Community Bankers Trust Corp
Form 10-Q
August 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from to

Commission File Number: 001-32590

COMMUNITY BANKERS TRUST CORPORATION

(Exact name of registrant as specified in its charter)

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

(804) 934-9999

(Registrant's telephone number, including area code)

n/a

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

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

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

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

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

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

At June 30, 2016, there were 21,911,300 shares of the Company's common stock outstanding.

COMMUNITY BANKERS TRUST CORPORATION

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PART I — FINANCIAL INFORMATION

Item 1. ***Financial Statements***

COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015

(dollars in thousands)

	June 30, 2016	December 31, 2015
	(Unaudited)	
ASSETS		
Cash and due from banks	$ 9,215	$ 7,393
Interest bearing bank deposits	8,979	9,576
Total cash and cash equivalents	18,194	16,969
Securities available for sale, at fair value	203,841	243,270
Securities held to maturity, at cost (fair value of $51,306 and $37,611, respectively)	49,192	36,478
Equity securities, restricted, at cost	8,647	8,423
Total securities	261,680	288,171
Loans held for sale	1,763	2,101
Loans	785,016	748,724
Purchased credit impaired (PCI) loans	54,766	58,955
Total loans	839,782	807,679
Allowance for loan losses (loans of $9,434 and $9,559, respectively; PCI loans of $484 and $484, respectively)	(9,918)	(10,043)
Net loans	829,864	797,636
Bank premises and equipment, net	27,654	27,378
Bank premises and equipment held for sale	—	110
Other real estate owned	4,898	5,490
Bank owned life insurance	26,941	21,620
Core deposit intangibles, net	1,852	2,805
Other assets	16,676	18,277

Total assets	$ 1,189,522	$ 1,180,557
LIABILITIES		
Deposits:		
Noninterest bearing	$ 115,677	$ 96,216
Interest bearing	841,337	849,303
Total deposits	957,014	945,519
Federal funds purchased	12,301	18,921
Federal Home Loan Bank advances	94,274	95,656
Long-term debt	3,806	5,675
Trust preferred capital notes	4,124	4,124
Other liabilities	5,772	6,175
Total liabilities	1,077,291	1,076,070
SHAREHOLDERS' EQUITY		
Common stock (200,000,000 shares authorized, $0.01 par value; 21,911,300 and 21,866,944 shares issued and outstanding, respectively)	219	219
Additional paid in capital	146,273	145,907
Retained deficit	(36,312)	(41,050)
Accumulated other comprehensive income (loss)	2,051	(589)
Total shareholders' equity	112,231	104,487
Total liabilities and shareholders' equity	$ 1,189,522	$ 1,180,557

See accompanying notes to unaudited consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 AND 2015

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

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Interest and dividend income				
Interest and fees on loans	$ 8,873	$ 8,017	$ 17,426	$ 15,764
Interest and fees on PCI loans	1,556	2,418	3,155	4,491
Interest on federal funds sold	—	1	—	2
Interest on deposits in other banks	23	17	44	34
Interest and dividends on securities				
Taxable	1,124	1,355	2,395	2,723
Nontaxable	557	525	1,151	969
Total interest and dividend income	12,133	12,333	24,171	23,983
Interest expense				
Interest on deposits	1,537	1,486	3,088	2,934
Interest on borrowed funds	363	384	737	801
Total interest expense	1,900	1,870	3,825	3,735
Net interest income	10,233	10,463	20,346	20,248
Provision for loan losses	200	—	200	—
Net interest income after provision for loan losses	10,033	10,463	20,146	20,248
Noninterest income				
Service charges on deposit accounts	599	557	1,168	1,085
Gain (loss) on securities transactions, net	261	(8)	520	289
Gain on sale of loans, net	—	23	—	69
Income on bank owned life insurance	204	188	392	374
Mortgage loan income	174	262	347	410
Other	157	184	289	376
Total noninterest income	1,395	1,206	2,716	2,603
Noninterest expense				
Salaries and employee benefits	4,561	4,406	9,172	8,901
Occupancy expenses	646	619	1,287	1,307
Equipment expenses	248	260	487	500
FDIC assessment	252	220	503	457
Data processing fees	405	412	820	854
FDIC indemnification asset amortization	—	1,153	—	2,392
Amortization of intangibles	476	477	953	954
Other real estate (income) expense, net	(15)	137	(117)	222
Other operating expenses	1,656	1,759	3,155	3,375

Total noninterest expense	8,229	9,443	16,260	18,962
Income before income taxes	3,199	2,226	6,602	3,889
Income tax expense	881	533	1,864	884
Net income	$ 2,318	$ 1,693	$ 4,738	$ 3,005
Net income available to common shareholders	$ 2,318	$ 1,693	$ 4,738	$ 3,005
Net income per share — basic	$ 0.11	$ 0.08	$ 0.22	$ 0.14
Net income per share — diluted	$ 0.11	$ 0.08	$ 0.22	$ 0.14
Weighted average number of shares outstanding				
Basic	21,897	21,821	21,885	21,810
Diluted	22,039	21,958	22,080	21,994

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 AND 2015

(dollars in thousands)

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net income	$ 2,318	$ 1,693	$ 4,738	$ 3,005
Other comprehensive income (loss):				
Unrealized gains (loss) on investment securities:				
Change in unrealized gain (loss) in investment securities	1,644	(3,976)	5,197	(2,200)
Tax related to unrealized (gain) loss in investment securities	(559)	1,352	(1,767)	747
Reclassification adjustment for (gain) loss in securities sold	(261)	8	(520)	(289)
Tax related to realized gain (loss) in securities sold	89	(3)	177	98
Cash flow hedge:				
Change in unrealized gain (loss) in cash flow hedge	(129)	215	(677)	(164)
Tax related to cash flow hedge	44	(73)	230	57
Total other comprehensive income (loss)	828	(2,477)	2,640	(1,751)
Total comprehensive income (loss)	$ 3,146	$ (784)	$ 7,378	$ 1,254

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015

(dollars and shares in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2015	21,792	$ 218	$ 145,321	$ (38,553)	$ 664	$ 107,650
Issuance of common stock	36	—	81	—	—	81
Exercise and issuance of employee stock options	—	—	194	—	—	194
Net income	—	—	—	3,005	—	3,005
Other comprehensive loss	—	—	—	—	(1,751)	(1,751)
Balance June 30, 2015	21,828	$ 218	$ 145,596	$ (35,548)	$ (1,087)	$ 109,179
Balance January 1, 2016	21,867	$ 219	$ 145,907	$ (41,050)	$ (589)	$ 104,487
Issuance of common stock	44	—	83	—	—	83
Exercise and issuance of employee stock options	—	—	283	—	—	283
Net income	—	—	—	4,738	—	4,738
Other comprehensive income	—	—	—	—	2,640	2,640
Balance June 30, 2016	21,911	$ 219	$ 146,273	$ (36,312)	$ 2,051	$ 112,231

