Community Bankers Trust Corp
Form 10-Q
May 08, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from to

Commission File Number: 001-32590

COMMUNITY BANKERS TRUST CORPORATION

(Exact name of registrant as specified in its charter)

Virginia	**20-2652949**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
9954 Mayland Drive, Suite 2100 Richmond, Virginia	**23233**
(Address of principal executive offices)	*(Zip Code)*

(804) 934-9999

(Registrant's telephone number, including area code)

n/a

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

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

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

Large accelerated filer ¨	Accelerated filer þ
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

At March 31, 2015, there were 21,819,405 shares of the Company's common stock outstanding.

COMMUNITY BANKERS TRUST CORPORATION

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March 31, 2015

PART I — FINANCIAL INFORMATION

Item 1. ***Financial Statements***

COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2015 AND DECEMBER 31, 2014

(dollars in thousands)

	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	$ 11,222	$ 8,329
Interest bearing bank deposits	10,451	14,024
Total cash and cash equivalents	21,673	22,353
Securities available for sale, at fair value	240,033	274,568
Securities held to maturity, at cost (fair value of $39,059 and $37,539, respectively)	37,840	36,197
Equity securities, restricted, at cost	8,588	8,816
Total securities	286,461	319,581
Loans held for sale	2,999	200
Loans not covered by FDIC shared-loss agreements	682,007	664,736
Loans covered by FDIC shared-loss agreements	61,577	62,744
Total loans	743,584	727,480
Allowance for loan losses (non-covered loans of $9,109 and $9,365, respectively; covered loans of $386 and $386, respectively)	(9,495)	(9,751)
Net loans	734,089	717,729
FDIC indemnification asset	17,383	18,609
Bank premises and equipment, net	29,980	29,702
Bank premises and equipment held for sale	465	465
Other real estate owned, covered by FDIC shared-loss agreements	1,500	2,019
Other real estate owned, non-covered	5,345	5,724
Bank owned life insurance	21,158	21,004
FDIC receivable under shared-loss agreements	558	669

Core deposit intangibles, net	4,236	4,713
Other assets	11,840	12,966
Total assets	$ 1,137,687	$ 1,155,734
LIABILITIES		
Deposits:		
Noninterest bearing	$ 90,570	$ 84,564
Interest bearing	824,445	834,381
Total deposits	915,015	918,945
Federal funds purchased and securities sold under agreements to repurchase	—	14,500
Federal Home Loan Bank advances	96,217	96,401
Long-term debt	8,078	9,680
Trust preferred capital notes	4,124	4,124
Other liabilities	4,407	4,434
Total liabilities	1,027,841	1,048,084
SHAREHOLDERS' EQUITY		
Common stock (200,000,000 shares authorized, $0.01 par value; 21,819,405 and 21,791,523 shares issued and outstanding, respectively)	218	218
Additional paid in capital	145,479	145,321
Retained deficit	(37,241)	(38,553)
Accumulated other comprehensive income	1,390	664
Total shareholders' equity	109,846	107,650
Total liabilities and shareholders' equity	$ 1,137,687	$ 1,155,734

See accompanying notes to unaudited consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

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

	Three months ended	
	March 31, 2015	March 31, 2014
Interest and dividend income		
Interest and fees on non-covered loans	$ 7,906	$ 7,051
Interest and fees on FDIC covered loans	1,914	2,961
Interest on federal funds sold	1	—
Interest on deposits in other banks	17	13
Interest and dividends on securities		
Taxable	1,368	1,698
Nontaxable	444	156
Total interest and dividend income	11,650	11,879
Interest expense		
Interest on deposits	1,448	1,408
Interest on other borrowed funds	417	162
Total interest expense	1,865	1,570
Net interest income	9,785	10,309
Provision for loan losses	—	—
Net interest income after provision for loan losses	9,785	10,309
Noninterest income		
Service charges on deposit accounts	528	489
Gain on securities transactions, net	297	355
Gain on sale of other loans, net	46	48
Income on bank owned life insurance	186	192
Other	340	217
Total noninterest income	1,397	1,301
Noninterest expense		
Salaries and employee benefits	4,495	3,923
Occupancy expenses	688	648
Equipment expenses	240	219
FDIC assessment	237	207
Data processing fees	442	494
FDIC indemnification asset amortization	1,239	1,498
Amortization of intangibles	477	477
Other real estate expense	85	283
Other operating expenses	1,616	1,428
Total noninterest expense	9,519	9,177
Income before income taxes	1,663	2,433

Income tax expense	351	709
Net income	$ 1,312	$ 1,724
Dividends paid on preferred stock	—	65
Net income available to common shareholders	$ 1,312	$ 1,659
Net income per share — basic	$ 0.06	$ 0.08
Net income per share — diluted	$ 0.06	$ 0.08
Weighted average number of shares outstanding		
basic	21,799	21,729
diluted	21,963	22,055

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

(dollars in thousands)

	Three months ended	
	March 31, 2015	March 31, 2014
Net income	$ 1,312	$ 1,724
Other comprehensive income:		
Unrealized gains on investment securities:		
Change in unrealized gain in investment securities	1,775	3,746
Tax related to unrealized gain in investment securities	(604)	(1,274)
Reclassification adjustment for gain in securities sold	(297)	(355)
Tax related to realized gain in securities sold	101	121
Cash flow hedge:		
Change in unrealized loss in cash flow hedge	(378)	-
Tax related to cash flow hedge	129	-
Total other comprehensive income	726	2,238
Total comprehensive income	$ 2,038	$ 3,962

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

(dollars and shares in thousands)

	Preferred Stock	Warrants	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2014	$ 10,680	$ 1,037	21,709	$ 217	$ 144,656	$ (45,822)	$ (4,109)	$ 106,659
Amortization of preferred stock warrants	—	—	—	—	—	—	—	—
Issuance of common stock	—	—	11	—	41	—	—	41
Dividends paid on preferred stock	—	—	—	—	—	(65)	—	(65)
Issuance of stock options	—	—	—	—	50	—	—	50
Net income	—	—	—	—	—	1,724	—	1,724
Other comprehensive income	—	—	—	—	—	—	2,238	2,238
Balance March 31, 2014	$ 10,680	$ 1,037	21,720	$ 217	$ 144,747	$ (44,163)	$ (1,871)	$ 110,647
Balance January 1, 2015	$ —	$ —	21,792	$ 218	$ 145,321	$ (38,553)	$ 664	$ 107,650
Issuance of common stock	—	—	27	—	42	—	—	42
Issuance of stock options	—	—	—	—	116	—	—	116
Net income	—	—	—	—	—	1,312	—	1,312
Other comprehensive income	—	—	—	—	—	—	726	726
Balance March 31, 2015	$ —	$ —	21,819	$ 218	$ 145,479	$ (37,241)	$ 1,390	$ 109,846

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

(dollars in thousands)

	March 31, 2015	March 31, 2014
Operating activities:		
Net income	$ 1,312	$ 1,724
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and intangibles amortization	871	859
Issuance of common stock and stock options	158	91
Amortization of purchased loan premium	81	384
Amortization of security premiums and accretion of discounts, net	744	963
Net gain on sale of securities	(297)	(355)
Net loss on sale and valuation of other real estate owned	84	263
Net gain on sale of loans	(46)	(48)
Changes in assets and liabilities:		
(Increase) decrease in loans held for sale	(2,799)	100
Decrease in other assets	1,807	1,264
(Decrease) increase in accrued expenses and other liabilities	(275)	1,534
Net cash provided by operating activities	1,640	6,779
Investing activities:		
Proceeds from available for sale securities	64,183	26,415
Proceeds from held to maturity securities	613	1,899
Proceeds from equity securities	228	586
Purchase of available for sale securities	(28,599)	(29,158)
Purchase of held to maturity securities	(2,277)	—
Proceeds from sale of other real estate owned	868	596
Improvements of other real estate owned, net of insurance proceeds	(21)	(19)
Net (increase) decrease in loans	(18,785)	98
Principal recoveries of loans previously charged off	106	118
Purchase of premises and equipment, net	(672)	(1,653)
Proceeds from sale of loans	2,252	2,841
Net cash provided by investing activities	17,896	1,723
Financing activities:		
Net (decrease) increase in noninterest bearing and interest bearing deposits	(3,930)	12,828
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(14,500)	(6,000)
Net decrease in Federal Home Loan Bank borrowings	(184)	(179)
Cash dividends paid	—	(65)

Payments on long-term debt	(1,602)	—
Net cash (used in) provided by financing activities	(20,216)	6,584
Net (decrease) increase in cash and cash equivalents	(680)	15,086
Cash and cash equivalents:		
Beginning of the period	22,353	23,835
End of the period	$ 21,673	$ 38,921

	March 31, 2015	March 31, 2014
Supplemental disclosures of cash flow information:		
Interest paid	$ 1,940	$ 1,495
Income taxes paid	500	115
Transfers of loans to other real estate owned	33	550

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Banking Activities and Significant Accounting Policies

Organization

Community Bankers Trust Corporation (the "Company") is headquartered in Richmond, Virginia and is the holding company for Essex Bank (the "Bank"), a Virginia state bank with 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.

