Community Bankers Trust Corp
Form 10-Q/A
January 14, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from ______ to ______

Commission File Number: 001-32590

COMMUNITY BANKERS TRUST CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**20-2652949**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation of organization)	**Identification No.)**
4235 Innslake Drive, Suite 200	
Glen Allen, Virginia	**23060**
(Address of principal executive offices)	**(Zip Code)**

(804) 934-9999

(Registrant s telephone number, including area code)

not applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ 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	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

At August 3, 2009, there were 21,468,455 shares of the Company s common stock outstanding.

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EXPLANATORY NOTE

The Registrant hereby amends its Quarterly Report on Form 10-Q for the period ended June 30, 2009 (filed on August 10, 2009 with the Securities and Exchange Commission (the Commission)), as set forth in this Quarterly Report on Form 10-Q/A (Amendment No. 1).

This Form 10-Q/A reflects the addition of financial statements and related information with respect to each of the Registrant s predecessors (TransCommunity Financial Corporation and BOE Financial Services of Virginia, Inc.), as the Registrant was a special purpose acquisition company with nominal results prior to the acquisition of each of these entities on May 31, 2008. In addition, the Registrant s financial statements reflect a modified presentation of certain line items relating to the portion of the loan portfolio that is covered under shared-loss agreements with the Federal Deposit Insurance Corporation and the Registrant s non-covered loan portfolio.

This Form 10-Q/A also includes, in response to comments from the Commission, enhanced disclosure relating to goodwill and intangible assets, fair value measurements, FDIC-covered assets, asset quality and the Registrant s acquisition of substantially all assets, and assumption of all deposit and certain other liabilities, relating to the former Suburban Federal Savings Bank.

The only items that the Registrant is amending in this Form 10-Q/A are Items 1 and 2 of Part I and Item 6 of Part II, as set forth below. The disclosures that the Registrant has presented in this Form 10-Q/A are as of the date of the original filing, and the Registrant has not undertaken to update such disclosures for any subsequent events or developments.

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FORM 10-Q/A

June 30, 2009

PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AT JUNE 30, 2009 AND DECEMBER 31, 2008

(dollars in thousands)

	June 30, 2009 (Unaudited) (Restated)	December 31, 2008 (Audited) (Restated)
ASSETS		
Cash and due from banks	$ 20,110	$ 10,864
Interest bearing bank deposits	14,158	107,376
Federal funds sold	25,830	10,193
Total cash and cash equivalents	60,098	128,433
Securities available for sale, at fair value	178,923	193,992
Securities held to maturity, at cost (fair value of $131,752 and $94,966, respectively)	130,113	94,865
Equity securities, restricted, at cost	6,838	3,612
Total securities	315,874	292,469
Loans held for sale	668	200
Loans covered by FDIC shared-loss agreement (Note 9)	178,312	
Loans non covered	551,799	523,298
Total loans	730,111	523,298
Allowance for loan losses	(12,185)	(6,939)
Net loans	717,926	516,359
FDIC indemnification asset (Note 10)	83,591	
Bank premises and equipment	37,484	24,111
Other real estate owned, covered by FDIC shared-loss agreement	12,521	
Other real estate owned, non covered	864	223
Bank owned life insurance	6,415	6,300
FDIC receivable for expenses incurred	1,173	
Core deposit intangibles, net	18,211	17,163
Goodwill (Note 5)	13,152	37,184
Other assets	8,297	7,798
Total assets	$ 1,276,274	$ 1,030,240
LIABILITIES		
Deposits:		
Noninterest bearing	$ 59,949	$ 59,699
Interest bearing	1,007,498	746,649

Total deposits		1,067,447		806,348
Federal Home Loan Bank advances		37,000		37,900
Trust preferred capital notes		4,124		4,124
Other liabilities		21,526		17,465
Total liabilities	$	1,130,097	$	865,837
STOCKHOLDERS EQUITY				
Preferred stock (5,000,000 shares authorized $0.01 par value; 17,680 shares issued and outstanding)	$	17,680	$	17,680
Discount on preferred stock		(943)		(1,031)
Warrants on preferred stock		1,037		1,037
Common stock (50,000,000 shares authorized $0.01 par value; 21,468,455 shares issued and outstanding)		215		215
Additional paid in capital		144,506		146,076
Retained earnings		(16,388)		1,691
Accumulated other comprehensive income (loss)		70		(1,265)
Total stockholders equity	$	146,177	$	164,403
Total liabilities and stockholders equity	$	1,276,274	$	1,030,240

See accompanying notes to unaudited consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008

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

(unaudited)

	For the three months ended		For the six months ended		BOE Predecessor For the five months ended	TFC Predecessor For the five months ended
	June 30, 2009 (Restated)	June 30, 2008	June 30, 2009 (Restated)	June 30, 2008	May 31, 2008 (Note 1)	May 31, 2008 (Note 1)
Interest and dividend income						
Interest and fees on non covered loans	$ 8,959	$ 2,704	$ 17,416	$ 2,704	$ 6,737	$ 6,849
Interest and fees on FDIC covered loans	4,278		7,228			
Interest on federal funds sold	12	46	26	46	18	26
Interest on deposits in other banks	81		202			
Interest and dividends on securities						
Taxable	2,607	282	5,499	687	465	236
Nontaxable	820	110	1,577	110	555	
Total interest income	16,757	3,142	31,948	3,547	7,775	7,111
Interest expense						
Interest on deposits	6,299	1,027	12,417	1,027	3,266	3,295
Interest on federal funds purchased	4	13	4	13	21	23
Interest on other borrowed funds	386	80	733	80	458	
Total interest expense	6,689	1,120	13,154	1,120	3,745	3,318
Net interest income	10,068	2,022	18,794	2,427	4,030	3,793
Provision for loan losses	540	234	6,040	234	200	1,348
Net interest income after provision for loan losses	9,528	1,788	12,754	2,193	3,830	2,445
Noninterest income						
Service charges on deposit accounts	618	180	1,189	180	464	342
Gain on SFSB transaction			16,204			
Gain on securities transactions, net	341		293		6	
Gain (loss) on sale of other real estate	109		63		(92)	
Other	554	119	981	119	476	87
Total noninterest income	1,622	299	18,730	299	854	429
Noninterest expense						
Salaries and employee benefits	5,028	574	9,454	574	2,493	3,708
Occupancy expenses	554	112	1,134	112	216	318
Equipment expenses	419	108	762	108	286	295
Legal fees	305	99	555	99	306	106