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015

(dollars in thousands)

	June 30, 2016			June 30, 2015		
Operating activities:						
Net income	$	4,738		$	3,005	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and intangibles amortization		1,707			1,751	
Stock-based compensation expense		286			233	
Amortization of purchased loan premium		126			152	
Provision for loan losses		200			—	
Amortization of security premiums and accretion of discounts, net		892			1,325	
Net gain on sale of securities		(520	)		(289	)
Net (gain) loss on sale and valuation of other real estate owned		(227	)		198	
Net gain on sale of loans		—			(69	)
Originations of mortgages held for sale		(30,940	)		(31,237	)
Proceeds from sales of mortgages held for sale		31,278			24,934	

Increase in bank owned life insurance	(321	)	(308	)
Changes in assets and liabilities:				
Decrease in other assets	309		3,146	
(Decrease) increase in other liabilities	(1,124	)	53	
Net cash provided by operating activities	6,404		2,894	
Investing activities:				
Proceeds from available for sale securities	76,311		93,444	
Proceeds from held to maturity securities	6,164		916	
Proceeds from equity securities	2,253		873	
Purchase of available for sale securities	(32,547	)	(85,180	)
Purchase of held to maturity securities	(18,910	)	(3,221	)
Purchase of equity securities	(2,477	)	(65	)
Proceeds from sale of other real estate owned	1,249		1,886	
Improvements of other real estate, net of insurance proceeds	(34	)	(52	)
Net increase in loans	(33,207	)	(20,688	)
Principal recoveries of loans previously charged off	228		1,448	
Purchase of premises and equipment, net	(1,035	)	(870	)
Proceeds from sale of loans	—		3,380	
Purchase of bank owned life insurance investment	(5,000	)	—	
Proceeds from sale of premises and equipment	146		—	
Net cash used in investing activities	(6,859	)	(8,129	)

Financing activities:				
Net increase in deposits		11,495		28,991
Net decrease in federal funds purchased		(6,620)		(9,497)
Net decrease in Federal Home Loan Bank borrowings		(1,382)		(15,370)
Proceeds from issuance of common stock		56		30
Payments on long-term debt		(1,869)		(2,403)
Net cash provided by financing activities		1,680		1,751
Net increase (decrease) in cash and cash equivalents		1,225		(3,484)
Cash and cash equivalents:				
Beginning of the period		16,969		22,353
End of the period	$	18,194	$	18,869
Supplemental disclosures of cash flow information:				
Interest paid	$	3,844	$	3,765
Income taxes paid		3,214		815
Transfers of loans to other real estate owned property		425		741

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Banking Activities and Significant Accounting Policies

Organization

Community Bankers Trust Corporation (the “Company”) is headquartered in Richmond, Virginia and is the holding company for Essex Bank (the “Bank”), a Virginia state bank with 22 full-service offices in Virginia and Maryland. The Bank also operates one loan production office 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.

Financial Statements

The consolidated statements presented include accounts of the Company and the Bank, its wholly-owned subsidiary. All material intercompany balances and transactions have been eliminated. The statements should be read in conjunction with the Company’s consolidated financial statements and the accompanying notes to consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles (GAAP) and to the general practices within the banking industry. The interim financial statements have not been audited; however, in the opinion of management, all adjustments, consisting of normal accruals, were made that are necessary to present fairly the balance sheet of the Company as of June 30, 2016, the statements of income and comprehensive income (loss) for the three and six months ended June 30, 2016 and the statements of changes in shareholders’ equity and cash flows for the six months ended June 30, 2016. Results for the six month period ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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

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

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* The amendments are intended to improve the accounting for employee share-based payments and affect all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award transactions are simplified, including: *(a)* income tax consequences; *(b)* classification of awards as either equity or liabilities; and *(c)* classification on the statement of cash flows. The only amendment to potentially impact earnings is the one relating to income tax consequences, which refers to a change in the recording of the related tax effects of share-based compensation awards. Currently, an entity must determine for each award whether the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes results in either an excess tax benefit or a tax deficiency. Excess tax benefits are recognized in additional paid-in capital while tax deficiencies are recognized as income tax expense. Under the amendment, all excess tax benefits and tax deficiencies should be recognized as income tax benefit or expense in the income statement.

For public companies, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any organization in any interim or annual period. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Also in March 2016, the FASB issued ASU No. 2016-07, *Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.* The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments eliminate the requirement that, when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required.

The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information in developing their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

For public companies, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (i.e., January 1, 2020, for calendar year entities). Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is evaluating what impact adopting this guidance will have on its consolidated financial statements.

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

Note 2. Securities

Amortized costs and fair values of securities available for sale and held to maturity at June 30, 2016 and December 31, 2015 were as follows (dollars in thousands):

	June 30, 2016			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov't agencies	$37,898	$99	$(479)	$37,518
U.S. Gov't sponsored agencies	2,000	—	—	2,000
State, county and municipal	122,840	6,562	(294)	129,108
Corporate and other bonds	14,199	25	(701)	13,523
Mortgage backed – U.S. Gov't agencies	5,210	31	(1)	5,240
Mortgage backed – U.S. Gov't sponsored agencies	16,345	150	(43)	16,452
Total Securities Available for Sale	$198,492	$6,867	$(1,518)	$203,841
Securities Held to Maturity				
U.S. Treasury issue and other U.S. Gov't agencies	$13,501	$3	$—	$13,504
State, county and municipal	34,806	2,092	—	36,898
Mortgage backed – U.S. Gov't agencies	885	19	—	904
Total Securities Held to Maturity	$49,192	$2,114	$—	$51,306

	December 31, 2015			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov't agencies	$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
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
Total Securities Held to Maturity	$36,478	$1,168	$(35)	$37,611

The amortized cost and fair value of securities at June 30, 2016 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without any penalties.