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 June 2015.

Financial Statements

The consolidated statements presented include accounts of the Company and the Bank, its wholly-owned subsidiary. All material intercompany balances and transactions have been eliminated. The statements should be read in conjunction with the Company's consolidated financial statements and the accompanying notes to consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles (GAAP) and to the general practices within the banking industry. The interim financial statements have not been audited; however, in the opinion of management, all adjustments, consisting of normal accruals, were made that are necessary to present fairly the balance sheet of the Company as of March 31, 2015, and the statements of income, comprehensive income, changes in shareholders' equity and cash flows, for the three months ended March 31, 2015. Results for the three month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

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

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

Recent Accounting Pronouncements

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

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

Note 2. Securities

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

	March 31, 2015			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov't agencies	$72,204	$46	$(859)	$71,391
State, county and municipal	134,184	4,909	(604)	138,489
Corporate and other bonds	11,829	129	(42)	11,916
Mortgage backed – U.S. Gov't agencies	4,403	44	(65)	4,382
Mortgage backed – U.S. Gov't sponsored agencies	13,737	123	(5)	13,855
Total Securities Available for Sale	$236,357	$5,251	$(1,575)	$240,033
Securities Held to Maturity				
State, county and municipal	$33,944	$1,063	$(50)	$34,957
Mortgage backed – U.S. Gov't agencies	3,831	206	—	4,037
Mortgage backed – U.S. Gov't sponsored agencies	65	—	—	65
Total Securities Held to Maturity	$37,840	$1,269	$(50)	$39,059

	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

The amortized cost and fair value of securities at March 31, 2015 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without any penalties.

(dollars in thousands)	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$1,291	$ 1,313	$12,793	$ 12,801
Due after one year through five years	14,095	14,787	62,131	63,441
Due after five years through ten years	13,741	14,050	121,847	124,427
Due after ten years	8,713	8,909	39,586	39,364
Total securities	$37,840	$ 39,059	$236,357	$ 240,033

Proceeds from sales of securities available for sale were $40.6 million and $21.7 million during the three months ended March 31, 2015 and 2014, respectively. Gains and losses on the sale of securities are determined using the specific identification method. Gross realized gains and losses on sales of securities available for sale during the three months ended March 31, 2015 and 2014 were as follows (dollars in thousands):

	Three Months Ended	
	March 31, 2015	March 31, 2014
Gross realized gains	$ 453	$ 406
Gross realized losses	(156)	(51)
Net securities gains	$ 297	$ 355

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 three months ended March 31, 2015 and 2014.

The fair value and gross unrealized losses for securities, segregated by the length of time that individual securities have been in a continuous gross unrealized loss position, at March 31, 2015 and December 31, 2014 were as follows (dollars in thousands):

	March 31, 2015					
	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	$22,374	$ (330)	$33,220	$ (529)	$55,594	$ (859)
State, county and municipal	11,491	(121)	12,771	(483)	24,262	(604)
Corporate and other bonds	-	-	3,440	(42)	3,440	(42)
Mortgage backed – U.S. Gov't agencies	-	-	1,932	(65)	1,932	(65)
Mortgage backed – U.S. Gov't sponsored agencies	2,631	(5)	-	-	2,631	(5)
Total	$36,496	$ (456)	$51,363	$ (1,119)	$87,859	$ (1,575)
Securities Held to Maturity						
State, county and municipal	$1,560	$ (50)	$-	$ -	$1,560	$ (50)

	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)

The unrealized losses (impairments) in the investment portfolio at March 31, 2015 and December 31, 2014 are generally a result of market fluctuations that occur daily. The unrealized losses are from 99 securities at March 31, 2015. Of those, 94 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. Five investment grade corporate obligations comprise the remaining securities with unrealized losses at March 31, 2015. The Company considers the reason for impairment, length of impairment and ability to hold until the full value is recovered in determining if the impairment is temporary in nature. Based on this analysis, the Company has determined these impairments to be temporary in nature. The Company does not intend to sell and it is more likely than not that the Company will not be required to sell these securities until they recover in value or reach maturity.

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

Securities with amortized costs of $99.3 million and $111.3 million at March 31, 2015 and December 31, 2014, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. At each of March 31, 2015 and December 31, 2014, there were no securities purchased from a single issuer, other than U.S. Treasury issue and other U.S. Government agencies that comprised more than 10% of the consolidated shareholders’ equity.

Note 3. Loans Not Covered by FDIC Shared-loss Agreements (Non-covered Loans) and Related Allowance for Loan Losses

The Company’s non-covered loans at March 31, 2015 and December 31, 2014 were comprised of the following (dollars in thousands):

	March 31, 2015			December 31, 2014		
	Amount	% of Non-Covered Loans		Amount	% of Non-Covered Loans	
Mortgage loans on real estate:						
Residential 1-4 family	$172,684	25.31	%	$168,358	25.32	%
Commercial	285,754	41.90		283,430	42.63	
Construction and land development	59,313	8.70		59,515	8.95	
Second mortgages	6,316	0.93		6,016	0.90	
Multifamily	42,166	6.18		33,830	5.09	
Agriculture	7,205	1.06		7,167	1.08	
Total real estate loans	573,438	84.08		558,316	83.97	

Commercial loans	102,145	14.98	99,634	14.99
Consumer installment loans	4,986	0.73	5,470	0.82
All other loans	1,442	0.21	1,444	0.22
Gross loans	682,011	100.00 %	664,864	100.00 %
Less unearned income on loans	(4)		(128)	
Non-covered loans, net of unearned income	$682,007		$664,736	

The Company held $15.9 million and $18.3 million in balances of loans guaranteed by the United States Department of Agriculture (USDA), which are included in various categories in the table above, at March 31, 2015 and December 31, 2014, respectively. As these loans are 100% guaranteed by the USDA, no loan loss provision is required. These loan balances included an unamortized purchase premium of $762,000 and $922,000 at March 31, 2015 and December 31, 2014, respectively. Unamortized purchase premium is recognized as an adjustment of the related loan yield on a straight line basis, which is substantially equivalent to the results obtained using the effective interest method.

At March 31, 2015 and December 31, 2014, the Company's allowance for credit losses was comprised of the following: (i) specific valuation allowances calculated in accordance with FASB ASC 310, *Receivables,* (ii) general valuation allowances calculated in accordance with FASB Accounting Standards Codification (ASC) 450, *Contingencies*, based on economic conditions and other qualitative risk factors, and (iii) historical valuation allowances calculated using historical loan loss experience. Management identified loans subject to impairment in accordance with ASC 310.

The 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 March 31, 2015, as the loans are accounted for on a pooled basis, and interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all PCI loans.

The following table reflects the outstanding principal balance and carrying amounts of the PCI loans as of March 31, 2015 (dollars in thousands):

	March 31, 2015		December 31, 2014	
	Unpaid balance	Carrying Value	Unpaid balance	Carrying Value
Mortgage loans on real estate:				
Residential 1-4 family	$2,171	$ 1,029	$ 2,189	$ 1,096
Commercial	3,120	1,124	3,179	1,148
Construction and land development	3,530	2,415	3,658	2,456
Second mortgages	28	15	31	16
Total real estate loans	8,849	4,583	9,057	4,716
Total PCI loans	$8,849	$ 4,583	$ 9,057	$ 4,716

The allowance for loan losses related to PCI loans was $98,000 as of March 31, 2015 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 three months ended March 31, 2015.

