed by dividing dividends per share by net income per common share. The Company utilizes leverage within guidelines prescribed by federal banking regulators as described in the "Capital Requirements" section. Leverage is average shareholders' equity divided by average total assets.

The following table shows the Company's financial ratios at the dates indicated:

	Year Ended December 31		
	2014	2013	2012
Return on average assets	0.67 %	0.53 %	0.50 %

Return on average equity	7.09 %	5.22 %	4.85 %
Dividend payout ratio	n/a	n/a	n/a
Leverage	9.50 %	10.10 %	10.39 %

Non GAAP Measures

Beginning January 1, 2009, business combinations must be accounted for under FASB ASC 805, *Business Combinations*, using the acquisition method of accounting. The Company has accounted for its previous business combinations under the purchase method of accounting. The original merger between the Company, TFC and BOE as well as the SFSB transaction were business combinations accounted for using the purchase method of accounting. TCB transaction was accounted for as an asset purchase. At December 31, 2014, 2013 and 2012, core deposit intangible assets totaled $4.7 million, $6.6 million and $10.3 million, respectively. Goodwill was zero at December 31, 2014, 2013 and 2012.

In reporting the results of 2014, 2013 and 2012 in Item 6 above, the Company has provided supplemental performance measures on an operating or tangible basis. Such measures exclude amortization expense related to intangible assets, such as core deposit intangibles.. The Company believes these measures are useful to investors as they exclude non-operating adjustments resulting from acquisition activity and allow investors to see the combined economic results of the organization. Non-GAAP operating earnings per share were $0.40 for the year ended December 31, 2014 compared with $0.33 in 2013 and $0.33 in 2012. Non-GAAP return on average tangible common equity and assets for the year ended December 31, 2014 was 9.09% and 0.79%, respectively, compared with 8.38% and 0.66%, respectively, in 2013 and 8.31% and 0.65%, respectively, in 2012.

These measures are a supplement to GAAP used to prepare the Company's financial statements and should not be viewed as a substitute for GAAP measures. In addition, the Company's non-GAAP measures may not be comparable to non-GAAP measures of other companies. The following table reconciles these non-GAAP measures from their respective GAAP basis measures for the years ended December 31, 2014, 2013 and 2012 (dollars in thousands):

	December 31		
	2014	2013	2012
Net income	$7,516	$5,906	$5,582
Plus: core deposit intangible amortization, net of tax	1,259	1,453	1,492
Non-GAAP operating earnings	$8,775	$7,359	$7,074
Average assets	$1,115,490	$1,120,952	$1,107,972
Less: average core deposit intangibles	5,707	9,020	11,475
Average tangible assets	$1,109,783	$1,111,932	$1,096,497
Average equity	$105,965	$113,165	$115,011
Less: average core deposit intangibles	5,707	9,020	11,475
Less: average preferred equity	3,715	16,304	18,348
Average tangible common equity	$96,543	$87,841	$85,188
Weighted average shares outstanding, diluted	21,981	22,211	21,717
Non-GAAP earnings per share, diluted	$0.40	$0.33	$0.33
Average tangible common equity/average tangible assets	8.70 %	7.90 %	7.77 %
Non-GAAP return on average tangible assets	0.79 %	0.66 %	0.65 %
Non-GAAP return on average tangible common equity	9.09 %	8.38 %	8.31 %

ITEM 7A. *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 our 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 December 31, 2014, 2013 and 2012 (dollars in thousands):

	Change in net interest income					
	2014		2013		2012	
	%	$	%	$	%	$
Change in Yield curve						
+400 bp	0.5 %	183	(0.1)%	(4)	(1.3)%	(554)
+300 bp	(0.3)%	(131)	(1.1)%	(442)	(2.3)%	(984)
+200 bp	(0.2)%	(96)	(1.0)%	(404)	(1.9)%	(797)
+100 bp	(0.5)%	(207)	(0.9)%	(374)	(1.4)%	(608)
most likely	0 %	—	0 %	—	0 %	—
-100 bp	1.6 %	624	1.2 %	478	(1.3)%	(534)
-200 bp	(0.3)%	(132)	(0.6)%	(249)	(2.4)%	(1,015)
-300 bp	(0.6)%	(222)	(1.4)%	(565)	(2.5)%	(1,059)
-400 bp	(0.6)%	(225)	(1.6)%	(640)	(2.6)%	(1,084)

At December 31, 2014, 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 increase by 0.5%. 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 decrease 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements

Reports of Independent Registered Public Accounting Firm	48
Consolidated Balance Sheets as of December 31, 2014 and December 31, 2013	50
Consolidated Statements of Income for the years ended December 31, 2014, December 31, 2013 and December 31, 2012	51
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2014, December 31, 2013, and December 31, 2012	52
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2014, December 31, 2013 and December 31, 2012	53
Consolidated Statements of Cash Flows for the years ended December 31, 2014, December 31, 2013 and December 31, 2012	54
Notes to Consolidated Financial Statements	55

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Community Bankers Trust Corporation

Richmond, Virginia

We have audited the accompanying consolidated balance sheets of Community Bankers Trust Corporation and subsidiary (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive (loss) income, changes in shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Bankers Trust Corporation and subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 13, 2015 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ Elliott Davis Decosimo, LLC

Richmond, Virginia

March 13, 2015

48

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Community Bankers Trust Corporation

Richmond, Virginia

We have audited the internal control over financial reporting of Community Bankers Trust Corporation and subsidiary (the "Company") as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 (the "COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that *(a)* pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; *(b)* provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and *(c)* provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may

deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2014 and December 31, 2013 and the related consolidated statements of income, comprehensive (loss) income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2014 and our report dated March 13, 2015 expressed an unqualified opinion thereon.

/s/ Elliott Davis Decosimo, LLC

Richmond, Virginia

March 13, 2015

COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2014 AND DECEMBER 31, 2013

(dollars in thousands)

	2014	2013
ASSETS		
Cash and due from banks	$8,329	$10,857
Interest bearing bank deposits	14,024	12,978
Total cash and cash equivalents	22,353	23,835
Securities available for sale, at fair value	274,568	265,777
Securities held to maturity, at cost (fair value of $37,539 and $30,305, respectively)	36,197	28,563
Equity securities, restricted, at cost	8,816	8,358
Total securities	319,581	302,698
Loans held for sale	200	100
Loans not covered by FDIC shared-loss agreements	664,736	596,173
Loans covered by FDIC shared-loss agreements	62,744	73,275
Total loans	727,480	669,448
Allowance for loan losses (non-covered loans of $9,365 and $10,444, respectively; covered loans of $386 and $484, respectively)	(9,751)	(10,928)
Net loans	717,729	658,520
FDIC indemnification asset	18,609	25,409
Bank premises and equipment, net	29,702	27,872
Bank premises and equipment held for sale	465	—
Other real estate owned, covered by FDIC shared-loss agreements	2,019	2,692
Other real estate owned, non-covered	5,724	6,244
Bank owned life insurance	21,004	20,795
FDIC receivable under shared-loss agreements	669	368
Core deposit intangibles, net	4,713	6,621
Other assets	12,966	14,378
Total assets	$1,155,734	$1,089,532
LIABILITIES		
Deposits:		
Noninterest bearing	$84,564	$70,132
Interest bearing	834,381	822,209
Total deposits	918,945	892,341
Federal funds purchased and securities sold under agreements to repurchase	14,500	6,000

Federal Home Loan Bank advances	96,401	77,125
Long-term debt	9,680	—
Trust preferred capital notes	4,124	4,124
Other liabilities	4,434	3,283
Total liabilities	1,048,084	982,873
SHAREHOLDERS’ EQUITY		
Preferred stock (5,000,000 shares authorized, $0.01 par value; 0 and 10,680 shares issued and outstanding, respectively)	—	10,680
Warrants on preferred stock	—	1,037
Common stock (200,000,000 shares authorized, $0.01 par value; 21,791,523 and 21,709,096 shares issued and outstanding, respectively)	218	217
Additional paid in capital	145,321	144,656
Retained deficit	(38,553)	(45,822)
Accumulated other comprehensive income (loss)	664	(4,109)
Total shareholders’ equity	107,650	106,659
Total liabilities and shareholders’ equity	$1,155,734	$1,089,532

See accompanying notes to consolidated financial statements

50

COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

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

	2014	2013	2012
Interest and dividend income			
Interest and fees on non-covered loans	$30,191	$29,696	$30,658
Interest and fees on FDIC covered loans	10,672	11,936	14,105
Interest on deposits in other banks	61	58	54
Interest on federal funds sold	0	3	5
Interest and dividends on securities			
Taxable	6,835	7,693	8,408
Nontaxable	966	659	489
Total interest and dividend income	48,725	50,045	53,719
Interest expense			
Interest on deposits	5,858	6,370	8,508
Interest on other borrowed funds	1,075	708	1,184
Total interest expense	6,933	7,078	9,692
Net interest income	41,792	42,967	44,027
Provision for loan losses	—	—	1,200
Net interest income after provision for loan losses	41,792	42,967	42,827
Noninterest income			
Service charges on deposit accounts	2,200	2,739	2,736
Gain on securities transactions, net	1,089	518	1,492
Gain (loss) on sale of other loans, net	201	(359)	—
Income on bank owned life insurance	769	747	620
Other	1,010	1,079	1,358
Total noninterest income	5,269	4,724	6,206
Noninterest expense			
Salaries and employee benefits	16,136	15,981	16,511
Occupancy expenses	2,597	2,717	2,715
Equipment expenses	957	1,038	1,087
FDIC assessment	805	843	1,485
Data processing fees	1,732	2,078	1,824
FDIC indemnification asset amortization	5,795	6,449	6,936
Amortization of intangibles	1,908	2,202	2,261
Other real estate expense	540	2,034	2,493
Other operating expenses	6,347	5,946	5,991
Total noninterest expense	36,817	39,288	41,303
Income before income taxes	10,244	8,403	7,730
Income tax expense	2,728	2,497	2,148
Net income	$7,516	$5,906	$5,582

Dividends paid on preferred stock	247	885	884
Accretion of discount on preferred stock	—	234	220
Net income available to common shareholders	$7,269	$4,787	$4,478
Net income per share — basic	$0.33	$0.22	$0.21
Net income per share — diluted	$0.33	$0.22	$0.21
Weighted average number of shares outstanding			
basic	21,755	21,700	21,647
diluted	21,981	21,922	21,717

See accompanying notes to consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(dollars in thousands)

	2014	2013	2012
Net income	$7,516	$5,906	$5,582
Other comprehensive income (loss):			
Unrealized gains on investment securities:			
Change in unrealized gain (loss) in investment securities	9,280	(11,386)	2,472
Tax related to unrealized (gain) loss in investment securities	(3,155)	3,871	(841)
Reclassification adjustment for gain in securities sold	(1,089)	(518)	(1,492)
Tax related to realized gain in securities sold	370	176	507
Defined benefit pension plan:			
Change in prior service cost	4	(68)	—
Change in unrealized (loss) gain in plan assets	(997)	1,462	(57)
Tax related to defined benefit pension plan	337	(474)	20
Cash flow hedge:			
Change in unrealized gain in cash flow hedge	35	—	—
Tax related to cash flow hedge	(12)	—	—
Total other comprehensive income (loss)	4,773	(6,937)	609
Total comprehensive income (loss)	$12,289	$(1,031)	$6,191

See accompanying notes to consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(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 (Loss)	Total
Balance December 31, 2011	$17,680	$1,037	$(454)	21,628	$216	$144,243	$(53,761)	$2,219	$111,180
Amortization of preferred stock warrants	—	—	220	—	—	—	(220)	—	—
Issuance of common stock	—	—	—	42	1	98	—	—	99
Dividends paid on preferred stock	—	—	—	—	—	—	(2,210)	—	(2,210)
Issuance of stock options	—	—	—	—	—	57	—	—	57
Net income	—	—	—	—	—	—	5,582	—	5,582
Other comprehensive income	—	—	—	—	—	—	—	609	609
Balance December 31, 2012	$17,680	$1,037	$(234)	21,670	$217	$144,398	$(50,609)	$2,828	$115,317
Amortization of preferred stock warrants	—	—	234	—	—	—	(234)	—	—
Issuance of common stock	—	—	—	39	—	123	—	—	123
Dividends paid on preferred stock	—	—	—	—	—	—	(885)	—	(885)
Issuance of stock options	—	—	—	—	—	135	—	—	135
Redemption of preferred stock	(7,000)	—	—	—	—	—	—	—	(7,000)
Net income	—	—	—	—	—	—	5,906	—	5,906
Other comprehensive loss	—	—	—	—	—	—	—	(6,937)	(6,937)

Balance December 31, 2013	$10,680	$1,037	$—	21,709	$217	$144,656	$(45,822)	$(4,109)	$106,659
Issuance of common stock	—	—	—	83	1	227	—	—	228
Dividends paid on preferred stock	—	—	—	—	—	—	(247)	—	(247)
Issuance of stock options	—	—	—	—	—	181	—	—	181
Redemption of preferred stock	(10,680)	—	—	—	—	—	—	—	(10,680)
Redemption of warrants on preferred stock	—	(1,037)	—	—	—	257	—	—	(780)
Net income	—	—	—	—	—	—	7,516	—	7,516
Other comprehensive income	—	—	—	—	—	—	—	4,773	4,773
Balance December 31, 2014	$—	$—	$—	21,792	$218	$145,321	$(38,553)	$664	$107,650