	Held to Maturity		Available for Sale	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$4,602	$ 4,617	$4,380	$4,414
Due after one year through five years	20,830	21,384	77,068	79,684
Due after five years through ten years	14,472	15,497	93,637	96,257
Due after ten years	9,288	9,808	23,407	23,486
Total securities	$49,192	$ 51,306	$198,492	$203,841

Proceeds from sales of securities available for sale were $20.1 million and $15.6 million during the three months ended June 30, 2016 and 2015, respectively, and $71.5 million and $56.2 million during the six months ended June 30, 2016 and 2015, respectively. Gains and losses on the sale of securities are determined using the specific identification method. Gross realized gains and losses on sales of securities available for sale during the three and six months ended June 30, 2016 and 2015 were as follows (dollars in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Gross realized gains	$ 278	$ 122	$ 1,032	$ 575
Gross realized losses	(17)	(130)	(512)	(286)
Net securities gains	$ 261	$ (8)	$ 520	$ 289

In estimating other than temporary impairment (OTTI) losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and short-term prospects for the issuer, and the intent and ability of management to hold its investment for a period of time to allow a recovery in fair value. There were no investments held that had OTTI losses for the three and six months ended June 30, 2016 and 2015.

The fair value and gross unrealized losses for securities, segregated by the length of time that individual securities have been in a continuous gross unrealized loss position, at June 30, 2016 and December 31, 2015 were as follows (dollars in thousands):

June 30, 2016		
Less than 12 Months	12 Months or More	Total

Securities Available for Sale	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury issue and other U.S. Gov't agencies	$ 10,505	$ (76)	$ 19,901	$ (403)	$ 30,406	$ (479)
State, county and municipal	1,075	(9)	4,986	(285)	6,061	(294)
Corporate and other bonds	3,450	(218)	8,800	(483)	12,250	(701)
Mortgage backed – U.S. Gov't agencies	-	-	1,996	(1)	1,996	(1)
Mortgage backed – U.S. Gov't sponsored agencies	2,331	(41)	157	(2)	2,488	(43)
Total	$ 17,361	$ (344)	$ 35,840	$ (1,174)	$ 53,201	$ (1,518)

	December 31, 2015					
	Less than 12 Months		12 Months or More		Total	
Securities Available for Sale	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury issue and other U.S. Gov't agencies	$ 20,408	$ (84)	$ 28,063	$ (576)	$ 48,471	$ (660)
U.S. Gov't sponsored agencies	742	(14)	-	-	742	(14)
State, county and municipal	23,733	(252)	10,270	(615)	34,003	(867)
Corporate and other bonds	8,996	(669)	3,290	(42)	12,286	(711)
Mortgage backed – U.S. Gov't agencies	6,386	(88)	1,919	(79)	8,305	(167)
Mortgage backed – U.S. Gov't sponsored agencies	24,129	(360)	175	(2)	24,304	(362)
Total	$ 84,394	$ (1,467)	$ 43,717	$ (1,314)	$ 128,111	$ (2,781)
Securities Held to Maturity						
State, county and municipal	$ 3,889	$ (35)	$ -	$ -	$ 3,889	$ (35)

The unrealized losses (impairments) in the investment portfolio at June 30, 2016 and December 31, 2015 are generally a result of market fluctuations that occur daily. The unrealized losses are from 55 securities at June 30, 2016. Of those, 35 are investment grade, have U.S. government agency guarantees, or are backed by the full faith and credit of local municipalities throughout the United States. Twenty investment grade corporate and other bond obligations comprise the remaining securities with unrealized losses at June 30, 2016. The Company considers the reason for impairment, length of impairment, and ability and intent to hold until the full value is recovered in determining if the impairment is temporary in nature. Based on this analysis, the Company has determined these impairments to be temporary in nature. The Company does not intend to sell, and it is more likely than not that the Company will not be required to sell, these securities until they recover in value or reach maturity.

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

Securities with amortized costs of $71.4 million and $88.7 million at June 30, 2016 and December 31, 2015, respectively, were pledged to secure public deposits as required or permitted by law and a line of credit at the Federal Reserve discount window. At each of June 30, 2016 and December 31, 2015, there were no securities purchased from a single issuer, other than U.S. Treasury issue and other U.S. Government agencies that comprised more than 10% of the consolidated shareholders' equity.

Note 3. Loans and Related Allowance for Loan Losses

The Company's loans, net of deferred fees and costs, at June 30, 2016 and December 31, 2015 were comprised of the following (dollars in thousands):

	June 30, 2016		December 31, 2015	
	Amount	% of Loans	Amount	% of Loans
Mortgage loans on real estate:				
Residential 1-4 family	$204,639	26.07 %	$194,576	25.99 %
Commercial	325,394	41.45	317,955	42.47
Construction and land development	79,826	10.17	67,408	9.00
Second mortgages	8,212	1.05	8,378	1.12
Multifamily	44,585	5.68	45,389	6.06
Agriculture	7,988	1.02	6,238	0.83
Total real estate loans	670,644	85.44	639,944	85.47
Commercial loans	107,953	13.75	102,507	13.69

Consumer installment loans	5,125	0.65	4,928	0.66
All other loans	1,294	0.16	1,345	0.18
Total loans	$785,016	100.00 %	$748,724	100.00 %

The Company held $15.0 million and $13.4 million in balances of loans guaranteed by the United States Department of Agriculture (USDA), which are included in various categories in the table above, at June 30, 2016 and December 31, 2015, respectively. As these loans are 100% guaranteed by the USDA, no loan loss provision is required. These loan balances included a purchase premium of $731,000 and $586,000 at June 30, 2016 and December 31, 2015, respectively. The purchase premium is amortized as an adjustment of the related loan yield on a straight line basis, which is substantially equivalent to the results obtained using the effective interest method.

At June 30, 2016 and December 31, 2015, the Company's allowance for credit losses was comprised of the following: (i) a specific valuation component calculated in accordance with FASB ASC 310, *Receivables,* (ii) a general valuation component calculated in accordance with FASB Accounting Standards Codification (ASC) 450, *Contingencies*, based on historical loan loss experience, economic conditions and other qualitative risk factors, and (iii) an unallocated component to cover uncertainties that could affect management's estimate of probable losses. Management identified loans subject to impairment in accordance with ASC 310.