The change in the accretable yield balance for the PCI loans for the three months ended March 31, 2015 was as follows (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
Accretion	(156)
Reclassification to nonaccretable yield	(16)
Balance, March 31, 2015	$4,899

The following table summarizes information related to impaired loans as of March 31, 2015 (dollars in thousands):

	Recorded Investment [(1)]	**Unpaid Principal Balance** [(2)]	Related Allowance
With an allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	$ 2,042	$ 2,173	$ 351
Commercial	180	323	31
Construction and land development	4,579	7,323	598
Second mortgages	61	63	11
Multifamily	—	—	—
Agriculture	—	—	—
Total real estate loans	6,862	9,882	991
Commercial loans	7,409	8,721	520
Consumer installment loans	88	90	15
All other loans	—	—	—
Subtotal impaired loans with a valuation allowance	14,359	18,693	1,526
With no related allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	1,014	1,403	—
Commercial	1,653	1,944	—
Construction and land development	169	202	—
Second mortgages	—	—	—
Multifamily	—	—	—
Agriculture	—	—	—
Total real estate loans	2,836	3,549	—
Commercial loans	—	—	—
Consumer installment loans	1	2	—
All other loans	—	—	—
Subtotal impaired loans without a valuation allowance	2,837	3,551	—
Total:			
Mortgage loans on real estate:			
Residential 1-4 family	3,056	3,576	351
Commercial	1,833	2,267	31
Construction and land development	4,748	7,525	598
Second mortgages	61	63	11
Multifamily	—	—	—
Agriculture	—	—	—
Total real estate loans	9,698	13,431	991
Commercial loans	7,409	8,721	520
Consumer installment loans	89	92	15
All other loans	—	—	—
Total impaired loans	$ 17,196	$ 22,244	$ 1,526

(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

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

	Recorded Investment [(1)]	**Unpaid Principal Balance** [(2)]	Related Allowance
With an allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	$ 2,754	$ 2,895	$ 463
Commercial	308	470	53
Construction and land development	4,903	7,643	627
Second mortgages	61	63	11
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

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The following table summarizes the average recorded investment of impaired loans for the three months ended March 31, 2015 and 2014 (dollars in thousands):

	Three months ended	
	March 31, 2015	March 31, 2014
Mortgage loans on real estate:		
Residential 1-4 family	$ 3,199	$ 4,680
Commercial	1,279	3,046
Construction and land development	4,915	5,895
Second mortgages	61	225
Multifamily	—	—
Agriculture	—	102
Total real estate loans	9,454	13,948
Commercial loans	7,465	92
Consumer installment loans	105	76
All other loans	—	—
Total impaired loans	$ 17,024	$ 14,116

During the three months ended March 31, 2015, all of the impaired loans were also nonaccruing for which no interest income was recognized. During the three months ended March 31, 2014, the majority of impaired loans were nonaccruing and no significant amounts of interest income were recognized on accruing impaired loans.

Interest income on nonaccrual loans, if recognized, is recorded using the cash basis method of accounting. Cash basis income of $168,000 and $139,000 was recognized during the three months ended March 31, 2015 and 2014, respectively. For the three months ended March 31, 2015, and 2014, estimated interest income of $326,000 and $261,000, 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 March 31, 2015 and December 31, 2014 (dollars in thousands):

	March 31, 2015	December 31, 2014
Mortgage loans on real estate:		
Residential 1-4 family	$ 3,056	$ 3,342
Commercial	1,833	607
Construction and land development	4,748	4,920
Second mortgages	61	61
Multifamily	—	—

Agriculture	—	—
Total real estate loans	9,698	8,930
Commercial loans	7,409	7,521
Consumer installment loans	89	120
All other loans	—	—
Total loans	$ 17,196	$ 16,571

Troubled debt restructures and some special mention loans still accruing interest are loans that management expects to ultimately collect all principal and interest due, but not under the terms of the original contract. All impaired loans at March 31, 2015 were also nonaccrual loans. Impaired loans of $16.9 million at December 31, 2014 consisted of $16.6 million in nonaccrual loans, in addition to $118,000 in troubled debt restructures and $163,000 in special mention loans, both of which were still accruing.

The following tables present an age analysis of past due status of non-covered loans, excluding PCI loans, by category as of March 31, 2015 and December 31, 2014 (dollars in thousands):

	March 31, 2015					
	30-89 Days Past Due	90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days Past Due and Accruing
Mortgage loans on real estate:						
Residential 1-4 family	$948	$3,056	$4,004	$167,651	$171,655	$ —
Commercial	—	1,833	1,833	282,797	284,630	—
Construction and land development	—	4,748	4,748	52,150	56,898	—
Second mortgages	—	61	61	6,240	6,301	—
Multifamily	—	—	—	42,166	42,166	—
Agriculture	—	—	—	7,205	7,205	—
Total real estate loans	948	9,698	10,646	558,209	568,855	—
Commercial loans	158	7,409	7,567	94,578	102,145	—
Consumer installment loans	29	89	118	4,868	4,986	—
All other loans	—	—	—	1,442	1,442	—
Total loans	$1,135	$17,196	$18,331	$659,097	$677,428	$ —

	December 31, 2014					
	30-89 Days Past Due	90 Days Past Due	Total Past Due	Current	Total Loans	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	$ —

Activity in the allowance for loan losses on non-covered loans, excluding PCI loans, by segment for the three months ended March 31, 2015 and 2014 is presented in the following tables (dollars in thousands):

	December 31, 2014	Provision Allocation	Charge-offs	Recoveries	March 31, 2015
Mortgage loans on real estate:					
Residential 1-4 family	$ 3,100	$ 12	$ (300)	$ 49	$ 2,861
Commercial	2,618	(53)	—	6	2,571
Construction and land development	1,930	(438)	—	11	1,503
Second mortgages	63	(10)	—	2	55
Multifamily	136	39	—	—	175
Agriculture	66	4	—	—	70
Total real estate loans	7,913	(446)	(300)	68	7,235
Commercial loans	1,242	402	—	6	1,650
Consumer installment loans	85	42	(62)	32	97
All other loans	27	2	—	—	29
Total loans	$ 9,267	$ —	$ (362)	$ 106	$ 9,011

	December 31, 2013	Provision Allocation	Charge-offs	Recoveries	March 31, 2014
Mortgage loans on real estate:					
Residential 1-4 family	$ 3,853	$ (43)	$ (110)	$ 7	$ 3,707
Commercial	2,333	562	—	69	2,964
Construction and land development	2,252	(359)	—	1	1,894
Second mortgages	101	12	—	1	114
Multifamily	151	57	—	—	208
Agriculture	81	(24)	—	—	57
Total real estate loans	8,771	205	(110)	78	8,944
Commercial loans	1,546	(218)	—	4	1,332
Consumer installment loans	101	15	(42)	36	110
All other loans	26	(2)	—	—	24
Total loans	$ 10,444	$ —	$ (152)	$ 118	$ 10,410

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

	March 31, 2015			
	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	$436	$ 2,425	$ —	$2,861
Commercial	52	2,519	98	2,669
Construction and land development	599	904	—	1,503
Second mortgages	10	45	—	55
Multifamily	—	175	—	175
Agriculture	—	70	—	70
Total real estate loans	1,097	6,138	98	7,333
Commercial loans	528	1,122	—	1,650
Consumer installment loans	15	82	—	97
All other loans	—	29	—	29
Total loans	$1,640	$ 7,371	$ 98	$9,109

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	March 31, 2015			
	Recorded Investment in Loans			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment (1)	Related to PCI loans	Total
Mortgage loans on real estate:				
Residential 1-4 family	$6,295	$ 165,360	$ 1,029	$172,684
Commercial	5,039	279,591	1,124	285,754
Construction and land development	4,762	52,136	2,415	59,313
Second mortgages	61	6,240	15	6,316
Multifamily	—	42,166	—	42,166
Agriculture	—	7,205	—	7,205
Total real estate loans	16,157	552,698	4,583	573,438
Commercial loans	7,645	94,500	—	102,145
Consumer installment loans	91	4,895	—	4,986
All other loans	—	1,442	—	1,442
Total loans	$23,893	$ 653,535	$ 4,583	$682,011

	December 31, 2014			
	Allowance for Loan Losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment (1)	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	Collectively Evaluated for Impairment (1)	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

(1) The category "Individually Evaluated for Impairment" includes loans individually evaluated for impairment and determined not to be impaired. These loans totalled $6.7 million and $8.6 million at March 31, 2015 and December 31, 2014, respectively. The allowance for loans losses allocated to these loans was $114,000 and $146,000 at March 31, 2015 and December 31, 2014, 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 $15.9 million and $18.3 million at March 31, 2015 and December 31, 2014, respectively.