See accompanying notes to consolidated financial statements

53

COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(Dollars in thousands)

	2014	2013	2012
Operating activities:			
Net income	$7,516	$5,906	$5,582
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and intangibles amortization	3,484	3,842	3,963
Non-cash contribution of other real estate owned	68	—	—
Issuance of common stock and stock options	409	258	156
Provision for loan losses	—	—	1,200
Amortization of purchased loan premium	1,087	1,265	1,242
Deferred tax (benefit) expense	(40)	2,497	2,126
Amortization of security premiums and accretion of discounts, net	3,461	3,488	3,196
Net gain on sale of securities	(1,089)	(518)	(1,492)
Net loss on sale and valuation of other real estate owned	407	1,714	1,833
Net (gain) loss on sale of loans	(201)	359	—
Gain on bank owned life insurance investment	(405)	—	—
Changes in assets and liabilities:			
(Increase) decrease in loans held for sale	(100)	1,595	(686)
Decrease in other assets	3,887	9,437	9,037
Increase (decrease) in accrued expenses and other liabilities	1,155	388	(2,469)
Net cash provided by operating activities	19,639	30,231	23,688
Investing activities:			
Proceeds from available for sale securities	109,983	156,123	174,541
Proceeds from held to maturity securities	16,415	13,471	21,669
Proceeds from equity securities	587	1,629	611
Purchase of available for sale securities	(121,228)	(127,451)	(251,111)
Purchase of held to maturity securities	(15,777)	—	—
Purchase of equity securities	(1,045)	(2,582)	(1,144)
Proceeds from sale of other real estate owned	4,667	7,491	9,630
Improvements of other real estate, net of insurance proceeds	(509)	(621)	(1,130)
Net increase in loans	(78,169)	(46,847)	(33,408)
Principal recoveries of loans previously charged off	1,353	1,015	2,439
Purchase of premises and equipment, net	(3,875)	(1,887)	(256)
Purchase of bank owned life insurance investment	—	(5,000)	—
Proceeds from bank owned life insurance investment	840	—	—
Proceeds from sale of loans	13,284	28,611	—
Proceeds from sale of premises and equipment	—	5,177	—
Net cash (used in) provided by investing activities	(73,474)	29,129	(78,159)

Financing activities:			
Net increase in noninterest bearing and interest bearing deposits	26,604	111,193	40,827
Net increase in federal funds purchased and securities sold under agreements to repurchase	8,500	588	5,412
Net increase in Federal Home Loan Bank borrowings	19,276	27,297	12,828
Cash dividends paid	(247)	(885)	(2,210)
Proceeds from long-term debt	10,680	—	—
Payments on long-term debt	(1,000)	—	—
Payment from sale of deposits	—	(190,855)	—
Redemption of preferred stock and related warrants	(11,460)	(7,000)	—
Net cash provided by (used in) financing activities	52,353	(59,662)	56,857
Net (decrease) increase in cash and cash equivalents	(1,482)	(302)	2,386
Cash and cash equivalents:			
Beginning of the period	23,835	24,137	21,751
End of the period	$22,353	$23,835	$24,137

	2014	2013	2012
Supplemental disclosures of cash flow information:			
Interest paid	$6,760	$7,252	$10,253
Income taxes paid	3,134	—	120
Transfers of loans to other real estate owned	3,436	3,351	8,480
Transfer of building premises and equipment to held for sale	465	5,174	—
Transfer of deposits to held for sale	—	193,170	—
Transfer of loans held for investment to loans held for sale	—	30,228	—

See accompanying notes to consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Banking Activities and Significant Accounting Policies

Organization

Community Bankers Trust Corporation (the "Company") is a bank holding company that was originally incorporated in 2005. On January 1, 2014, the Company completed a reincorporation from Delaware, its original state of incorporation, to Virginia. The form of the reincorporation was the merger of the then existing Delaware corporation into a newly created Virginia corporation. The Company retained the same name and conducts business in the same manner as before the reincorporation.

The Company is headquartered in Richmond, Virginia and is the holding company for Essex Bank (the "Bank"), a Virginia state bank with 21 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.

Prior to November 8, 2013, the Bank also had four full-service offices in Georgia. The Bank sold those offices and related deposits to Community & Southern Bank on November 8, 2013. See Note 29 for additional information.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and the Bank, its wholly-owned subsidiary. All material intercompany balances and transactions have been eliminated in consolidation.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation,* requires that the Company no longer eliminate through consolidation the equity investment in BOE Statutory Trust I, which was $124,000 at each of December 31, 2014 and 2013. The subordinated debt of the Trust is reflected as a liability of the Company.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company has defined cash and cash equivalents as cash and due from banks and interest-bearing bank balances.

Restricted Cash

The Bank is required to maintain a reserve against its deposits in accordance with Regulation D of the Federal Reserve Act. For the final weekly reporting period, the aggregate amount of daily average required reserves was $10.7 million and $9.4 million for the years ended December 31, 2014 and 2013, respectively.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are determined using the specific identification method.

Restricted Securities

The Company is required to maintain an investment in the capital stock of certain correspondent banks. The Company's investment in these securities is recorded at cost.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Mortgage loans held for sale are sold with the mortgage servicing rights released by the Company.

The Company enters into commitments to originate certain mortgage loans whereby the interest rate on the loans is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. The period of time between issuance of a loan commitment and closing and the sale of the loan generally ranges from thirty to ninety days. The Company protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the Company commits to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan. As a result, the Company is not exposed to losses nor will it realize significant gains related to its rate lock commitments due to changes in interest rates. The correlation between the rate lock commitments and the best efforts contracts is very high due to their similarity. Because of this high correlation, the gain or loss that occurs on the rate lock commitments is immaterial.

Loans

The Bank grants mortgage, commercial and consumer loans to customers. A significant portion of the loan portfolio is represented by 1-4 family residential and commercial mortgage loans. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the Bank's market area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the effective interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Consumer loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual status. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses on Non-covered loans

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

The allowance is an amount that management believes is appropriate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This 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, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank 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 the allowance for loan losses.

The Company's acquired loans from the Suburban Federal Savings Bank (SFSB) transaction (the "covered loans"), subject to FASB ASC Topic 805, *Business Combinations* (formerly SFAS 141(R)), are recorded at fair value and no separate valuation allowance was recorded at the date of acquisition. FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (formerly SOP 03-3), 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 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 purchased credit impaired loans and were classified as non-covered loans effective April 1, 2014 (the “PCI loans”).

The covered loans and PCI loans are subject to credit review standards described above for non-covered loans. If and when credit deterioration occurs subsequent to the acquisition date, a provision for credit loss for covered 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 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 allowance for loan loss. 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.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Land is carried at cost. Depreciation of bank premises and equipment is computed on the straight-line method over estimated useful lives of 10 to 50 years for premises and 3 to 20 years for equipment, furniture and fixtures.

Costs of maintenance and repairs are charged to expense as incurred and major improvements are capitalized. Upon sale or retirement of depreciable properties, the cost and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is included in the determination of income.

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 selling 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. The Company had $5.7 million and $6.2 million in other real estate, non-covered at December 31, 2014 and 2013, respectively, and $2.0 million and $2.7 million in other real estate, covered at December 31, 2014 and 2013, respectively.

Other Intangibles

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.

Advertising Costs

The Company follows the policy of expensing advertising costs as incurred, which totaled $475,000, $384,000 and $336,000 for 2014, 2013 and 2012, respectively.

Income Taxes

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

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income. Under FASB ASC 740, *Income Taxes,* a valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. In management’s opinion, based on a three year taxable income projection, tax strategies 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 various state income taxes. Years 2011 through 2014 are open to examination by the respective tax authorities.

Earnings Per Share

Basic earnings per share (EPS) is computed based on the weighted average number of shares outstanding and excludes any dilutive effects of options, warrants and convertible securities. Diluted EPS is computed in a manner similar to basic EPS, except for certain adjustments to the numerator and the denominator. Diluted EPS gives effect to all dilutive potential common shares that were outstanding at the end of the period. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method. The Company declared and paid $247,000, $885,000 and $2.2 million in dividends on preferred stock in 2014, 2013 and 2012, respectively.

Stock-Based Compensation

In April 2009, the Company adopted the Community Bankers Trust Corporation 2009 Stock Incentive Plan which is authorized to issue up to 2,650,000 shares of common stock. See Note 13 for details regarding these plans.

Derivatives - Cash Flow Hedge

The Company uses interest rate derivatives to manage certain amounts of its exposure to interest rate movements. To accomplish this objective, the Company is a party to interest rate swaps whereby the Company pays fixed amounts to a counterparty in exchange for receiving variable payments over the life of an underlying agreement without the exchange of underlying notional amounts.

Derivatives designated as cash flow hedges are used primarily to minimize the variability in cash flows of assets or liabilities caused by interest rates. Cash flow hedges are periodically tested for effectiveness, which measures the correlation of the cash flows of the hedged item with the cash flows from the derivative. The effective portion of changes in the fair value of derivatives designated as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into net income in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivative is recognized directly in earnings.

Recent Accounting Pronouncements

In January 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-01, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.* The ASU eliminates the concept of extraordinary items from U.S. GAAP. Existing U.S. GAAP required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless the event or transaction is both unusual in nature and infrequent in occurrence. The amendments will eliminate the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary; however, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring.

The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments may be applied either prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In November 2014, the FASB issued ASU 2014-17, *Pushdown Accounting*, that gives acquired entities the option to apply pushdown accounting in their separate financial statements when an acquirer obtains control of them. In a related move, the Securities and Exchange Commission rescinded its guidance, which previously required or precluded pushdown accounting depending on the specific circumstances. Pushdown accounting is the practice of adjusting an acquired company’s separate financial statements to reflect the new basis of accounting established by the buyer for the acquired company. This commonly takes the form of “stepping up” net assets to fair value, which generally includes the recognition of goodwill and other intangibles assets. The new guidance provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. If the acquired company does not elect to apply pushdown accounting in the period of acquisition, it could do so in a later period through a retrospective adjustment, as long as the change is deemed to be “preferable” accounting. However, once pushdown is applied, it cannot subsequently be reversed.

The new guidance was effective upon issuance for current and future reporting periods and any open reporting periods for which financial statements have not yet been issued. The Company has had no recent acquisition activity; therefore, adoption of this guidance had no material impact on its consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014-04, *Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* Although current guidance indicates that a creditor should reclassify a collateralized mortgage loan as other real estate owned when it determines that there has been in substance a repossession or foreclosure by the creditor, that is, the creditor receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place, the terms in substance repossession or foreclosure and physical possession are not defined in the accounting literature. This has resulted in diversity about when a creditor should derecognize the loan receivable and recognize the real estate property. The objective of the amendments in this update is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs. The amendments state that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2014. Early adoption is permitted. The Company currently records foreclosures in accordance with this guidance; therefore, no changes are necessary for adoption.

Also in January 2014, the FASB issued ASU No. 2014-01, *Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force).* The amendments in this ASU apply to all reporting entities that invest in qualified affordable housing projects through limited liability entities that are flow through entities for tax purposes. Currently, an investor that invests in a qualified affordable housing project may elect to account for that investment using the effective yield method. Those not electing the effective yield method would account for the investment using the equity method or cost method. The Task Force received stakeholder feedback indicating that certain of the required conditions for the effective yield method are overly restrictive and thus prevent many investments in qualified affordable housing projects from qualifying for the use of this method. Those stakeholders stated that presenting the investment performance net of taxes as a component of income tax expense (benefit) as prescribed by the effective yield method more fairly represents the economics and provides users with a better understanding of the returns from such investments than the equity or cost methods.

The amendments in this ASU eliminate the effective yield election and permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and

recognizes the net investment performance in the income statement as a component of income tax expense (benefit). Those not electing the proportional amortization method would account for the investment using the equity method or cost method. The decision to apply the proportional amortization method of accounting is an accounting policy decision that should be applied consistently to all qualifying affordable housing project investments rather than a decision to be applied to individual investments. A reporting entity should disclose information that enables users of its financial statements to understand the nature of its investments in qualified affordable housing projects, and the effect of the measurement of its investments in qualified affordable housing projects and the related tax credits on its financial position and results of operations. The amendments in this ASU should be applied retrospectively to all periods presented. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of other real estate owned, projected cash flows relating to certain acquired loans, the value of the indemnification asset, and the valuation of deferred tax assets.

Reclassifications

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

Note 2. Securities

Amortized costs and fair values of securities available for sale and held to maturity at December 31, 2014 and 2013 were as follows (dollars in thousands):

	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
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

	December 31, 2013			
	Gross Unrealized			
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov't agencies	$99,789	$165	$(967)	$98,987
U.S. Gov'tsponsored agencies	487	—	(1)	486
State, county and municipal	138,884	1,297	(6,085)	134,096
Corporate and other bonds	6,369	27	(47)	6,349
Mortgage backed – U.S. Gov't agencies	3,608	29	(198)	3,439
Mortgage backed – U.S. Gov't sponsored agencies	22,631	69	(280)	22,420
Total Securities Available for Sale	$271,768	$1,587	$(7,578)	$265,777
Securities Held to Maturity				
State, county and municipal	$9,385	$718	$ —	$10,103
Mortgage backed – U.S. Gov't agencies	6,604	398	—	7,002
Mortgage backed – U.S. Gov't sponsored agencies	12,574	626	—	13,200
Total Securities Held to Maturity	$28,563	$1,742	$—	$30,305

The amortized cost and fair value of securities at December 31, 2014 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without any penalties.