The following table summarizes information related to impaired loans as of June 30, 2016 (dollars in thousands):

With an allowance recorded:	**Recorded Investment** (1)	**Unpaid Principal Balance** (2)	Related Allowance
Mortgage loans on real estate:			
Residential 1-4 family	$ 2,011	$ 2,608	$ 229
Commercial	348	513	50
Construction and land development	5,556	7,193	771
Total real estate loans	7,915	10,314	1,050
Commercial loans	54	54	8
Consumer installment loans	83	91	11
Subtotal impaired loans with a valuation allowance	8,052	10,459	1,069
With no related allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	1,965	2,129	—
Commercial	1,354	1,742	—
Construction and land development	149	182	—
Second mortgages	135	135	—
Total real estate loans	3,603	4,188	—
Subtotal impaired loans without a valuation allowance	3,603	4,188	—
Total:			
Mortgage loans on real estate:			
Residential 1-4 family	3,976	4,737	229
Commercial	1,702	2,255	50
Construction and land development	5,705	7,375	771
Second mortgages	135	135	—
Total real estate loans	11,518	14,502	1,050
Commercial loans	54	54	8
Consumer installment loans	83	91	11
Total impaired loans	$ 11,655	$ 14,647	$ 1,069

(1) The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment

(2)

The contractual amount due, which reflects paydowns applied in accordance with loan documents, but which does not reflect any direct write-downs

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

With an allowance recorded:	**Recorded Investment (1)**	**Unpaid Principal Balance (2)**	Related Allowance
Mortgage loans on real estate:			
Residential 1-4 family	$ 2,777	$ 3,034	$ 414
Commercial	205	407	35
Construction and land development	4,509	6,179	574
Second mortgages	13	14	2
Total real estate loans	7,504	9,634	1,025
Consumer installment loans	78	84	14
Subtotal impaired loans with a valuation allowance	7,582	9,718	1,039
With no related allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	1,785	2,260	—
Commercial	1,303	1,500	—
Total real estate loans	3,088	3,760	—
Subtotal impaired loans without a valuation allowance	3,088	3,760	—
Total:			
Mortgage loans on real estate:			
Residential 1-4 family	4,562	5,294	414
Commercial	1,508	1,907	35
Construction and land development	4,509	6,179	574
Second mortgages	13	14	2
Total real estate loans	10,592	13,394	1,025
Consumer installment loans	78	84	14
Total impaired loans	$ 10,670	$ 13,478	$ 1,039

(1) The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment

(2) The contractual amount due, which reflects paydowns applied in accordance with loan documents, but which does not reflect any direct write-downs

The following table summarizes the average recorded investment of impaired loans for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Mortgage loans on real estate:				
Residential 1-4 family	$ 4,166	$ 3,475	$ 4,269	$ 3,617
Commercial	1,751	1,786	1,605	1,232
Construction and land development	5,101	4,750	5,107	4,917
Second mortgages	142	61	74	61
Total real estate loans	11,160	10,072	11,055	9,827
Commercial loans	54	3,706	27	3,762
Consumer installment loans	82	87	81	103
Total impaired loans	$ 11,296	$ 13,865	$ 11,163	$ 13,692

During each of the three and six months ended June 30, 2016 and 2015, all of the impaired loans were also nonaccruing for which no interest income was recognized.

Interest income on nonaccrual loans, if recognized, is recorded using the cash basis method of accounting. There was an insignificant amount of cash basis income recognized during the three and six months ended June 30, 2016. Cash basis income of $260,000 and $465,000 was recognized during the three and six months ended June 30, 2015, respectively. For the three months ended June 30, 2016, and 2015, estimated interest income of $219,000 and $225,000, respectively, would have been recorded if all such loans had been accruing interest according to their original contractual terms. For the six months ended June 30, 2016, and 2015, estimated interest income of $409,000 and $420,000, respectively, would have been recorded if all such loans had been accruing interest according to their original contractual terms.

The following tables present an age analysis of past due status of loans by category as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016				
	30-89 Days Past Due	Nonaccrual	Total Past Due	Current	Total Loans Receivable
Mortgage loans on real estate:					
Residential 1-4 family	$ 632	$ 3,976	$ 4,608	$ 200,031	$ 204,639

Commercial	310	1,702	2,012	323,382	325,394
Construction and land development	—	5,705	5,705	74,121	79,826
Second mortgages	25	135	160	8,052	8,212
Multifamily	—	—	—	44,585	44,585
Agriculture	—	—	—	7,988	7,988
Total real estate loans	967	11,518	12,485	658,159	670,644
Commercial loans	235	54	289	107,664	107,953
Consumer installment loans	23	83	106	5,019	5,125
All other loans	34	—	34	1,260	1,294
Total loans	$1,259	$ 11,655	$ 12,914	$772,102	$ 785,016

	December 31, 2015				
	30-89 Days Past Due	Nonaccrual	Total Past Due	Current	Total Loans Receivable
Mortgage loans on real estate:					
Residential 1-4 family	$811	$ 4,562	$ 5,373	$189,203	$ 194,576
Commercial	1,471	1,508	2,979	314,976	317,955
Construction and land development	51	4,509	4,560	62,848	67,408
Second mortgages	135	13	148	8,230	8,378
Multifamily	—	—	—	45,389	45,389
Agriculture	—	—	—	6,238	6,238
Total real estate loans	2,468	10,592	13,060	626,884	639,944
Commercial loans	16	—	16	102,491	102,507
Consumer installment loans	10	78	88	4,840	4,928
All other loans	33	—	33	1,312	1,345
Total loans	$2,527	$ 10,670	$ 13,197	$735,527	$ 748,724

Activity in the allowance for loan losses on loans by segment for the three and six months ended June 30, 2016 and 2015 is presented in the following tables (dollars in thousands):

	Three months ended June 30, 2016				
	March 31, 2016	Provision Allocation	Charge-offs	Recoveries	June 30, 2016
Mortgage loans on real estate:					
Residential 1-4 family	$2,711	$ 50	$ (305)	$ 14	$ 2,470
Commercial	3,524	145	(75)	17	3,611
Construction and land development	1,684	(98)	—	1	1,587
Second mortgages	114	(68)	—	1	47
Multifamily	362	(63)	—	—	299
Agriculture	16	10	—	—	26
Total real estate loans	8,411	(24)	(380)	33	8,040
Commercial loans	1,084	186	—	10	1,280
Consumer installment loans	92	34	(34)	11	103
All other loans	7	4	—	—	11
Total loans	$9,594	$ 200	$ (414)	$ 54	$ 9,434

	Three months ended June 30, 2015				
	March 31, 2015	Provision Allocation	Charge-offs	Recoveries	June 30, 2015
Mortgage loans on real estate:					
Residential 1-4 family	$2,861	$ 743	$ —	$ 8	$ 3,612
Commercial	2,571	979	—	9	3,559
Construction and land development	1,503	584	(455)	7	1,639
Second mortgages	55	(90)	—	91	56
Multifamily	175	76	—	—	251
Agriculture	70	7	—	—	77
Total real estate loans	7,235	2,299	(455)	115	9,194
Commercial loans	1,650	(2,291)	—	1,202	561
Consumer installment loans	97	(10)	(34)	25	78
All other loans	29	2	—	—	31
Total loans	$9,011	$ —	$ (489)	$ 1,342	$ 9,864