Professional fees	456	100	1,156	100	325	1,029
FDIC assessment	744	16	874	16	11	95
Data processing fees	732	104	1,474	104	394	1,917
Amortization of intangibles	654	149	1,110	149		
Impairment of goodwill	24,032		24,032		52	
Other operating expenses	1,592	453	3,353	673	799	761
Total noninterest expense	34,516	1,715	43,904	1,935	4,882	8,229
Income (loss) before income taxes	(23,366)	372	(12,420)	557	(198)	(5,355)
Income tax expense (benefit)	(14)	84	3,476	158	10	1,454
Net income (loss)	$ (23,352)	$ 288	$ (15,896)	$ 399	$ (188)	$ (3,901)
Dividends accrued on preferred stock	220		438			
Accretion of discount on preferred stock	45		88			
Net income (loss) available to common stockholders	$ (23,617)	$ 288	$ (16,422)	$ 399	$ (188)	$ (3,901)
Net income (loss) per share basic	$ (1.10)	$ 0.02	$ (0.76)	$ 0.04	$ (0.15)	$ (0.85)
Net income (loss) per share diluted	$ (1.10)	$ 0.02	$ (0.76)	$ 0.03	$ (0.15)	$ (0.85)
Weighted average number of shares outstanding basic	21,468	13,407	21,468	11,391	1,214	4,587
diluted	21,468	15,283	21,468	13,553	1,214	4,587

See accompanying notes to unaudited consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

(unaudited)

	For the six months ended		BOE Predecessor For the five months ended May 31, 2008 (Note 1)	TFC Predecessor For the five months ended May 31, 2008 (Note 1)
	June 30, 2009 (Restated)	June 30, 2008		
Operating activities:				
Net income (loss)	$ (16,422)	$ 399	$ (188)	$ (3,901)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and intangibles amortization	2,043	271	335	240
Provision for loan losses	6,040	234	200	1,348
Amortization of premiums and accretion of discounts, net	(6,288)	8	36	(13)
Change in loans held for sale	(468)	535	(119)	
Net gain on SFSB transaction	(16,204)			
Prior period goodwill adjustment	(2,899)			
Impairment of goodwill	24,032		52	
Stock-based compensation expense				178
Net (gain) on sale of securities	(293)		(6)	
Net (gain)/loss on sale of OREO	(63)		92	
Net (gain) loss on sale of loans	20	(12)	(90)	
Loss on write down of LLC membership			88	
Changes in assets and liabilities:				
(Increase)/decrease in other assets	17,836	(4,022)	(409)	(1,285)
Increase/(decrease) in accrued expenses and other liabilities	2,778	2,065	897	2,874
Net cash (used in) provided by operating activities	10,112	(522)	888	(559)
Investing activities:				
Proceeds from securities	98,329	56,342	2,364	12,605
Purchase of securities	(108,075)		(3,350)	(7,205)
Cash received from SFSB transaction	35,662	10,016		
Net increase in loans	(2,126)	(11,230)	(11,870)	(37,358)
Purchase of premises and equipment, net	(14,268)	(114)	(523)	(164)
Net cash (used in) provided by investing activities	9,522	55,014	(13,379)	(32,122)
Financing activities:				
Net increase (decrease) in noninterest bearing and interest bearing demand deposits	(45,898)	4,919	11,789	28,536
Net (decrease) in federal funds purchased		(1,287)	1,965	5,218
Issuance of common stock			56	

Cash paid to shareholders for converted shares		(10,843)		
Cash paid to reduce FHLB borrowings	(38,425)		900	
Cash paid to redeem shares related to asserted appraisal rights and retire warrants	(1,570)			
Cash dividends paid	(2,076)		(535)	(1,152)
Net cash (used in) provided by financing activities	(87,969)	(7,211)	14,175	32,602
Net increase (decrease) in cash and cash equivalents	(68,335)	47,281	1,684	(79)
Cash and cash equivalents:				
Beginning of the period	$ 128,433	$ 162	$ 4,100	$ 4,311
End of the period	$ 60,098	$ 47,443	$ 5,784	$ 4,232
Supplemental disclosures of cash flow information:				
Interest paid	$ 13,640	$ 1,156	$ 3,902	$ 3,195
Income taxes paid	250		127	
Transfers of OREO property	640	224		
Transactions related to acquisition				
Increase in assets and liabilities:				
Loans, net	$ 198,253	$ 471,864		
Other real estate owned	9,416			
Securities	4,954	68,306		
FDIC indemnification	84,584			
Fixed assets, net	37			
Other assets	6,281	89,857		
Deposits	302,756	491,462		
Borrowings	37,525	32,359		
Other liabilities	1,757	8,861		

See accompanying notes to unaudited consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

General

Community Bankers Trust Corporation (the Company) is a bank holding company that was incorporated under Delaware law on April 6, 2005. The Company is headquartered in Glen Allen, Virginia and is the holding company for Essex Bank (the Bank), a Virginia state bank with 25 full-service offices in Virginia, Maryland and Georgia. Bank of Essex changed its name to Essex Bank on April 20, 2009.

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

The Bank was established in 1926 and is headquartered in Tappahannock, Virginia. The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals and small businesses, including individual and commercial demand and time deposit accounts, commercial and consumer loans, travelers checks, safe deposit box facilities, investment services and fixed rate residential mortgages. Fourteen offices are located in Virginia, primarily from the Chesapeake Bay to just west of Richmond, seven are located in Maryland along the Baltimore-Washington corridor and four are located in the Atlanta, Georgia metropolitan market.

The consolidated statements presented include accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts have been eliminated. In the opinion of management, the accompanying financial statements contain all adjustments necessary to fairly present the financial position of the Company at each of June 30, 2009 and December 31, 2008. 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/A (Amendment No. 3) for the year ended December 31, 2008. In the opinion of management, all adjustments (consisting of normal accruals) were made that are necessary to present fairly the financial position of the Company at June 30, 2009, and the results of its operations and its cash flows for the three and six months ended June 30, 2009 and 2008.

The statements and related notes have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) are not presented pursuant to such rules and regulations, because the periods reported are not comparable.

Predecessors

From its inception until consummation of the acquisitions of TFC and BOE on May 31, 2008, the Company was a special purpose acquisition company, as described above, and had no substantial operations. Accordingly, since the Company s operating activities prior to the acquisitions were insignificant relative to those of TFC and BOE, management believes that both TFC and BOE are the Company s predecessors. Management has reached this conclusion based upon an evaluation of facts and circumstances, including the historical life of each of TFC and BOE, the historical level of operations of each of TFC and BOE, the purchase price paid for each of TFC and BOE and the fact that the consolidated Company s operations, revenues and expenses after the acquisitions are most similar in all respects to those of BOE s and TFC s historical periods. Accordingly, the historical statements of operations for the five months ended May 31, 2008 and statements of cash flows for the five months ended May 31, 2008 of each of TFC and BOE have been presented.

2. ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to GAAP and to the general practices within the banking industry. The interim financial statements have not been audited; however, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the consolidated financial statements have been included. Operating results for the three and six month period ended June 30, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

During 2008, management discovered that there was an error in the fair value of stock options issued by the Company in settlement of the TFC and BOE stock options outstanding as of the respective merger dates. When correcting this valuation error, the adjustment was inadvertently recorded twice. The result was an understatement of Goodwill and Deferred Taxes Liabilities of approximately $2.9 million and $1.5 million, respectively. An adjustment has been made to correct this error and the financial statements for the year ended December 31, 2008 have been restated.

The June 30, 2009 consolidated financial statements and accompanying notes have been restated for amendments to the original estimated values related to the acquisition of the Maryland operations.

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

The Company s financial statements are prepared in accordance with GAAP. The financial information contained within the statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. 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 the financial statements, the Company has evaluated events and transactions occurring subsequent to the financial statement date through the filing date of August 10, 2009 for potential recognition or disclosure.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but rather, provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. The Company adopted SFAS 157 on January 1, 2008. The FASB approved a one-year deferral for the implementation of the Statement for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Company adopted the provisions of SFAS 157 for nonfinancial assets and liabilities as of January 1, 2009 without a material impact on the consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (SFAS 141(R)). The Standard significantly changed the financial accounting and reporting of business combination transactions. SFAS 141(R) establishes principles for how an acquirer recognizes and measures the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for acquisition dates on or after the beginning of an entity s first year that begins after December 15, 2008. The Company does not expect the implementation of SFAS 141(R) to have a material impact on its consolidated financial statements, at this time.

In April 2009, the FASB issued FASB Staff Position (FSP) SFAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. FSP SFAS 141(R)-1 amends and clarifies SFAS 141(R) to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The FSP is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not expect the adoption of FSP SFAS 141(R)-1 to have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP SFAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. FSP SFAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. The FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP SFAS 157-4 is effective for interim and annual periods ending after June 15, 2009, and shall be applied prospectively. Earlier adoption is permitted for periods ending after March 15, 2009. The Company does not expect the adoption of FSP SFAS 157-4 to have a material impact on its (consolidated) financial statements.

In April 2009, the FASB issued FSP SFAS 107-1 and Accounting Principles Board (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments. FSP SFAS 107-1 and APB 28-1 amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. In addition, the FSP amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. The FSP is effective for interim periods ending after June 15, 2009, with earlier adoption permitted for periods ending after March 15, 2009. The Company does not expect the adoption of FSP SFAS 107-1 and APB 28-1 to have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP SFAS 115-1 and SFAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. FSP FAS 115-1 and SFAS 124-2 amend other-than-temporary impairment guidance for debt securities to make guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. The FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP SFAS 115-1 and SFAS 124-2 are effective for interim and annual periods ending after June 15, 2009, with earlier adoption permitted for periods ending after March 15, 2009. The Company does not expect the adoption of FSP SFAS 115-1 and SFAS 124-2 to have a material impact on its consolidated financial statements.

In April 2009, the SEC issued Staff Accounting Bulletin No. 111 (SAB 111). SAB 111 amends and replaces SAB Topic 5.M. in the SAB Series entitled Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities. SAB 111 maintains the SEC Staff s previous views related to equity securities and amends Topic 5.M. to exclude debt securities from its scope. The Company does not expect the implementation of SAB 111 to have a material impact on its consolidated financial statements.

In May 2009, the FASB issued SFAS 165, Subsequent Events, (SFAS 165) to provide guidance on when a subsequent event should be recognized in the financial statements. Subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet should be recognized at the balance sheet date. Subsequent events that provide evidence about conditions that arose after the balance sheet date but before financial statements are issued, or are available to be issued, are not required to be recognized. The date through which subsequent events have been evaluated must be disclosed as well as whether it is the date the financial statements were issued or the date the financial statements were available to be issued. For nonrecognized subsequent events which should be disclosed to keep the financial statements from being misleading, the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made, should be disclosed. The standard is effective for interim or annual periods ending after June 15, 2009. See Note 14 for the Company s evaluation of subsequent events.

In June 2009, the FASB issued SFAS 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140, (SFAS 166). SFAS 166 limits the circumstances in which a financial asset should be derecognized when the transferor has not transferred the entire financial asset by taking into consideration the transferor s continuing involvement. The standard requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor s beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The concept of a qualifying special-purpose entity is removed from SFAS 140 along with the exception from applying FIN 46(R). The standard is effective for the first annual reporting period that begins after November 15, 2009, for interim periods within the first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company does not expect SFAS 166 to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued SFAS 167, Amendments to FASB Interpretation No. 46(R), (SFAS 167). The standard amends FASB Interpretation Number (FIN) 46(R) to require a company to analyze whether its interest in a variable interest entity (VIE) gives it a controlling financial interest. A company must assess whether it has an implicit financial responsibility to ensure that the VIE operates as designed when determining whether it has the power to direct the activities of the VIE that significantly impact its economic performance. Ongoing reassessments of whether a company is the primary beneficiary is also required by the standard. SFAS 167 amends the criteria to qualify as a primary beneficiary as well as how to determine the existence of a VIE. The standard also eliminates certain exceptions that were available under FIN 46(R). SFAS 167 is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. Comparative disclosures will be required for periods after the effective date. The Company does not expect SFAS 167 to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued SFAS 168, The *FASB Accounting Standards Codification*™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 establishes the *FASB Accounting Standards Codification* ™ (Codification) as the source of authoritative generally accepted accounting principles for nongovernmental entities. SFAS 168 is effective for interim and annual periods ending after September 15, 2009, and is not expected to have a material impact on the Company s consolidated financial statements.

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In June 2009, the SEC issued Staff Accounting Bulletin No. 112 (SAB 112). SAB 112 revises or rescinds portions of the interpretative guidance included in the codification of SABs in order to make the interpretive guidance consistent with current U.S. GAAP. The Company does not expect the adoption of SAB 112 to have a material impact on its consolidated financial statements.