(dollars in thousands)	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$1,207	$1,229	$23,341	$23,375
Due after one year through five years	13,283	14,092	63,204	63,865
Due after five years through ten years	13,061	13,370	148,284	150,067
Due after ten years	8,646	8,848	37,539	37,261
Total securities	$36,197	$37,539	$272,368	$274,568

Proceeds from sales of securities available for sale were $79.6 million, $77.8 million and $149.9 million during the years ended December 31, 2014, 2013 and 2012, 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 years ended December 31, 2014, 2013 and 2012 were as follows (dollars in thousands):

	December 31		
	2014	**2013**	**2012**
Gross realized gains	$1,584	$645	$2,236
Gross realized losses	(495)	(127)	(744)
Net securities gains	$1,089	$518	$1,492

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 years ended December 31, 2014, 2013 and 2012.

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 December 31, 2014 and 2013 were as follows (dollars in thousands):

	December 31, 2014					
	Less than 12 Months		12 Months or More		Total	
Securities Available for Sale	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
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)

	December 31, 2013					
	Less than 12 Months		12 Months or More		Total	
Securities Available for Sale	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury issue and other U.S. Gov't agencies	$35,873	$ (531)	$37,638	$ (436)	$73,511	$ (967)
U.S. Gov't sponsored agencies	486	(1)	—	—	486	(1)
State, county and municipal	92,010	(5,343)	6,445	(742)	98,455	(6,085)

Corporate and other bonds	3,332	(42)	991	(5)	4,323	(47)
Mortgage backed – U.S. Gov't agencies	2,767	(198)	—	—	2,767	(198)
Mortgage backed – U.S. Gov't sponsored agencies	14,572	(258)	1,557	(22)	16,129	(280)
Total	$149,040	$ (6,373)	$46,631	$ (1,205)	$195,671	$ (7,578)

The unrealized losses (impairments) in the investment portfolio at December 31, 2014 and 2013 are generally a result of market fluctuations that occur daily. The unrealized losses are from 130 securities at December 31, 2014. Of those, 120 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. Ten investment grade corporate obligations comprise the remaining securities with unrealized losses at December 31, 2014. 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 $111.3 million and $109.1 million at December 31, 2014 and 2013, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. At each of December 31, 2014 and 2013, 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 Not Covered by FDIC Shared-loss Agreements (Non-covered Loans) and Related Allowance for Loan Losses

The Company’s non-covered loans at December 31, 2014 and 2013 were comprised of the following (dollars in thousands):

	December 31, 2014		December 31, 2013	
	Amount	% of Non-Covered Loans	Amount	% of Non-Covered Loans
Mortgage loans on real estate:				
Residential 1-4 family	$168,358	25.32 %	$144,382	24.21 %
Commercial	283,430	42.63	247,284	41.47
Construction and land development	59,515	8.95	55,278	9.27
Second mortgages	6,016	0.90	6,854	1.15
Multifamily	33,830	5.09	35,774	6.00
Agriculture	7,167	1.08	9,565	1.60
Total real estate loans	558,316	83.97	499,137	83.70
Commercial loans	99,634	14.99	90,142	15.12
Consumer installment loans	5,470	0.82	5,623	0.94
All other loans	1,444	0.22	1,435	0.24
Gross loans	664,864	100.00 %	596,337	100.00 %
Less unearned income on loans	(128)		(164)	
Non-covered loans, net of unearned income	$664,736		$596,173	

The Company held $18.3 million and $38.5 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 December 31, 2014 and 2013, 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 $922,000 and $2.5 million at December 31, 2014 and 2013, 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 December 31, 2014 and 2013, 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.

The Purchase and Assumption Agreement into which the Company and the Federal Deposit Insurance Corporation (FDIC) entered in January 2009 that provided for the Company's assumption of all of the deposits and certain other liabilities and acquisition of substantially all assets of Suburban Federal Savings Bank (SFSB) included two shared-loss agreements with respect to certain covered loans and foreclosed real estate assets. See Notes 4 and 5 for more information on the Purchase and Assumption Agreement and the shared-loss agreements. The shared-loss agreement for 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 Acquired 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").

The PCI loans are not classified as nonperforming assets as of December 31, 2014, 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.

The following table reflects the outstanding principal balance and carrying amounts of the PCI loans as of December 31, 2014 (dollars in thousands):

	December 31, 2014	
	Unpaid balance	Carrying Value
Mortgage loans on real estate:		
Residential 1-4 family	$2,189	$ 1,096
Commercial	3,179	1,148
Construction and land development	3,658	2,456
Second mortgages	31	16
Multifamily	—	—
Agriculture	—	—
Total real estate loans	9,057	4,716
Total PCI loans	$9,057	$ 4,716

The allowance for loan losses related to PCI loans was $98,000 as of March 31, 2014 and was transferred from the allowance for loan losses on covered loans effective April 1, 2014. This allowance was related to commercial real estate loans. There was no other activity in the allowance for loan losses related to PCI loans for the year ended December 31, 2014.

The change in the accretable yield balance for the PCI loans for the year ended December 31, 2014 (dollars in thousands):

Balance transferred from covered loans, April 1, 2014	$4,773
Accretion	(554)
Reclassification from nonaccretable yield	852
Balance, December 31, 2014	$5,071

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

With an allowance recorded:	**Recorded Investment** (1)	**Unpaid Principal Balance** (2)	**Related Allowance**
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
Multifamily	—	—	—
Agriculture	—	—	—
Total real estate loans	8,026	11,071	1,154
Commercial loans	7,521	8,721	520
Consumer installment loans	118	120	20
All other loans	—	—	—
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	—
Second mortgages	—	—	—
Multifamily	—	—	—
Agriculture	—	—	—
Total real estate loans	1,185	1,388	—
Commercial loans	—	—	—
Consumer installment loans	2	3	—
All other loans	—	—	—
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
Multifamily	—	—	—
Agriculture	—	—	—
Total real estate loans	9,211	12,459	1,154
Commercial loans	7,521	8,721	520
Consumer installment loans	120	123	20
All other loans	—	—	—
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 information related to impaired loans as of December 31, 2013 (dollars in thousands):

With an allowance recorded:	**Recorded Investment** (1)	**Unpaid Principal Balance** (2)	**Related Allowance**
Mortgage loans on real estate:			
Residential 1-4 family	$ 3,485	$ 3,739	$ 881
Commercial	920	1,091	150
Construction and land development	4,148	5,298	508
Second mortgages	225	226	40
Multifamily	—	—	—
Agriculture	—	—	—
Total real estate loans	8,778	10,354	1,579
Commercial loans	127	794	16
Consumer installment loans	49	51	9
All other loans	—	—	—
Subtotal impaired loans with a valuation allowance	8,954	11,199	1,604
With no related allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	1,189	1,228	—
Commercial	1,714	1,969	—
Construction and land development	1,734	4,335	—
Second mortgages	—	—	—
Multifamily	—	—	—
Agriculture	204	222	—
Total real estate loans	4,841	7,754	—
Commercial loans	—	—	—
Consumer installment loans	6	6	—
All other loans	—	—	—
Subtotal impaired loans without a valuation allowance	4,847	7,760	—
Total:			
Mortgage loans on real estate:			
Residential 1-4 family	4,674	4,967	881
Commercial	2,634	3,060	150
Construction and land development	5,882	9,633	508
Second mortgages	225	226	40
Multifamily	—	—	—
Agriculture	204	222	—
Total real estate loans	13,619	18,108	1,579
Commercial loans	127	794	16
Consumer installment loans	55	57	9
All other loans	—	—	—
Total impaired loans	$ 13,801	$ 18,959	$ 1,604

(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 years ended December 31, 2014, 2013 and 2012 (dollars in thousands):

	December 31		
	2014	2013	2012
Mortgage loans on real estate:			
Residential 1-4 family	$4,008	$5,607	$6,770
Commercial	1,680	4,225	10,505
Construction and land development	5,482	7,436	10,602
Second mortgages	143	198	184
Multifamily	—	—	—
Agriculture	102	227	93
Total real estate loans	11,415	17,693	28,154
Commercial loans	3,824	318	773
Consumer installment loans	89	72	137
All other loans	—	—	—
Total impaired loans	$15,328	$18,083	$29,064

The majority of impaired loans were also nonaccruing for which no interest income was recognized during each of the years ended December 31, 2014, 2013 and 2012. No significant amounts of interest income were recognized on accruing impaired loans for each of the years ended December 31, 2014, 2013 and 2012.

Interest income on nonaccrual loans, if recognized, is recorded using the cash basis method of accounting. Cash basis income of $612,000 was recognized during the year ended December 31, 2014. There were no significant amounts recognized during either of the years ended December 31, 2013 and 2012. For the years ended December 31, 2014, 2013 and 2012, estimated interest income of $890,000, $980,000 and $1.3 million, respectively, would have been recorded if all such loans had been accruing interest according to their original contractual terms.

The following table presents non-covered nonaccrual loans, excluding PCI loans, by loan category as of December 31, 2014 and 2013 (dollars in thousands):

	December 31, 2014	December 31, 2013
Mortgage loans on real estate:		
Residential 1-4 family	$ 3,342	$ 4,229
Commercial	607	1,382
Construction and land development	4,920	5,882
Second mortgages	61	225
Multifamily	—	—

Agriculture	—	205
Total real estate loans	8,930	11,923
Commercial loans	7,521	127
Consumer installment loans	120	55
All other loans	—	—
Total loans	$ 16,571	$ 12,105

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. A reconciliation of impaired loans to nonaccrual loans at December 31, 2014 and 2013, is set forth in the table below (dollars in thousands):

	December 31, 2014	December 31, 2013
Nonaccruals	$ 16,571	$ 12,105
Trouble debt restructure and still accruing	118	1,696
Special mention and still accruing	163	—
Total impaired	$ 16,852	$ 13,801

The following tables present an age analysis of past due status of non-covered loans, excluding PCI loans, by category as of December 31, 2014 and 2013 (dollars in thousands):

	December 31, 2014					
	30-89 Days Past Due	90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment 90 Days Past Due and Accruing
Mortgage loans on real estate:						
Residential 1-4 family	$298	$3,342	$3,640	$163,622	$ 167,262	$ —
Commercial	200	607	807	281,475	282,282	—
Construction and land development	128	4,920	5,048	52,011	57,059	—
Second mortgages	26	61	87	5,913	6,000	—
Multifamily	—	—	—	33,830	33,830	—
Agriculture	—	—	—	7,167	7,167	—
Total real estate loans	652	8,930	9,582	544,018	553,600	—
Commercial loans	66	7,521	7,587	92,047	99,634	—
Consumer installment loans	10	120	130	5,340	5,470	—
All other loans	—	—	—	1,444	1,444	—
Total loans	$728	$16,571	$17,299	$642,849	$ 660,148	$ —

	December 31, 2013					
	30-89 Days Past Due	90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment 90 Days Past Due and Accruing
Mortgage loans on real estate:						
Residential 1-4 family	$1,455	$4,229	$5,684	$138,698	$ 144,382	$ —
Commercial	—	1,382	1,382	245,902	247,284	—
Construction and land development	242	5,882	6,124	49,154	55,278	—
Second mortgages	—	225	225	6,629	6,854	—
Multifamily	—	—	—	35,774	35,774	—
Agriculture	—	205	205	9,360	9,565	—
Total real estate loans	1,697	11,923	13,620	485,517	499,137	—
Commercial loans	115	127	242	89,900	90,142	—
Consumer installment loans	58	55	113	5,510	5,623	—
All other loans	—	—	—	1,435	1,435	—
Total loans	$1,870	$12,105	$13,975	$582,362	$ 596,337	$ —

Activity in the allowance for loan losses on non-covered loans, excluding PCI loans, by segment for the years ended December 31, 2014, 2013 and 2012 is presented in the following tables (dollars in thousands):

	December 31, 2013	Provision Allocation	Charge-offs	Recoveries	December 31, 2014
Mortgage loans on real estate:					
Residential 1-4 family	$ 3,853	$ (98)	$ (733)	$ 78	$ 3,100
Commercial	2,333	636	(446)	95	2,618
Construction and land development	2,252	(323)	—	1	1,930
Second mortgages	101	(42)	—	4	63
Multifamily	151	(15)	—	—	136
Agriculture	81	(15)	—	—	66
Total real estate loans	8,771	143	(1,179)	178	7,913
Commercial loans	1,546	(152)	(1,217)	1,065	1,242
Consumer installment loans	101	8	(134)	110	85
All other loans	26	1	—	—	27
Total loans	$ 10,444	$ —	$ (2,530)	$ 1,353	$ 9,267

	December 31, 2012	Provision Allocation	Charge-offs	Recoveries	December 31, 2013
Mortgage loans on real estate:					
Residential 1-4 family	$ 3,985	$ 244	$ (432)	$ 56	$ 3,853
Commercial	2,482	1,411	(1,580)	20	2,333
Construction and land development	3,773	(1,338)	(877)	694	2,252
Second mortgages	142	16	(105)	48	101
Multifamily	303	(152)	—	—	151
Agriculture	61	(14)	(5)	39	81
Total real estate loans	10,746	167	(2,999)	857	8,771
Commercial loans	1,961	(172)	(325)	82	1,546
Consumer installment loans	195	(3)	(167)	76	101
All other loans	18	8	—	—	26
Total loans	$ 12,920	$ —	$ (3,491)	$ 1,015	$ 10,444

	December 31, 2011	Provision Allocation	Charge-offs	Recoveries	December 31, 2012
Mortgage loans on real estate:					
Residential 1-4 family	$ 3,451	$ 2,283	$ (1,786)	$ 37	$ 3,985
Commercial	3,048	15	(654)	73	2,482
Construction and land development	5,729	(1,539)	(2,058)	1,641	3,773
Second mortgages	296	(165)	(45)	56	142
Multifamily	224	79	—	—	303
Agriculture	25	75	(39)	—	61
Total real estate loans	12,773	748	(4,582)	1,807	10,746
Commercial loans	1,810	604	(695)	242	1,961

Consumer installment loans	241	91	(220)	83	195
All other loans	11	7	—	—	18
Total loans	$ 14,835	$ 1,450	$ (5,497)	$ 2,132	$ 12,920

Included in charge-offs for the year ended December 31, 2013 was a $500,000 writedown arising from the transfer of a loan from non-covered loans to loans held for sale.