	Six months ended June 30, 2016				
	December 31, 2015	Provision Allocation	Charge-offs	Recoveries	June 30, 2016
Mortgage loans on real estate:					
Residential 1-4 family	$3,041	$ (357)	$ (325)	$ 111	$ 2,470

Commercial	4,022	(328)	(112)	29	3,611
Construction and land development	1,353	232	—	2	1,587
Second mortgages	103	(62)	—	6	47
Multifamily	178	121	—	—	299
Agriculture	27	(1)	—	—	26
Total real estate loans	8,724	(395)	(437)	148	8,040
Commercial loans	727	542	—	11	1,280
Consumer installment loans	97	53	(116)	69	103
All other loans	11	—	—	—	11
Total loans	$9,559	$ 200	$ (553)	$ 228	$ 9,434

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	Six months ended June 30, 2015				
	December 31, 2014	Provision Allocation	Charge-offs	Recoveries	June 30, 2015
Mortgage loans on real estate:					
Residential 1-4 family	$3,100	$ 755	$ (300)	$ 57	$ 3,612
Commercial	2,618	926	—	15	3,559
Construction and land development	1,930	146	(455)	18	1,639
Second mortgages	63	(100)	—	93	56
Multifamily	136	115	—	—	251
Agriculture	66	11	—	—	77
Total real estate loans	7,913	1,853	(755)	183	9,194
Commercial loans	1,242	(1,889)	—	1,208	561
Consumer installment loans	85	32	(96)	57	78
All other loans	27	4	—	—	31
Total loans	$9,267	$ —	$ (851)	$ 1,448	$ 9,864

The Company recorded a $200,000 provision for loan losses for the three and six months ended June 30, 2016 as additional general reserves to support current period loan growth.

The following tables present information on the loans evaluated for impairment in the allowance for loan losses as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016					
	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment (1)	Collectively Evaluated for Impairment	Total	**Individually Evaluated for Impairment (1)**	Collectively Evaluated for Impairment	Total
Mortgage loans on real estate:						
Residential 1-4 family	$289	$ 2,181	$2,470	$5,760	$ 198,879	$204,639
Commercial	77	3,534	3,611	6,353	319,041	325,394
Construction and land development	771	816	1,587	5,705	74,121	79,826
Second mortgages	—	47	47	135	8,077	8,212
Multifamily	—	299	299	—	44,585	44,585
Agriculture	—	26	26	—	7,988	7,988
Total real estate loans	1,137	6,903	8,040	17,953	652,691	670,644
Commercial loans	8	1,272	1,280	95	107,858	107,953
Consumer installment loans	12	91	103	327	4,798	5,125
All other loans	—	11	11	—	1,294	1,294
Total loans	$1,157	$ 8,277	$9,434	$18,375	$ 766,641	$785,016

	December 31, 2015					
	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment [1]	Collectively Evaluated for Impairment	Total	**Individually Evaluated for Impairment** [1]	Collectively Evaluated for Impairment	Total
Mortgage loans on real estate:						
Residential 1-4 family	$450	$ 2,591	$3,041	$6,972	$ 187,604	$194,576
Commercial	55	3,967	4,022	6,362	311,593	317,955
Construction and land development	564	789	1,353	4,509	62,899	67,408
Second mortgages	2	101	103	13	8,365	8,378
Multifamily	—	178	178	—	45,389	45,389
Agriculture	—	27	27	—	6,238	6,238
Total real estate loans	1,071	7,653	8,724	17,856	622,088	639,944
Commercial loans	—	727	727	58	102,449	102,507
Consumer installment loans	12	85	97	78	4,850	4,928
All other loans	—	11	11	—	1,345	1,345
Total loans	$1,083	$ 8,476	$9,559	$17,992	$ 730,732	$748,724

[1] The category “Individually Evaluated for Impairment” includes loans individually evaluated for impairment and determined not to be impaired. These loans totalled $6.7 million and $7.3 million at June 30, 2016 and December 31, 2015, respectively. The allowance for loan losses allocated to these loans was $88,000 and $44,000 at June 30, 2016 and December 31, 2015, respectively.

Loans are monitored for credit quality on a recurring basis. These credit quality indicators are defined as follows:

Pass - A pass loan is not adversely classified, as it does not display any of the characteristics for adverse classification. This category includes purchased loans that are 100% guaranteed by U.S. Government agencies of $15.0 million and $13.4 million at June 30, 2016 and December 31, 2015, respectively.

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

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

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

The following tables present the composition of loans by credit quality indicator at June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential 1-4 family	$193,784	$6,474	$ 4,381	$ —	$204,639
Commercial	318,883	3,188	3,323	—	325,394
Construction and land development	73,901	220	5,705	—	79,826
Second mortgages	7,551	526	135	—	8,212
Multifamily	37,059	7,526	—	—	44,585
Agriculture	7,866	122	—	—	7,988
Total real estate loans	639,044	18,056	13,544	—	670,644
Commercial loans	104,903	2,955	95	—	107,953
Consumer installment loans	5,021	21	83	—	5,125
All other loans	1,294	—	—	—	1,294
Total loans	$750,262	$21,032	$ 13,722	$ —	$785,016

	December 31, 2015				
	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential 1-4 family	$182,394	$6,612	$ 5,570	$ —	$194,576
Commercial	306,267	8,520	3,168	—	317,955
Construction and land development	62,391	434	4,583	—	67,408
Second mortgages	7,126	1,239	13	—	8,378
Multifamily	45,389	—	—	—	45,389
Agriculture	6,113	125	—	—	6,238
Total real estate loans	609,680	16,930	13,334	—	639,944
Commercial loans	98,159	4,290	58	—	102,507
Consumer installment loans	4,593	256	79	—	4,928
All other loans	1,345	—	—	—	1,345
Total loans	$713,777	$21,476	$ 13,471	$ —	$748,724

In accordance with FASB ASU 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring,* the Company assesses all loan modifications to determine whether they are considered troubled debt restructurings (TDRs) under the guidance. The Company had 18 and 19 loans that met the definition of a TDR at June 30, 2016 and 2015, respectively.

During the three months ended June 30, 2016, the Company modified one residential 1-4 family loan that was considered to be a TDR. The Company extended the terms for this loan, which had a pre- and post-modification balance of $81,000 and $97,000, respectively. During the six months ended June 30, 2016, the Company modified one residential 1-4 family loan and one consumer installment loan that was considered to be a TDR. The Company extended the terms for the residential 1-4 family loan, which had a pre- and post-modification balance of $81,000 and $97,000, respectively. The Company extended the terms and lowered the interest rate for the consumer installment loan, which had a pre- and post-modification balance of $248,000.

