

Community Bankers Trust Corp
Form 10-K
March 11, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 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
(State or other jurisdiction of
incorporation or organization)

20-2652949
(I.R.S. Employer
Identification No.)

9954 Mayland Drive, Suite 2100 23233
Richmond, Virginia
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large accelerated filer

Accelerated
filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting
company

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$104,931,804

On February 29, 2016, there were 21,869,444 shares of the registrant's common stock, par value \$0.01, outstanding, which is the only class of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be used in conjunction with the registrant's 2016 Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

GENERAL

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

The Bank was established in 1926. The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals and small businesses, including individual and commercial demand and time deposit accounts, commercial and industrial loans, consumer and small business loans, real estate and mortgage loans, investment services, on-line and mobile banking products, and safe deposit box facilities. Fourteen full-service offices are located in Virginia, from the Chesapeake Bay to just west of Richmond, and seven are located in Maryland along the Baltimore-Washington corridor.

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

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

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

STRATEGY

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

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

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

During 2015, the Company focused on diversified growth in its core markets by increasing loan and deposit production, decreasing operating expenses and increasing net income. The Company accomplished these results as it grew loans by approximately \$88.7 million and added two new retail banking offices, which helped add \$11.7 million in noninterest bearing deposits. The Company also terminated its shared loss agreement with the Federal Deposit Insurance Corporation (the "FDIC"), which has a significant positive impact on earnings going forward.

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

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

- Organically growing the size of the loan portfolio
- Changing the deposit mix to more transaction-based accounts by increasing demand deposits
 - Utilizing technology to attract new customers and lower costs
 - Continuing to reduce non-performing assets and other real estate owned
 - Enhancing the delivery system of its fee-based products
 - Expanding market share throughout Virginia and Maryland

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

OPERATIONS

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

Retail and Small Business Banking

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

Commercial and Industrial Banking

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

Commercial Real Estate Lending

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

COMPETITION

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

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

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

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

CORPORATE HISTORY

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

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

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

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

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

In January 2009, the Bank acquired substantially all assets and assumed all deposit and certain other liabilities relating to seven former branch offices of Suburban Federal Savings Bank, Crofton, Maryland (SFSB), following its failure. The transaction was consummated pursuant to a Purchase and Assumption Agreement by and among the FDIC, both as Receiver for SFSB and in its corporate capacity, and the Bank. The Bank entered into a shared loss arrangement with the FDIC with respect to loans and real estate assets acquired. The Bank terminated this arrangement on September 10, 2015.

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

TARP INVESTMENT

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

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

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

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

EMPLOYEES

As of December 31, 2015, the Company had 236 full-time equivalent employees, including executive officers, loan and other banking officers, branch personnel, operations personnel and other support personnel. None of the Company's employees is represented by a union or covered under a collective bargaining agreement. Management of the Company considers its employee relations to be excellent.

AVAILABLE INFORMATION

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

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

SUPERVISION AND REGULATION

General

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

also is subject to regulation, supervision and examination by the FDIC.

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

Bank Holding Companies

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

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

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

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

The Dodd-Frank Act

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

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

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

Company.

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

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

Capital Requirements

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

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

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

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

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

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

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

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

Capitalization Category	Total Capital Ratio (%)	Tier 1 Ratio (%)	CET1 Ratio (%)	Leverage Ratio (%)
Well capitalized (prior)	≥ 10	≥ 6	N/A	≥ 5
Well capitalized (Basel III)	≥ 10	≥ 8	≥ 6.5	≥ 5
Adequately capitalized (prior)	≥ 8	≥ 4	N/A	≥ 4
Adequately capitalized (Basel III)	≥ 8	≥ 6	≥ 4.5	≥ 4
Undercapitalized (prior)	< 8	< 4	N/A	< 4
Undercapitalized (Basel III)	< 8	< 6	< 4.5	< 4
Significantly undercapitalized (prior)	< 6	< 3	N/A	< 3
Significantly undercapitalized (Basel III)	< 6	< 4	< 3	< 3

Critically undercapitalized (prior) GAAP tangible equity ≤ 2% of average quarterly assets

Critically undercapitalized (Basel III) tangible equity (Tier 1 Capital plus non-tier 1 perpetual preferred stock) ≤ 2% of total assets

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

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

The Basel III Rule also introduces new methodologies for determining risk-weighted assets, including higher risk weightings, up to a maximum of 150%, for exposures that are more than 90 days past due or are on nonaccrual status and for certain commercial real estate facilities that finance the acquisition, development or construction of real property. The Basel III Rule also requires unrealized gains and losses on certain securities holdings to be included, or excluded, as applicable, for purposes of calculating certain regulatory capital requirements. Additionally, the Basel III Rule establishes that, for banking organizations with less than \$15 billion in assets as of December 31, 2009, the ability to treat trust preferred securities as tier 1 capital would be permanently grandfathered in.

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

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

Dividends

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

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

Deposit Insurance

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

The DIF is funded by assessments on banks and other depository institutions. As required by the Dodd-Frank Act, in February 2011, the FDIC approved a final rule that changed the assessment base for DIF assessments from domestic deposits to Tier 1 Capital. In addition, as also required by the Dodd-Frank Act, the FDIC has adopted a new large-bank pricing assessment scheme, set a target “designated reserve ratio” (described in more detail below) of 2 percent for the DIF and established a lower assessment rate schedule when the reserve ratio reaches 1.15 percent and, in lieu of dividends, provides for a lower assessment rate schedule, when the reserve ratio reaches 2 percent and 2.5 percent. An institution’s assessment rate depends upon the institution’s assigned risk category, which is based on supervisory evaluations, regulatory capital levels and certain other factors. Initial base assessment rates range from 2.5 to 45 basis points. The FDIC may make the following further adjustments to an institution’s initial base assessment rates: decreases for long-term unsecured debt including most senior unsecured debt and subordinated debt; increases

for holding long-term unsecured debt or subordinated debt issued by other insured depository institutions; and increases for broker deposits in excess of 10 percent of domestic deposits for institutions not well rated and well capitalized.

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

Incentive Compensation

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

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not “large, complex banking organizations.” These reviews will be tailored to each organization based on the scope and complexity of the organization’s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization’s supervisory ratings, which can affect the organization’s ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization’s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies. At December 31, 2015, the Company had not been made aware of any instances of non-compliance with the new guidance.

The Gramm-Leach-Bliley Act of 1999

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

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

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

Community Reinvestment Act

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

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

Fair Lending; Consumer Laws

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

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

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

Governmental Policies

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

Future Regulatory Uncertainty

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

ITEM 1A. RISK FACTORS

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

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

We face vigorous competition from other commercial banks, savings banks, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds and other types of

financial institutions for deposits, loans and other financial services in our market area. A number of these banks and other financial institutions are significantly larger than we are and have substantially greater access to capital and other resources, as well as larger lending limits and branch systems, and offer a wider array of banking services. Many of our nonbank competitors are not subject to the same extensive regulations that govern us. As a result, these non-bank competitors have advantages over us in providing certain services.

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

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

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

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

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

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

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

Our liquidity needs could adversely affect results of operations and financial condition.

Our primary sources of funds are deposits and loan repayments. While scheduled loan repayments are a relatively stable source of funds, they are subject to the ability of borrowers to repay the loans. The ability of borrowers to repay loans can be adversely affected by a number of factors, including, but not limited to, changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, availability of, and/or access to, sources of refinancing, business closings or lay-offs, inclement weather, natural disasters and international instability. Additionally, deposit levels may be affected by a number of factors, including, but not limited to, rates paid by competitors, general interest rate levels, regulatory capital requirements, returns available to customers on alternative investments and general economic conditions. Accordingly, we may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include FHLB advances, sales of securities and loans, federal funds lines of credit from correspondent banks and borrowings from the Federal Reserve Discount Window, as well as additional out-of-market time deposits and brokered deposits. While we believe that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity demands, particularly if we continue to grow and experience increasing loan demand. We may be required to slow or discontinue loan growth, capital expenditures or other investments or liquidate assets should such sources not be adequate.

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

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

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

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

We offer a variety of secured loans, including commercial lines of credit, commercial term loans, real estate, construction, home equity, consumer and other loans. Credit risk and credit losses can increase if our loans are concentrated to borrowers who, as a group, may be uniquely or disproportionately affected by economic or market conditions. Approximately 86.5% of our loans are secured by real estate, both residential and commercial, substantially all of which are located in our market area. A major change in the region's real estate market, resulting in a deterioration in real estate values, or in the local or national economy, including changes caused by raising interest rates, could adversely affect our customers' ability to pay these loans, which in turn could adversely impact us. Risk of loan defaults and foreclosures are inherent in the banking industry, and we try to limit our exposure to this risk by carefully underwriting and monitoring our extensions of credit. We cannot fully eliminate credit risk, and as a result credit losses may occur in the future.

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

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

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

have a material and negative effect on our results of operations.

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

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

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

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

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

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

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

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

We are subject to security and operational risks including risks relating to the use of technology that, if not managed properly, could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase costs and cause losses. Any such failure also could have a material adverse effect on our business, financial condition and results of operations.

To conduct our business, we rely heavily on technology-driven products and services and on communications and information systems. Our future success will depend, in part, on our ability to address customers’ needs by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in operations. We have taken measures to implement backup systems and other safeguards with respect to the physical infrastructure and systems that support our operations, but our ability to conduct business may be adversely affected by any significant and widespread disruption to its infrastructure or systems. Our financial, accounting, data processing, check processing, electronic funds transfer, loan processing, online banking, mobile banking, automated teller machines, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and can adversely affect our ability to process these transactions or provide these services. There could be sudden increases in customer transaction volume, electrical or telecommunications outages, natural disasters, events arising from local or larger scale political or social matters, including terrorist acts, and cyber attacks. We continuously update these systems to support our operations and growth. This updating entails significant costs and creates risks associated with implementing new systems and integrating them with existing ones.