70

The following tables present information on the non-covered loans evaluated for impairment in the allowance for loan losses as of December 31, 2014 and 2013 (dollars in thousands):

	December 31, 2014			
	Allowance for Loan Losses			
	Individually Evaluated for Impairment[1]	Collectively Evaluated for Impairment	Related to PCI loans	Total
Mortgage loans on real estate:				
Residential 1-4 family	$598	$ 2,502	$ —	$3,100
Commercial	54	2,564	98	2,716
Construction and land development	628	1,302	—	1,930
Second mortgages	11	52	—	63
Multifamily	—	136	—	136
Agriculture	—	66	—	66
Total real estate loans	1,291	6,622	98	8,011
Commercial loans	529	713	—	1,242
Consumer installment loans	20	65	—	85
All other loans	—	27	—	27
Total loans	$1,840	$ 7,427	$ 98	$9,365

	December 31, 2014			
	Recorded Investment in Loans			
	Individually Evaluated for Impairment[1]	Collectively Evaluated for Impairment	Related to PCI loans	Total
Mortgage loans on real estate:				
Residential 1-4 family	$7,307	$ 159,955	$ 1,096	$168,358
Commercial	5,122	277,160	1,148	283,430
Construction and land development	5,096	51,963	2,456	59,515
Second mortgages	61	5,939	16	6,016
Multifamily	—	33,830	—	33,830
Agriculture	—	7,167	—	7,167
Total real estate loans	17,586	536,014	4,716	558,316
Commercial loans	7,757	91,877	—	99,634
Consumer installment loans	124	5,346	—	5,470
All other loans	—	1,444	—	1,444
Total loans	$25,467	$ 634,681	$ 4,716	$664,864

December 31, 2013	
Allowance for Loan Losses	Recorded Investment in Loans
Total	Total

	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	$923	$ 2,930	$3,853	$6,708	$ 137,674	$144,382
Commercial	200	2,133	2,333	8,016	239,268	247,284
Construction and land development	651	1,601	2,252	8,619	46,659	55,278
Second mortgages	42	59	101	254	6,600	6,854
Multifamily	—	151	151	—	35,774	35,774
Agriculture	—	81	81	205	9,360	9,565
Total real estate loans	1,816	6,955	8,771	23,802	475,335	499,137
Commercial loans	18	1,528	1,546	192	89,950	90,142
Consumer installment loans	9	92	101	57	5,566	5,623
All other loans	—	26	26	—	1,435	1,435
Total loans	$1,843	$ 8,601	$10,444	$24,051	$ 572,286	$596,337

[1] The category “Individually Evaluated for Impairment” includes loans individually evaluated for impairment and determined not to be impaired. These loans totalled $8.6 million and $10.3 million at December 31, 2014 and 2013, respectively. The allowance for loans losses allocated to these loans was $146,000 and $239,000 at December 31, 2014 and 2013, respectively.

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

Pass - A pass loan is not adversely classified, as it does not display any of the characteristics for adverse classification. This category includes purchased loans that are 100% guaranteed by U.S. Government agencies of $18.3 million and $38.5 million at December 31, 2014 and 2013, 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 following tables present the composition of non-covered loans, excluding PCI loans, by credit quality indicator at December 31, 2014 and 2013 (dollars in thousands):

	December 31, 2014				
	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential 1-4 family	$153,790	$7,540	$ 5,932	$ —	$167,262
Commercial	268,546	10,363	3,373	—	282,282
Construction and land development	51,505	620	4,934	—	57,059
Second mortgages	4,639	1,300	61	—	6,000
Multifamily	33,830	—	—	—	33,830
Agriculture	7,167	—	—	—	7,167
Total real estate loans	519,477	19,823	14,300	—	553,600
Commercial loans	89,886	1,991	7,757	—	99,634
Consumer installment loans	5,325	21	124	—	5,470

All other loans	1,444	—	—	—	1,444
Total loans	$616,132	$21,835	$ 22,181	$ —	$660,148

	December 31, 2013				
	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential 1-4 family	$129,482	$8,193	$ 6,707	$ —	$144,382
Commercial	229,168	11,348	6,768	—	247,284
Construction and land development	44,482	2,178	8,618	—	55,278
Second mortgages	6,172	428	254	—	6,854
Multifamily	35,774	—	—	—	35,774
Agriculture	9,361	—	204	—	9,565
Total real estate loans	454,439	22,147	22,551	—	499,137
Commercial loans	87,208	2,742	192	—	90,142
Consumer installment loans	5,344	222	57	—	5,623
All other loans	1,435	—	—	—	1,435
Total loans	$548,426	$25,111	$ 22,800	$ —	$596,337

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.

During the year ended December 31, 2014, the Company modified one commercial real estate 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. During the year ended December 31, 2013, the Company modified one residential 1-4 family loan and one commercial real estate loan that were considered to be TDRs. The Company extended the terms and lowered the interest rates for these loans, which had a pre- and post-modification balance of $863,000.

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 the year ended December 31, 2014. There was one TDR that had been restructured during the previous 12 months that resulted in default during the year ended December 31, 2013. This residential 1-4 family loan had a recorded investment of $173,000.

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 December 31, 2014 the Company had 1-4 family mortgages in the amount of $139.6 million pledged as collateral to the Federal Home Loan Bank for a total borrowing capacity of $107.5 million.

Note 4. Loans Covered by FDIC Shared-loss Agreements (Covered 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 SFSB. The Company is applying the provisions of FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, to all loans acquired in the SFSB transaction (the “covered loans”). Of the total $198.3 million in loans acquired, $49.1 million met the criteria of 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 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, were transferred to non-covered loans effective April 1, 2014 (the PCI loans). See Note 3 for further details.

As of December 31, 2014 and 2013, the outstanding contractual balance of the covered loans was $94.9 million and $117.0 million, respectively. The carrying amount, by loan type, as of these dates is as follows (dollars in thousands):

	December 31, 2014			December 31, 2013		
	Amount	% of Covered Loans		Amount	% of Covered Loans	
Mortgage loans on real estate:						
Residential 1-4 family	$59,075	94.15	%	$64,610	88.18	%
Commercial	—	—		1,389	1.90	
Construction and land development	—	—		2,940	4.01	
Second mortgages	3,393	5.41		3,898	5.32	
Multifamily	276	0.44		266	0.36	
Agriculture	—	—		172	0.23	
Total real estate loans	62,744	100.00		73,275	100.00	
Total covered loans	$62,744	100.00	%	$73,275	100.00	%

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 covered loans of $386,000 at December 31, 2014 related to residential 1-4 family loans. There was no other activity in the allowance for loan losses on covered loans for the year ended December 31, 2014. There was no activity in the allowance for loan losses on covered loans for the year ended December 31, 2013.

The following table presents information on the covered loans collectively evaluated for impairment in the allowance for loan losses at December 31, 2014 and 2013 (dollars in thousands):

	December 31, 2014		December 31, 2013	
	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	$ 59,075	$252	$ 64,610
Commercial	—	—	232	1,389
Construction and land development	—	—	—	2,940
Second mortgages	—	3,393	—	3,898
Multifamily	—	276	—	266
Agriculture	—	—	—	172
Total real estate loans	386	62,744	484	73,275
Total covered loans	$386	$ 62,744	$484	$ 73,275

The change in the accretable yield balance for the years ended December 31, 2014, 2013 and 2012 is as follows (dollars in thousands):

Balance, January 1, 2012	$56,310
Accretion	(14,105)
ReclassipAfication from nonaccretable yield	11,939
Balance, December, 2012	54,144
Accretion	(11,936)
Reclassification from nonaccretable yield	9,307
Balance, December 31, 2013	51,515
Accretion	(10,650)
Reclassification from nonaccretable yield	9,919
Transfer of PCI loans to non-covered loans	(4,773)
Balance, December 31, 2014	$46,011

The covered loans were not classified as nonperforming assets as of December 31, 2014, 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 covered 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 will reimburse the Bank for 80% of losses arising from covered loans and foreclosed real estate assets, on the first $118 million in losses on such covered loans and foreclosed real estate assets, and for 95% of losses on covered loans and foreclosed real estate assets thereafter. Under the shared-loss agreements, a “loss” on a covered loan or foreclosed real estate is defined generally as a realized loss incurred through a permitted disposition, foreclosure, short-sale or restructuring of the covered loan or foreclosed real estate. The reimbursements for losses on single family, residential 1-4 family mortgage assets are to be made quarterly through March 2019 for losses incurred through January 2019, and the reimbursements for losses on other covered assets were made quarterly through March 2014. The shared-loss agreements provide for indemnification from the first dollar of losses without any threshold requirement. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction, January 30, 2009. New loans made after that date are not covered by the shared-loss agreements. The fair value of the shared-loss agreements is detailed below.

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

Because the acquired loans are subject to shared-loss agreements and a corresponding indemnification asset exists to represent the value of expected payments from the FDIC, increases and decreases in loan accretable yield due to changing loss expectations will also have an impact on the valuation of the FDIC indemnification asset. Improvement in loss expectations will typically increase loan accretable yield and decrease the value of the FDIC indemnification asset and, in some instances, result in an amortizable premium on the FDIC indemnification asset. Increases in loss expectations will typically be recognized as impairment in the current period through allowance for loan losses, resulting in additional noninterest income for the amount of the increase in the FDIC indemnification asset.

In addition to the premium amortization, the balance of the FDIC indemnification asset is affected by expected payments from the FDIC. Under the terms of the shared-loss agreements, the FDIC will reimburse the Company for loss events incurred related to the covered loan portfolio. These events include such things as future writedowns due to decreases in the fair market value of OREO, net loan charge-offs and recoveries, and net gains and losses on OREO sales.

As discussed above, the shared-loss agreement for assets other than single family, residential 1-4 family mortgage assets expired March 2014. The FDIC indemnification asset related to those assets was zero at March 31, 2014.

The following table presents the balances of the FDIC indemnification asset at December 31, 2014 and 2013 (dollars in thousands):

	Anticipated Expected Losses	**Estimated Loss Sharing Value**	**Amortizable Premium (Discount) at Present Value**	**FDIC Indemnification Asset Total**
January 1, 2012	$ 28,713	$ 22,971	$ 19,670	$ 42,641
Increases:				
Writedown of OREO property to FMV	622	497		497
Decreases:				
Net amortization of premium			(6,936)	(6,936)
Reclassifications to FDIC receivable:				
Net loan charge-offs and recoveries	(1,321)	(1,057)		(1,057)
OREO sales	(1,140)	(912)		(912)
Reimbursements requested from FDIC	(495)	(396)		(396)
Reforecasted Change in Anticipated Expected Losses	(3,174)	(2,539)	2,539	—
December 31, 2012	23,205	18,564	15,273	33,837
Increases:				
Writedown of OREO property to FMV	344	275		275
Decreases:				
Net amortization of premium			(6,449)	(6,449)

Reclassifications to FDIC receivable:				
Net loan charge-offs and recoveries	(1,268)	(1,014)		(1,014)
OREO sales	(1,180)	(944)		(944)
Reimbursements requested from FDIC	(370)	(296)		(296)
Reforecasted Change in Anticipated Expected Losses	(7,217)	(5,774)	5,774	—
December 31, 2013	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

75

Note 6. Premises and Equipment

A summary of the bank premises and equipment is as follows (dollars in thousands):

	December 31	
	2014	2013
Land	$8,171	$7,681
Land improvements and buildings	21,468	21,087
Leasehold improvements	257	58
Furniture and equipment	7,199	5,574
Construction in progress	1,792	1,385
Total	38,887	35,785
Less accumulated depreciation and amortization	(9,185)	(7,913)
Bank premises and equipment, net	$29,702	$27,872

Note 7. Other Intangibles

Core deposit intangibles are recognized, amortized and evaluated for impairment as required by FASB ASC 350, *Intangibles*. As a result of the mergers with TransCommunity Financial Corporation (TFC), and BOE Financial Services of Virginia, Inc. (BOE) on May 31, 2008, the Company recorded $15.0 million in core deposit intangible assets, which are being amortized over 9 years. Core deposit intangibles resulting from the Georgia and Maryland transactions, in 2008 and 2009, respectively, equaled $3.2 million and $2.1 million, respectively, and are being amortized over 9 years. The core deposit intangible related to the Georgia transaction was written off in conjunction with the sale of the branches in that market (See Note 29). The Company estimates that it will recognize amortization expense of $1.9 million for each of the next two years and the final $898,000 in the year ended December 31, 2017.