During the three and six months ended June 30, 2015, the Company modified one residential 1-4 family loan that was considered to be a TDR. The Company extended the terms and lowered the interest rate for this loan, which had a pre- and post-modification balance of $68,000.

A loan is considered to be in default if it is 90 days or more past due. There were no TDRs that had been restructured during the previous 12 months that resulted in default during either of the three and six months ended June 30, 2016 and 2015.

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

At June 30, 2016, the Company had 1-4 family mortgages in the amount of $149.5 million pledged as collateral to the Federal Home Loan Bank for a total borrowing capacity of $134.9 million.

Note 4. PCI Loans and Related Allowance for Loan Losses

On January 30, 2009, the Company entered into a Purchase and Assumption Agreement with the Federal Deposit Insurance Corporation (FDIC) to assume all of the deposits and certain other liabilities and acquire substantially all assets of Suburban Federal Savings Bank (SFSB). The Company is applying the provisions of FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, to all loans acquired in the SFSB transaction (the "PCI loans"). Of the total $198.3 million in loans acquired, $49.1 million met the criteria of FASB ASC 310-30. These loans, consisting mainly of construction loans, were deemed impaired at the acquisition date. The remaining $149.1 million of loans acquired, comprised mainly of residential 1-4 family, were analogized to meet the criteria of FASB ASC 310-30. Analysis of this portfolio revealed that SFSB utilized weak underwriting and documentation standards, which led the Company to believe that significant losses were probable given the economic environment at the time.

As of June 30, 2016 and December 31, 2015, the outstanding contractual balance of the PCI loans was $85.4 million and $91.3 million, respectively. The carrying amount, by loan type, as of these dates is as follows (dollars in thousands):

	June 30, 2016	December 31, 2015

	Amount	% of PCI Loans		Amount	% of PCI Loans	
Mortgage loans on real estate:						
Residential 1-4 family	$49,264	89.95	%	$52,696	89.38	%
Commercial	705	1.29		850	1.44	
Construction and land development	2,029	3.71		2,310	3.92	
Second mortgages	2,494	4.55		2,822	4.79	
Multifamily	274	0.50		277	0.47	
Total real estate loans	54,766	100.00		58,955	100.00	
Total PCI loans	$54,766	100.00	%	$58,955	100.00	%

There was no activity in the allowance for loan losses on PCI loans for the three and six months ended June 30, 2016 and 2015.

The following table presents information on the PCI loans collectively evaluated for impairment in the allowance for loan losses at June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016		December 31, 2015	
	Allowance for loan losses	Recorded investment in loans	Allowance for loan losses	Recorded investment in loans
Mortgage loans on real estate:				
Residential 1-4 family	$484	$ 49,264	$484	$ 52,696
Commercial	—	705	—	850
Construction and land development	—	2,029	—	2,310
Second mortgages	—	2,494	—	2,822
Multifamily	—	274	—	277
Total real estate loans	484	54,766	484	58,955
Total PCI loans	$484	$ 54,766	$484	$ 58,955

The change in the accretable yield balance for the six months ended June 30, 2016 and the year ended December 31, 2015, is as follows (dollars in thousands):

Balance, January 1, 2015	$51,082
Accretion	(7,811)
Reclassification from nonaccretable yield	5,857
Balance, December 31, 2015	49,128
Accretion	(3,132)
Reclassification from nonaccretable yield	3,805
Balance, June 30, 2016	$49,801

The PCI loans were not classified as nonperforming assets as of June 30, 2016, as the loans are accounted for on a pooled basis, and interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all PCI loans.

Note 5. Other Real Estate Owned

The following table presents the balances of other real estate owned at June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
Residential 1-4 family	$ 968	$ 1,407
Commercial	643	634
Construction and land development	3,287	3,449
Total other real estate owned	$ 4,898	$ 5,490

At June 30, 2016, the Company had $1.6 million in residential 1-4 family loans and PCI loans that were in the process of foreclosure.

Note 6. Deposits

The following table provides interest bearing deposit information, by type, as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
NOW	$ 133,362	$ 128,761
MMDA	107,067	108,810
Savings	85,063	84,047
Time deposits less than or equal to $250,000	402,434	409,085
Time deposits over $250,000	113,411	118,600
Total interest bearing deposits	$ 841,337	$ 849,303

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Note 7. Accumulated Other Comprehensive Income (Loss)

The following tables present activity net of tax in accumulated other comprehensive income (loss) (AOCI) for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

	Three months ended June 30, 2016			
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Gain/Loss on Cash Flow Hedge	Total Other Comprehensive Income (Loss)
Beginning balance	$2,617	$ (901)	$ (493)	$ 1,223
Other comprehensive income before reclassifications	1,085	-	(85)	1,000
Amounts reclassified from AOCI	(172)	-	-	(172)
Net current period other comprehensive income (loss)	913	-	(85)	828
Ending balance	$3,530	$ (901)	$ (578)	$ 2,051

	Three months ended June 30, 2015			
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Gain/Loss on Cash Flow Hedge	Total Other Comprehensive Income (Loss)
Beginning balance	$2,427	$ (811)	$ (226)	$ 1,390
Other comprehensive income before reclassifications	(2,624)	-	142	(2,482)
Amounts reclassified from AOCI	5	-	-	5
Net current period other comprehensive (loss) income	(2,619)	-	142	(2,477)
Ending balance	$(192)	$ (811)	$ (84)	$ (1,087)

	Six months ended June 30, 2016			
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Gain/Loss on Cash Flow Hedge	Total Other Comprehensive Income (Loss)
Beginning balance	$443	$ (901)	$ (131)	$ (589)
Other comprehensive income before reclassifications	3,430	-	(447)	2,983
Amounts reclassified from AOCI	(343)	-	-	(343)

Net current period other comprehensive income (loss)	3,087	-	(447)	2,640
Ending balance	$3,530	$ (901)	$ (578)	$ 2,051

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	Six months ended June 30, 2015			
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Gain/Loss on Cash Flow Hedge	Total Other Comprehensive Income (Loss)
Beginning balance	$1,452	$ (811)	$ 23	$ 664
Other comprehensive income before reclassifications	(1,453)	-	(107)	(1,560)
Amounts reclassified from AOCI	(191)	-	-	(191)
Net current period other comprehensive (loss) income	(1,644)	-	(107)	(1,751)
Ending balance	$(192)	$ (811)	$ (84)	$ (1,087)

The following table presents the effects of reclassifications out of AOCI on line items of consolidated income for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