Information security risks for financial institutions have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers and other external parties. Our operations rely on the secure processing, transmission and storage of confidential, proprietary and other information in our computer systems and networks. We rely on digital technologies, computer and email systems, software and networks to conduct our operations, as well as on the honesty and integrity of our employees and vendors with access to those elements. In addition, to access our products and services, customers may use computers, personal smartphones, tablet PCs and other mobile devices that are beyond our control systems. Our technologies, systems and networks and our customers' devices may be subject to, or the target of, cyber attacks, computer viruses, malicious code, phishing attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary and other information, or otherwise disrupt our or our customers' or other third parties' business operations.

We also face the risk of unauthorized activity, fraud or theft by employees and/or vendors that could result in disclosure or misuse of customers' confidential, proprietary or other information. In addition, we face the risk of operational failure, termination or capacity constraints of any of the third parties with which it does business or that facilitate its business activities, including financial intermediaries that we use to facilitate transactions. Any such failure, termination or constraint could adversely affect our ability to effect transactions, service our customers, manage our exposure to risk or expand our business and could have a significant adverse impact on our liquidity, financial condition and results of operations.

There can be no assurance that we will not experience material losses related to cyber attacks or other information security breaches. Cyber security and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for us, and we may be required to expend significant additional resources to continue to modify or enhance these protective measures or to investigate and remediate any information security vulnerabilities.

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

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

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

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

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

Regulatory authorities require us to maintain certain levels of capital to support our operations. While we remained "well capitalized" at December 31, 2015, we may need to raise additional capital in the future if we incur losses or due to regulatory mandates. The ability to raise capital, if needed, will depend in part on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we may not be able to raise capital, if and when needed, on terms acceptable to us, or at all. If we cannot raise capital when needed, our ability to increase our capital ratios could be materially impaired, and we could face regulatory challenges.

We continually encounter technological change.

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

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

The total amount of our available-for-sale securities portfolio was \$243.3 million at December 31, 2015. The measurement of the fair value of these securities involves significant judgment due to the complexity of the factors contributing to the measurement. Market volatility makes measurement of the fair value of our securities portfolio even more difficult and subjective. More generally, as market conditions continue to be volatile, we cannot provide assurance with respect to the amount of future unrealized losses in the portfolio. To the extent that any portion of the unrealized losses in these portfolios is determined to be other than temporary, and the loss is related to credit factors, we would recognize a charge to our earnings in the quarter during which such determination is made, and our capital ratios could be adversely affected.

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

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

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

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

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

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

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

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

A significant portion of our loan portfolio consists of loans secured by real estate (86.5% at December 31, 2015). We rely upon independent appraisers to estimate the value of such real estate. Appraisals are only estimates of value and

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

Our risk-management framework may not be effective in mitigating risk and loss.

We maintain an enterprise risk management program that is designed to identify, quantify, monitor, report, and control the risks that we face. These risks include interest-rate, credit, liquidity, operations, reputation, compliance and litigation. While we assess and improve this program on an ongoing basis, there can be no assurance that its approach and framework for risk management and related controls will effectively mitigate all risk and limit losses in our business. If conditions or circumstances arise that expose flaws or gaps in our risk-management program, or if its controls break down, our results of operations and financial condition may be adversely affected.

Negative perception of us through social media may adversely affect our reputation and business.

Our reputation is critical to the success of our business. We believe that our brand image has been well received by customers, reflecting the fact that the brand image, like our business, is based in part on trust and confidence. Our reputation and brand image could be negatively affected by rapid and widespread distribution of publicity through social media channels. Our reputation could also be affected by our association with customers affected negatively through social media distribution, or other third parties, or by circumstances outside of our control. Negative publicity, whether true or untrue, could affect our ability to attract or retain customers, or cause us to incur additional liabilities or costs, or result in additional regulatory scrutiny.

We are subject to extensive government regulation and supervision.

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

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

Changes in accounting standards could impact reported earnings.

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

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

Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived

and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or omission. Additionally, controls can be circumvented by individual acts, by collusion by two or more people and/or by override of the established controls. Accordingly, because of the inherent limitations in our control systems and in human nature, misstatements due to error or fraud may occur and not be detected.

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

We can give no assurances that our deferred tax asset will not become impaired in the future. At December 31, 2015, we recorded net deferred income tax assets of \$10.1 million. We assess the realization of deferred income tax assets and record a valuation allowance if it is “more likely than not” that we will not realize all or a portion of the deferred tax asset. We consider all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, we need a valuation allowance. Management’s assessment is primarily dependent on historical taxable income and projections of future taxable income, which are directly related to our core earnings capacity and our prospects to generate core earnings in the future. Projections of core earnings and taxable income are inherently subject to uncertainty and estimates that may change given an uncertain economic outlook and current banking industry conditions. Due to the uncertainty of estimates and projections, it is possible that we will be required to record adjustments to the valuation allowance in future reporting periods.

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

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

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

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

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

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

The FDIC deposit insurance assessments that we are required to pay may increase in the future, which would have an adverse effect on earnings.

As an insured depository institution, we are required to pay quarterly deposit insurance premium assessments to the FDIC to maintain the level of the FDIC deposit insurance reserve ratio. The past failures of financial institutions have significantly increased the loss provisions of the DIF, resulting in a decline in the reserve ratio. As a result of recent economic conditions and the enactment of the Dodd-Frank Act, the FDIC revised its assessment rates, which raised deposit premiums for certain insured depository institutions. If these increases are insufficient for the DIF to meet its funding requirements, further special assessments or increases in deposit insurance premiums may be required. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, the FDIC may increase the deposit insurance assessment rates. Any future assessments, increases or required prepayments in FDIC insurance premiums may materially adversely affect earnings and could negatively affect our stock price.

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

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

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

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

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

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

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

Our Articles of Incorporation and Bylaws contain provisions that may be deemed to have the effect of discouraging or delaying uninvited attempts by third parties to gain control of us. These provisions include the ability of our board to set the price, term, and rights of, and to issue, one or more series of our preferred stock. Our Articles of Incorporation and Bylaws do not provide for the ability of shareholders to call special meetings.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company operates the following offices:

Corporate Headquarters:

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

Virginia Branch Offices:

Bon Air — 2730 Buford Road, Richmond, VA 23235

Burgess — 14598 Northumberland Highway, Burgess, VA 22432

Callao — 654 Northumberland Highway, Callao, VA 22435

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

Goochland Courthouse — 1949 Sandy Hook Road, Goochland, VA 23063

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

Flat Rock — 2320 Anderson Highway, Powhatan, VA 23139

King William — 4935 Richmond-Tappahannock Highway, Aylett, VA 23009

Louisa — 217 East Main Street, Louisa, VA 23093

Mechanicsville — 6315 Mechanicsville Turnpike, Mechanicsville, VA 23111

Prince Street — 323 Prince Street, Tappahannock, VA 22560

Tappahannock — 1325 Tappahannock Boulevard, Tappahannock, VA 22560

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

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

Winterfield — 3740 Winterfield Road, Midlothian, VA 23113

Maryland Branch Offices:

Annapolis — 1835 West Street, Annapolis, MD 21401

Arnold — 1460 Ritchie Highway, Arnold, MD 21012

Bowie — 6143 High Bridge Road, Bowie, MD 20720

Catonsville — 1000 Ingleside Avenue, Catonsville, MD 21228

Crofton — 2120 Baldwin Avenue, Crofton, MD 21114

Rockville — 1101 Nelson Street, Rockville, MD 20850

Rosedale — 1230 Race Road, Rosedale, MD 21237

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

The Company opened its Bowie branch office on January 12, 2015. The Company opened its Bon Air branch office on August 3, 2015. The Company expects to open a branch office in Fairfax, Virginia (10509 Judicial Drive) on March 30, 2016.

The Company closed its branch office in Catonsville, Maryland (1000 Ingleside Avenue) on March 4, 2016.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

MARKET PRICES FOR SECURITIES

The Company's common stock trades on the NASDAQ Capital Market under the symbol "ESXB".

The following table sets summarizes the high and low sales prices for the Company's common stock for the quarterly periods during the years ended December 31, 2015 and 2014:

	2015		2014	
	High	Low	High	Low
Quarter ended March 31	\$4.52	\$4.12	\$4.10	\$3.73
Quarter ended June 30	5.09	4.30	4.54	3.85
Quarter ended September 30	5.18	4.77	4.49	4.15
Quarter ended December 31	5.50	4.88	4.54	4.30

HOLDERS OF RECORD

As of December 31, 2015, there were 2,717 holders of record of the Company's common stock, not including beneficial holders of securities held in street name.

DIVIDENDS

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

The Company's ability to distribute cash dividends will depend primarily on the ability of its banking subsidiary to pay dividends to it. The Bank is subject to legal limitations on the amount of dividends that it is permitted to pay under Section 5199(b) of the Revised Statutes (12 U.S.C. 60), and the approval of the Federal Reserve would be required if the total of all dividends declared by a state member bank in any calendar year shall exceed the total of its net profits of that year combined with its retained net profits of the preceding two years. Additionally, the Bank is further restricted by Regulation H, Section 208.5, *Dividends and Other Distributions*, which requires pre-approval of dividends that exceed undivided profits. Furthermore, neither the Company nor the Bank may declare or pay a cash dividend on any of its capital stock if it is insolvent or if the payment of the dividend would render the entity insolvent or unable to pay its obligations as they become due in the ordinary course of business. For additional information on these limitations, see "Supervision and Regulation — Capital Requirements and Dividends" in Item 1 above.

In addition, the ability of each of the Company and the Bank to distribute cash dividends is subject to restrictions in a third-party term loan that the Company obtained in April 2014 to repurchase its then outstanding Series A Preferred Stock. Specifically, neither the Company nor the Bank can declare or make a dividend if there exists a default, or such action would create a default, under the term loan, which requires the Company to be in compliance with certain covenants, such as maintenance of minimum regulatory capital ratios, minimum return on assets, minimum cash on hand and minimum dividend capacity. For additional information on the term loan, see Note 10 to the Notes to the Consolidated Financial Statements.