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

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

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

The following tables present the composition of non-covered loans, excluding PCI loans, by credit quality indicator at March 31, 2015 and December 31, 2014 (dollars in thousands):

	March 31, 2015				
	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential 1-4 family	$159,404	$7,320	$ 4,931	$ —	$171,655
Commercial	269,832	10,263	4,535	—	284,630

Construction and land development	50,623	1,514	4,761	—	56,898
Second mortgages	4,924	1,316	61	—	6,301
Multifamily	42,166	—	—	—	42,166
Agriculture	6,826	379	—	—	7,205
Total real estate loans	533,775	20,792	14,288	—	568,855
Commercial loans	93,053	1,448	7,644	—	102,145
Consumer installment loans	4,868	26	92	—	4,986
All other loans	1,442	—	—	—	1,442
Total loans	$633,138	$22,266	$ 22,024	$ —	$677,428

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	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

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 three months ended March 31, 2015, the Company modified one residential 1-4 family loan that was considered to be a TDR. The Company extended the terms and lowered the interest rate for this loan, which had a pre- and post-modification balance of $68,000. During the three months ended March 31, 2014, there were no loans modified that were considered to be TDRs.

A loan is considered to be in default if it is 90 days or more past due. There were no TDRs that had been restructured during the previous 12 months that resulted in default during either of the three months ended March 31, 2015 and 2014.

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

At March 31, 2015 the Company had 1-4 family mortgages in the amount of $140.8 million pledged as collateral to the Federal Home Loan Bank for a total borrowing capacity of $110.1 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 March 31, 2015 and December 31, 2014, the outstanding contractual balance of the covered loans was $92.8 million and $94.9 million, respectively. The carrying amount, by loan type, as of these dates is as follows (dollars in thousands):

	March 31, 2015			December 31, 2014		
	Amount	% of Covered Loans		Amount	% of Covered Loans	
Mortgage loans on real estate:						
Residential 1-4 family	$58,005	94.20	%	$59,075	94.15	%
Second mortgages	3,295	5.35		3,393	5.41	
Multifamily	277	0.45		276	0.44	
Total real estate loans	61,577	100.00		62,744	100.00	
Total covered loans	$61,577	100.00	%	$62,744	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 three months ended March 31, 2015 and 2014.

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

	March 31, 2015		December 31, 2014	
	Allowance for loan losses	Recorded investment in loans	Allowance for loan losses	Recorded investment in loans
Mortgage loans on real estate:				
Residential 1-4 family	$386	$ 58,005	$ 386	$ 59,075
Second mortgages	—	3,295	—	3,393
Multifamily	—	277	—	276
Total real estate loans	386	61,577	386	62,744
Total covered loans	$386	$ 61,577	$ 386	$ 62,744

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

Balance, January 1, 2014	$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
Accretion	(1,896)
Reclassification to nonaccretable yield	(4)
Balance, March 31, 2015	$44,111

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The covered loans were not classified as nonperforming assets as of March 31, 2015, as the loans are accounted for on a pooled basis, and interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all 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. However, under the terms of the shared-loss agreement, the Company is required to reimburse the FDIC for recoveries of previously reimbursed loss events related to these assets until March 2017. 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 March 31, 2015 and December 31, 2014 (dollars in thousands):

	Anticipated Expected Losses	Estimated Loss Sharing Value	Amortizable Premium (Discount) at Present Value	FDIC Indemnification Asset Total
January 1, 2014	$ 13,514	$ 10,811	$ 14,598	$ 25,409
Increases:				
Writedown of OREO property to FMV	34	27		27
Decreases:				
Net amortization of premium			(5,795)	(5,795)
Reclassifications to FDIC receivable:				
Net loan charge-offs and recoveries	(87)	(69)		(69)
OREO sales	(1,085)	(868)		(868)
Reimbursements requested from FDIC	(118)	(95)		(95)
Reforecasted change in anticipated expected losses	(6,707)	(5,365)	5,365	—
December 31, 2014	$ 5,551	$ 4,441	$ 14,168	$ 18,609
Increases:				
Writedown of OREO property to FMV	-	-		-
Decreases:				
Net amortization of premium			(1,239)	(1,239)
Reclassifications to FDIC receivable:				
Net loan charge-offs and recoveries	32	25		25
OREO sales	(15)	(12)		(12)
Reimbursements requested from FDIC	-	-		-
Reforecasted change in anticipated expected losses	(32)	(25)	25	—
March 31, 2015	$ 5,536	$ 4,429	$ 12,954	$ 17,383

Note 6. Other real estate owned

The following table presents the balances of other real estate owned, covered by FDIC shared-loss agreements, and other real estate owned, non-covered, at March 31, 2015 and December 31, 2014 (dollars in thousands):

	March 31, 2015		December 31, 2014	
	Other real estate owned, covered by FDIC shared-loss agreements	Other real estate owned, non-covered	Other real estate owned, covered by FDIC shared-loss agreements	Other real estate owned, non-covered

Residential 1-4 family	$ 1,500	$ 63	$ 2,019	$ 320
Commercial	—	1,329	—	1,868
Construction and land development	—	3,953	—	3,536
Total other real estate owned	$ 1,500	$ 5,345	$ 2,019	$ 5,724

At March 31, 2015, the Company had $454,000 in residential 1-4 family non-covered loans that were in the process of foreclosure and $2.9 million in residential 1-4 family covered loans that were in in process of foreclosure.

Note 7. Deposits

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

	March 31, 2015	December 31, 2014
NOW	$ 115,500	$ 123,682
MMDA	103,456	101,784
Savings	80,640	78,478
Time deposits less than $250,000	414,653	416,628
Time deposits $250,000 and over	110,196	113,809
Total interest bearing deposits	$ 824,445	$ 834,381

Note 8. Accumulated Other Comprehensive Income (Loss)

The following tables present activity net of tax in accumulated other comprehensive income (loss) (AOCI) for the three months ended March 31, 2015 and 2014 (dollars in thousands):

	Three months ended March 31, 2015			
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Gain/Loss on Cash Flow Hedge	Total Other Comprehensive Income (Loss)
Beginning balance	$ 1,452	$ (811)	$ 23	$ 664
Other comprehensive income before reclassifications	1,171	-	(249)	922
Amounts reclassified from AOCI	(196)	-	-	(196)
Net current period other comprehensive income (loss)	975	-	(249)	726
Ending balance	$ 2,427	$ (811)	$ (226)	$ 1,390

	Three months ended March 31, 2014		
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Total Other Comprehensive Income (Loss)
Beginning balance	$ (3,954)	$ (155)	$ (4,109)
Other comprehensive income before reclassifications	2,472	-	2,472
Amounts reclassified from AOCI	(234)	-	(234)

Net current period other comprehensive income	2,238	-	2,238
Ending balance	$ (1,716)	$ (155)	$ (1,871)

The following tables present the effects of reclassifications out of AOCI on line items of consolidated income for the three months ended March 31, 2015 and 2014 (dollars in thousands):

Details about AOCI Components	Amount Reclassified from AOCI		Affected Line Item in the Unaudited Consolidated Statement of Income (Loss)
	Three months ended		
	March 31, 2015	March 31, 2014	
Unrealized gains on securities available for sale	$ (297)	$ (355)	Gain on securities transactions, net
	101	121	Income tax expense
	$ (196)	$ (234)	Net of tax

Note 9. Fair Values of Assets and Liabilities

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

• Level 1—Valuation is based upon quoted prices for identical instruments traded in active markets.