Details about AOCI Components	Amount Reclassified from AOCI		Affected Line Item in the Unaudited Consolidated Statement of Income
	Three months ended		
	June 30, 2016	June 30, 2015	
Unrealized (gain) loss on securities available for sale	$ (261)	$ 8	Gain (loss) on securities transactions, net
	89	(3)	Income tax expense
	$ (172)	$ 5	Net of tax

Details about AOCI Components	Amount Reclassified from AOCI		Affected Line Item in the Unaudited Consolidated Statement of Income
	Six months ended		
	June 30, 2016	June 30, 2015	
Unrealized (gain) loss on securities available for sale	$ (520)	$ (289)	Gain (loss) on securities transactions, net
	177	98	Income tax expense
	$ (343)	$ (191)	Net of tax

Note 8. Fair Values of Assets and Liabilities

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

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

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

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

FASB ASC 825, *Financial Instruments*, allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Company has not made any material FASB ASC 825 elections as of June 30, 2016.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Investment securities available for sale				
U.S. Treasury issue and other U.S. Gov't agencies	$37,518	$31,722	$5,796	$ -
U.S. Gov't sponsored agencies	2,000	2,000	-	-
State, county and municipal	129,108	1,126	127,982	-
Corporate and other bonds	13,523	-	13,523	-
Mortgage backed – U.S. Gov't agencies	5,240	-	5,240	-
Mortgage backed – U.S. Gov't sponsored agencies	16,452	-	16,452	-
Total investment securities available for sale	203,841	34,848	168,993	-
Total assets at fair value	$203,841	$34,848	$168,993	$ -
Cash flow hedge	$(875)	$-	$(875)	$ -
Total liabilities at fair value	$(875)	$-	$(875)	$ -

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Investment securities available for sale				
U.S. Treasury issue and other U.S. Gov't agencies	$49,941	$39,748	$10,193	$ -
U.S. Gov't sponsored agencies	742	-	742	-
State, county and municipal	141,498	687	140,811	-
Corporate and other bonds	14,296	-	14,296	-
Mortgage backed – U.S. Gov't agencies	8,496	-	8,496	-
Mortgage backed – U.S. Gov't sponsored agencies	28,297	-	28,297	-
Total investment securities available for sale	243,270	40,435	202,835	-
Total assets at fair value	$243,270	$40,435	$202,835	$ -
Cash flow hedge	$(199)	$-	$(199)	$ -
Total liabilities at fair value	$(199)	$-	$(199)	$ -

Investment securities available for sale

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

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

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

Cash flow hedge

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company is also required to measure and recognize certain other financial assets at fair value on a nonrecurring basis on the consolidated balance sheet. The following tables present assets measured at fair value on a nonrecurring basis as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Impaired loans	$9,474	$ —	$1,456	$8,018
Other real estate owned	4,898	—	31	4,867
Total assets at fair value	$14,372	$ —	$1,487	$12,885
Total liabilities at fair value	$—	$ —	$—	$—

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Impaired loans	$8,737	$ —	$1,982	$6,755
Bank premises held for sale	110	—	—	110
Other real estate owned	5,490	—	31	5,459
Total assets at fair value	$14,337	$ —	$2,013	$12,324
Total liabilities at fair value	$—	$ —	$—	$—

Impaired loans

Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures the impairment in accordance with FASB ASC 310, *Receivables*. The fair value of impaired loans is estimated using one of several methods, including collateral value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investments in such loans. At June 30, 2016 and December 31, 2015, a majority of total impaired loans were evaluated based on the fair value of the collateral. The Company frequently obtains appraisals prepared by external professional appraisers for classified loans greater than $250,000 when the most recent appraisal is greater than 18 months old and/or deemed to be invalid. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan within Level 2.

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

Bank premises and equipment held for sale

The fair value of bank premises and equipment held for sale was determined using the adjusted appraisal methodology described in the other real estate owned (OREO) asset section below.

Other real estate owned

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

Fair Value of Financial Instruments

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

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

	June 30, 2016				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Securities held to maturity	$49,192	$ 51,306	$ —	$51,306	$—

Loans, net of allowance	775,582	777,957	—	769,939	8,018
PCI loans, net of allowance	54,282	63,048	—	—	63,048
Financial liabilities:					
Interest bearing deposits	841,337	842,217	—	842,217	—
Long-term borrowings	102,204	102,368	—	102,368	—

	December 31, 2015				
	Carrying Value	**Estimated Fair Value**	Level 1	Level 2	Level 3
Financial assets:					
Securities held to maturity	$36,478	$ 37,611	$ —	$37,611	$—
Loans, net of allowance	739,165	739,367	—	733,026	6,341
PCI loans, net of allowance	58,471	62,902	—	—	62,902
Financial liabilities:					
Interest bearing deposits	849,303	850,770	—	850,770	—
Long-term borrowings	105,455	105,476	—	105,476	—

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value as of June 30, 2016. The Company applied the provisions of FASB ASC 820 to the fair value measurements of financial instruments not recognized on the consolidated balance sheet at fair value. The provisions requiring the Company to maximize the use of observable inputs and to measure fair value using a notion of exit price were factored into the Company's selection of inputs into its established valuation techniques.

Financial Assets

Cash and cash equivalents

The carrying amounts of cash and due from banks, interest bearing bank deposits, and federal funds sold approximate fair value (Level 1).

Securities held for investment

For securities held for investment, fair values are based on quoted market prices or dealer quotes (Level 1 and 2).

Restricted securities

The carrying value of restricted securities approximates their fair value based on the redemption provisions of the respective issuer (Level 2).

Loans held for sale

The carrying amounts of loans held for sale approximate fair value (Level 2).

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of impaired loans is consistent with the methodology used for the FASB ASC 820 disclosure for assets recorded at fair value on a nonrecurring basis presented above.

PCI loans

Fair values for PCI loans are based on a discounted cash flow methodology that considers various factors including the type of loan and related collateral, classification status, term of loan and whether or not the loans are amortizing. Loans were pooled together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. The discount rates used for loans are based on the rates used at acquisition (which were based on market rates for new originations of comparable loans) adjusted for any material changes in interest rates since acquisition. Increases in cash flow expectations since acquisition resulted in estimated fair value being higher than carrying value. The increase in cash flows is also reflected in a transfer from unaccretable yield to accretable yield as disclosed in Note 4.

Accrued interest receivable

The carrying amounts of accrued interest receivable approximate fair value (Level 2).

Financial Liabilities

Noninterest bearing deposits

The carrying amount of noninterest bearing deposits approximates fair value (Level 2).

Interest bearing deposits

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

Federal funds purchased

The carrying amount of federal funds purchased approximates fair value (Level 2).