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

The Company does not plan to recommence the payment of its quarterly dividend to holders of common stock at the current time. The Company believes that the current use of earnings to support growth, maintain current capital levels and support payments under the third party loan are appropriate for the long-term growth of shareholder value in the Company.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER

The Company does not currently have in place a repurchase program with respect to any of its securities. In addition, the Company did not repurchase any of its securities during the year ended December 31, 2015.

STOCK PERFORMANCE GRAPH

The stock performance graph set forth below shows the cumulative stockholder return on the Company's common stock during the period from December 31, 2010, to December 31, 2015, as compared with (i) an overall stock market index, the NASDAQ Composite Index, and (ii) a published industry index, the SNL Bank and Thrift Index. The graph assumes that \$100 was invested on December 31, 2010 in the Company's common stock and in each of the comparable indices and that dividends were reinvested.

Index	Period Ending					
	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Community Bankers Trust Corporation	100.00	109.52	252.38	358.10	420.95	511.43
NASDAQ Composite	100.00	99.21	116.82	163.75	188.03	201.40
SNL Bank and Thrift	100.00	77.76	104.42	142.97	159.60	162.83

ITEM 6 SELECTED FINANCIAL DATA

The following table sets forth selected financial data for the Company over each of the past five years ended December 31. The historical results included below and elsewhere in this report are not indicative of the future performance of the Company and its subsidiaries.

(dollars in thousands, except per share amounts)	Year Ended December 31				
	2015	2014	2013	2012	2011
Results of Operations					
Interest and dividend income	\$47,552	\$48,725	\$50,045	\$53,719	\$56,035
Interest expense	7,497	6,933	7,078	9,692	12,228
Net interest income	40,055	41,792	42,967	44,027	43,807
Provision for loan losses	—	—	—	1,200	1,498
Net interest income after provision for loan losses	40,055	41,792	42,967	42,827	42,309
Noninterest income	5,081	5,269	4,724	6,206	8,233
Noninterest expense	50,260	36,817	39,288	41,303	49,038
(Loss) income before income taxes	(5,124)	10,244	8,403	7,730	1,504
Income tax (benefit) expense	(2,627)	2,728	2,497	2,148	60
Net (loss) income	\$(2,497)	\$7,516	\$5,906	\$5,582	\$1,444
Financial Condition					
Assets	\$1,180,557	\$1,155,734	\$1,089,532	\$1,153,288	\$1,092,496
FDIC indemnification asset	—	18,609	25,409	33,837	42,641
PCI loans	58,955	67,460	73,275	84,637	97,561
Loans, net of unearned income	748,724	660,020	596,173	575,482	544,718
Deposits	945,519	918,945	892,341	974,318	933,491
Shareholders' equity	104,487	107,650	106,659	115,317	111,180
Ratios					
Return on average assets	(0.22)%	0.67 %	0.53 %	0.50 %	0.13 %
Return on average equity	(2.31)%	7.09 %	5.22 %	4.85 %	1.32 %
Non-GAAP return on average tangible assets (1)	(0.11)%	0.79 %	0.66 %	0.65 %	0.28 %
Non-GAAP return on average tangible common equity (1)	(1.19)%	9.09 %	8.38 %	8.31 %	3.80 %
Efficiency ratio (2)	111.35 %	78.23 %	82.38 %	82.22 %	94.23 %
Equity to assets	8.86 %	9.31 %	9.79 %	10.00 %	10.18 %
Loan to deposits	85.42 %	79.16 %	75.02 %	67.75 %	68.80 %
Average tangible common equity / average tangible assets (1)	9.10 %	8.70 %	7.90 %	7.77 %	7.25 %
Asset Quality					
Allowance for loan losses (3)	\$9,559	\$9,267	\$10,444	\$12,920	\$14,835
Allowance for loan losses / loans (3)	1.28 %	1.40 %	1.75 %	2.25 %	2.72 %
Allowance for loan losses / nonperforming assets	62.15 %	40.10 %	56.92 %	39.94 %	36.36 %
Allowance for loan losses / nonaccrual loans (3)	89.59 %	55.92 %	86.28 %	61.38 %	51.97 %
	2.14 %	3.64 %	3.05 %	5.52 %	7.35 %

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Nonperforming assets / loans and other real estate (3)

Per Share Data

Earnings (loss) per share, basic	\$(0.11)	\$0.33	\$0.22	\$0.21	\$0.02
Earnings (loss) per share, diluted	(0.11	)	0.33	0.22	0.21	0.02
Non-GAAP earnings (loss) per share, diluted (1)	(0.06	)	0.40	0.33	0.33	0.14
Cash dividends paid	—		—	—	—	—
Market value per share	5.37		4.42	3.76	2.65	1.15
Book value per tangible common share (1)	4.65		4.72	4.07	3.92	3.58
Price to earnings ratio, diluted	(48.82	)	13.39	17.09	12.62	57.50
Price to book value ratio	112.4	%	89.5	%	86.0	%
Dividend payout ratio	n/a		n/a	n/a	n/a	n/a
Weighted average shares outstanding, basic	21,826,845		21,755,448	21,699,964	21,647,372	21,565,360
Weighted average shares outstanding, diluted	21,826,845		21,980,979	21,922,132	21,717,499	21,565,360

	Year Ended December 31				
	2015	2014	2013	2012	2011
Capital Ratios					
Leverage Ratio	9.40 %	9.36 %	9.52 %	9.41 %	8.91 %
Common equity tier 1 capital	11.62%	n/a	n/a	n/a	n/a
Tier 1 risk-based capital ratio	12.08%	13.52%	15.62%	15.79%	15.01%
Total risk-based capital ratio	13.16%	14.72%	16.82%	16.87%	16.16%

(1) Refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations”, section “Non GAAP Measures” for a reconciliation.

(2) The efficiency ratio is calculated by dividing noninterest expense over the sum of net interest income plus noninterest income.

(3) Excludes PCI loans.

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

The following discussion and analysis of the financial condition at December 31, 2015 and results of operations for the year ended December 31, 2015 of Community Bankers Trust Corporation (the “Company”) should be read in conjunction with the Company’s consolidated financial statements and the accompanying notes to consolidated financial statements included in this report.

GENERAL

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

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

The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals and small businesses, including individual and commercial demand and time deposit accounts,

commercial and industrial loans, consumer and small business loans, real estate and mortgage loans, investment services, on-line and mobile banking products, and safe deposit box facilities.

Prior to November 8, 2013, the Bank also had four full-service offices in Georgia. The Bank sold those offices and related deposits to Community & Southern Bank on November 8, 2013. See Note 30 for additional information.

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, mortgage loan income, gains from loan sales, and income from Bank Owned Life Insurance (BOLI) policies. The Company's income is offset by noninterest expense, which consists of salaries and benefits, occupancy and equipment costs, professional fees, transactions involving bank-owned property, the amortization of intangible assets and other operational expenses. The provision for loan losses and income taxes may materially affect income.

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

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

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

- the quality or composition of the Company's loan or investment portfolios, including collateral values and the repayment abilities of borrowers and issuers;
- assumptions that underlie the Company's allowance for loan losses;
- general economic and market conditions, either nationally or in the Company's market areas;
- the interest rate environment;
- competitive pressures among banks and financial institutions or from companies outside the banking industry;
- real estate values;
- the demand for deposit, loan, and investment products and other financial services;
- the demand, development and acceptance of new products and services;
- the performance of vendors or other parties with which the Company does business;
- time and costs associated with de novo branching, acquisitions, dispositions and similar transactions;
- the realization of gains and expense savings from acquisitions, dispositions and similar transactions;
- assumptions and estimates that underlie the accounting for purchased credit impaired loans;
- consumer profiles and spending and savings habits;
- levels of fraud in the banking industry;

- the level of attempted cyber attacks in the banking industry;
- the securities and credit markets;
- costs associated with the integration of banking and other internal operations;
- the soundness of other financial institutions with which the Company does business;
- inflation;
- technology; and
- legislative and regulatory requirements.

These factors and additional risks and uncertainties are described in the “Risk Factors” discussion in Part I, Item 1A, of this report.

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

CRITICAL ACCOUNTING POLICIES

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

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

Allowance for Loan Losses on Loans

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

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

The allowance consists of specific, general and unallocated 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. The unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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

Accounting for Certain Loans 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 under revolving credit arrangements are excluded from the scope of FASB ASC 310 which limits the yield that may be accreted to the excess of the undiscounted expected cash flows over the investor's initial investment in the loan. The excess of the contractual cash flows over expected cash flows may not be recognized as an adjustment of yield. Subsequent increases in cash flows to be collected are recognized prospectively through an adjustment of the loan's yield over its remaining life. Decreases in expected cash flows are recognized as impairments through the allowance for loan losses.

The Company's acquired loans from the Suburban Federal Savings Bank (SFSB) transaction (the "PCI loans"), subject to FASB ASC Topic 805, *Business Combinations* (formerly SFAS 141(R)), are recorded at fair value and no separate valuation allowance was recorded at the date of acquisition. FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (formerly SOP 03-3), applies to loans acquired in a transfer with evidence of deterioration of credit quality for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. The Company is applying the provisions of FASB ASC 310-30 to all loans acquired in the SFSB transaction. The Company has grouped loans together based on common risk characteristics including product type, delinquency status and loan documentation requirements among others.

The PCI loans are subject to credit review standards described above for loans. If and when credit deterioration occurs subsequent to the acquisition date, a provision for credit loss for PCI loans will be charged to earnings.

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 loss. Subsequent increases in expected or actual cash flows are first used to reverse any existing valuation allowance for that loan or pool. Any remaining increase in cash flows expected to be collected is recognized as an adjustment to the accretable yield with the amount of periodic accretion adjusted over the remaining life of the pool.

FDIC Indemnification Asset

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

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

Income Taxes

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

Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the consolidated financial statements when it is more likely than not that the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. The Company provides for interest and, in some cases, penalties on tax positions that may be challenged by the taxing authorities. Interest expense is recognized beginning in the first period that such interest would begin accruing. Penalties are recognized in the period that the Company claims the position in the tax return. Interest and penalties on income tax uncertainties are classified within income tax expense in the consolidated statement of income. The Company had no interest or penalties during the years ended December 31, 2015, 2014 or 2013. Under FASB ASC 740, *Income Taxes*, a valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. In management's opinion, based on a three year taxable income projection, tax strategies that would result in potential securities gains and the effects of off-setting deferred tax liabilities, it is more likely than not that the deferred tax assets are realizable.