4. MERGERS AND ACQUISITIONS

Business Combinations

On May 31, 2008, the Company acquired each of TFC and BOE. The transaction with TFC was valued at $53.0 million. Total consideration paid to TFC shareholders consisted of 6,544,840 shares of the Company s common stock issued. The transaction resulted in total assets acquired at May 31, 2008 of $268.8 million, including $241.9 million of loans, and liabilities assumed were $241.7 million, including $232.1 million of deposits. The transaction with BOE was valued at $53.9 million. Total consideration paid to BOE shareholders consisted of 6,957,405 shares of the Company s common stock issued. This transaction resulted in total assets acquired at May 31, 2008 of $317.6 million, including $233.3 million of loans, and liabilities assumed were $288.0 million, including $256.4 million of deposits. Due to the mergers with each of TFC and BOE, the Company recorded approximately $37.2 million in goodwill and $15.0 million in core deposit intangibles as of May 31, 2008.

Immediately following the mergers with TFC and BOE, the Company operated TransCommunity Bank and the Bank as separate banking subsidiaries. TransCommunity Bank s offices operated under the Bank of Goochland, Bank of Powhatan, Bank of Louisa and Bank of Rockbridge division names. Effective July 31, 2008, TransCommunity Bank was consolidated into the Bank under the Bank s state charter. As a result, the Company was a one-bank holding company at the September 30, 2008 reporting date.

Acquisition of Georgia Operations

On November 21, 2008, the Bank acquired certain assets and assumed all deposit liabilities relating to four former branch offices of The Community Bank (TCB), a Georgia state-chartered bank. The transaction was consummated pursuant to a Purchase and Assumption Agreement, dated November 21, 2008, by and among the Federal Deposit Insurance Corporation (FDIC), as Receiver for The Community Bank, Bank of Essex and the FDIC. Management evaluated the applicability of Statement of Financial Accounting Standards (SFAS) No.141, *Business Combinations* , as well as EITF 98-3 *Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business* in determining the accounting for this transaction. Based upon an assessment of the transaction, management determined that there were significant limitations on the resources transferred and, therefore, concluded that the net assets acquired did not meet the definition of a Business as required by these authoritative standards. Accordingly, the transaction was accounted for as an asset purchase.

Pursuant to the terms of the Purchase and Assumption Agreement, the Bank assumed approximately $619.0 million in deposits, approximately $233.9 million of which were deemed to be core deposits, and paid the FDIC a premium of 1.36% on the core deposits amounting to approximately $3.2 million. All deposits insured prior to the closing of the transaction maintained their current insurance coverage.

The Company also acquired assets of $87.5 million as follows (dollars in thousands):

Cash and cash equivalents	$ 54,439
Investment securities	31,304
Loans and accrued interest	1,593
Other assets	135
Total assets	$ 87,471

The loans acquired were those fully secured by deposit accounts. The Bank did not purchase any additional loans as of December 31, 2008.

The Bank had 60 days to evaluate and, at its sole option, purchase any of the remaining TCB loans. As a result, the Bank purchased 175 loans totaling approximately $21 million on January 9, 2009. Also, the Bank had 90 days to evaluate and, at its sole option, purchase the premises and equipment. The Bank agreed to purchase all four former banking premises of TCB for $6.4 million on February 19, 2009.

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Acquisition of Maryland Operations

On January 30, 2009, the Bank acquired certain assets and assumed all deposit liabilities relating to seven former branch offices of Suburban Federal Savings Bank, Crofton, Maryland. The transaction was consummated pursuant to a Purchase and Assumption Agreement, dated January 30, 2009, by and among the FDIC, as Receiver for SFSB, the Bank and the FDIC.

Pursuant to the terms of the Purchase and Assumption Agreement, the Bank assumed approximately $303 million in deposits, all of which were deemed to be core deposits and maintain their current insurance coverage. The Bank also acquired approximately $358 million in loans and other assets and agreed to provide loan servicing to SFSB s existing loan customers. The Bank bid a negative $45 million for the net assets acquired.

The Bank has entered into shared-loss agreements with the FDIC with respect to certain covered assets acquired. See Notes 9 and 10 for additional information related to certain assets covered under the FDIC shared-loss agreements.

In relation to this acquisition, the Company followed the acquisition method of accounting as outlined in SFAS 141(R), *Business Combinations* . Management relied on external analyses by appraisers in determining the fair value of assets acquired and liabilities assumed. The following table provides the allocation of the negative bid in the financial statements, based on those analyses (dollars in thousands):

	SFSB
Negative bid on SFSB transaction	$ 45,000
Adjustments to assets acquired and liabilities assumed:	
Fair value adjustments:	
Loans	(102,011)
Foreclosed real estate	(10,428)
FDIC Indemnification	84,584
Deposits	(1,455)
Core deposit intangible	2,158
Other adjustments	(1,644)
Net assets acquired, pre-tax	16,204
Deferred tax liability	(5,509)
Net assets acquired, net of tax	$ 10,695
Fair value of assets acquired	
Cash and cash equivalents	$ 54,717
Investment securities	4,954
Loans receivable	198,253
Foreclosed real estate	9,416
FDIC Indemnification	84,584
Other assets	6,318
Fair value of assets acquired	$ 358,242
Fair value of liabilities assumed	
Deposits	$ 302,756
FHLB advances	37,525
Deferred taxes	5,509
Other liabilities	1,757
Fair value of liabilities assumed	$ 347,547

Net assets acquired at fair value	$	10,695

As a result of the acquisition of the operations of SFSB, the Company recorded a one-time gain of $16.2 million in the first quarter of 2009.

The Company engaged two external firms to assess credit quality and fair market value of the loan portfolio. An external firm performed a 100% credit review on the entire portfolio and classified each of the loans into several homogenous pools of credit risk and levels of impairment. An external firm specializing in fair market valuations then used the credit review results to determine the current fair market as defined in SFAS No. 157, *Fair Value Measurements* (*ASC 820 Fair Value Measurements and Disclosures*). The fair value assessment was based on several measures, including asset quality, contractual interest rates, current market interest rates, and other underlying factors and the analysis divided the portfolio into the following segments:

- Acquisition, development, and construction loans
- Residential first mortgage loans
- Consumer real estate loans
- Commercial real estate loans

The following three general approaches were used in the valuation analyses the asset-based approach, the market approach, and the income approach.

Certificate of deposits (CDs) and the core deposit intangible (premium paid to acquire the core deposits of SFSB) were marked to market using a third-party analysis of cash flow, interest rate, maturity dates or weighted average life, balances, attrition rates, and current market rates.

The Company has reviewed certain contracts between SFSB and its vendors in order to identify any efficiencies from the merger through contract cancellation. Costs of cancelling certain contracts that are material would change the amount of the gain recorded.