• Level 2—Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

FASB ASC 825, *Financial Instruments*, allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Company has not made any material FASB ASC 825 elections as of March 31, 2015.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

	March 31, 2015			
	Total	Level 1	Level 2	Level 3
Investment securities available for sale				
U.S. Treasury issue and other U.S. Gov't agencies	$71,391	$68,221	$3,170	$ -
State, county and municipal	138,489	5,074	133,415	-
Corporate and other bonds	11,916	-	11,916	-
Mortgage backed – U.S. Gov't agencies	4,382	-	4,382	-
Mortgage backed – U.S. Gov't sponsored agencies	13,855	-	13,855	-
Total investment securities available for sale	240,033	73,295	166,738	-
Loans held for sale	2,999	-	2,999	-
Total assets at fair value	$243,032	$73,295	$169,737	$ -
Cash flow hedge	$343	$-	$343	$ -
Total liabilities at fair value	$343	$-	$343	$ -

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

Investment securities available for sale

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

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

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

Loans held for sale

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

Cash flow hedge

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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

	March 31, 2015			
	Total	Level 1	Level 2	Level 3
Impaired loans, non-covered	$14,134	$ —	$ —	$14,134
Other real estate owned (OREO), non-covered	5,345	—	—	5,345
Other real estate owned (OREO), covered	1,500	—	—	1,500
Total assets at fair value	$20,979	$ —	$ —	$20,979
Total liabilities at fair value	$—	$ —	$ —	$—

	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	$—	$ —	$ —	$—

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 March 31, 2015 and December 31, 2014, a majority of total impaired loans were evaluated based on the fair value of the collateral. The Company frequently obtains appraisals prepared by external professional appraisers for classified loans greater than $250,000 when the most recent appraisal is greater than 12 months old. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan within Level 2.

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

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):

	March 31, 2015				
	Carrying Value	**Estimated Fair Value**	Level 1	Level 2	Level 3
Financial assets:					
Securities held to maturity	$37,840	$ 39,059	$ —	$39,059	$—
Loans, non-covered	672,898	679,194	—	660,520	18,674
Loans, covered	61,191	65,058	—	—	65,058
FDIC indemnification asset	17,383	4,268	—	—	4,268
Financial liabilities:					
Interest bearing deposits	824,445	826,432	—	826,432	—
Long-term borrowings	108,419	108,344	—	108,344	—

	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	—

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 March 31, 2015. The Company applied the provisions of FASB ASC 820 to the fair value measurements of financial instruments not recognized on the consolidated balance sheet at fair value. The provisions requiring the Company to maximize the use of observable inputs and to measure fair value using a notion of exit price were factored into the Company's selection of inputs into its established valuation techniques.

<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 10. 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 three months ended March 31, 2015			
Basic EPS	$ 1,312	21,799	$ 0.06
Effect of dilutive stock awards	—	164	—
Diluted EPS	$ 1,312	21,963	$ 0.06
For the three months ended March 31, 2014			
Shares issued		21,718	
Unissued vested restricted stock		11	
Basic EPS	$ 1,659	21,729	$ 0.08
Effect of dilutive stock awards	—	326	—
Diluted EPS	$ 1,659	22,055	$ 0.08

There were no antidilutive exclusions from the computation of diluted earnings per common share at March 31, 2015. Antidilutive common shares issuable under awards or options of 37,000 were excluded from the computation of diluted earnings per common share at March 31, 2014.

Note 11. Employee Benefit Plan

The Company adopted the Bank of Essex noncontributory, defined benefit pension plan for all full-time pre-merger Bank of Essex employees over 21 years of age. Benefits are generally based upon years of service and the employees' compensation. The Company funds pension costs in accordance with the funding provisions of the Employee Retirement Income Security Act.

The Company has frozen the plan benefits for all the defined benefit plan participants effective December 31, 2010.

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The following table provides the components of net periodic benefit cost for the plan for the three months ended March 31, 2015 and 2014 (dollars in thousands):

	Three months ended March 31	
	2015	2014
Interest cost	$ 47	$ 56
Expected return on plan assets	(88)	(99)
Amortization of prior service cost	1	1
Recognized net actuarial loss	11	3
Net periodic benefit cost	($ 29)	($ 39)

Note 12. Cash Flow Hedge

On November 7, 2014, the Company entered into an interest rate swap with a total notional amount of $30 million. The Company designated the swap as a cash flow hedge intended to protect against the variability in the expected future cash flows on the designated variable rate borrowings. The swap hedges the interest rate risk, wherein the Company will receive an interest rate based on the three month LIBOR from the counterparty and pays an interest rate of 1.69% to the same counterparty calculated on the notional amount for a term of five years. The Company intends to sequentially issue a series of three month fixed rate debt as part of a planned roll-over of short term debt for five years. The forecasted funding will be provided through one of the following wholesale funding sources: a new FHLB advance, a new repurchase agreement, or a pool of brokered CDs, based on whichever market offers the most advantageous pricing at the time that pricing is first initially determined for the effective date of the swap and each reset period thereafter. Each quarter when the Company rolls over the three month debt, it will decide at that time which funding source to use for that quarterly period.

The swap was entered into with a counterparty that met the Company’s credit standards, and the agreement contains collateral provisions protecting the at-risk party. The Company believes that the credit risk inherent in the contract is not significant. As of March 31, 2015, the Company had $330,000 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 March 31, 2015, the fair value of the Company’s cash flow hedge was an unrealized loss of $343,000 and was recorded in other liabilities. The loss was recorded as a component of other comprehensive income.

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

The following discussion and analysis of the financial condition at March 31, 2015 and results of operations of Community Bankers Trust Corporation (the "Company") for the three months ended March 31, 2015 should be read in conjunction with the Company's consolidated financial statements and the accompanying notes to consolidated financial statements included in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

OVERVIEW

Community Bankers Trust Corporation (the "Company") is headquartered in Richmond, Virginia and is the holding company for Essex Bank (the "Bank"), a Virginia state bank with 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.

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 June 2015.

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

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

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

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

- the quality or composition of the Company's loan or investment portfolios, including collateral values and the repayment abilities of borrowers and issuers;
- assumptions that underlie the Company's allowance for loan losses;
- general economic and market conditions, either nationally or in the Company's market areas;
- the interest rate environment;

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- 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 Company’s Annual Report on Form 10-K for the year ended December 31, 2014 and other reports filed from time to time by the Company with the Securities and Exchange Commission.

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

CRITICAL ACCOUNTING POLICIES

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

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

Allowance for Loan Losses on 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, availability of current financial information, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

Accounting for Certain Loans or Debt Securities Acquired in a Transfer

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

The Company’s acquired loans from the Suburban Federal Savings Bank (SFSB) transaction (the “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,* applies to loans acquired in a transfer with evidence of deterioration of credit quality for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. The Company is applying the provisions of FASB ASC 310-30 to all loans acquired in the SFSB transaction. The Company has grouped loans together based on common risk characteristics including product type, delinquency status and loan documentation requirements among others.

The shared-loss agreement with the Federal Deposit Insurance Corporation (FDIC) related to the acquisition of SFSB for loans other than those secured by single family, residential 1-4 family mortgages expired March 31, 2014. These loans will continue to be accounted for in accordance with FASB ASC 310-30 as 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 the credit review standards described above for non-covered loans. If and when credit deterioration occurs subsequent to the date that the covered loans were acquired, a provision for credit loss for covered loans will be charged to earnings for the full amount without regard to the 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. 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 (OREO) assets 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 OREO and the loss sharing percentages outlined in the shared-loss agreements. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

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

Other Intangible Assets

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

Income Taxes

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

Positions taken in the Company’s tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the consolidated financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. The Company provides for interest and, in some cases, penalties on tax positions that may be challenged by the taxing authorities. Interest expense is recognized beginning in the first period that such interest would begin accruing. Penalties are recognized in the period that the Company claims the position in the tax return. Interest and penalties on income tax uncertainties are classified within income tax expense in the consolidated statement of income. Under FASB ASC 740, *Income Taxes,* a valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. In management’s opinion, based on a three year taxable income projection, tax strategies 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. All years from 2011 through 2014 are open to examination by the respective tax authorities.