The Company and its subsidiaries are subject to U. S. federal income tax as well as Virginia and Maryland state income taxes. All years from 2012 through 2015 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 of the real estate acquired at the date of foreclosure net of estimated selling costs, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or the fair value less costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other operating expenses. Costs to bring a property to salable condition are capitalized up to the fair value of the property while costs to maintain a property in salable condition are expensed as incurred. The Company had \$5.5 million and \$7.7 million in other real estate, at December 31, 2015 and 2014, respectively.

OVERVIEW

At December 31, 2015, the Company had total assets of \$1.181 billion, an increase of \$24.8 million, or 2.1%, from total assets of \$1.156 billion at December 31, 2014. Total loans were \$807.7 million at December 31, 2015, increasing \$80.2 million from \$727.5 million at December 31, 2014. Total loans, excluding PCI loans, were \$748.7 million at December 31, 2015 versus \$660.0 million at December 31, 2014. Total loans, excluding PCI loans, increased \$88.7 million, or 13.4%, during 2015.

The Company's securities portfolio decreased \$31.4 million, or 9.8%, from \$319.6 million at December 31, 2014 to \$288.2 million at December 31, 2015. Realized gains of \$472,000 occurred during 2015 through sales and call activity.

The Company is required to account for the effect of market changes in the value of securities available-for-sale (AFS) under FASB ASC 320, *Investments - Debt and Equity Securities*. The market value of the AFS portfolio was \$243.3 million and \$274.6 million at December 31, 2015 and 2014, respectively. The Company had a net unrealized gain of \$671,000 and \$2.2 million in the AFS portfolio at December 31, 2015 and 2014, respectively.

Noninterest bearing deposits increased \$11.7 million, or 13.8%, from \$84.6 million at December 31, 2014 to \$96.2 million at December 31, 2015. Interest bearing deposits at December 31, 2015 were \$849.3 million, an increase of

\$14.9 million, or 1.8%, from December 31, 2014. NOW, MMDA and savings account balances increased \$5.1 million, \$7.0 million and \$5.6 million, respectively, since December 31, 2014. Time deposits less than or equal to \$250,000 declined \$7.5 million, or 1.8%, during 2015 while time deposits over \$250,000 increased \$4.8 million, or 4.2%, during 2015.

FHLB advances were \$95.7 million at December 31, 2015, compared with \$96.4 million at December 31, 2014. This \$745,000 decrease represented a marginal change year-over-year, as the Company took advantage of the low cost nature of this funding source while maintaining a \$30 million notional value balance sheet swap.

Long term debt totaled \$5.7 million at December 31, 2015. This borrowing, initially in the amount of \$10.7 million, was obtained in April 2014, and the proceeds were used to redeem the Company's remaining outstanding TARP preferred stock. The Company made \$4.0 million in principal payments during 2015.

Shareholders' equity was \$104.5 million at December 31, 2015 and \$107.7 million at December 31, 2014. The primary reason for the decline of \$3.2 million was the termination of the FDIC shared-loss agreement and the resulting loss during the third quarter of 2015. Management anticipates that the earn-back period on the elimination of the indemnification assets is approximately two years.

RESULTS OF OPERATIONS

Net Income

Net loss was \$2.5 million for the year ended December 31, 2015, compared with net income of \$7.5 million and net income available to common shareholders of \$7.3 million for the same period in 2014. The \$10.0 million, or 133.2%, reduction year over year was primarily driven by a \$13.4 million increase in noninterest expense. Of this \$13.4 million increase, \$13.1 million related to the termination of the FDIC shared-loss agreement during the third quarter of 2015. The Company estimates that the elimination of the FDIC indemnification asset will result in an increase in net income of approximately \$3.0 million over the 12 month period following its termination due to the elimination of the related amortization expense. Earnings/(loss) per common share, basic and fully diluted, were \$(0.11) for the year ended December 31, 2015 versus \$0.33 for the same period in 2014.

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

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 was \$40.1 million for the year ended December 31, 2015 versus \$41.8 million for the year ended December 31, 2014. This decrease in net interest income was the result of lower interest income of \$1.2 million coupled with higher interest expense of \$564,000. This is a decrease of \$1.7 million, or 4.2%. While the income on loans, excluding PCI loans, increased \$2.4 million in 2015 compared with 2014, the income derived from PCI loans dropped by \$3.4 million. Cash payments on zero carrying value acquisition, development and construction (ADC) loans were \$825,000 greater during 2014 when compared with 2015. Interest income on securities decreased 2.2%, or \$175,000. However, interest income on securities, on a tax-equivalent basis, increased 5.3%, or \$439,000, during the same time frame as more of the portfolio was shifted to tax-exempt municipals with higher tax equivalent yield.

Interest spread is the product of yield on earning assets less cost of total interest bearing liabilities. The Company's net interest spread declined from 4.12% for the year ended December 31, 2014 to 3.77% for the same period in 2015. The tax-equivalent yield on earning assets dropped 30 basis points, from 4.87% for the year ended December 31, 2014 to 4.57% for the year ended December 31, 2015. The yield on total loans declined 60 basis points, from 5.91% in 2014 to 5.31% in 2015. PCI loan yield fell from 15.94% to 12.39%, and the yield on loans, excluding PCI loans, declined 12 basis points, from 4.77% to 4.65%. The tax-equivalent yield on securities increased from 2.76% for 2014 to 2.94% for 2015 as the average balance of tax-exempt securities increased \$44.4 million over the time frame and is responsible for the increase in yield on the portfolio.

Net interest income declined \$1.2 million to \$41.8 million for fiscal 2014 versus fiscal 2013. Overall, interest income declined \$1.3 million, or 2.6%, while interest expense declined \$145,000, or 2.0%. The Company's net interest spread declined from 4.25% for the year ended December 31, 2013 to 4.12% for the same period in 2014. While the cost of interest bearing liabilities improved by two basis points during the comparison period, the yield on earning assets

declined by 15 basis points to 4.87% for the 2014 year. The result was a net interest margin of 4.18% for the year ended December 31, 2014, compared with 4.32% for the 2013 year.

Interest and fees on loans were \$29.6 million compared with \$29.7 million for the years ended December 31, 2014 and 2013, respectively. While average loan balances increased \$35.9 million over this time frame, the yield earned on these balances declined 30 basis points to 4.77%. Competitive pricing to garner quality loans drove lower loan yields. Interest on PCI loans declined \$708,000, or 5.9%, from December 31, 2013, while the yield increased 86 basis points to 15.94%. Significant cash payments on loans related to pools that were previously written down to a zero carrying value equaled \$1.3 million in each of 2013 and 2014. These payments coupled with lower expected losses influenced the yield increase. Securities interest income declined \$551,000, or 6.6%, over the same time frame. Average balances on securities decreased \$12.4 million during fiscal 2014 versus fiscal 2013, and the tax equivalent yield on the portfolio declined only two basis points to 2.76%.

The Company's total loan to deposit ratio was 85.42% at December 31, 2015 versus 79.16% at December 31, 2014. The increase in the loan to deposit ratio is the direct result of the robust loan growth previously mentioned. The Company's total loan to deposit ratio was 79.16% at December 31, 2014 versus 75.02% at December 31, 2013.

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

NET INTEREST MARGIN ANALYSIS

AVERAGE BALANCE SHEETS

(Dollars in thousands)

	Year ended December 31, 2015			Year ended December 31, 2014			Year ended December 31, 2013		
	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid
ASSETS:									
Loans, including fees	\$687,463	\$31,990	4.65 %	\$621,213	\$29,635	4.77 %	\$585,343	\$29,696	5.07 %
PCI loans	63,552	7,875	12.39	70,421	11,228	15.94	79,140	11,936	15.08
Total loans	751,015	39,865	5.31	691,634	40,863	5.91	664,483	41,632	6.27
Interest bearing bank balances	14,551	59	0.41	19,103	61	0.32	22,423	58	0.26
Federal funds sold	1,852	2	0.10	389	—	0.10	3,453	3	0.10
Securities (taxable)	220,525	5,469	2.48	268,324	6,835	2.55	292,618	7,693	2.63
Securities (tax exempt) ⁽¹⁾	76,644	3,268	4.26	32,237	1,463	4.54	20,294	998	4.92
Total earning assets	1,064,587	48,663	4.57	1,011,687	49,222	4.87	1,003,271	50,384	5.02
Allowance for loan losses	(9,981)			(10,742)			(12,352)		
Non-earning assets	95,190			114,545			130,033		
Total assets	\$1,149,796			\$1,115,490			\$1,120,952		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Demand - interest bearing	\$229,220	\$698	0.30 %	\$204,386	\$595	0.29 %	\$238,545	\$742	0.31 %
Savings	83,614	260	0.31	77,138	253	0.33	81,368	277	0.34
Time deposits	523,726	5,025	0.96	552,709	5,010	0.91	546,788	5,351	0.98
Total deposits	836,560	5,983	0.72	834,233	5,858	0.70	866,701	6,370	0.73

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Short-term borrowings	1,516	12	0.76	1,855	11	0.59	1,452	8	0.56
FHLB and other borrowings	96,937	1,179	1.22	85,661	776	0.91	55,375	700	1.26
Long-term debt	7,707	323	4.20	7,077	288	4.07	—	—	—
Total interest bearing liabilities	942,720	7,497	0.80	928,826	6,933	0.75	923,528	7,078	0.77
Non-interest bearing deposits	94,476			76,515			80,326		
Other liabilities	4,490			4,184			3,933		
Total liabilities	1,040,618			1,009,525			1,007,787		
Shareholders' equity	108,110			105,965			113,165		
Total liabilities and shareholders' equity	\$1,149,796			\$1,115,490			\$1,120,952		
Net interest earnings		\$41,166			\$42,289			\$43,306	
Interest spread			3.77 %			4.12 %			4.25 %
Net interest margin			3.87 %			4.18 %			4.32 %