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

	December 31, 2014	December 31, 2013
Core deposit intangibles	$ 20,290	$ 20,290
Accumulated amortization	(14,104)	(12,196)
Reduction due to sale of deposits	(1,473)	(1,473)
Balance	$ 4,713	$ 6,621

Note 8. Deposits

The following table provides interest bearing deposit information, by type, as of December 31, 2014 and 2013 (dollars in thousands):

	December 31, 2014	December 31, 2013
NOW	$ 123,682	$ 102,111
MMDA	101,784	94,170
Savings	78,478	75,159
Time deposits less than or equal to $250,000	416,628	380,813
Time deposits over $250,000	113,809	169,956
Total interest bearing deposits	$ 834,381	$ 822,209

The scheduled maturities of time deposits at December 31, 2014 are as follows (dollars in thousands):

2015	$286,119
2016	176,084
2017	31,136
2018	20,027
2019	17,071
2020	—
Total	$530,437

Note 9. Borrowings

The Company uses borrowings in conjunction with deposits to fund lending and investing activities. Borrowings include funding of a short-term and long-term nature. Short-term funding includes overnight borrowings from correspondent banks and securities sold under agreements to repurchase. The following information is provided for short-term borrowings balances, rates, and maturities (dollars in thousands):

	December 31	
	2014	2013
Short-term:		
Federal Funds purchased	$14,500	$—
Securities sold under agreements to repurchase	—	6,000
Total short-term borrowings	$14,500	$6,000
Maximum month-end outstanding balance	$14,500	$9,722
Average outstanding balance during the year	$1,855	$1,451
Average interest rate during the year	0.57 %	0.56 %
Average interest rate at end of year	0.51 %	0.45 %

Long-term borrowings are obtained through the FHLB of Atlanta. As of December 31, 2014, the Company had residential 1-4 family mortgages in the amount of $139.6 million pledged as collateral to the FHLB for a total borrowing capacity of $107.5 million.

On April 23, 2014, the Company repurchased the then outstanding 10,680 shares of Series A Preferred Stock (see Note 27). The Company funded the repurchase through an unsecured third-party term loan. The term loan, which has a maturity date of April 21, 2017, requires that the Company make quarterly payments of 7.5% of the initial outstanding principal, plus accrued interest, during a six-quarter period beginning with the quarter ending December 31, 2014, quarterly payments of 10% of the initial outstanding principal, plus accrued interest, during the subsequent

four-quarter period and the remaining principal amount and accrued interest at maturity. The interest rate resets quarterly based on three-month LIBOR plus 3.50% per annum. As of December 31, 2014, the interest rate was 3.73%. The Company made an unscheduled principal payment of $1.0 million during the third quarter leaving a balance of $9.680 million as of December 31, 2014. The terms of the loan require the Company to be in compliance with certain covenants, such as maintenance of minimum regulatory capital ratios, minimum return on assets and minimum cash on hand, and subsidiary dividend restrictions. The Company was in compliance with all covenants at December 31, 2014.

The following information is provided for long-term borrowings balances, rates, and maturities (dollars in thousands):

	December 31			
	2014	2013	Interest Rates	Maturities
Long-term:				
Federal Home Loan Bank advances	$96,401	$77,125	0.22-3.78%	2015 - 2019
Long-term debt	9,680	—	3.73%	2017
Total long-term borrowings	$106,081	$77,125		

Maturities of fixed rate long-term debt at December 31, 2014 are as follows (dollars in thousands):

2015	$74,751
2016	14,773
2017	7,462
2018	815
2019	8,280
Thereafter	—
Total	$106,081

The Company had unsecured lines of credit with correspondent banks available for overnight borrowing totaling $45 million at December 31, 2014.

Note 10. Accumulated Other Comprehensive Income (Loss)

The following tables present activity net of tax in accumulated other comprehensive income (loss) (AOCI) for the years ended December 31, 2014, 2013 and 2012 (dollars in thousands):

	December 31, 2014			
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Gain/Loss on Cash Flow Hedge	Total Other Comprehensive Income (Loss)
Beginning balance	$(3,954)	$ (155)	$ -	$ (4,109)
Other comprehensive income before reclassifications	6,125	(659)	23	5,489
Amounts reclassified from AOCI	(719)	3	-	(716)
Net current period other comprehensive income (loss)	5,406	(656)	23	4,773
Ending balance	$1,452	$ (811)	$ 23	$ 664

	December 31, 2013			
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Gain/Loss on Cash Flow Hedge	Total Other Comprehensive Income (Loss)

Beginning balance	$3,903	$(1,075)	$ -	$ 2,828
Other comprehensive income before reclassifications	(7,515)	965	-	(6,550)
Amounts reclassified from AOCI	(342)	(45)	-	(387)
Net current period other comprehensive income (loss)	(7,857)	920	-	(6,937)
Ending balance	$(3,954)	$(155)	$ -	$ (4,109)

78

	December 31, 2012			
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Gain/Loss on Cash Flow Hedge	Total Other Comprehensive Income (Loss)
Beginning balance	$3,257	$(1,038)	$ -	$ 2,219
Other comprehensive income before reclassifications	1,631	(37)	-	1,594
Amounts reclassified from AOCI	(985)	-	-	(985)
Net current period other comprehensive income (loss)	646	(37)	-	609
Ending balance	$3,903	$(1,075)	$ -	$ 2,828

The following tables present the effects of reclassifications out of AOCI on line items of consolidated income for the years ended December 31, 2014, 2013 and 2012 (dollars in thousands):

Details about AOCI	Amount Reclassified from AOCI			Affected Line Item in the Consolidated Statement of Income
	Year ended			
	December 31, 2014	December 31, 2013	December 31, 2012	
Securities available for sale				
Unrealized gains on securities available for sale	$(1,089)	$ (518)	$ (1,492)	Gain on securities transactions, net
Related tax expense	370	176	507	Income tax expense
	$(719)	$ (342)	$ (985)	Net of tax
Defined benefit plan				
Amortization of prior service cost	$4	$ (68)	$ -	(1)
Related tax (benefit) expense	(1)	23	-	Income tax expense
	$3	$ (45)	$ -	Net of tax
Total reclassifications for the period	$(716)	$ (387)	$ (985)	

(1) This other comprehensive income (loss) component is included in the computation of net periodic pension cost (see Note 12 for details).

79

Note 11. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31 are as follows (dollars in thousands):

	2014	2013	2012
Deferred tax assets:			
Allowance for loan losses	$3,315	$3,715	$4,557
Deferred compensation	661	633	514
Nonaccrual loan interest	—	931	847
Unrealized loss on available for sale securities	—	2,037	—
FAS 158 adjustment pension	418	81	554
Stock based compensation	—	205	165
Net operating loss carryforward	—	—	2,667
Alternative minimum tax credit	—	—	391
Depreciation	180	118	137
OREO	667	618	1,007
Other	391	146	395
	$5,632	$8,484	$11,234
Deferred tax liabilities:			
Accrued pension	411	355	359
Purchase accounting adjustment	942	2,257	4,089
Unrealized gain on available for sale securities	747	—	2,011
Other	123	56	37
	$2,223	$2,668	$6,496
Net deferred tax asset	$3,409	$5,816	$4,738

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded that it has no liability related to uncertain tax positions in accordance with FASB ASC 740, *Income Taxes*.

The Company has evaluated the need for a deferred tax valuation allowance for the year ended December 31, 2014 in accordance with FASB ASC 740. Based on a three year income projection of taxable income and tax strategies that would result in potential securities gains and the effects of off-setting deferred tax liabilities, the Company believes that it is more likely than not that the deferred tax assets are realizable. Therefore, no allowance is required. Years 2011 through 2014 are subject to audit by taxing authorities. The Company had a net operating loss carryforward of $7.8 million as of December 31, 2012. The Company utilized all of the available net operating loss carryforward as of December 31, 2013.

Allocation of the income tax expense between current and deferred portions is as follows (dollars in thousands):

	2014	2013	2012
Current tax provision	$2,768	$—	$22
Deferred tax expense (benefit)	(40)	2,497	2,126
Income tax expense (benefit)	$2,728	$2,497	$2,148

The following is a reconciliation of the expected income tax expense with the reported expense for each year:

	2014	2013	2012
Statutory federal income tax rate	34.0%	34.0%	34.0%
(Reduction) Increase in taxes resulting from:			
Municipal interest	(3.1)	(2.6)	(2.0)
Bank owned life insurance income	(3.8)	(3.0)	(2.7)
Other, net	(0.5)	1.3	(1.5)
Effective tax rate	26.6%	29.7%	27.8%

Note 12. Employee Benefit Plans

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 a reconciliation of the changes in the plan's benefit obligations and fair value of assets for the year ended December 31, 2014 and 2013 (dollars in thousands):

	December 31	
	2014	2013
Change in Benefit Obligation		
Benefit obligation, beginning of year	$4,662	$5,791
Interest cost	223	224
Actuarial (gain)/loss	845	(749)
Benefits paid	(583)	(649)
Change in obligation due to plan amendment	—	68
Settlement gain/(loss)	7	(23)
Benefit obligation, ending	$5,154	$4,662
Change in Plan Assets		
Fair value of plan assets, beginning of year	$5,485	$5,255
Actual return on plan assets	233	879
Benefits paid	(583)	(649)
Fair value of plan assets, ending	5,135	5,485
Funded Status	$(19)	$823
Amounts Recognized in the Balance Sheet		
Other assets	$—	$823
Other liabilities	(19)	—
Amounts Recognized in Accumulated Other Comprehensive Income		
Net loss	$1,165	$168
Prior service cost	63	68
Deferred tax	(417)	(81)
Total amount recognized	$811	$155

The accumulated benefit obligation for the defined benefit pension plan at December 31, 2014 and 2013 was $5.2 million and $4.7 million, respectively.

The following table provides the components of net periodic benefit cost for the plan for the years ended December 31, 2014, 2013 and 2012 (dollars in thousands):

	December 31		
Components of net periodic benefit cost:	2014	2013	2012
Interest cost	$223	$224	$250
Expected return on plan assets	(396)	(405)	(408)
Amortization of prior service cost	5	-	-
Recognized net loss due to settlement	18	147	105
Recognized net actuarial loss	-	69	66
Net periodic (benefit) cost	$(150)	$35	$13
Total recognized in net periodic benefit cost and accumulated other comprehensive (loss) income	$842	$(1,359)	$71

The weighted-average assumptions used in the measurement of the Company's benefit obligation and net periodic benefit cost are shown in the following table:

	December 31		
	2014	2013	2012
Discount rate used for net periodic pension cost	5.00%	4.00%	4.50%
Discount rate used for disclosure	4.00%	5.00%	4.00%
Expected return on plan assets	7.50%	8.00%	8.00%

Other changes in plan assets and benefit obligations recognized in other comprehensive income during 2014 are as follows (dollars in thousands):

Net loss	$997
Prior service cost	-
Amortization of prior service cost	(5)
Total amount recognized	$992

The estimated amounts that will amortize from accumulated other comprehensive income into net periodic benefit cost in 2015 are as follows (dollars in thousands):

Prior service cost	$4
Net loss due to settlement	44

Total amount recognized	$48

Long-Term Rate of Return

The plan sponsor selects the expected long-term rate of return on assets assumption in consultation with its investment advisors and actuary. This rate is intended to reflect the average rate of earnings expected to be earned on the funds invested or to be invested to provide plan benefits. Historical performance is reviewed, especially with respect to real rates of return (net of inflation), for the major asset classes held or anticipated to be held by the trust, and for the trust itself. Undue weight is not given to recent experience that may not continue over the measurement period, with higher significance placed on current forecasts of future long-term economic conditions.

Because assets are held in a qualified trust, anticipated returns are not reduced for taxes. Further, solely for this purpose, the plan is assumed to continue in force and not terminate during the period during which assets are invested. However, consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses (both investment and non-investment) typically paid from plan assets (to the extent such expenses are not explicitly estimated within periodic cost).

Asset Allocation

The pension plan's weighted-average asset allocations as of December 31, 2014 and 2013 by asset category were as follows:

	December 31	
	2014	2013
Asset Category		
Mutual funds — fixed income	40.00 %	40.00 %
Mutual funds — equity	60.00	60.00
Cash and equivalents	0.00	0.00
Total	100.00%	100.00%

The fair value of plan assets is measured based on the fair value hierarchy as discussed in Note 21, "Fair Values of Assets and Liabilities", to the Consolidated Financial Statements. The valuations are based on third party data received as of the balance sheet date. All plan assets are considered Level 1 assets, as quoted prices exist in active markets for identical assets.

The following table presents the fair value of plan assets as of December 31, 2014 and 2013 (dollars in thousands):

	Assets measured at Fair Value (Level 1)	
	December 31, 2014	December 31, 2013
Cash	$ 6	$ 6
Mutual funds:		
Fixed income funds	2,031	2,179
International funds	772	828
Large cap funds	801	844
Mid cap funds	546	570
Small cap funds	181	201
Stock fund	798	857
	$ 5,135	$ 5,485

The trust fund is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 40% fixed income and 60% equities. The investment manager selects investment fund managers with demonstrated experience and expertise, and funds with demonstrated historical performance, for the implementation of the plan's investment strategy. The investment manager will consider both actively and

passively managed investment strategies and will allocate funds across the asset classes to develop an efficient investment structure.

It is the responsibility of the trustee to administer the investments of the trust within reasonable costs, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the trust.