Supplemental pro forma information reflecting the revenue and earnings of the combined entity for the current reporting period as though the acquisition date for the business combination had occurred at the beginning of the annual reporting period, and similar comparative information for the prior year, has not been disclosed. Management has determined that it is impracticable to provide this information due to a lack of reliability of financial information produced by SFSB prior to the acquisition and the costs that would be incurred to reproduce the information with an appropriate level of reliability.

5. GOODWILL AND INTANGIBLE ASSETS

The Company follows SFAS 142, *Goodwill and Other Intangible Assets*, which prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. Provisions within SFAS 142 discontinue any amortization of goodwill and intangible assets with indefinite lives, and require at least an annual impairment review or more often if certain impairment conditions exist. With the TFC and BOE mergers consummated May 31, 2008, there were significant amounts of goodwill and other intangible assets recorded. Goodwill was assessed for potential impairment as of May 31, 2009, the anniversary date of the mergers.

Since the mergers in 2008, there has been further decline in economic conditions, which has significantly affected the banking sector and the Company s financial condition and results. The Company s average closing stock price during the second quarter of 2008 and 2009 was $6.64 per share and $3.67 per share, respectively, which represented a 44.73% decline. On the last business day prior to May 31, 2009, the closing stock price was $3.10 per share.

The initial step in identifying potential impairment involves comparing the current fair value of such goodwill to its recorded or carrying amount. If the carrying value exceeds such fair value, there is possible impairment. Next, a second step is performed to determine the amount of the impairment, if any. This step requires a comparison of the Company s book value to the fair value of its assets, liabilities, and intangibles. If the carrying amount of goodwill exceeds the fair value, an impairment charge must be recorded in an amount equal to the excess. Management retained a business valuation expert to assist in determining the level and extent to which goodwill was impaired. The Company determined that goodwill was impaired as of May 31, 2009, and a $24.0 million impairment charge was recorded during the second quarter of 2009. Because the acquisitions were considered a tax-free exchange, the goodwill impairment charge cannot be deducted for tax purposes, and as such, an income tax benefit cannot be recorded. Due to this tax treatment, the goodwill impairment charge will be reflected as a permanent difference in the deferred tax calculation.

In determining the goodwill impairment charge, the reporting unit was defined as Community Bankers Trust Corporation, as the Company has determined that it has no reportable segments or components of a segment, as defined in SFAS No. 142, *Goodwill and Other Intangible Assets (ASC 350 Intangibles Goodwill and Other).*

The Company used and weighted two valuation methods in determining the fair value of the reporting unit the guideline transaction method and the discounted cash flow method. The guideline transaction method uses actual change-of-control transactions involving entities similar to the reporting unit. These transactions consist of merger and acquisition transactions involving financial institutions, and the Company derived the fair value of the reporting unit based on the price/tangible book value multiples and core deposit premiums reported in these transactions. The Company used this method as it reflects the guidance in SFAS No. 142, which is consistent with SFAS No. 157, that the estimate of fair value shall be based on the best information available, including prices for similar assets and liabilities . . . .

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The discounted cash flow analysis relies upon a projection of future cash flows, the present value of which represents the value of the reporting unit. Management supplied projections of the reporting unit s future balance sheets and income statements, which were used in the analysis. Under the discounted cash flow method, the value of the reporting unit is the sum of the distributable cash flows generated by the reporting unit and a terminal value in 2013 representing the value of all future cash flows. The Company used the discounted cash flow method because market participants commonly use discounted cash flow analyses in acquisitions of financial institutions, as the value of an enterprise is equal to its future cash flows. Further, SFAS No. 142 indicates that, A present value technique is often the best available technique with which to estimate the fair value of a group of net assets (such as a reporting unit) . . . .

The Company then compared the conclusion of value indicated by the preceding valuation methods to the Company s market capitalization and the valuation multiples for a group of comparable publicly traded banks to the Company.

In determining a conclusion of value for the reporting unit, the guideline transactions method received two-thirds of the total weight (split equally between the indications of value based on tangible book value and core deposits), and the discounted cash flow method received one-third of the total weighting. This weighting methodology reflects that actual transactions involving enterprises with similar characteristics to the subject reporting unit provide the most meaningful indication of value. The Company weighted the discounted cash flow method as it is commonly employed in the financial services industry and represents a value based on the future cash flows generated by the reporting unit.

The material assumptions used and the sensitivity in them for the two valuation methods used are as follows:

The guideline transactions method derives the fair value of the reporting unit using (a) the reporting unit s tangible book value and core deposits at May 31, 2009 and (b) multiples of tangible book value and core deposits derived from marketplace transactions, as reported by SNL Financial. The multiples were derived from two groups of transactions (a) transactions announced between June 1, 2008 and May 31, 2009 involving banks located nationwide with assets greater than $250 million and (b) transactions announced between June 1, 2008 and May 31, 2009 involving banks and thrifts located in the Mid-Atlantic region. A change in the price/tangible book value multiple by 10% would affect the value by a like amount. A change in the core deposit premium by 10% would affect the value by approximately 2%.

The discounted cash flow method relies upon a projection of the reporting unit s future financial performance, including assumptions as to its future balance sheet growth, asset composition, funding mix, asset quality, capital levels, net interest income, non-interest income, non-interest expenses, loan loss provision, income taxes, and distributable cash flows. In addition, the discounted cash flow method requires a terminal value, which reflects the value of the reporting unit after the end of the finite forecast period. The terminal value is a function of the reporting unit s projected 2013 net income and tangible book value, and multiples of net income and tangible book value. The Company then discounts the projected future cash flows and terminal value to the present at a discount rate derived from marketplace assumptions as to returns demanded on equity investments.

Particularly significant assumptions in the discounted cash flow method include (a) the reporting unit s future net income and distributable cash flows, (b) the terminal multiple of earnings or tangible book value, and (c) the discount rate.

Goodwill will be next assessed for potential impairment as of December 31, 2009, as management determined that goodwill will be evaluated in the future on an annual basis coinciding with the end of the fiscal year, unless economic or other circumstances warrant evaluations at additional times.

During 2008, management discovered that there was an error in the fair value of stock options issued by the Company in settlement of the TFC and BOE stock options outstanding as of the respective merger dates. When correcting this valuation error, the adjustment was inadvertently recorded twice. The result was an understatement of Goodwill and Deferred Taxes Liabilities of approximately $2.9 million and $1.5 million, respectively. An adjustment has been made to correct this error and the financial statements for the year ended December 31, 2008 have been restated.