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

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

EFFECT OF RATE-VOLUME CHANGE ON NET INTEREST INCOME

FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

(Dollars in thousands)

	2015 compared to 2014			2014 compared to 2013		
	Increase (Decrease)		Total	Increase (Decrease)		Total
	Volume	Rate		Volume	Rate		Total
Interest Income:						
Loans, including fees	\$3,161	\$(806)	\$2,355	\$1,820	\$(1,881)	\$(61)
PCI loans	(1,095)	(2,258)	(3,353)	(1,315)	607	(708)
Interest bearing bank balances and federal funds sold	(13)	13	—	(12)	12	—
Securities	(205)	30	(175)	(330)	(221)	(551)
Total Earning Assets	1,848	(3,021)	(1,173)	163	(1,483)	(1,320)
Interest Expense:						
Demand deposits	72	30	102	(106)	(41)	(147)
Savings deposits	21	(14)	7	(14)	(10)	(24)
Time deposits	(263)	279	16	58	(399)	(341)
Total deposits	(170)	295	125	(62)	(450)	(512)
Other borrowed funds	131	308	439	470	(103)	367
Total interest-bearing liabilities	(39)	603	564	408	(553)	(145)
Net increase (decrease) in net interest income	\$1,887	\$(3,624)	\$(1,737)	\$(245)	\$(930)	\$(1,175)

Provision for Loan Losses

Management actively monitors the Company's asset quality and provides specific loss provisions when necessary. Provisions for loan losses are charged to income to bring the total allowance for loan losses to a level deemed appropriate by management of the Company based on such factors as historical credit loss experience, industry diversification of the commercial loan portfolio, the amount of nonperforming loans and related collateral, the volume

growth and composition of the loan portfolio, current economic conditions that may affect the borrower's ability to pay and the value of collateral, the evaluation of the loan portfolio through the internal loan review function and other relevant factors. See *Allowance for Loan Losses on Loans* in the Critical Accounting Policies section above for further discussion.

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

Management also actively monitors its PCI loan portfolio for impairment and necessary loan loss provisions. Provisions for PCI 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 2015, 2014 or 2013. The Company records a separate provision for loan losses for its loan portfolio and its PCI loan portfolio. There was no provision for loan losses on the PCI loan portfolio during 2015, 2014 or 2013. Likewise, there was no provision for loan losses on the loan portfolio during 2015, 2014 or 2013. With respect to the loan portfolio, this was the direct result of continued improvement in loan quality as evidenced by the lower net charge-offs than in prior years coupled with lower levels of classified assets.

The allowance for loan losses, excluding PCI loans, equaled 89.6% of nonaccrual loans at December 31, 2015, compared with 55.9% at December 31, 2014. The ratio of the allowance for loan losses to total nonperforming assets was 62.2% at December 31, 2015 compared with 40.1% at December 31, 2014. The ratio of the allowance for loan losses to total loans, excluding PCI loans, was 1.28% at December 31, 2015, compared with 1.40% at December 31, 2014. Net recoveries were \$292,000 in 2015, compared with net charge-offs of \$1.2 million in 2014.

One loan relationship, aggregating \$8.7 million, already identified as “substandard” was placed on non-accrual status during the fourth quarter of 2014. This relationship was resolved in the second quarter of 2015 and resulted in a net recovery for the Company.

While the PCI loan portfolio contains significant risk, it was considered in determining the initial fair value, which was reflected in adjustments recorded at the time of the acquisition. See the *Asset Quality* discussion below for further analysis.

Noninterest Income

Noninterest income was \$5.1 million for the year ended December 31, 2015 versus \$5.3 million for the year ended December 31, 2014. This is a decrease of \$188,000, or 3.6%. Gain on sales of securities decreased \$617,000 in 2015 compared with 2014 and was \$472,000 in the current year compared with \$1.1 million in 2014. Gains on sales of loans of \$69,000 represented a decline of \$132,000 in 2015 compared with 2014. Other noninterest income of \$736,000 in 2015 was a decrease of \$63,000 when compared with 2014. Partially offsetting these decreases in year-over-year noninterest income was mortgage loan income of \$784,000, an increase of \$573,000 over the year ended December 31, 2014. The mortgage division began operations in the second quarter of 2014 and has progressively increased its production. Also increasing for the year ended December 31, 2015 over the year ended December 31, 2014 were service charges on deposit accounts, which increased \$69,000 and were \$2.3 million in 2015.

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

Noninterest Expenses

Noninterest expenses were \$50.3 million for the year ended December 31, 2015. This compares with noninterest expenses of \$36.8 million for the year ended December 31, 2014. This is an increase of \$13.5 million, of which the indemnification asset amortization write-off was \$11.8 million. The second largest increase was in salaries and employee benefits, which increased \$2.0 million, primarily through the addition of loan production employees, including the mortgage division that began operations in the second quarter of 2014. Other real estate expenses were \$1.3 million for the year ended December 31, 2015, an increase of \$735,000 over \$540,000 for the year ended December 31, 2014 due to an increase in write-downs and losses on sales of other real estate of \$704,000. Other operating expenses of \$6.5 million for the year ended December 31, 2015 increased \$120,000, or 1.9%, over the same period in 2014.

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

Income Taxes

Income tax reflects a benefit of \$2.6 million for the year ended December 31, 2015 versus income tax expense of \$2.7 million for the year ended December 31, 2014. The effective tax rate for 2015 equaled 51.3% versus 26.6% in 2014. The change was the direct result of the increase in tax exempt securities.

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

The Company has evaluated the need for a deferred tax valuation allowance for the years ended December 31, 2015 and 2014 in accordance with FASB ASC 740, *Income Taxes*. Based on a three year taxable income projection, tax strategies that would result in potential securities gains and the effects of off-setting deferred tax liabilities, the Company believes that it is more likely than not that the deferred tax assets are realizable. Therefore, no allowance was required.

Loans

Total loans were \$807.7 million at December 31, 2015, increasing \$80.2 million from \$727.5 million at December 31, 2014. Total loans, excluding PCI loans, were \$748.7 million at December 31, 2015 versus \$660.0 million at December 31, 2014. Total loans, excluding PCI loans, increased \$88.7 million, or 13.4%, during 2015. Commercial mortgage loans exhibited the largest dollar volume increase year-over-year and were up \$35.8 million, or 12.7%, and ended the year at \$318.0 million. This is also the largest category of loans in the portfolio. Residential 1-4 family mortgage loans increased \$27.4 million, or 16.4%, over this time frame and were \$194.6 million at December 31, 2015. Multifamily loans increased \$11.6 million, or 34.2%, and were \$45.4 million at December 31, 2015. Construction and land development loans of \$67.4 million at December 31, 2015 reflected an increase of 18.2%, or \$10.4 million, since year end 2014. Commercial loans of \$102.5 million at December 31, 2015 was an increase of \$2.7 million over the balance at December 31, 2014. PCI loans were \$59.0 million at December 31, 2015, \$8.5 million lower than at year-end 2014.

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

	2015		PCI Loans		Total Loans	
	Loans					
Mortgage loans on real estate:						
Residential 1-4 family	\$194,576	25.99 %	\$52,696	89.38 %	\$247,272	30.62 %
Commercial	317,955	42.47	850	1.44	318,805	39.47
Construction and land development	67,408	9.00	2,310	3.92	69,718	8.63
Second mortgages	8,378	1.12	2,822	4.79	11,200	1.39
Multifamily	45,389	6.06	277	0.47	45,666	5.65
Agriculture	6,238	0.83	—	—	6,238	0.77
Total real estate loans	639,944	85.47	58,955	100.00	698,899	86.53
Commercial loans	102,507	13.69	—	—	102,507	12.69
Consumer installment loans	4,928	0.66	—	—	4,928	0.61
All other loans	1,345	0.18	—	—	1,345	0.17
Total loans	\$748,724	100.00 %	\$58,955	100.00 %	\$807,679	100.00 %

	2014		PCI Loans		Total Loans	
	Loans					
Mortgage loans on real estate:						
Residential 1-4 family	\$167,171	25.33 %	\$60,171	89.20 %	\$227,342	31.25 %
Commercial	282,127	42.75	1,148	1.70	283,275	38.94
Construction and land development	57,027	8.64	2,456	3.64	59,483	8.18
Second mortgages	5,997	0.91	3,409	5.05	9,406	1.29
Multifamily	33,812	5.12	276	0.41	34,088	4.69
Agriculture	7,163	1.08	—	—	7,163	0.98

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Total real estate loans	553,297	83.83	67,460	100.00	620,757	85.33
Commercial loans	99,783	15.12	—	—	99,783	13.72
Consumer installment loans	5,496	0.83	—	—	5,496	0.76
All other loans	1,444	0.22	—	—	1,444	0.19
Total loans	\$660,020	100.00%	\$67,460	100.00%	\$727,480	100.00%

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	2013		PCI Loans		Total Loans	
	Loans					
Mortgage loans on real estate:						
Residential 1-4 family	\$144,279	24.20 %	\$64,610	88.18 %	\$208,889	31.20 %
Commercial	247,106	41.45	1,389	1.90	248,495	37.12
Construction and land development	55,238	9.27	2,940	4.01	58,178	8.69
Second mortgages	6,849	1.15	3,898	5.32	10,747	1.61
Multifamily	35,748	6.00	266	0.36	36,014	5.38
Agriculture	9,558	1.60	172	0.23	9,730	1.45
Total real estate loans	498,778	83.67	73,275	100.00	572,053	85.45
Commercial loans	90,282	15.14	—	—	90,282	13.49
Consumer installment loans	5,667	0.95	—	—	5,667	0.85
All other loans	1,446	0.24	—	—	1,446	0.21
Total loans	\$596,173	100.00%	\$73,275	100.00%	\$669,448	100.00%