Estimated future contributions and benefit payments, which reflect expected future service, as appropriate, are as follows (dollars in thousands):

Expected Employer Contributions	
2015	$—
Expected Benefit Payments	
2015	863
2016	242
2017	84
2018	205
2019	601
2020-2024	836

401(k) Plan

The Company combined the acquired BOE 401(k) and TFC 401(k) plans into the Essex Bank 401(k) plan effective October 1, 2010. The employee may contribute up to 100% of compensation, subject to statutory limitations. The Company matches 100% of employee contributions on the first 3% of compensation, then the Company matches 50% of employee contributions on the next 2% of compensation.

The amounts charged to expense under these plans for the years ended December 31, 2014, 2013 and 2012 were $475,000, $472,000 and $473,000, respectively.

Deferred Compensation Agreements

The Company has deferred compensation agreements with certain key employees and the Board of Directors. The retirement benefits to be provided are fixed based upon the amount of compensation earned and deferred. Deferred compensation expense amounted to $165,000, $124,000 and $99,000 for the years ended December 31, 2014, 2013 and 2012, respectively. The expense associated with these agreements is offset by increased cash surrender value of life insurance policies on the individuals.

Note 13. Stock Option Plans

2009 Stock Option Plan

In 2009, the Company adopted the Community Bankers Trust Corporation 2009 Stock Incentive Plan (the “Plan”). The purpose of the Plan is to further the long-term stability and financial success of the Company by attracting and retaining employees and directors through the use of stock incentives and other rights that promote and recognize the financial success and growth of the Company. The Company believes that ownership of company stock will stimulate the efforts of such employees and directors by further aligning their interests with the interest of the Company’s shareholders. The Plan is to be used to grant restricted stock awards, stock options in the form of incentive stock options and nonstatutory stock options, stock appreciation rights and other stock-based awards to employees and directors of the Company for up to 2,650,000 shares of common stock. No more than 1,500,000 shares may be issued in connection with the exercise of incentive stock options. Annual grants of stock options are limited to 500,000 shares for each participant.

The exercise price of an incentive stock option cannot be less than 100% of the fair market value of such shares on the date of grant, provided that if the participant owns, directly or indirectly, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, the exercise price of an incentive stock option shall not be less than 110% of the fair market value of such shares on the date of grant. The exercise price of nonstatutory stock option awards cannot be less than 100% of the fair market value of such shares on the date of grant. The option exercise price may be paid in cash or with shares of common stock, or a combination of cash and common stock, if permitted under the participant’s option agreement. The Plan will expire on June 17, 2019, unless terminated sooner by the Board of Directors.

The fair value of each option granted is estimated on the date of grant using the “Black Scholes Option Pricing” method with the following assumptions for the years ended December 31, 2014, 2013 and 2012:

	December 31		
	2014	2013	2012
Expected volatility	50.0%	50.0%	50.0%
Expected dividend	1.0%	2.0%	2.0% – 3.0%
Expected term (years)	6.25	6.25	6.25
Risk free rate	2.00%	1.38%	0.77% - 1.31%

The expected volatility is an estimate of the volatility of the Company’s share price based on historical performance. The risk free interest rates for periods within the contractual life of the awards are based on the U. S. Treasury Zero Coupon implied yield at the time of the grant correlating to the expected term. The expected term is based on the simplified method as provided by the Securities and Exchange Commission Staff Accounting Bulletin No 110 (SAB 110). In accordance with SAB 110, the Company has chosen to use the simplified method, as this is the first plan issued by the Company as Community Bankers Trust Corporation; therefore, minimal historical exercise data exists. The dividend yield assumption is based on the Company’s history and expectation of dividend payouts over the life of the options at the time of the grant.

The Company plans to issue new shares of common stock when options are exercised.

In January 2013, the Company granted 25,000 restricted shares of common stock to an executive officer in accordance with the minimum rules for long-term equity grants for companies participating in the Department of the Treasury's TARP Capital Purchase Program. These rules require that for each 25% of total financial assistance repaid, 25% of the total restricted stock may become transferrable. Following the Company's repayment of such financial assistance, 25% of this award vested and became transferable on January 17, 2014, and the remaining 75% of this award will vest (and will become transferable) in January 2015, January 2016 and January 2017 in accordance with the terms of the award. See Note 27 for further information related to the Company's participation in the TARP Capital Purchase Program.

The Company issues equity grants to non-employee directors as payment for annual retainer fees. The fair market value of these grants was the closing price of the Company's stock at the grant date. A summary of these grants for the years ended December 31, 2014, 2013 and 2012 is shown in the following table:

	For the Year Ended					
	2014		2013		2012	
Month	Shares Issued	Fair Market Value	Shares Issued	Fair Market Value	Shares Issued	Fair Market Value
March	7,375	$ 4.00	8,751	$ 3.37	—	$ —
June	9,954	4.16	9,096	3.24	15,925	2.04
September	8,901	4.38	8,073	3.65	13,477	2.41
December	8,697	4.48	7,965	3.70	13,260	2.45

The Company granted 270,000 options in 2012, 230,000 options in 2013 and 175,000 options in 2014 to employees which vest ratably over the requisite service period of four years. A summary of options outstanding for the year ended December 31, 2014, is shown in the following table:

	Options		
	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at beginning of year	605,250	$ 2.12	
Granted	175,000	3.80	
Forfeited	(46,250)	2.45	
Expired	—	—	

Exercised	(26,250)	1.48	
Outstanding at end of year	707,750	2.54	$ 1,332,483
Options outstanding and exercisable at end of year	306,000	2.09	$ 707,033
Weighted average remaining contractual life for outstanding and exercisable shares at year end	78 months		

The weighted average fair value per option of options granted during the year was $1.73, $1.16 and $0.46 for the years ended December 31, 2014, 2013 and 2012, respectively. The aggregate intrinsic value of a stock option in the table above represents the aggregate pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by option holders had all option holders exercised their options on December 31, 2014. This amount changes with changes in the market value of the Company's stock. The Company received $39,000 in cash related to option exercises with a total intrinsic value of $74,000 during the year ended December 31, 2014. A tax benefit of $38,000 was recognized in additional paid-in-capital in connection with the option exercises and issuances of restricted stock during 2014.

The Company recorded total stock-based compensation expense of $330,000, $253,000 and $156,000 for the years ended December 31, 2014, 2013 and 2012, respectively. Of the $330,000 in expense that was recorded in 2014, $181,000 related to employee grants and is classified as personnel expense; $149,000 related to the non-employee director grants and is classified as other operating expenses. Of the $253,000 in expense that was recorded in 2013, $135,000 related to employee grants and is classified as personnel expense ; $118,000 related to the non-employee director grants and is classified as other operating expenses. Of the $156,000 in expense that was recorded in 2012, $57,000 related to employee grants and is classified as personnel expense; $99,000 related to the non-employee director grants and is classified as other operating expenses.

The following table summarizes non-vested options and restricted stock outstanding at December 31, 2014:

	Options		Restricted Stock	
	Number of Shares	Weighted Average Grant-Date Fair Value	Number of Shares	Weighted Average Grant-Date Fair Value
Non-vested at beginning of the year	409,937	$ 0.82	28,750	$ 2.85
Granted	175,000	1.73	—	—
Vested	(136,937)	0.73	(10,000)	2.83
Forfeited	(46,250)	1.01	—	—
Non-vested at end of year	401,750	1.22	18,750	2.86

The unrecognized compensation expense related to non-vested options and restricted stock was $360,000 at December 31, 2014 to be recognized over a weighted average period of 30 months. The total fair market value of shares vested during the years ended December 31, 2014, 2013 and 2012 was $101,000, $42,000 and $51,000, respectively.

<u>TFC and BOE Stock Option Plans</u>

Prior to the mergers, both TFC and BOE maintained stock option plans as incentives for certain officers and directors. During 2007, TFC replaced its stock option plan with an equity compensation plan that issued restricted stock awards. Under the terms of these plans, all options and awards were fully vested and exercisable, and any unrecognized compensation expenses were accelerated. Due to the mergers on May 31, 2008, these plans were terminated and the Company issued replacement options amounting to 332,351 and 161,426 to former employees of TFC and BOE, which represented exchange rates of 1.42 and 5.7278, respectively.

The options were valued at $1.488 million using the Black-Scholes model at the time of acquisition of TFC and BOE by the Company. The options were considered part of the acquisition price and, therefore, were not expensed by the Company. Assumptions were for a discount rate of 4.06% and 25% volatility with a remaining term of 4.83 years for TFC options and 5.25 years for BOE options.

All remaining outstanding TFC options expired during the year ended December 31, 2013, and all remaining outstanding BOE options expired during the year ended December 31, 2014.

A summary of the options outstanding for the year ended December 31, 2014 is shown in the following table:

	Options	
	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of the year	40,134	$ 4.94
Granted	—	—
Forfeited	(4,181)	5.01
Expired	(35,953)	4.93
Outstanding at end of year	—	—

The aggregate intrinsic value of the options outstanding and exercisable was zero for each of the years ended December 31, 2014, 2013 and 2012.

Note 14. Earnings Per Common Share

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

	Net Income Available to Common Shareholders (Numerator)	Weighted Average Common Shares (Denominator)	Per Common Share Amount
For the year ended December 31, 2014			
Basic EPS	$ 7,269	21,755	$ 0.33
Effect of dilutive stock awards	—	226	—
Diluted EPS	$ 7,269	21,981	$ 0.33
For the year ended December 31, 2013			
Shares issued		21,689	
Unissued vested restricted stock		11	
Basic EPS	$ 4,787	21,700	$ 0.22

Effect of dilutive stock awards	—	222	—
Diluted EPS	$ 4,787	21,922	$ 0.22
For the year ended December 31, 2012			
Shares issued		21,640	
Unissued vested restricted stock		7	
Basic EPS	$ 4,478	21,647	$ 0.21
Effect of dilutive stock awards	—	70	—
Diluted EPS	$ 4,478	21,717	$ 0.21

Excluded from the computation of diluted earnings per common share were approximately 40,000 and 1.3 million options or warrants during 2013 and 2012, respectively, because their inclusion would be antidilutive. There were no such exclusions during 2014.

Note 15. Related Party Transactions

In the ordinary course of business, the Bank has and expects to continue to have transactions, including borrowings, with its executive officers, directors, and their affiliates. All such loans are made on substantially the same terms as those prevailing at the time for comparable loans to unrelated persons.

The table below presents the activity for both direct and indirect loans at December 31, 2014 and 2013 (dollars in thousands).

	December 31	
	2014	2013
Balance, beginning of year	$2,301	$3,115
Principal additions	1,384	1,765
Repayments and reclassifications	(1,604)	(2,579)
Balance, end of year	$2,081	$2,301

Indirect loans at December 31, 2014 and 2013 were $2.1 million and $1.8 million, respectively.

Note 16. 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 December 31, 2014, the Company had $150,000 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 December 31, 2014, the fair value of the Company's cash flow hedge was an unrealized gain of $23,000 and was recorded in other assets. The gain was recorded as a component of other comprehensive income.

Note 17. Dividend Limitations on Affiliate Bank

Transfers of funds from the banking subsidiary to the parent corporation in the form of loans, advances and cash dividends are restricted by federal and state regulatory authorities. As of December 31, 2014, 2013 and 2012, the aggregate amount of unrestricted funds that could be transferred from the banking subsidiary to the parent corporation, without prior regulatory approval, totaled $1.1 million, $3.5 million and $787,000, respectively. From January 1, 2012 until December 5, 2012, the Bank was not permitted to make dividend payments to the holding company without prior regulatory approval, as required by the formal written agreement that the Company had with its regulators.

Note 18. Concentration of Credit Risk

At December 31, 2014 and 2013, the Bank’s loan portfolio consisted of commercial, real estate and consumer (installment) loans. Real estate secured loans represented the largest concentration at 85.36% and 83.75% of the loan portfolio for 2014 and 2013, respectively.

The Bank maintains a portion of its cash balances with several financial institutions located in its market area. Accounts at each institution are secured by the FDIC up to $250,000. Uninsured balances were $5.1 million and $7.1 million at December 31, 2014 and 2013, respectively.

Note 19. Financial Instruments With Off-Balance Sheet Risk

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. A summary of the contract amounts of the Bank’s exposure to off-balance sheet risk as of December 31, 2014 and 2013, is as follows (dollars in thousands):

	December 31, 2014	December 31, 2013
Commitments with off-balance sheet risk:		
Commitments to extend credit	$ 87,017	$ 72,183
Standby letters of credit	7,358	9,978
Total commitments with off-balance sheet risk	$ 94,375	$ 82,161

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 Bank evaluates each customer’s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon

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

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are generally uncollateralized and usually do not contain a specified maturity date and may be drawn upon only to the total extent to which the Bank is committed.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's evaluation of the counterparty. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

Note 20. Minimum Regulatory Capital Requirements

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of tier 1 capital (as defined) to adjusted average total assets (as defined). Management believes, as of December 31, 2014 and 2013, that the Company and Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2014, based on regulatory guidelines, the Company believes that it is well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and the Bank must maintain minimum total risk-based, tier 1 risk-based, and tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that date that management believes have changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios are presented in the following table (dollars in thousands).