Other Real Estate Owned

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

RESULTS OF OPERATIONS

Overview

Net income and net income available to common shareholders was $1.3 million for the first quarter of 2015, compared with $1.7 million in the first quarter of 2014. Earnings per common share, basic and fully diluted, were $0.06 per share and $0.08 per share for the three months ended March 31, 2015 and March 31, 2014, respectively.

The decrease in net income when comparing the first quarter of 2015 with the same period in 2014 was the result of a $524,000 decline in net interest income combined with a $342,000 increase in noninterest expenses. Interest on borrowed funds increased $295,000 year-over-year, the result of a higher level of FHLB borrowings and a third party bank loan obtained in the second quarter of 2014 that paid off the TARP investment, eliminating higher costing dividends. The dividend rate on the TARP investment increased to 9.00% during 2014. The interest rate on the bank loan is three month LIBOR plus 3.5%, which was 3.73% in the first quarter of 2015.

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 $524,000, or 5.1%, from the first quarter of 2014 to the first quarter of 2015. Interest income declined $229,000, or 1.9%, over this time period. The most significant decline was evidenced in the FDIC covered loan portfolio. Interest income on the covered loan portfolio declined approximately $1.0 million. Part of the decline in covered loan income was related to significant cash payments on loans related to pools that had previously been written down to a zero carrying value, which equalled $200,000 in the first quarter of 2014, and there were no significant cash payments received on these loans during the first quarter of 2015. The remainder of the decrease was due to normal amortization within the portfolio. As a result, the yield on the covered loan portfolio fell from 16.50% for the first quarter of 2014 to 12.43% in the first quarter of 2015. Despite the decline in covered loan yields and the net interest margin, the non-covered loan portfolio performed well. Non-covered loan interest income increased $855,000, or 12.1%, when comparing the three months ended March 31, 2014 to March 31, 2015. This increase was the direct result of robust loan growth noted during the last four quarters, which resulted in a $76.5 million increase in average non-covered loan balances from the first quarter of 2014 to the first quarter of 2015. Loan yields on the non-covered portfolio declined three basis points from the quarter ended March 31, 2014 to the quarter ended March 31, 2015.

Interest expense increased $295,000, or 18.8%, when comparing the first quarter of 2014 and the first quarter of 2015. Interest expense on deposits increased $40,000, while interest expense on borrowings increased $255,000. The slight increase in deposit cost was driven by higher cost time deposits. Yet, overall the Bank’s cost of interest bearing deposits increased only two basis points year-over-year while average interest bearing deposit balances increased $5.4 million. Average FHLB advances increased $19.3 million, and the expense associated with the borrowings increased $162,000 from the first quarter of 2014 to the first quarter of 2015. This increase in interest expense was also influenced by the $30.0 million notional value swap entered into during the fourth quarter of 2014. Consequently, the average cost of FHLB and other borrowings increased 50 basis points from 0.80% for the quarter ended March 31, 2014 to 1.30% for the first quarter of 2015. Other interest expense was attributed to the third party loan that the Company closed in the second quarter of 2014 for which the proceeds were used to pay off its then outstanding TARP investment. The pre-tax interest on the loan equaled $92,000 for the first quarter of 2015, versus no expense in the first quarter of 2014.

The tax equivalent net interest margin declined 38 basis points from 4.28% in the first quarter of 2014 to 3.90% in the first quarter of 2015. Likewise, the interest spread decreased from 4.23% to 3.82% over the same time period. The decline in the margin was precipitated by the reduction in cash basis covered loan income, which helped drive overall loan yields down 66 basis points.

The following tables set forth, for each category of interest-earning assets and interest bearing liabilities, the average amounts outstanding, the interest earned or paid on such amounts, and the average rate earned or paid for the three months ended March 31, 2015 and 2014. The tables also set forth the average rate paid on total interest bearing liabilities, and the net interest margin on average total interest earning assets for the same periods. Except as indicated in the footnotes, no tax equivalent adjustments were made and all average balances are daily average balances. Any nonaccruing loans have been included in the table, as loans carrying a zero yield.

COMMUNITY BANKERS TRUST CORPORATION

NET INTEREST MARGIN ANALYSIS

AVERAGE BALANCE SHEETS

(Dollars in thousands)

	Three months ended March 31, 2015			Three months ended March 31, 2014		
	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid
ASSETS:						
Loans non-covered, including fees	$ 672,124	$ 7,906	4.77 %	$ 595,614	$ 7,051	4.80 %
Loans covered by FDIC loss share	62,435	1,914	12.43	72,770	2,961	16.50
Total loans	734,559	9,820	5.42	668,384	10,012	6.08
Interest bearing bank balances	15,368	17	0.45	16,309	13	0.31
Federal funds sold	4,000	1	0.10	-	-	-
Securities (taxable)	226,014	1,368	2.42	279,295	1,698	2.43
Securities (tax exempt) (1)	61,519	673	4.38	20,038	237	4.71
Total earning assets	1,041,460	11,879	4.63	984,026	11,960	4.93
Allowance for loan losses	(9,693)			(10,955)		
Non-earning assets	102,757			113,705		
Total assets	$ 1,134,524			$ 1,086,776		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Demand - interest bearing	$ 221,368	$ 154	0.28 %	$ 190,804	$ 142	0.30 %
Savings	79,629	60	0.31	75,601	66	0.35
Time deposits	526,719	1,234	0.95	555,867	1,200	0.88
Total deposits	827,716	1,448	0.71	822,272	1,408	0.69
Short-term borrowings	1,533	2	0.52	1,134	1	0.51
FHLB and other borrowings	100,509	323	1.30	81,233	161	0.80
Long-term debt	9,057	92	4.07	-	-	-

Total interest bearing liabilities	938,815	1,865	0.81	904,639	1,570	0.70
Non-interest bearing deposits	82,446			68,594		
Other liabilities	4,244			3,921		
Total liabilities	1,025,505			977,154		
Stockholders' equity	109,019			109,622		
Total liabilities and stockholders' equity	$ 1,134,524			$ 1,086,776		
Net interest earnings		$ 10,014			$ 10,390	
Interest spread			3.82 %			4.23 %
Net interest margin			3.90 %			4.28 %

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

Provision for Loan Losses

Management actively monitors the Company’s asset quality and provides specific loss provisions when necessary. Provisions for loan losses are charged to income to bring the total allowance for loan losses to a level deemed appropriate by management of the Company based on such factors as historical credit loss experience, industry diversification of the commercial loan portfolio, the amount of nonperforming loans and related collateral, the volume growth and composition of the loan portfolio, current economic conditions that may affect the borrower’s ability to pay and the value of collateral, the evaluation of the loan portfolio through the internal loan review function and other relevant factors. See *Allowance for Loan Losses on 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 and PCI loan portfolios for impairment and necessary loan loss provisions. Provisions for these loans may be necessary due to a change in expected cash flows or an increase in expected losses within a pool of loans.

The Company did not record a provision for loan losses in either the three month periods ended March 31, 2015 or 2014 with respect to either its non-covered loan portfolio or its FDIC covered loan portfolio. For the non-covered loan portfolio, this was the direct result of continued improvement in loan quality.

There were net charge-offs of $256,000 in the first quarter of 2015 compared with net charge-offs of $34,000 in the first quarter of 2014. Total charge-offs for the first quarter of 2015 were $362,000 compared with $152,000 in the first quarter of 2014. Recoveries of previously charged-off loans were $106,000 for the first quarter of 2015 compared with $118,000 in the first quarter of 2014.