	2012		PCI Loans		Total Loans	
	Loans					
Mortgage loans on real estate:						
Residential 1-4 family	\$135,339	23.52 %	\$74,046	87.47 %	\$209,385	31.72 %
Commercial	246,372	42.80	1,986	2.35	248,358	37.63
Construction and land development	61,090	10.62	3,264	3.86	64,354	9.75
Second mortgages	7,226	1.26	4,864	5.75	12,090	1.83
Multifamily	28,666	4.98	304	0.36	28,970	4.39
Agriculture	10,353	1.80	172	0.20	10,525	1.59
Total real estate loans	489,046	84.98	84,636	99.99	573,682	86.91
Commercial loans	77,911	13.54	—	—	77,911	11.80
Consumer installment loans	6,986	1.21	1	0.01	6,987	1.06
All other loans	1,539	0.27	—	—	1,539	0.23
Total loans	\$575,482	100.00%	\$84,637	100.00%	\$660,119	100.00%

	2011		PCI Loans		Total Loans	
	Loans					
Mortgage loans on real estate:						
Residential 1-4 family	\$127,099	23.34 %	\$84,734	86.85 %	\$211,833	32.98 %
Commercial	220,296	40.44	2,170	2.22	222,466	34.64
Construction and land development	75,631	13.88	4,260	4.38	79,891	12.44
Second mortgages	8,123	1.49	5,894	6.04	14,017	2.18
Multifamily	19,730	3.62	316	0.32	20,046	3.12
Agriculture	11,435	2.10	179	0.18	11,614	1.81
Total real estate loans	462,314	84.87	97,553	99.99	559,867	87.17
Commercial loans	72,188	13.25	—	—	72,188	11.24
Consumer installment loans	8,541	1.57	8	0.01	8,549	1.33
All other loans	1,675	0.31	—	—	1,675	0.26
Total loans	\$544,718	100.00%	\$97,561	100.00%	\$642,279	100.00%

The following table indicates the contractual maturity of commercial and construction and land development loans as of December 31, 2015 (dollars in thousands):

	Commercial	Construction and land development
Within 1 year	\$ 41,406	\$ 35,712
Variable Rate		
One to Five Years	\$ 13,780	\$ 3,002
After Five Years	9,429	9,032
Total	\$ 23,209	\$ 12,034
Fixed Rate		
One to Five Years	\$ 32,217	\$ 19,739
After Five Years	5,675	2,233
Total	\$ 37,892	\$ 21,972
Total Maturities	\$ 102,507	\$ 69,718

Asset Quality – 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.

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

The Company maintains a list of loans that have potential weaknesses and thus may need special attention. This nonperforming loan list is used to monitor such loans and is used in the determination of the appropriateness of the allowance for loan losses. At December 31, 2015, nonperforming assets totaled \$16.2 million and net recoveries were \$292,000. Nonperforming assets totaled \$24.3 million and net charge-offs were \$1.2 million for the year ended December 31, 2014.

Nonperforming loans were \$10.7 million at December 31, 2015 compared to \$16.6 million at December 31, 2014, a \$5.9 million decrease. Additions to nonaccrual loans during 2015 totaled \$4.8 million. The increase related to one \$1.2 million commercial property relationship and several small residential property relationships, all of which are secured by real estate. There were \$1.2 million in charge-offs taken during 2015 mainly centered in real estate loans. There were \$1.4 million in pay-downs during the year, \$7.7 million in pay-offs, and \$292,000 in loans returned to accruing status. Of the pay-offs during the year, \$7.5 million related to one commercial relationship. Foreclosures for the period totaled \$81,000.

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

	2015	2014	2013	2012	2011					
Nonaccrual loans	\$10,670	\$16,571	\$12,105	\$21,048	\$28,542					
Loans past due 90 days and accruing interest	—	—	—	509	2,005					
Total nonperforming loans	10,670	16,571	12,105	21,557	30,547					
OREO	5,490	7,743	6,244	10,793	10,252					
Total nonperforming assets	\$16,160	\$24,314	\$18,349	\$32,350	\$40,799					
Accruing troubled debt restructure loans	\$4,596	\$6,195	\$9,922	\$9,990	\$5,946					
Balances										
Specific reserve on impaired loans	1,039	1,694	1,604	2,656	2,765					
General reserve related to unimpaired loans	8,520	7,573	8,840	10,264	12,070					
Total allowance for loan losses	9,559	9,267	10,444	12,920	14,835					
Average loans during the year, net of unearned income	687,463	621,213	585,343	556,113	510,940					
Impaired loans	10,670	16,852	13,801	22,365	35,158					
Non-impaired loans	738,054	643,168	582,372	553,117	509,560					
Total loans, net of unearned income	748,724	660,020	596,173	575,482	544,718					
Ratios										
Allowance for loan losses, excluding PCI loans, to loans	1.28	%	1.40	%	1.75	%	2.25	%	2.72	%
Allowance for loan losses to nonperforming assets	62.15		40.10		56.92		39.94		36.36	
Allowance for loan losses, excluding PCI loans, to nonaccrual loans	89.59		55.92		86.28		61.38		51.98	
General reserve to non-impaired loans	1.15		1.18		1.52		1.86		2.37	
Nonaccrual loans to loans	1.43		2.51		2.03		3.66		5.24	
Nonperforming assets to loans and OREO	2.14		3.64		3.05		5.52		7.35	
Net (recoveries) charge-offs to average loans	(0.04)	0.19		0.42		0.60		2.39	

At December 31, 2015, the Company had six construction and land development credit relationships in nonaccrual status. The borrowers for all of these relationships are residential land developers. All of the relationships are secured by the real estate to be developed, and all of such projects are in the Company's central Virginia market. The total amount of the credit exposure outstanding at December 31, 2015 was \$4.5 million. These loans have either been charged down or sufficiently reserved against to equate to the current expected realizable value.

The total amount of the allowance for loan losses attributed to all six relationships was \$574,000 at December 31, 2015, or 12.73% 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 frequently orders appraisals for all loans with balances in excess of \$250,000 unless there existed an appraisal that was not older than 18 months and/or deemed to be invalid. A ratio analysis is used for all loans with balances less than \$250,000. The Company maintains detailed analysis and other information for its allowance methodology, both for internal purposes and for review by its regulators.

The Company performs troubled debt restructures (TDR) and other various loan workouts whereby an existing loan may be restructured into multiple new loans. The Company had 17 loans for each of the years ended December 31, 2015 and 2014, that met the definition of a TDR, which are loans that for reasons related to the debtor’s financial difficulties have been restructured on terms and conditions that would otherwise not be offered or granted. There were four loans for each of the years ended December 31, 2015 and 2014 that were restructured using multiple new loans. At December 31, 2015 and 2014, the aggregated outstanding principal of all TDRs was \$6.5 million and \$7.0 million, respectively, of which \$1.9 million and \$757,000, respectively, were classified as nonaccrual.

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

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

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

	2015	2014	2013	2012	2011
Mortgage loans on real estate:					
Residential 1-4 family	\$4,562	\$3,342	\$4,229	\$5,562	\$5,320
Commercial	1,508	607	1,382	5,818	9,187
Construction and land development	4,509	4,920	5,882	8,815	12,718
Second mortgages	13	61	225	141	189
Agriculture	—	—	205	250	53
Total real estate loans	10,592	8,930	11,923	20,586	27,467
Commercial loans	—	7,521	127	385	1,003
Consumer installment loans	78	120	55	77	72
Total loans	\$10,670	\$16,571	\$12,105	\$21,048	\$28,542

As of December 31, 2015 and 2014, total impaired loans, excluding PCI loans, equaled \$10.7 million and \$16.9 million, respectively.

Asset Quality – PCI assets

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

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

remaining life of the pool.

Allowance for Credit Losses on Loans

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

	2015	2014	2013	2012	2011
Balance, beginning of year	\$9,267	\$10,444	\$12,920	\$14,835	\$25,543
Loans charged-off:					
Commercial	3	1,217	325	695	3,615
Real estate	1,183	1,179	2,999	4,582	8,891
Consumer and other loans	174	134	167	220	288
Total loans charged-off	1,360	2,530	3,491	5,497	12,794
Recoveries:					
Commercial	1,211	1,065	82	242	207
Real estate	343	178	857	1,807	176
Consumer and other loans	98	110	76	83	205
Total recoveries	1,652	1,353	1,015	2,132	588
Net charge-offs (recoveries)	(292)	1,177	2,476	3,365	12,206
Provision for loan losses	—	—	—	1,450	1,498
Balance, end of year	\$9,559	\$9,267	\$10,444	\$12,920	\$14,835
Allowance for loan losses to loans	1.28 %	1.40 %	1.75 %	2.25 %	2.72 %
Net (recoveries) charge-offs to average loans	(0.04)%	0.19 %	0.42 %	0.61 %	2.39 %
Allowance to nonperforming loans	89.59%	55.92 %	86.28 %	59.93 %	48.56 %

During 2015, the Bank's net recoveries increased \$1.5 million from the prior year and were primarily centered in commercial loans. Net charge-offs by loan category to total net recoveries were the following for 2015: 413.7% for commercial loans, (287.7%) for real estate loans, and (26.0%) for consumer loans.

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

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

	2015		2014		2013		2012		2011	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial	\$727	13.6%	\$1,242	15.2%	\$1,546	15.1%	\$1,961	13.5%	\$1,810	13.2%
Construction and land development	1,353	9.0	1,930	8.6	2,252	9.3	3,773	10.6	5,729	13.9
Real estate mortgage	7,371	76.4	5,983	75.2	6,519	74.4	6,973	74.4	7,044	71.0
Consumer and other	108	1.0	112	1.0	127	1.2	213	1.5	252	1.9
Total allowance	\$9,559	100%	\$9,267	100%	\$10,444	100%	\$12,920	100%	\$14,835	100%

Allowance for Credit Losses on PCI Loans

The PCI loans are subject to credit review standards for loans. If and when credit deterioration occurs subsequent to the date that they were acquired, a provision for credit loss for PCI loans will be charged to earnings for the full amount. The Company makes an estimate of the total cash flows it expects to collect from a pool of PCI loans, which includes undiscounted expected principal and interest. Over the life of the loan or pool, the Company continues to estimate cash flows expected to be collected. Subsequent decreases in cash flows expected to be collected over the life of the pool are recognized as impairment in the current period through the allowance for loan losses. Subsequent increases in expected cash flows are first used to reverse any existing valuation allowance for that loan or pool. Any remaining increase in cash flows expected to be collected is recognized as an adjustment to the yield over the remaining life of the pool.