	Actual		Required for Capital Adequacy Purposes		Required in Order to be Well Capitalized Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014:						
Total Capital to risk weighted assets						
Company	$115,805	14.72%	$ 62,950	8.00 %	NA	NA
Bank	117,395	14.92%	62,930	8.00 %	$ 78,662	10.00 %
Tier 1 Capital to risk weighted assets						
Company	106,397	13.52%	31,475	4.00 %	NA	NA
Bank	107,987	13.73%	31,465	4.00 %	47,197	6.00 %
Tier 1 Capital to adjusted average total assets						
Company	106,397	9.36 %	45,487	4.00 %	NA	NA
Bank	107,987	9.50 %	45,478	4.00 %	56,847	5.00 %
As of December 31, 2013:						
Total Capital to risk weighted assets						
Company	$113,805	16.82%	$ 54,124	8.00 %	NA	NA
Bank	113,624	16.79%	54,132	8.00 %	$ 67,666	10.00 %
Tier 1 Capital to risk weighted assets						
Company	105,672	15.62%	27,062	4.00 %	NA	NA
Bank	105,489	15.59%	27,066	4.00 %	40,599	6.00 %
Tier 1 Capital to adjusted average total assets						
Company	105,672	9.52 %	44,396	4.00 %	NA	NA
Bank	105,489	9.50 %	44,402	4.00 %	55,503	5.00 %

Note 21. 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 December 31, 2014.

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):

	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	$-	$-	$-	$ -

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Investment securities available for sale				
U.S. Treasury issue and other U.S. Gov't agencies	$98,987	$94,935	$4,052	$ -
U.S. Gov't sponsored agencies	486	-	486	-
State, county and municipal	134,096	2,482	131,614	-
Corporate and other bonds	6,349	-	6,349	-

Mortgage backed – U.S. Gov’t agencies	3,439	-	3,439	-
Mortgage backed – U.S. Gov’t sponsored agencies	22,420	2,531	19,889	-
Total investment securities available for sale	265,777	99,948	165,829	-
Loans held for sale	100	-	100	-
Total assets at fair value	$265,877	$99,948	$165,929	$ -
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 table presents assets measured at fair value on a nonrecurring basis for the years ended December 31, 2014 and 2013 (dollars in thousands):

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Impaired loans, non-covered	$14,286	$ —	$ —	$14,286
Other real estate owned (OREO), non-covered	5,724	—	—	5,724
Other real estate owned (OREO), covered	2,019	—	—	2,019
Total assets at fair value	$22,029	$ —	$ —	$22,029
Total liabilities at fair value	$—	$ —	$ —	$—

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Impaired loans, non-covered	$10,334	$ —	$1,791	$8,543
Other real estate owned (OREO), non-covered	6,244	—	—	6,244
Other real estate owned (OREO), covered	2,692	—	—	2,692
Total assets at fair value	$19,270	$ —	$1,791	$17,479
Total liabilities at fair value	$—	$ —	$—	$—

Impaired loans, non-covered

Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures the impairment in accordance with FASB ASC 310, *Receivables*. The fair value of impaired loans is estimated using one of several methods, including collateral value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investments in such loans. At December 31, 2014 and December 31, 2013, 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.

Other real estate owned, covered and non-covered

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

Fair Value of Financial Instruments

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

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

	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, non-covered	655,371	661,806	—	642,645	19,161
Loans, covered	62,358	69,483	—	—	69,483
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	—

	December 31, 2013				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Securities held to maturity	$28,563	$30,305	$ —	$30,305	$—
Loans, non-covered	585,729	591,081	—	582,538	8,543
Loans, covered	72,791	88,693	—	—	88,693
FDIC indemnification asset	25,409	10,557	—	—	10,557
Financial liabilities:					
Interest bearing deposits	822,209	824,895	—	824,895	—
Long-term borrowings	81,249	81,014	—	81,014	—

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 December 31, 2014. 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.

<u>Financial Assets</u>

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 not covered by FDIC shared-loss agreement (non-covered loans)

The fair value of loans, excluding PCI 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. The fair value of non-covered loans that are PCI loans is estimated using the same methodology described below for covered loans.

Loans covered by FDIC shared-loss agreement (covered loans) and PCI loans

Fair values for covered loans and 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 covered assets as they are not contractually embedded in the covered assets and are not transferable with the assets should the Company choose to dispose of them. Fair value is estimated using projected cash flows related to the obligations under the shared-loss agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These expected reimbursements do not include reimbursable amounts related to future covered expenditures. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. A reduction in loss expectations has resulted in the estimated fair value of the FDIC indemnification asset being lower than its carrying value. This creates a premium that is amortized over the life of the asset and is reflected in Note 5.

Accrued interest receivable

The carrying amounts of accrued interest receivable approximate fair value.

Financial Liabilities

Noninterest bearing deposits

The carrying amount of noninterest bearing deposits approximates fair value.

Interest bearing deposits

The fair value of NOW accounts, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

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 22. Trust Preferred Capital Notes

On December 12, 2003, BOE Statutory Trust I, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable capital securities. On December 12, 2003, $4.124 million of trust preferred securities were issued through a direct placement. The securities have a LIBOR-indexed floating rate of interest. The average interest rate at December 31, 2014, 2013 and 2012 was 3.24%, 3.28% and 3.57%, respectively. The securities have a mandatory redemption date of December 12, 2033 and are subject to varying call provisions which began December 12, 2008. The principal asset of the Trust is $4.124 million of the Company’s junior subordinated debt securities with the like maturities and like interest rates to the capital securities.

The trust preferred notes may be included in tier 1 capital for regulatory capital adequacy determination purposes up to 25% of tier 1 capital after its inclusion. The portion of the trust preferred not considered as tier 1 capital may be included in tier 2 capital. At December 31, 2014, all trust preferred notes were included in tier 1 capital.

The obligations of the Company with respect to the issuance of the capital securities constitute a full and unconditional guarantee by the Company of the Trust's obligations with respect to the capital securities.

Subject to certain exceptions and limitations, the Company may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related capital securities. The Company is current in its obligations under the trust preferred notes.

Note 23. Lease Commitments

The following table represents a summary of non-cancelable operating leases for bank premises that have initial or remaining terms in excess of one year as of December 31, 2014 (dollars in thousands):

2015	$709
2016	650
2017	597
2018	583
2019	591
Thereafter	2,337
Total of future payments	$5,467

Rent expense for the years ended December 31, 2014, 2013 and 2012 was $783,000, $621,000 and $659,000, respectively.

Note 24. Other Noninterest Expense

Other noninterest expense totals are presented in the following tables. Components of these expenses exceeding 1.0% of the aggregate of total net interest income and total noninterest income for any of the past three years are stated separately.

	December 31		
(dollars in thousands)	2014	2013	2012
Bank franchise tax	$544	$513	$466
Telephone and internet line	739	699	777

Stationery, printing and supplies	449	453	504
Exam fees	567	529	569
Marketing expense	475	384	336
Credit expense	635	707	948
Other expenses	2,938	2,661	2,391
Total other operating expenses	$6,347	$5,946	$5,991

Note 25. Parent Corporation Only Financial Statements

COMMUNITY BANKERS TRUST CORPORATION

PARENT COMPANY ONLY BALANCE SHEETS

AS OF DECEMBER 31, 2014 and 2013

(dollars in thousands)

	2014	2013
Assets		
Cash	$7,910	$323
Other assets	252	1,711
Investments in subsidiaries	113,364	108,789
Total assets	$121,526	$110,823
Liabilities		
Other liabilities	$72	$40
Balances due to non-bank subsidiary	4,124	4,124
Long term debt	9,680	—
Total liabilities	13,876	4,164
Shareholders’ Equity		
Preferred stock (5,000,000 shares authorized, $0.01 par value; 0 and 10,680 issued and outstanding, respectively)	—	10,680
Warrants on preferred stock	—	1,037
Common stock (200,000,000 shares authorized $0.01 par value; 21,791,523 and 21,709,096 shares issued and outstanding, respectively)	218	217
Additional paid in capital	145,321	144,656
Retained earnings	(38,553)	(45,822)
Accumulated other comprehensive income (loss)	664	(4,109)
Total shareholders’ equity	107,650	106,659
Total liabilities and shareholders’ equity	$121,526	$110,823

97

COMMUNITY BANKERS TRUST CORPORATION

PARENT COMPANY ONLY STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 and 2012

(dollars in thousands)

	2014	2013	2012
Income:			
Dividends received from subsidiaries	$8,250	$7,820	$3,048
Other operating income	4	4	11
Total income	8,254	7,824	3,059
Expenses:			
Interest expense	423	137	180
Management fee paid to subsidiaries	164	144	138
Stock option expense	7	5	(54)
State taxes	15	236	180
Professional and legal expenses	121	112	129
Other operating expenses	84	74	(160)
Total expenses	814	708	413
Equity in (loss) / income of subsidiaries	(198)	(1,449)	2,778
Net income before income taxes	7,242	5,667	5,424
Income tax benefit	274	239	158
Net income	$7,516	$5,906	$5,582

COMMUNITY BANKERS TRUST CORPORATION

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 and 2012

(dollars in thousands)

	2014	2013	2012
Operating activities:			
Net income	$7,516	$5,906	$5,582
Adjustments to reconcile net income to net cash provided by operating activities:			
Issuance of common stock and stock options	409	258	156
Undistributed equity in loss (income) of subsidiary	198	1,449	(2,778)
Decrease (increase) in other assets	1,459	(241)	(194)
Increase (decrease) in other liabilities	32	(2)	(239)
Net cash and cash equivalents provided by operating activities	9,614	7,370	2,527
Financing activities:			
Proceeds from long-term debt	10,680	—	—
Payment on long-term debt	(1,000)	—	—
Redemption of preferred stock and related warrants	(11,460)	(7,000)	—
Cash dividends paid	(247)	(885)	(2,210)
Net cash and cash equivalents used in financing activities	(2,027)	(7,885)	(2,210)
(Decrease) increase in cash and cash equivalents	7,587	(515)	317
Cash and cash equivalents at beginning of the period	323	838	521
Cash and cash equivalents at end of the period	$7,910	$323	$838

Note 26. Subsequent Events

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

Note 27. Preferred Stock

On December 19, 2008, under the Department of the Treasury's TARP Capital Purchase Program, the Company issued to the U.S. Treasury 17,680 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (Series A Preferred Stock), and a 10-year warrant to purchase up to 780,000 shares of common stock at an exercise price of $3.40 per share. Cumulative dividends on the Series A Preferred Stock were payable at 5% per annum through the February 2014 payment, and at a rate of 9% per annum thereafter. The warrant was exercisable at any time until December 19, 2018, and the number of shares of common stock underlying the warrant and the exercise price was subject to adjustment for certain dilutive events.

The Company received proceeds of $17.68 million for the Series A Preferred Stock and the Warrant. The Company allocated the proceeds based on a relative fair value basis between the Series A Preferred Stock and the Warrant, recording $16.64 million and $1.04 million, respectively. Fair value of the preferred stock was estimated based on a discounted cash flow model using an estimated life of 50 years and a discount rate of 12%. Fair value of the stock warrant was estimated using a Black-Scholes model assuming stock price volatility of 27.5%, a dividend yield of 0.5%, a risk-free rate of 1.35% and an expected life of five years. The $16.64 million of Series A Preferred Stock is net of a discount of $1.04 million. The discount was accreted to the $17.68 million redemption price over a five year period. The accretion of the discount and dividends on the preferred stock reduce retained earnings.

Each share of Series A Preferred Stock issued and outstanding had no par value, had a liquidation preference of $1,000 and is redeemable at the Company's option, subject to approval of the Federal Reserve, at a redemption price equal to $1,000 plus accrued and unpaid dividends. The Series A Preferred Stock had a preference over the Company's common stock upon liquidation. Dividends on the preferred stock, if declared, were payable quarterly in arrears. The Company's ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, its common stock was subject to certain restrictions in the event that the Company failed to pay or set aside full dividends on the preferred stock for the latest completed dividend period.

During 2013, the Company repurchased 7,000 shares of the original 17,680 shares of Series A Preferred Stock. The Company funded the repurchase through the earnings of its banking subsidiary. The form of the repurchase was a redemption under the terms of the Series A Preferred Stock. The Company paid the Treasury $7.0 million, which

represented 100% of the par value of the preferred stock repurchased plus accrued dividends with respect to such shares.

On April 23, 2014, the Company repurchased the remaining 10,680 shares of Series A Preferred Stock. The Company funded the repurchase through an unsecured third-party term loan (See Note 9). The form of the repurchase was a redemption under the terms of the TARP preferred stock. The Company paid the Treasury $10.9 million, which represented 100% of the par value of the preferred stock repurchased plus accrued dividends with respect to such shares.

On June 4, 2014, the Company paid the Treasury $780,000 to repurchase the warrant that had been associated with the Series A Preferred Stock. There are no other investments from the Company's participation in TARP that remain outstanding.