Noninterest Income

Noninterest income increased $96,000, or 7.4%, from the first quarter of 2014 to the first quarter of 2015. Other income increased $123,000 year-over-year, or 56.7%, to $340,000 for the first quarter of 2015. The primary increase was noted in mortgage revenue. Mortgage loan fee income increased $105,000 to equal $148,000 for the first quarter of 2015. This is a direct result of the Bank’s wholesale mortgage team hired during the second quarter of 2014. Additionally, service charge income increased $39,000, or 8.0% during the first quarter of 2015. These two trends were partially offset by a $58,000 reduction in gains on securities sales.

Noninterest Expense

Noninterest expense increased $342,000, or 3.7%, when comparing the first quarter of 2015 to the same period in 2014. Salaries and employee benefits increased $572,000, or 14.6%, from the first quarter of 2014 to the first quarter of 2015. Increased staffing brought on after the first quarter of 2014, such as the wholesale mortgage team and more lending staff, accounted for the increase in salaries. Additionally, management had expanded loan and retail production incentives, the payments of which impacted the current quarter. Other operating expenses increased $188,000, or 13.2%, to equal $1.6 million at March 31, 2015. The two most notable increases within these expenses were $88,000 in advertising expenses and $65,000 in credit related expenses. Advertising expenses were higher than the prior quarter due to the timing of various promotional campaigns, while the increase in credit expense is related to the larger volume of loans.

FDIC amortization expense declined $259,000 to equal $1.2 million at March 31, 2015, while OREO related expenses declined $198,000 over the same time frame. The lower amortization expense was solely due to normal amortization within the FDIC covered loan portfolio throughout 2014 and the first quarter of 2015. The 70.0% reduction in OREO expenses is the result of higher write-downs taken during the first quarter of 2014 than during the same quarter of 2015.

Income Taxes

Income tax expense was $351,000 for the three months ended March 31, 2015, compared with income tax expense of $709,000 for the first quarter of 2014. The effective tax rate for the first quarter of 2015 was 21.1% versus 29.1% for the first quarter of 2014. This decline in the effective tax rate was due to an increased level of nontaxable income as a result of the Company’s strategic decision to move into more tax exempt investments.

FINANCIAL CONDITION

General

Total assets declined $18.0 million, or 1.6%, to $1.138 billion at March 31, 2015 from December 31, 2014. Total loans were $743.6 million at March 31, 2015, increasing $16.1 million, or 2.2%, from year end 2014. Total non-covered loans were $682.0 million at March 31, 2015 versus $664.7 million at December 31, 2014. During the first quarter of 2015, multifamily loans grew $8.3 million, or 24.6%, while residential 1-4 family loans grew $4.3 million, or 2.6%.

The Company's securities portfolio, excluding equity securities, declined $32.9 million, or 10.6%, from $310.8 million at December 31, 2014 to $277.9 million at March 31, 2015. The decline in the volume of securities was a strategic decision by management to let brokered funding mature and fund solid loan growth with normal securities amortization, call activity, sales and maturities.

The Company had cash and cash equivalents of $21.7 million and $22.4 million at March 31, 2015 and December 31, 2014, respectively. There were no federal funds purchased at March 31, 2015 versus $14.5 million at December 31, 2014.

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 $240.0 million at March 31, 2015 and $274.6 million at December 31, 2014. At March 31, 2015, the Company had a net unrealized gain on the AFS portfolio of $3.7 million compared with a net unrealized gain of $2.2 million at December 31, 2014. Municipal securities comprise 58% of the total AFS portfolio at March 31, 2015. These securities exhibit more price volatility in a changing interest rate environment because of their longer weighted average life, than other categories contained within the rest of the portfolio.

Interest bearing deposits at March 31, 2015 were $824.4 million, a decline of $9.9 million, or 1.2%, from December 31, 2014. NOW account balances declined $8.2 million, or 6.6%, from December 31, 2014, while MMDA and savings account balances increased $3.8 million over the same time frame. Retail time deposit account balances increased $3.0 million, or 0.65%, during the first quarter of 2015, while brokered time deposits declined $8.6 million, or 11.6%, since year end.

FHLB advances were $96.2 million at March 31, 2015, compared with $96.4 million at December 31, 2014, a decline of $184,000. Long term debt totaled $8.1 million at March 31, 2015, declining by $1.6 million, or 16.5%, since 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 has amortized this debt $2.6 million within a year and plans to have the loan fully paid within the next two years.

Shareholders' equity was $109.8 million at March 31, 2015 and $107.7 million at December 31, 2014. In April 2014, $11.5 million in equity was redeemed in connection with the repurchase of the TARP preferred stock and the associated warrant. Shareholders' equity increased $2.2 million, or 2.0%, from year end 2014 as the result of an increase in other comprehensive income related to net gains in the investment portfolio and net income of $1.3 million in the first quarter.

Asset Quality – non-covered assets, excluding PCI loans

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

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 loan list is used to monitor such loans and is used in the determination of the appropriateness of the allowance for loan losses. Non-covered nonperforming assets totaled $22.5 million at March 31, 2015 and net charge-offs were $256,000 for the three months ended March 31, 2015. This compares with nonperforming assets of $22.3 million and net charge-offs of $1.2 million at and for the year ended December 31, 2014.

Nonperforming non-covered loans were $17.2 million at March 31, 2015, slightly increasing from $16.6 million at December 31, 2014. The $625,000 increase in nonperforming loans since December 31, 2014 was the net result of $1.6 million in additions to nonperforming loans and $977,000 million in reductions. With respect to the reductions to nonperforming loans, $38,000 were returned to accruing status, $326,000 were charged off, $60,000 were paid off, and $553,000 were the result of payments to existing credits.

The allowance for loan losses equaled 52.40% of non-covered nonaccrual loans at March 31, 2015 compared with 55.92% at December 31, 2014. The ratio of the allowance for loan losses to total nonperforming assets was 39.98% at March 31, 2015, compared with 41.57% at December 31, 2014. The ratio of nonperforming assets to loans and OREO continued to decline. The ratio was 3.30% at March 31, 2015 versus 3.35% at December 31, 2014.

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

See Note 3 to the Company's financial statements for information related to the allowance for loan losses. At March 31, 2015 and December 31, 2014, total impaired non-covered loans equaled $17.2 million and $16.9 million, respectively.

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

	March 31, 2015		December 31, 2014	
Nonaccrual loans	$ 17,196		$ 16,571	
Loans past due 90 days and accruing interest	—		—	
Total nonperforming non-covered loans	17,196		16,571	
OREO – non-covered	5,345		5,724	
Total nonperforming non-covered assets	$ 22,541		$ 22,295	
Accruing troubled debt restructure loans	$ 4,563		$ 6,195	
Balances				
Specific reserve on impaired loans	$ 1,526		$ 1,694	
General reserve related to unimpaired loans	7,485		7,573	
Total allowance for loan losses	$ 9,011		$ 9,267	
Average loans during the year, net of unearned income	$ 667,467		$ 621,213	
Impaired loans	$ 17,196		$ 16,852	
Non-impaired loans	660,228		643,168	
Total loans, net of unearned income	$ 677,424		$ 660,020	
Ratios				
Allowance for loan losses to loans	1.33	%	1.40	%
Allowance for loan losses to nonperforming assets	39.98		41.57	
Allowance for loan losses to nonaccrual loans	52.40		55.92	
General reserve to non-impaired loans	1.13		1.18	
Nonaccrual loans to loans	2.54		2.51	
Nonperforming assets to loans and OREO	3.30		3.35	
Net charge-offs to average loans	0.15		0.19	

The Company performs troubled debt restructures (TDR) and other various loan workouts whereby an existing loan may be restructured into multiple new loans. At March 31, 2015, the Company had 18 loans that met the definition of a TDR, which are loans that for reasons related to the debtor’s financial difficulties have been restructured on terms and conditions that would otherwise not be offered or granted. Four of these loans were restructured using multiple new loans. The aggregated outstanding principal of TDR loans at March 31, 2015 was $6.7 million, of which $2.1 million were classified as nonaccrual.