Securities

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The Company's securities portfolio decreased \$31.4 million, or 9.8%, from \$319.6 million at December 31, 2014 to \$288.2 million at December 31, 2015. This decrease is the result of a shift in assets to higher yielding loans. At December 31, 2015, the Company had \$243.3 million in securities available for sale and \$36.5 million of securities held to maturity. Equity securities totaled \$8.4 million. Realized gains of \$472,000 occurred during 2015 through sales and call activity.

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

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The following table summarizes the securities portfolio by contractual maturity and issuer, including weighted average yields, excluding restricted stock, as of December 31, 2015 (dollars in thousands):

	1 Year or Less	1-5 Years	5-10 Years	Over 10 Years	Total
U.S. Treasury Issue and other U.S. Government agencies					
Amortized Cost	\$ —	\$ 22,356	\$ 15,653	\$ 13,337	\$51,346
Fair Value	—	22,053	15,495	13,135	50,683
Weighted Avg Yield	—	(0.07 %)	2.05 %	1.84 %	1.07 %
State, county and municipal					
Amortized Cost	1,936	52,476	93,618	26,391	174,421
Fair Value	1,956	54,393	95,003	26,703	178,055
Weighted Avg Yield	4.27 %	3.47 %	3.28 %	3.21 %	3.34 %
Corporate bonds and other securities					
Amortized Cost	—	4,064	8,447	2,486	14,997
Fair Value	—	4,036	8,047	2,213	14,296
Weighted Avg Yield	—	1.73 %	1.09 %	1.10 %	1.27 %
Mortgage Backed securities					
Amortized Cost	—	16,113	15,291	6,909	38,313
Fair Value	—	15,986	15,004	6,857	37,847
Weighted Avg Yield	—	1.92 %	2.37 %	2.92 %	2.28 %
Total					
Amortized Cost	1,936	95,009	133,009	49,123	279,077
Fair Value	1,956	96,468	133,549	48,908	280,881
Weighted Avg Yield	4.27 %	2.30 %	2.89 %	2.69 %	2.66 %

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

	December 31, 2015			
	Amortized Cost	Gains	Losses	Fair Value
Gross Unrealized				
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov't agencies	\$50,590	\$11	\$(660)	\$49,941
U.S. Gov't sponsored agencies	756	—	(14)	742
State, county and municipal	138,965	3,400	(867)	141,498
Corporate and other bonds	14,997	10	(711)	14,296
Mortgage backed – U.S. Gov't agencies	8,654	9	(167)	8,496
Mortgage backed – U.S. Gov't sponsored agencies	28,637	22	(362)	28,297
Total Securities Available for Sale	\$242,599	\$3,452	\$(2,781)	\$243,270

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Securities Held to Maturity				
State, county and municipal	\$35,456	\$1,136	\$(35)	\$36,557
Mortgage backed – U.S. Gov’t agencies	1,022	32	—	1,054
Mortgage backed – U.S. Gov’t sponsored agencies	—	—	—	—
Total Securities Held to Maturity	\$36,478	\$1,168	\$(35)	\$37,611

December 31, 2014

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

December 31, 2013

Gross Unrealized

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

Deposits

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

	2015		2014		2013			
	Average Balance	Average Rate Paid	%	Average Balance	Average Rate Paid	%	Average Balance	Average Rate Paid
NOW	\$121,329	0.21	%	\$109,272	0.22	%	\$128,965	0.21
MMDA	107,891	0.41		95,115	0.37		109,580	0.43
Savings	83,614	0.31		77,138	0.33		81,368	0.34
Time deposits less than \$100,000	233,784	0.94		248,107	0.93		287,908	1.00
Time deposits \$100,000 and over	289,942	0.98		304,601	0.89		258,880	0.95
Total deposits	\$836,560	0.72		\$834,233	0.70		\$866,701	0.73

The Company derives a significant amount of its deposits through time deposits, and certificates of deposit specifically. The following table summarizes the contractual maturity of time deposits \$100,000 or more, as of December 31, 2015 (dollars in thousands):

Within 3 months	\$64,591
3-6 months	122,325
6-12 months	49,883
over 12 months	68,119
Total	\$304,918

Short-term Borrowings

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

Short-term:	As of December 31			
	2015		2014	
Federal Funds purchased	\$18,921		\$14,500	
Maximum month-end outstanding balance	\$18,921		\$14,500	
Average outstanding balance during the year	\$1,516		\$1,855	
Average interest rate during the year	0.76	%	0.57	%
Average interest rate at end of year	1.28	%	0.51	%

Liquidity

Liquidity represents the Company's ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest bearing deposits with banks, federal funds sold and certain investment securities. As a result of the Company's management of liquid assets and the ability to generate liquidity through liability funding, management believes that the Company maintains overall liquidity sufficient to satisfy its depositors' requirements and meet its customers' credit needs.

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

	December 31, 2015	December 31, 2014		
Cash and due from banks	\$ 7,393	\$ 8,329		
Interest bearing bank deposits	9,576	14,024		
Available for sale securities, at fair value, unpledged	189,692	199,067		
Total liquid assets	\$ 206,661	\$ 221,420		
Deposits and other liabilities	\$ 1,076,070	\$ 1,048,084		
Ratio of liquid assets to deposits and other liabilities	19.21	% 21.13		%

Capital Resources

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

Under the final rule on Enhanced Regulatory Capital Standards, commonly referred to as Basel III and 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 allowance for loan losses. "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.

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

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

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

	December 31, 2015		December 31, 2014	
	Amount	Ratio	Amount	Ratio
Total Capital to risk weighted assets				
Company	\$ 118,157	13.16 %	\$ 115,805	14.72 %
Bank	119,683	13.34 %	117,395	14.92 %
Tier 1 Capital to risk weighted assets				
Company	108,457	12.08 %	106,397	13.52 %
Bank	109,983	12.26 %	107,987	13.73 %
Common Equity Tier 1 Capital to risk weighted assets				
Company	104,333	11.62 %	n/a	n/a
Bank	109,983	12.26 %	n/a	n/a
Tier 1 Capital to adjusted average total assets				
Company	108,457	9.38 %	106,397	9.36 %
Bank	109,983	9.55 %	107,987	9.50 %

All capital ratios exceed regulatory minimums for well capitalized institutions as referenced in Note 21 to the Consolidated Financial Statements.

On December 12, 2003, BOE Statutory Trust I, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable capital securities. On December 12, 2003, \$4.124 million of trust preferred securities were issued through a direct placement. The securities have a LIBOR-indexed floating rate of interest. The average interest rate at December 31, 2015, 2014 and 2013 was 3.28%, 3.24% and 3.28%, respectively. The securities have a mandatory redemption date of December 12, 2033 and are subject to varying call provisions that began December 12, 2008. The principal asset of the Trust is \$4.124 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the capital securities.

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

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

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

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

Off-Balance Sheet Arrangements

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

	December 31, 2015	December 31, 2014
Commitments with off-balance sheet risk:		
Commitments to extend credit	\$ 106,099	\$ 87,017
Standby letters of credit	7,146	7,358
Total commitments with off-balance sheet risks	\$ 113,245	\$ 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 customers. The Company holds certificates of deposit, deposit accounts and real estate as collateral supporting those commitments for which collateral is deemed necessary.

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

At December 31, 2015, the fair value of the Company's cash flow hedge was an unrealized loss of \$199,000, 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 (Loss) Income.

Contractual Obligations

A summary of the Company's contractual obligations at December 31, 2015 is as follows (dollars in thousands):

	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Trust preferred debt	\$4,124	\$ —	\$ —	\$ —	\$ 4,124
Federal Home Loan Bank advances	95,656	80,000	5,000	10,656	—

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Long term debt	5,675	4,005	1,670	—	—
Operating leases	6,621	1,030	1,895	1,855	1,841
Total contractual obligations	\$ 112,076	\$ 85,035	\$ 8,565	\$ 12,511	\$ 5,965

Financial Ratios

Financial ratios give investors a way to compare companies within industries to analyze financial performance. Return on average assets is net income as a percentage of average total assets. It is a key profitability ratio that indicates how effectively a bank has used its total resources. Return on average equity is net income as a percentage of average stockholders' equity. It provides a measure of how productively a Company's equity has been employed. Dividend payout ratio is the percentage of net income paid to common shareholders as cash dividends during a given period. The Company did not pay dividends to common shareholders during the years ended December 31, 2015, 2014 and 2013. It is computed by dividing dividends per share by net income per common share. The Company utilizes leverage within guidelines prescribed by federal banking regulators as described in the "Capital Requirements" section. Leverage is average shareholders' equity divided by average total assets.

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

	Year Ended December 31		
	2015	2014	2013
Return on average assets	(0.22)%	0.67%	0.53%
Return on average equity	(2.31)%	7.09%	5.22%
Dividend payout ratio	n/a	n/a	n/a
Leverage	9.40%	9.50%	10.10%

Non GAAP Measures

Beginning January 1, 2009, business combinations must be accounted for under FASB ASC 805, *Business Combinations*, using the acquisition method of accounting. The Company has accounted for its previous business combinations under the purchase method of accounting. The original merger between the Company, TFC and BOE as well as the SFSB transaction were business combinations accounted for using the purchase method of accounting. TCB transaction was accounted for as an asset purchase. At December 31, 2015, 2014 and 2013, core deposit intangible assets totaled \$2.8 million, \$4.7 million and \$6.6 million, respectively. Goodwill was zero at December 31, 2015, 2014 and 2013.