Note 28. Quarterly Data (unaudited)

	2014				2013			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Interest and dividend income	$11,879	$12,455	$12,665	$11,726	$12,166	$12,491	$13,171	$12,217
Interest expense	1,570	1,697	1,783	1,883	1,894	1,791	1,749	1,644
Net interest income	10,309	10,758	10,882	9,843	10,272	10,700	11,422	10,573
Provision for loan losses	—	—	—	—	—	—	—	—
Net interest income after provision for loan losses	10,309	10,758	10,882	9,843	10,272	10,700	11,422	10,573
Noninterest income	1,301	970	1,166	1,832	1,326	1,338	593	1,467
Noninterest expenses	9,177	9,359	9,538	8,743	9,711	9,758	9,433	10,386
Income (loss) before income taxes	2,433	2,369	2,510	2,932	1,887	2,280	2,582	1,654
Income tax expense (benefit)	709	649	697	673	563	673	800	461
Net income (loss)	$1,724	$1,720	$1,813	$2,259	$1,324	$1,607	$1,782	$1,193
Dividends paid on preferred stock	65	182	—	—	221	221	208	235
Accretion of discount on preferred stock	—	—	—	—	58	59	73	44
Net income (loss) available to common shareholders	$1,659	$1,538	$1,813	$2,259	$1,045	$1,327	$1,501	$914
Earnings (loss) per common share, basic	$0.08	$0.07	$0.08	$0.10	$0.05	$0.06	$0.07	$0.04
Earnings (loss) per common share, diluted	$0.08	$0.07	$0.08	$0.10	$0.05	$0.06	$0.07	$0.04

	2012			
	First	Second	Third	Fourth
Interest and dividend income	$13,809	$14,119	$12,872	$12,919
Interest expense	2,712	2,587	2,339	2,054
Net interest income	11,097	11,532	10,533	10,865
Provision for loan losses	250	500	—	450
Net interest income after provision for loan losses	10,847	11,032	10,533	10,415
Noninterest income	975	1,462	2,470	1,299
Noninterest expenses	10,442	10,811	10,357	9,693
Income (loss) before income taxes	1,380	1,683	2,646	2,021
Income tax expense (benefit)	390	473	837	448

Net income (loss)	$990	$1,210	$1,809	$1,573
Dividends paid on preferred stock	221	221	221	221
Accretion of discount on preferred stock	55	55	55	55
Net income (loss) available to common shareholders	$714	$934	$1,533	$1,297
Earnings (loss) per common share, basic	$0.03	$0.04	$0.07	$0.06
Earnings (loss) per common share, diluted	$0.03	$0.04	$0.07	$0.06

Note 29. Branch Sale

On November 8, 2013, the Company sold the four branches located in Georgia and related deposits to Community & Southern Bank, headquartered in Atlanta, Georgia (the "Branch Sale"). The Branch Sale resulted in the transfer of $193.2 million of deposits and $20,000 of consumer loans associated with such deposits to Community & Southern Bank in exchange for the payment of a deposit premium of $2.6 million. Certain fixed assets with a fair value of $5.2 million (cost, net of accumulated depreciation of $1.2 million) were also sold. In addition, $1.5 million of remaining unamortized intangible assets related to customers and deposits were associated with the Branch Sale.

The following table summarizes deposits related to the Branch Sale (dollars in thousands):

Deposits	
Noninterest bearing	$15,869
Interest bearing	177,301
Total deposits	$193,170

On October 25, 2013 the Company sold $24.3 million in loans held by the Georgia branches to Pinnacle Bank, headquartered in Elberton, Georgia (the "Loan Sale"), at a premium of 1.0%.

The following summarizes the loans related to the Loan Sale (dollars in thousands):

Mortgage loans on real estate:	
Residential 1-4 family	$2,240
Commercial	15,762
Construction and land development	2,895
Second mortgages	41
Multifamily	1,802
Agriculture	—
Total real estate loans	22,740
Commercial loans	1,147
Consumer installment loans	424
All other loans	—
Gross loans	24,311
Net deferred costs	34
Total loans	$24,345

Based on the premiums outlined above, the Company recorded a net gain on the combined transactions of $255,000. This gain is net of the deposit premium of $2.6 million, a write off of $1.5 million of existing core deposit intangibles, a $827,000 loss on the sale of fixed assets, a $243,000 gain on the sale of loans and $258,000 in transaction related costs.

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

Not applicable.

ITEM 9A. *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Form 10-K, the Company's management, with the participation of the Company's chief executive officer and 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 Commission'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 thereunder.

Management's Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Certifying Officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles.

As of December 31, 2014, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework (2013)," issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. This assessment included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C) to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act.

Based on its assessment, management concluded that, as of December 31, 2014, the Company's internal control over financial reporting was effective based on the criteria set forth by COSO in its "Internal Control — Integrated Framework."

Elliott Davis Decosimo, LLC, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Form 10-K, has issued an attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. The report is included in Item 8, "Financial Statements and Supplementary Data", above under the heading "Report of Independent Registered Public Accounting Firm."

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting identified in connection with the evaluation of internal controls that occurred during the fourth quarter of 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. ***OTHER INFORMATION***

Not applicable.

PART III

ITEM 10. ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

The information required by this item is incorporated by reference to the Company's definitive Proxy Statement for the 2015 Annual Meeting of Shareholders, to be filed within 120 days after the end of the fiscal year that this Form 10-K covers.

ITEM 11. ***EXECUTIVE COMPENSATION***

The information required by this item is incorporated by reference to the Company's definitive Proxy Statement for the 2015 Annual Meeting of Shareholders, to be filed within 120 days after the end of the fiscal year that this Form 10-K covers.

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

The information required by this item is incorporated by reference to the Company's definitive Proxy Statement for the 2015 Annual Meeting of Shareholders, to be filed within 120 days after the end of the fiscal year that this Form 10-K covers.

ITEM 13. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***

The information required by this item is incorporated by reference to the Company's definitive Proxy Statement for the 2015 Annual Meeting of Shareholders, to be filed within 120 days after the end of the fiscal year that this Form 10-K covers.

ITEM 14. ***PRINCIPAL ACCOUNTING FEES AND SERVICES***

The information required by this item is incorporated by reference to the Company's definitive Proxy Statement for the 2015 Annual Meeting of Shareholders, to be filed within 120 days after the end of the fiscal year that this Form 10-K covers.

PART IV

ITEM 15. ***EXHIBITS, FINANCIAL STATEMENT SCHEDULES***

(a) The following documents are filed as part of this Form 10-K:

1. Consolidated Financial Statements. Reference is made to the Consolidated Financial Statements, the report thereon and the notes thereto, with respect to the Company, commencing at page 48 of this Form 10-K.

2. Financial Statement Schedules. All supplemental schedules are omitted as inapplicable or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. Exhibits

No.	Description
2.1	Agreement and Plan of Merger, dated as of September 5, 2007, by and between Community Bankers Acquisition Corp. and TransCommunity Financial Corporation, incorporated by reference to the Company's Current Report on Form 8-K filed on September 7, 2007 (File No. 001-32590)
2.2	Agreement and Plan of Merger, dated as of December 13, 2007, by and between Community Bankers Acquisition Corp. and BOE Financial Services of Virginia, Inc., incorporated by reference to the Company's Current Report on Form 8-K filed on December 14, 2007 (File No. 001-32590)
2.3	Purchase and Assumption Agreement, dated as of November 21, 2008, by and among the Federal Deposit Insurance Corporation, as Receiver for The Community Bank, Bank of Essex and the Federal Deposit Insurance Corporation, incorporated by reference to the Company's Current Report on Form 8-K filed on November 28, 2008 (File No. 001-32590)
2.4	Purchase and Assumption Agreement, dated as of January 30, 2009, by and among the Federal Deposit Insurance Corporation, Receiver of Suburban Federal Savings Bank, Crofton, Maryland, Bank of Essex and the Federal Deposit Insurance Corporation, incorporated by reference to the Company's Current Report on Form 8-K filed on February 5, 2009 (File No. 001-32590)
2.5	

	Purchase and Assumption Agreement, dated August 19, 2013, between Community & Southern Bank and Essex Bank, incorporated by reference to the Company's Current Report on Form 8-K filed on August 23, 2013 (File No. 001-32590)
2.6	Agreement and Plan of Reincorporation and Merger, dated as of May 13, 2013, by and between Community Bankers Trust Corporation, a Delaware corporation, and Community Bankers Trust Corporation, a Virginia corporation (formerly known as CBTC Virginia Corporation), incorporated by reference to the Company's Current Report on Form 8-K filed on January 7, 2014 (File No. 001-32590)
3.1	Amended and Restated Articles of Incorporation of Community Bankers Trust Corporation, a Virginia corporation (formerly known as CBTC Virginia Corporation), incorporated by reference to the Company's Current Report on Form 8-K filed on January 7, 2014 (File No. 001-32590)
3.2	Certificate of Designations for Fixed Rate Cumulative Perpetual Preferred Stock, Series A of Community Bankers Trust Corporation, a Virginia corporation (formerly known as CBTC Virginia Corporation), incorporated by reference to the Company's Current Report on Form 8-K filed on January 7, 2014 (File No. 001-32590)
3.3	Amended and Restated Bylaws of Community Bankers Trust Corporation, a Virginia corporation (formerly known as CBTC Virginia Corporation), incorporated by reference to the Company's Current Report on Form 8-K filed on January 7, 2014 (File No. 001-32590)
4.1	Specimen Common Stock Certificate, incorporated by reference to the Company's Registration Statement on Form S-1 or amendments thereto (File No. 333-124240)

4.2	Warrant to Purchase 780,000 Shares of Common Stock, incorporated by reference to the Company's Current Report on Form 8-K filed on January 7, 2014 (File No. 001-32590)
10.1	TARP Merger Side Letter Agreement, dated January 1, 2014, between Community Bankers Trust Corporation, a Virginia corporation, Community Bankers Trust Corporation, a Delaware corporation, and the United States Department of the Treasury), incorporated by reference to the Company's Current Report on Form 8-K filed on January 7, 2014 (File No. 001-32590)
10.2	Letter Agreement, dated December 19, 2008, including the Securities Purchase Agreement — Standard Terms incorporated by reference therein, between Community Bankers Trust Corporation, a Delaware corporation, and the United States Department of the Treasury, incorporated by reference to the Current Report on Form 8-K filed on December 23, 2008 (File No. 001-32590)
10.3	ARRA Side Letter Agreement, dated January 1, 2014, between Community Bankers Trust Corporation, a Virginia corporation, and the United States Department of the Treasury), incorporated by reference to the Company's Current Report on Form 8-K filed on January 7, 2014 (File No. 001-32590)
10.4	Form of Waiver, executed by Rex L. Smith, III, Bruce E. Thomas, Jeff R. Cantrell, John M. Oakey, III, and W. Thomas Townsend), incorporated by reference to the Company's Current Report on Form 8-K filed on January 7, 2014 (File No. 001-32590)
10.5	Written Agreement, effective April 21, 2010, by and among Community Bankers Trust Corporation, Essex Bank, Federal Reserve Bank of Richmond and State Corporation Commission Bureau of Financial Institutions, incorporated by reference to the Company's Current Report on Form 8-K filed on April 27, 2011 (File No. 001-32590)
10.6	Employment Agreement between Community Bankers Acquisition Corp. and Bruce E. Thomas, incorporated by reference to the Company's Current Report on Form 8-K/A filed on July 28, 2008 (File No. 001-32590)
10.7	Form of Letter Agreement, executed by Bruce E. Thomas with the Company, incorporated by reference to the Company's Current Report on Form 8-K filed on December 23, 2008 (File No. 001-32590)
10.8	Term Loan Agreement, dated as of April 22, 2014, among Community Bankers Trust Corporation as Borrower, the Lenders from Time to Time Party Hereto and SunTrust Bank as Administrative Agent, incorporated by reference to the Company's Current Report on Form 8-K filed on April 28, 2014 (File No. 001-32590)
10.9	Community Bankers Trust Corporation 2009 Stock Incentive Plan, incorporated by reference to the Company's Current Report on Form 8-K filed on June 24, 2009 (File No. 001-32590)
10.10	Form of Non-Qualified Stock Option Agreement for Community Bankers Trust Corporation 2009 Stock Incentive Plan, incorporated by reference to the Company's Annual Report on Form 10-K filed on March 30, 2012 (File No. 001-32590)
14.1	Code of Business Conduct and Ethics, dated April 25, 2013*
21.1	Subsidiaries of Community Bankers Trust Corporation*
23.1	Consent of Independent Registered Public Accounting Firm*

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*

99.1 IFR Section 30.15 – Certification for Years Following First Fiscal Year (Principal Executive Officer)*

99.2 IFR Section 30.15 – Certification for Years Following First Fiscal Year (Principal Financial Officer)*

101	Interactive Data File with respect to the following materials from the Company's Annual Report on Form 10-K for the period ended December 31, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statement of Comprehensive Income (Loss), (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements*

* Filed herewith.

(b) Exhibits. See Item 15(a)3. above

(c) Financial Statement Schedules. See Item 15(a)2. above

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Rex L. Smith, III
Rex L. Smith, III
President and Chief Executive Officer

Date: March 13, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Rex L. Smith, III Rex L. Smith, III	President and Chief Executive Officer and Director (principal executive officer)	March 13, 2015
/s/ Bruce E. Thomas Bruce E. Thomas	Executive Vice President and Chief Financial Officer (principal financial officer)	March 13, 2015
/s/ Laureen D. Trice Laureen D. Trice	Senior Vice President and Controller (principal accounting officer)	March 13, 2015
/s/ John C. Watkins John C. Watkins	Chairman of the Board	March 13, 2015
/s/ Gerald F. Barber Gerald F. Barber	Director	March 13, 2015
/s/ Richard F. Bozard Richard F. Bozard	Director	March 13, 2015

/s/ Glenn J. Dozier Glenn J. Dozier	Director	March 13, 2015
/s/ P. Emerson Hughes, Jr. P. Emerson Hughes, Jr.	Director	March 13, 2015

Signature	Title	Date
/s/ Troy A. Peery, Jr. Troy A. Peery, Jr.	Director	March 13, 2015
/s/ Eugene S. Putnam, Jr. Eugene S. Putnam, Jr.	Director	March 13, 2015
/s/ S. Waite Rawls III S. Waite Rawls III	Director	March 13, 2015
/s/ Robin Traywick Williams Robin Traywick Williams	Director	March 13, 2015