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

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

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

	March 31, 2015	December 31, 2014
Mortgage loans on real estate:		
Residential 1-4 family	$ 3,056	$ 3,342
Commercial	1,833	607
Construction and land development	4,748	4,920
Second mortgages	61	61
Multifamily	—	—
Agriculture	—	—
Total real estate loans	9,698	8,930
Commercial loans	7,409	7,521
Consumer installment loans	89	120
All other loans	—	—
Total loans	$ 17,196	$ 16,571

At March 31, 2015, 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 are in the Company’s central Virginia market. The total amount of the credit exposure outstanding at March 31, 2015 was $4.7 million. These loans have either been charged-down or sufficiently reserved against to equal the current expected realizable value.

There were no charge-offs related to these relationships during the first three months of 2015. The total amount of the allowance for loan losses attributed to all eight relationships was $598,000 at March 31, 2015, or 12.6% of the total credit exposure outstanding. The Company establishes its reserves as described above in *Allowance for Loan Losses on Non-covered Loans* in the Critical Accounting Policies section. In conjunction with the impairment analysis the Company performs as part of its allowance methodology, the Company ordered appraisals for all loans with balances in excess of $250,000 unless there existed an appraisal that was not older than 12 months. The Company orders an automated valuation for balances between $100,000 and $250,000 and uses a ratio analysis for balances less than $100,000. The Company maintains detailed analysis and other information for its allowance methodology, both for internal purposes and for review by its regulators.

Asset Quality – covered assets and PCI loans

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

The Company makes an estimate of the total cash flows that it expects to collect from a pool of 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.

Capital Requirements

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

Under the final rule on Enhanced Regulatory Capital Standards, commonly referred to as Basel III which became effective January 1, 2015, the federal banking regulators have defined four tests for assessing the capital strength and adequacy of banks, based on three definitions of capital. "Common equity tier 1 capital" is defined as common equity, retained earnings, and accumulated other comprehensive income (AOCI), less certain intangibles. "Tier 1 capital" is defined as common equity tier 1 capital plus qualifying perpetual preferred stock, tier 1 minority interests, and grandfathered trust preferred securities. "Tier 2 capital" is defined as specific subordinated debt, some hybrid capital instruments and other qualifying preferred stock, non-tier 1 minority interests and a limited amount of the loan loss allowance. "Total capital" is defined as tier 1 capital plus tier 2 capital. Four risk-based capital ratios are computed using the above capital definitions, total assets and risk-weighted assets, and the ratios are measured against regulatory minimums to ascertain adequacy. All assets and off-balance sheet risk items are grouped into categories according to degree of risk and assigned a risk-weighting and the resulting total is risk-weighted assets. "Common equity tier 1 capital ratio" is common equity tier 1 capital divided by risk-weighted assets. "Tier 1 risk-based capital ratio" is tier 1 capital divided by risk-weighted assets. "Total risk-based capital ratio" is total capital divided by risk-weighted assets. The leverage ratio is tier 1 capital divided by total average assets.

The Company's ratio of total risk-based capital was 15.1% at March 31, 2015 compared with 14.7% at December 31, 2014. The tier 1 risk-based capital ratio was 13.9% at March 31, 2015 and 13.5% at December 31, 2014. The Company's tier 1 leverage ratio was 9.8% at March 31, 2015 and 9.4% at December 31, 2014. All capital ratios exceed regulatory minimums to be considered well capitalized. The increase in the ratios reflects the impact of the Basel III requirements. As discussed above, Basel III introduced the common equity tier 1 capital ratio, which was 13.4% at March 31, 2015.

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

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

periods.

Liquidity

Liquidity represents the Company's ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest bearing deposits with banks, federal funds sold and certain investment securities. As a result of the

Company’s management of liquid assets and the ability to generate liquidity through liability funding, management believes that the Company maintains overall liquidity sufficient to satisfy its depositors’ requirements and meet its customers’ credit needs.

The Company’s results of operations are significantly affected by its ability to manage effectively the interest rate sensitivity and maturity of its interest earning assets and interest bearing liabilities. A summary of the Company’s liquid assets at March 31, 2015 and December 31, 2014 was as follows (dollars in thousands):

	March 31, 2015	December 31, 2014
Cash and due from banks	$ 11,222	$ 8,329
Interest bearing bank deposits	10,451	14,024
Available for sale securities, at fair value, unpledged	176,203	199,067
Total liquid assets	$ 197,876	$ 221,420
Deposits and other liabilities	1,027,841	1,048,084
Ratio of liquid assets to deposits and other liabilities	19.25 %	21.13 %

Off-Balance Sheet Arrangements and Contractual Obligations

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

	March 31, 2015	December 31, 2014
Commitments with off-balance sheet risk:		
Commitments to extend credit	$ 84,274	$ 87,017
Standby letters of credit	6,878	7,358
Total commitments with off-balance sheet risks	$ 91,152	$ 94,375

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

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

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

On November 7, 2014, the Company entered into an interest rate swap with a total notional amount of $30 million. The Company designated the swap as a cash flow hedge intended to protect against the variability in the expected future cash flows on the designated variable rate borrowings. The swap hedges the interest rate risk, wherein the Company will receive an interest rate based on the three month LIBOR from the counterparty and pays an interest rate of 1.69% to the same counterparty calculated on the notional amount for a term of five years. The Company intends to sequentially issue a series of three month fixed rate debt as part of a planned roll-over of short term debt for five years. The forecasted funding will be provided through one of the following wholesale funding sources: a new FHLB advance, a new repurchase agreement, or a pool of brokered CDs, based on whichever market offers the most advantageous pricing at the time that pricing is first initially determined for the effective date of the swap and each reset period thereafter. For the avoidance of doubt, each quarter when the Company rolls over the three month debt it will decide at that time which funding source to use for that quarterly period.

At March 31, 2015, the fair value of the Company's cash flow hedge was an unrealized loss of $343,000, which was recorded in other liabilities. The Company's cash flow hedge is deemed to be effective. Therefore, the loss was recorded as a component of other comprehensive income recorded in the Company's Consolidated Statements of Comprehensive Income.

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

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

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

The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all assets and liabilities reflected on the Company's balance sheet. The simulation model is prepared and results are analyzed at least quarterly. This sensitivity analysis is compared to ALCO policy limits, which specify a maximum tolerance level for net interest income exposure over a one-year horizon, assuming no balance sheet growth, given a 400 basis point upward shift and a 400 basis point downward shift in interest rates. The downward shift of 300 or 400 basis points is included in the analysis, although less meaningful in the current rate environment, because all results are monitored regardless of likelihood. A parallel shift in rates over a 12-month period is assumed.

The following table represents the change to net interest income given interest rate shocks up and down 100, 200, 300 and 400 basis points at March 31, 2015 (dollars in thousands):

	Change in net interest income			
	%		$	
Change in Yield curve				
+400 bp	(1.4	)%	(525	)
+300 bp	(1.7	)%	(623	)
+200 bp	(1.3	)%	(472	)
+100 bp	(1.0	)%	(376	)
most likely	—	%	—	
-100 bp	1.5	%	562	
-200 bp	0.5	%	168	
-300 bp	0.4	%	151	
-400 bp	0.4	%	151	

At March 31, 2015, the Company's interest rate risk model indicated that, in a rising rate environment of 400 basis points over a 12 month period, net interest income could decrease by 1.4%. For the same time period, the interest rate risk model indicated that in a declining rate environment of 400 basis points, net interest income could increase by 0.4%. While these percentages are subjective based upon assumptions used within the model, management believes the balance sheet is appropriately balanced with acceptable risk to changes in interest rates.

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

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

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

Evaluation of Disclosure Controls and Procedures

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

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

Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

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

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

As of the date of this report, there were no material changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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

None.

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

None.

Item 4. ***Mine Safety Disclosures***

Not applicable

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification for Chief Executive Officer*
31.2	Rule 13a-14(a)/15d-14(a) Certification for Chief Financial Officer*
32.1	Section 1350 Certifications*
101	Interactive Data File with respect to the following materials from the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2015 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Income, (iii) the Unaudited Consolidated Statements of Comprehensive Income, (iv) the Unaudited Consolidated Statements of Shareholders' Equity, (v) the Unaudited Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Consolidated Financial Statements*

* Filed herewith.

SIGNATURES

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

COMMUNITY BANKERS TRUST CORPORATION
(Registrant)

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

Date: May 8, 2015

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

Date: May 8, 2015