Core deposit intangible assets are amortized over the period of expected benefit, ranging from 2.6 to 9 years. Core deposit intangibles are recognized, amortized and evaluated for impairment as required by SFAS No. 142, *Goodwill and Other Intangible Assets (ASC 350 Intangibles Goodwill and Other)*. Due to the mergers with TFC and BOE on May 31, 2008, the Company recorded approximately $15.0 million in core deposit intangible assets. Core deposit intangibles related to the Georgia and Maryland transactions equaled $3.1 million and $2.2 million, respectively, and will be amortized over approximately 9 years.

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Goodwill and core deposit intangible assets are presented in the following table:

	Gross Carrying Value	Accumulated Amortization	Impairment	Net Carrying Value
		(dollars in thousands)		
December 31, 2008				
Goodwill (restated)	$ 37,184		$	$ 37,184
Core deposit intangibles	$ 18,132	$ 969		$ 17,163
June 30, 2009				
Goodwill	$ 37,184		$ 24,032	$ 13,152
Core deposit intangibles	$ 20,290	$ 2,079		$ 18,211

6. FAIR VALUE MEASUREMENTS

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale, trading securities and derivatives, if present, are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

Under SFAS 157, *Fair Value Measurement*, 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.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities recorded 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 only utilizes third party vendors to provide fair value data for purposes of recording amounts related to the fair value measurements of its securities available for sale portfolio. An AICPA Statement on Auditing Standard Number 70 (SAS 70) report is obtained from the third party vendor on an annual basis. The third party vendor also utilizes 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. The Company makes no adjustments to the pricing service data received for its securities available for sale.

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

Loans held for sale

Loans held for sale are recorded at the lower of cost or fair value each reporting period, and are comprised of residential mortgages. These loans are held for a short period of time with the intention of being sold on the secondary market. Therefore, the fair value is determined on rates currently offered using observable market information, which does not deviate materially from the cost value. If there are any adjustments to record the loan at the lower of cost of market value, it would be reflected in the consolidated statements of income. It was determined that the cost value recorded at June 30, 2009 was similar to the fair value, and therefore no adjustment was necessary. Due to the observable market data available in pricing these loans held for sale, they were considered as Level 2.

Loans

Except for loans that the Company acquired in the SFSB transaction, the Company does not record unimpaired loans held for investment at fair value each reporting period. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. 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 impairment in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan (ASC 310 Receivables)*. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments

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or collateral exceed the recorded investments in such loans.

In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. The Bank frequently obtains appraisals prepared by external professional appraisers for classified loans greater than $250,000 when the most recent appraisal is greater than 12 months old. The appraisal, based on the date of preparation, becomes only a part of the determination of the amount of any loan write-off, with current market conditions and the collateral s location being other determinants. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2.

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

Reviews of classified loans are performed by management on a quarterly basis. At June 30, 2009, substantially all of the impaired loans were evaluated based on the fair value of the collateral.

Other real estate owned

Other real estate owned (OREO), including foreclosed assets, is adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, OREO is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management s estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the OREO as a nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

Goodwill

See Note 5 for a description of valuation methodologies for goodwill.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis.

	June 30, 2009			
	Total	**Level 1**	**Level 2**	**Level 3**
	(dollars in thousands)			
U.S. Treasury issue and U.S. government securities	$ 15,383	$	$ 15,383	$
State, county, and municipal	78,350		78,350	
Corporate and other bonds	6,748		6,748	
Mortgage backed securities	77,059		77,059	
Financial stocks	1,383	1,383		
Investment securities available-for-sale	178,923	1,383	177,540	
Loans covered by FDIC shared-loss agreements	178,312			178,312
FDIC indemnification asset	83,591			83,591
Loans held for sale	668		668	
Total assets at fair value	$ 441,494	$ 1,383	$ 178,208	$ 261,903
Total liabilities at fair value	$	$	$	$

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Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These assets include assets that are measured at the lower of cost value or market value that were recognized at fair value below cost at the end of the period.

The table below presents the recorded amount of assets and liabilities measured at fair value on a nonrecurring basis.

	June 30, 2009			
	Total	Level 1	Level 2	Level 3
	(dollars in thousands)			
Loans impaired loans with a valuation allowance	$ 24,681	$	$ 22,673	$ 2,008
Other real estate owned (OREO), covered by FDIC shared-loss agreement	12,521		1,450	11,071
Other real estate owned (OREO), non covered	864		864	
Goodwill	13,152			13,152
Total assets at fair value	$ 51,218	$	$ 24,897	$ 26,231
Total liabilities at fair value	$	$	$	$

The Company had no Level 1 assets measured at fair value on a nonrecurring basis at June 30, 2009.

ASC 820, *Fair Value Measurements and Disclosures,* 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 basis or non-recurring basis.

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. ASC 820 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 Corporation.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Short-Term Investments

For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities

For securities held for investment purposes, 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 entity.

Loans Receivable

For certain homogeneous categories of loans, such as some residential mortgages, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposit Liabilities

The fair value of demand deposits, 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.

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Long-Term Borrowings

The fair values of the Corporation s long-term borrowings are estimated using discounted cash flow analyses based on the Corporation s current incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest

The carrying amounts of accrued interest 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.

At June 30, 2009, the fair values of loan commitments and stand-by letters of credit were deemed to be immaterial.

The fair values and carrying values are as follows:

	June 30, 2009	
(dollars in thousands)	**Carrying Value**	**Fair Value**
Financial assets:		
Cash and cash equivalents	$ 60,098	$ 60,137
Securities available for sale	178,923	178,923
Securities held to maturity	130,113	131,752
Equity securities	6,838	6,838
Loans held for sale	668	668
Loans, non covered, net	539,614	540,433
Loans covered by FDIC shared-loss agreement	178,312	178,312
FDIC indemnification asset	83,591	83,591
Accrued interest receivable	5,572	5,572
Goodwill	13,152	13,152
Financial liabilities:		
Deposits	1,067,447	1,075,303
Borrowings	41,124	41,676
Accrued interest payable	5,670	5,670

The Corporation 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 Corporation s financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Corporation. 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 Corporation s overall interest rate risk.