In reporting the results of 2015, 2014 and 2013 in Item 6 above, the Company has provided supplemental performance measures on an operating or tangible basis. Such measures exclude amortization expense related to intangible assets, such as core deposit intangibles. The Company believes these measures are useful to investors as they exclude non-operating adjustments resulting from acquisition activity and allow investors to see the combined economic results of the organization. Non-GAAP operating earnings (loss) per share were \$(0.06) for the year ended December 31, 2015 compared with \$0.40 in 2014 and \$0.33 in 2013. Non-GAAP return on average tangible common equity and assets for the year ended December 31, 2015 was (1.19)% and (0.11)%, respectively, compared with 9.09% and 0.79%, respectively, in 2014 and 8.38% and 0.66%, respectively, in 2013.

These measures are a supplement to GAAP used to prepare the Company's financial statements and should not be viewed as a substitute for GAAP measures. In addition, the Company's non-GAAP measures may not be comparable to non-GAAP measures of other companies. The following table reconciles these non-GAAP measures from their respective GAAP basis measures for the years ended December 31, 2015, 2014 and 2013 (dollars in thousands):

	2015	2014	2013
Net (loss) income	\$(2,497)	\$7,516	\$5,906
Plus: core deposit intangible amortization, net of tax	1,259	1,259	1,453
Non-GAAP operating earnings	\$(1,237)	\$8,775	\$7,359
Shareholders' equity	\$104,487	\$107,650	\$106,659
Preferred stock (net)	—	—	11,717
Core deposit intangible (net)	2,805	4,713	6,621
Common tangible book value	\$101,682	\$102,937	\$88,321
Shares outstanding	21,867	21,792	21,709
Common tangible book value per share	\$4.65	\$4.72	\$4.07
Average assets	\$1,149,796	\$1,115,490	\$1,120,952
Less: average core deposit intangibles	3,797	5,707	9,020
Average tangible assets	\$1,145,999	\$1,109,783	\$1,111,932

Average equity	\$108,110	\$105,965	\$113,165
Less: average core deposit intangibles	3,797	5,707	9,020
Less: average preferred equity	—	3,715	16,304
Average tangible common equity	\$104,313	\$96,543	\$87,841

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

The following table represents the change to net interest income given interest rate shocks up and down 100, 200, 300 and 400 basis points at December 31, 2015, 2014 and 2013 (dollars in thousands):

	2015		2014		2013	
	%	\$	%	\$	%	\$
Change in Yield curve						
+400 bp	(7.7)%	(3,100)	0.5 %	183	(0.1)%	(4)
+300 bp	(6.2)%	(2,479)	(0.3)%	(131)	(1.1)%	(442)
+200 bp	(4.2)%	(1,677)	(0.2)%	(96)	(1.0)%	(404)
+100 bp	(2.3)%	(924)	(0.5)%	(207)	(0.9)%	(374)
most likely	— %	—	— %	—	— %	—
-100 bp	2.6 %	1,054	1.6 %	624	1.2 %	478
-200 bp	1.1 %	437	(0.3)%	(132)	(0.6)%	(249)
-300 bp	0.9 %	376	(0.6)%	(222)	(1.4)%	(565)
-400 bp	0.9 %	374	(0.6)%	(225)	(1.6)%	(640)

At December 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 7.7%. 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 0.9%. While these percentages are subjective based upon assumptions used within the model, management believes the balance sheet is appropriately balanced with acceptable risk to changes in interest rates.

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Community Bankers Trust Corporation

Richmond, Virginia

We have audited the accompanying consolidated balance sheet of Community Bankers Trust Corporation as of December 31, 2015 and the related consolidated statements of (loss) income, comprehensive (loss) income, changes in shareholders' equity, and cash flows for the year ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Bankers Trust Corporation at December 31, 2015, and the results of its operations and its cash flows for the year ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Community Bankers Trust Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 11, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Richmond, Virginia

March 11, 2016

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Community Bankers Trust Corporation

Richmond, Virginia

We have audited Community Bankers Trust Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Community Bankers Trust Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Community Bankers Trust Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Community Bankers Trust Corporation as of December 31, 2015 and the related consolidated statements of (loss) income, comprehensive (loss) income, changes in shareholders' equity, and cash flows for the year ended December 31, 2015, and our report dated March 11, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Richmond, Virginia

March 11, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Community Bankers Trust Corporation

Richmond, Virginia

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

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

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

/s/ Elliott Davis Decosimo, LLC

Greenville, South Carolina

March 13, 2015

COMMUNITY BANKERS TRUST CORPORATION**CONSOLIDATED BALANCE SHEETS****AS OF DECEMBER 31, 2015 AND DECEMBER 31, 2014****(dollars in thousands)**

	2015	2014
ASSETS		
Cash and due from banks	\$7,393	\$8,329
Interest bearing bank deposits	9,576	14,024
Total cash and cash equivalents	16,969	22,353
Securities available for sale, at fair value	243,270	274,568
Securities held to maturity, at cost (fair value of \$37,611 and \$37,539, respectively)	36,478	36,197
Equity securities, restricted, at cost	8,423	8,816
Total securities	288,171	319,581
Loans held for sale	2,101	200
Loans	748,724	660,020
Purchased credit impaired (PCI) loans	58,955	67,460
Total loans	807,679	727,480
Allowance for loan losses (loans of \$9,559 and \$9,267, respectively; PCI loans of \$484 and \$484, respectively)	(10,043)	(9,751)
Net loans	797,636	717,729
FDIC indemnification asset	—	18,609
Bank premises and equipment, net	27,378	29,702
Bank premises and equipment held for sale	110	465
Other real estate owned	5,490	7,743
Bank owned life insurance	21,620	21,004
FDIC receivable under shared-loss agreements	—	669
Core deposit intangibles, net	2,805	4,713
Other assets	18,277	12,966
Total assets	\$1,180,557	\$1,155,734
LIABILITIES		
Deposits:		
Noninterest bearing	\$96,216	\$84,564
Interest bearing	849,303	834,381
Total deposits	945,519	918,945
Federal funds purchased	18,921	14,500

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Federal Home Loan Bank advances	95,656	96,401
Long-term debt	5,675	9,680
Trust preferred capital notes	4,124	4,124
Other liabilities	6,175	4,434
Total liabilities	1,076,070	1,048,084
SHAREHOLDERS' EQUITY		
Common stock (200,000,000 shares authorized, \$0.01 par value; 21,866,944 and 21,791,523 shares issued and outstanding, respectively)	219	218
Additional paid in capital	145,907	145,321
Retained deficit	(41,050)	(38,553)
Accumulated other comprehensive (loss) income	(589)	664
Total shareholders' equity	104,487	107,650
Total liabilities and shareholders' equity	\$1,180,557	\$1,155,734

See accompanying notes to consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION**CONSOLIDATED STATEMENTS OF (LOSS) INCOME****FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013****(dollars and shares in thousands, except per share data)**

	2015	2014	2013
Interest and dividend income			
Interest and fees on loans	\$31,990	\$29,635	\$29,696
Interest and fees on PCI loans	7,875	11,228	11,936
Interest on federal funds sold	2	—	3
Interest on deposits in other banks	59	61	58
Interest and dividends on securities			
Taxable	5,469	6,835	7,693
Nontaxable	2,157	966	659
Total interest and dividend income	47,552	48,725	50,045
Interest expense			
Interest on deposits	5,983	5,858	6,370
Interest on other borrowed funds	1,514	1,075	708
Total interest expense	7,497	6,933	7,078
Net interest income	40,055	41,792	42,967
Provision for loan losses	—	—	—
Net interest income after provision for loan losses	40,055	41,792	42,967
Noninterest income			
Service charges on deposit accounts	2,269	2,200	2,739
Gain on securities transactions, net	472	1,089	518
Gain (loss) on sale of loans, net	69	201	(359)
Income on bank owned life insurance	751	769	747
Mortgage loan income	784	211	313
Other	736	799	766
Total noninterest income	5,081	5,269	4,724
Noninterest expense			
Salaries and employee benefits	18,141	16,136	15,981
Occupancy expenses	2,592	2,597	2,717
Equipment expenses	1,035	957	1,038
FDIC assessment	938	805	843
Data processing fees	1,709	1,732	2,078
FDIC indemnification asset amortization	16,195	5,795	6,449
Amortization of intangibles	1,908	1,908	2,202
Other real estate expense	1,275	540	2,034
Other operating expenses	6,467	6,347	5,946
Total noninterest expense	50,260	36,817	39,288
(Loss) income before income taxes	(5,124)	10,244	8,403

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Income tax (benefit) expense	(2,627)	2,728	2,497
Net (loss) income	(2,497)	7,516	5,906
Dividends paid on preferred stock	—	247	885
Accretion of discount on preferred stock	—	—	234
Net (loss) income available to common shareholders	\$(2,497)	\$7,269	\$4,787
Net (loss) income per share — basic	\$(0.11)	\$0.33	\$0.22
Net (loss) income per share — diluted	\$(0.11)	\$0.33	\$0.22
Weighted average number of shares outstanding			
basic	21,827	21,755	21,700
diluted	21,827	21,981	21,922

See accompanying notes to consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME****FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013****(dollars in thousands)**

	2015	2014	2013
Net (loss) income	\$(2,497)	\$7,516	\$5,906
Other comprehensive (loss) income:			
Unrealized (loss) gain on investment securities:			
Change in unrealized (loss) gain in investment securities	(1,056)	9,280	(11,386)
Tax related to unrealized loss (gain) in investment securities	359	(3,155)	3,871
Reclassification adjustment for gain in securities sold	(472)	(1,089)	(518)
Tax related to realized gain in securities sold	160	370	176
Defined benefit pension plan:			
Change in prior service cost	5	4	(68)
Change in unrealized (loss) gain in plan assets	(142)	(997)	1,462
Tax related to defined benefit pension plan	47	337	(474)
Cash flow hedge:			
Change in unrealized (loss) gain in cash flow hedge	(234)	35	—
Tax related to cash flow hedge	80	(12)	—
Total other comprehensive (loss) income	(1,253)	4,773	(6,937)
Total comprehensive (loss) income	\$(3,750)	\$12,289	\$(1,031)

See accompanying notes to consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

(dollars and shares in thousands)

Preferred	Discount on Preferred	Common Stock	Additional Paid in	Accumulated Other Retained
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