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7. SECURITIES

Amortized costs and fair values of securities available for sale at June 30, 2009 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury issue and other U.S. Government agencies	$ 15,025	$ 372	$ (13)	$ 15,384
State, county and municipal	78,162	886	(697)	78,351
Corporates and other bonds	6,663	86	(1)	6,748
Mortgage backed securities	75,711	1,502	(156)	77,057
Other securities	1,278	157	(52)	1,383
Total securities available for sale	$ 176,839	$ 3,003	$ (919)	$ 178,923

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The fair value and gross unrealized losses for securities available for sale, totaled by the length of time that individual securities have been in a continuous gross unrealized loss position, at June 30, 2009 were as follows:

	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury issue and other U.S. Government agencies	$ 486	$ (13)	$	$	$ 486	$ (13)
State, county and municipal	29,795	(586)	2,076	(111)	31,871	(697)
Corporates and other bonds	1,004	(1)	250		1,254	(1)
Mortgage backed securities	11,829	(156)	2		11,831	(156)
Other securities	470	(45)	12	(7)	482	(52)
Total securities available for sale	$ 43,584	$ (801)	$ 2,340	$ (118)	$ 45,924	$ (919)

As of June 30, 2009, there were $2.3 million of securities available for sale that were in a continuous loss position for more than twelve months with unrealized losses of $118,000 and consisted primarily of municipal obligations. Management continually monitors the fair value and credit quality of the Company s investment portfolio. Furthermore, a third party vendor prepares a report for other than temporarily impaired evaluations. Management reviews this report monthly, and there were no investments considered other than temporarily impaired at June 30, 2009.

Amortized costs and fair values of securities held to maturity at June 30, 2009 were as follows:

		Gross Unrealized		
(dollars in thousands)	Amortized Cost	Gains	Losses	Fair Value
U.S. Treasury issue and other U.S. Government agencies	$ 748	$	$ (15)	$ 733
State, county and municipal	13,111	336	(32)	13,415
Corporates and other bonds	1,035	9		1,044
Mortgage backed securities	115,219	1,750	(409)	116,560
Total securities held to maturity	$ 130,113	$ 2,095	$ (456)	$ 131,752

The fair value and gross unrealized losses for securities held to maturity, totaled by the length of time that individual securities have been in a continuous gross unrealized loss position, at June 30, 2009 were as follows:

	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury issue and other U.S. Government agencies	$ 733	$ (15)	$	$	$ 733	$ (15)
State, county and municipal	2,140	(35)			2,140	(35)
Corporates and other bonds						
Mortgage backed securities	32,790	(406)			32,790	(406)
Total securities held to maturity	$ 35,663	$ (456)	$	$	$ 35,663	$ (456)

Management continually monitors the fair value and credit quality of the Company s investment portfolio. At June 30, 2009, all impairments of securities held to maturity are considered temporary as the unrealized losses are related to market risk and not credit risk. The Company does not intend to sell the securities and it is not likely that the company will be required to sell the security before recovery of its amortized cost. Issuers of the securities held to maturity and available for sale are of suitable credit quality and all of the securities are of investment grade.

The Company s investment in Federal Home Loan Bank (FHLB) stock totaled $3.6 million at June 30, 2009. FHLB stock is restricted since it is not actively traded on an exchange, and is owned solely by the FHLB and its member institutions. The Company records FHLB stock on a cost basis. When evaluating FHLB stock for impairment, its value is based on recovery of the par value rather than by recognizing temporary decline in value.

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8. LOANS NON COVERED

The Company s loan portfolio for loans not covered by the FDIC shared-loss agreement, at June 30, 2009 and December 31, 2008, was comprised of the following (dollars in thousands):

	June 30, 2009 Non-covered loans		December 31, 2008 Non-covered loans	
Open End 1-4 Family loans	$ 29,703	5.38%	$ 30,323	5.80%
1-4 Family First Liens	106,665	19.34%	99,284	18.98%
Total residential 1-4 family	$ 136,368	24.72%	129,607	24.78%
Owner occupied nonfarm nonresidential	77,036	13.97%	63,218	12.09%
Non owner occupied nonfarm nonresidential	100,441	18.21%	93,872	17.95%
Total commercial	177,477	32.18%	157,090	30.03%
1-4 Family Construction	30,462	5.52%	36,277	6.93%
Other construction and land development	107,489	19.49%	103,238	19.74%
Total construction	137,951	25.01%	139,515	26.67%
Second mortgages	14,356	2.60%	15,599	2.98%
Multifamily	9,152	1.66%	9,370	1.79%
Agriculture	4,859	0.88%	5,143	0.98%
Total real estate loans	**480,163**	**87.05%**	**456,324**	**87.23%**
Agriculture loans	1,398	0.25%	988	0.19%
Commercial and industrial loans	44,287	8.03%	44,332	8.48%
Total commercial loans	**45,685**	**8.28%**	**45,320**	**8.67%**
Total revolving credit and other consumer	**13,490**	**2.45%**	**14,457**	**2.76%**
All other loans	**12,228**	**2.22%**	**7,005**	**1.34%**
Gross loans	**551,566**	**100.00%**	**523,106**	**100.00%**
Unearned income on loans	**(702)**		**(780)**	
Merger related fair value adjustment	**935**		**972**	
Total non-covered loans	**$ 551,799**		**$ 523,298**	

The following is a summary of information for impaired and nonaccrual loans as of June 30, 2009, excluding FDIC covered assets (dollars in thousands):

	Amount

Impaired loans without a valuation allowance	$ 24,188
Impaired loans with a valuation allowance	24,681
Total impaired loans	$ 48,869
Valuation allowance related to impaired loans	$ 6,729
Total nonaccrual loans	$ 24,482
Total loans 90 days or more past due and still accruing	$ 514
Average investment in impaired loans during the six months ending June 30, 2009	$ 39,166
Interest income recognized on impaired loans	$ 773
Interest income recognized on a cash basis on impaired loans	$ 773

See *Management s Discussion and Analysis of Financial Condition and Results of Operations Asset Quality* for additional information regarding impaired loans.

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9. COVERED ASSETS

The Company is applying the provisions of FASB ASC 310 to all loans acquired in the SFSB acquisition (the covered loans).

The following table reflects the contractual cash flows, cash flows expected at acquisition, and fair value of loans as of the acquisition date. These amounts were determined based upon the estimated remaining life of the covered loans, which includes the effects of prepayments.

(In Thousands)	Total Loans
Contractually required principal and interest at acquisition	$ 431,081
Nonaccretable difference (expected losses of $99,648 and foregone interest of $72,157)	171,805
Cash flows expected to be collected at acquisition	$ 259,276
Accretable yield (interest component of expected cash flows)	61,023
Basis in acquired loans at acquisition	$ 198,253

As of January 1, 2009 there were no covered loans. As of June 30, 2009, the outstanding balance of the covered loans accounted for under FASB ASC 310-30 is $278,201. The carrying amount as of June 30, 2009 is comprised of the following.

(Dollars in Thousands)	June 30, 2009 Covered Loans	
Open End 1-4 Family Loans	$ 8,341	4.68%
1-4 Family First Liens	124,900	70.04%
Total residential 1-4 family	133,241	74.72%
Owner occupied nonfarm nonresidential		0.00%
Non owner occupied nonfarm nonresidential	6,767	3.80%
Total commercial	6,767	3.80%
1-4 Family Construction	8,184	4.59%
Other construction and land dev.	20,260	11.36%
Total construction	28,444	15.95%
Second mortgages	9,316	5.22%
Multifamily		0.00%
Agriculture	245	0.14%
Total real estate loans	**178,013**	**99.83%**
Agriculture loans		0.00%
Commercial and industrial loans		0.00%
Total commercial loans		0.00%

Total revolving credit and other consumer	299	0.17%
Total covered loans	$ 178,312	100.00%

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The change in the accretable yield balance since January 1, 2009 is as follows:

	Accretable Yield
Balance at January 1, 2009	$
Additions	61,023
Less Accretion	(7,228)
Reclassification from (to) Nonaccretable Yield	
Balance at June 30, 2009	$ 53,795

These loans are not classified as nonperforming assets June 30, 2009 as the loans are accounted for on a pooled basis and the pools are considered to be performing. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased loans. There was no allowance for loan losses recorded on covered loans at June 30, 2009.

10. SHARED-LOSS AGREEMENTS AND FDIC INDEMNIFICATION ASSET

On January 30, 2009, the Company entered into a purchase and assumption agreement with shared-loss with the FDIC to assume all of the deposits and acquire certain assets of Suburban Federal Savings Bank. Under the shared-loss agreements, the FDIC will reimburse the Bank for 80% of losses arising from covered loans and foreclosed real estate assets, on the first $118 million of such covered loans and foreclosed real estate assets, and for 95% of losses on covered loans and foreclosed real estate assets thereafter. Under the shared-loss agreements, a loss on a covered loan or foreclosed real estate is defined generally as a realized loss incurred through a permitted disposition, foreclosure, short-sale or restructuring of the covered loan or foreclosed real estate. The reimbursements for losses on single family one-to-four residential mortgage loans are to be made monthly until the end of the month in which the tenth anniversary of the closing of the transaction occurs, and the reimbursements for losses on other covered assets are to be made quarterly until the end of the quarter in which the eighth anniversary of the closing of the transaction occurs. The shared-loss agreements provide for indemnification from the first dollar of losses without any threshold requirement. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction, January 30, 2009. New loans made after that date are not covered by the shared-loss agreements. The fair value of this loss sharing agreement is detailed below.

The Company is accounting for the shared-loss agreements as an indemnification asset pursuant to the guidance in FASB ASC 805 *Business Combinations* (formerly SFAS 141(R). The FDIC indemnification asset is measured separately from the covered loans and other real estate owned assets because it is not contractually embedded in the covered loan and other real estate owned assets and is not transferable should the Company choose to dispose of them. Fair value was estimated using projected cash flows available for loss sharing based on the credit adjustments estimated for each loan pool and OREO and the loss sharing percentages outlined in the Purchase and Assumption Agreements with the FDIC. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

Because the acquired loans are subject to a FDIC loss sharing agreement 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 loss expectations will also have an impact to the accretable yield for the FDIC indemnification asset. Improvement in loss expectations will typically increase loan accretable yield and decrease the yield on 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 non-interest income for the amount of the increase in the FDIC indemnification asset.

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The following tables present the balances of the FDIC indemnification asset related to the Suburban Federal Savings Bank transaction at January 30, 2009 (the transaction date) and December 31, 2009:

(In Thousands)	**January 30, 2009**
Anticipated realizable loss	$ 108,756
Assumed loss sharing recovery percentage	approximately 80 %
Estimated loss sharing value	86,988
Premium (discount)	(2,404)
FDIC indemnification asset	$ 84,584

	June 30, 2009
Anticipated realizable loss remaining	$ 107,119
Assumed loss sharing recovery percentage	approximately 80 %
Estimated loss sharing value	85,695
Premium (discount)	(2,104)
FDIC indemnification asset	$ 83,591

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11. ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses, for the three and six months ended June 30, 2009; the one month ended June 30, 2008 and the five months ended May 31, 2008 Predecessor period was comprised of the following:

(dollars in thousands)	Three months ended June 30, 2009	Six months ended June 30, 2009	One month ended June 30, 2008	BOE Predecessor Five months ended May 31, 2008	TFC Predecessor Five months ended May 31, 2008
Beginning allowance	$ 11,543	$ 6,939	$ 5,305	$ 2,595	$ 3,036
Provision for loan losses	540	6,040	234	200	1,348
Recoveries of loans charged off	43	82	13	25	
Loans charged off	59	(876)	(7)	(91)	(958)
Allowance at end of period	$ 12,185	$ 12,185	$ 5,545	$ 2,729	$ 3,426

For information reported for June 30, 2008, the figures presented are solely for the month of June 2008, as the Company did not have banking operations prior to its merger with each of TFC and BOE at May 31, 2008, and as such, did not have an allowance for loan losses.

At June 30, 2009, total impaired loans equaled $48.9 million, excluding FDIC covered assets. As required by the fair value accounting rules for the SFSB transaction in the first quarter of 2009, no allowance for loan losses was recorded on loans acquired since the loans were recorded at fair value and adjusted for expected credit losses, less amounts to be reimbursed by the FDIC. For additional information regarding the accounting entries, see the Company s Current Report on Form 8-K/A (Amendment No. 1) filed on April 17, 2009, under Note 2 Description of the Pro Forma Purchase Accounting Adjustments.

Significant provisions were made to the loan loss reserve during the six months ended June 30, 2009, as economic conditions deteriorated. In addition, net-charge off activity increased as certain loans were deemed uncollectible.

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The following table presents charge-offs and recoveries by loan category for the three and six months ended June 30, 2009, the one month ended June 30, 2008, and for Predecessor companies for the five months ended May 31, 2008.

	For the three months ended June 30, 2009			For the six months ended June 30, 2009			For the one month ended June 30, 2008			BOE Predecessor For the five months ended May 31, 2008			TFC Predecessor For the five months ended May 31, 2008		
(dollars in thousands)	Charge-offs	Recoveries	Net Charge-offs	Charge-offs	Recoveries	Net Charge-offs	Charge-offs	Recoveries	Net Charge-offs	Charge-offs	Recoveries	Net Charge-offs	Charge-offs	Recoveries	Net Charge-offs
Open End 1-4 Family loans	$ (114)	$	$ (114												