Long-term borrowings

The fair values of the Company's long-term borrowings, such as FHLB advances and long-term debt, are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Accrued interest payable

The carrying amounts of accrued interest payable approximate fair value (Level 2).

Off-balance sheet financial instruments

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of stand-by letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. The Company’s off-balance sheet commitments are funded at current market rates at the date they are drawn upon. It is management’s opinion that the fair value of these commitments would approximate their carrying value, if drawn upon.

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company’s financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company’s overall interest rate risk.

Note 9. Earnings Per Common Share

Basic earnings per common share (EPS) is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares outstanding during the period, including the effect of all potentially dilutive common shares outstanding attributable to stock instruments. The following table presents basic and diluted EPS for the three and six months ended June 30, 2016 and 2015 (dollars and shares in thousands, except per share data):

	Net Income (Numerator)	Weighted Average Common Shares (Denominator)	Per Common Share Amount
For the three months ended June 30, 2016			
Basic EPS	$ 2,318	21,897	$ 0.11
Effect of dilutive stock awards	—	142	—
Diluted EPS	$ 2,318	22,039	$ 0.11
For the three months ended June 30, 2015			
Basic EPS	$ 1,693	21,821	$ 0.08
Effect of dilutive stock awards	—	137	—
Diluted EPS	$ 1,693	21,958	$ 0.08
For the six months ended June 30, 2016			
Basic EPS	$ 4,738	21,885	$ 0.22
Effect of dilutive stock awards	—	195	—
Diluted EPS	$ 4,738	22,080	$ 0.22
For the six months ended June 30, 2015			
Basic EPS	$ 3,005	21,810	$ 0.14
Effect of dilutive stock awards	—	184	—
Diluted EPS	$ 3,005	21,994	$ 0.14

Antidilutive common shares issuable under awards or options of 259,000 were excluded from the computation of diluted earnings per common share for the three and six months ended June 30, 2016. There were no antidilutive exclusions from the computation of diluted earnings per common share for the three and six months ended June 30, 2015.

Note 10. Employee Benefit Plan

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

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

The following table provides the components of net periodic benefit cost for the plan for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Interest cost	$ 47	$ 47	$ 95	$ 95
Expected return on plan assets	(81)	(88)	(163)	(177)
Amortization of prior service cost	1	1	2	2
Recognized net actuarial loss	13	11	26	22
Recognized net loss due to settlement	59	—	72	—
Net periodic benefit cost	$ 39	$ (29)	$ 32	$ (58)

In accordance with FASB ASC 715, *Compensation-Retirement Benefits*, settlement accounting is triggered when lump sum payments to plan participants exceed the sum of the plan's service cost and interest cost for the year. The impact of settlement accounting is that a percentage of any outstanding losses that the plan is currently amortizing must be recognized immediately. This percentage is calculated as the ratio of lump sums paid to the total liability for the plan.

During the first quarter of 2016, settlement accounting was triggered and thus created a net loss due to settlement of $52,000 to be amortized during 2016. In May 2016, additional lump sum payments increased this loss by $182,000 for a total of $234,000 to be amortized during 2016.

Note 11. Cash Flow Hedge

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

The swap was entered into with a counterparty that met the Company's credit standards, and the agreement contains collateral provisions protecting the at-risk party. The Company believes that the credit risk inherent in the contract is not significant. The Company had $850,000 and $440,000 of cash pledged as collateral as of June 30, 2016 and December 31, 2015, respectively.

Amounts receivable or payable are recognized as accrued under the terms of the agreements. In accordance with FASB ASC 815, *Derivatives and Hedging*, the Company has designated the swap as a cash flow hedge, with the effective portions of the derivatives' unrealized gains or losses recorded as a component of other comprehensive income. The ineffective portions of the unrealized gains or losses, if any, would be recorded in other operating expense. The Company has assessed the effectiveness of each hedging relationship by comparing the changes in cash flows on the designated hedged item. The Company's cash flow hedge was deemed to be effective for the three and six months ended June 30, 2016 and 2015. The fair value of the Company's cash flow hedge was an unrealized loss of $875,000 and $199,000 at June 30, 2016 and December 31, 2015, respectively, and was recorded in other liabilities. The loss was recorded as a component of other comprehensive income net of associated tax effects.

Note 12. Branch Sale

On March 18, 2016, the Company sold its branch office in Catonsville, Maryland to JP Properties for a purchase price of $160,000. The Company closed the office on March 4, 2016. Loans and deposits are being serviced by the Company's Rosedale branch office.

The Catonsville branch office was classified as held for sale at December 31, 2015 at an estimated fair market value of $110,000. After closing costs of $14,000, the Company recognized a gain of $36,000.

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

The following discussion and analysis of the financial condition at June 30, 2016 and results of operations of Community Bankers Trust Corporation (the "Company") for the three and six months ended June 30, 2016 should be read in conjunction with the Company's consolidated financial statements and the accompanying notes to consolidated financial statements included in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

OVERVIEW

Community Bankers Trust Corporation (the "Company") is headquartered in Richmond, Virginia and is the holding company for Essex Bank (the "Bank"), a Virginia state bank with 22 full-service offices in Virginia and Maryland. The Bank also operates one loan production office 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.

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

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

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

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

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- 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 Company's Annual Report on Form 10-K for the year ended December 31, 2015 and other reports filed from time to time by the Company with the Securities and Exchange Commission.

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

CRITICAL ACCOUNTING POLICIES

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

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

Allowance for Loan Losses on 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 Company does not separately identify individual consumer and residential loans for impairment disclosures.

Accounting for Certain Loans or Debt Securities Acquired in a Transfer

FASB ASC 310, *Receivables,* requires acquired loans to be recorded at fair value and prohibits carrying over valuation allowances in the initial accounting for acquired impaired loans. Loans carried at fair value, mortgage loans held for sale, and loans to borrowers in good standing under revolving credit arrangements are excluded from the scope of FASB ASC 310, which limits the yield that may be accreted to the excess of the undiscounted expected cash flows over the investor's initial investment in the loan. The excess of the contractual cash flows over expected cash flows may not be recognized as an adjustment of yield. Subsequent increases in cash flows to be collected are recognized prospectively through an adjustment of the loan's yield over its remaining life. Decreases in expected cash flows are recognized as impairments through 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*, are recorded at fair value and no separate valuation allowance was recorded at the date of acquisition. FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality,* applies to loans acquired in a transfer with evidence of deterioration of credit quality for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. The Company is applying the provisions of FASB ASC 310-30 to all loans acquired in the SFSB transaction. The Company has grouped loans together based on common risk characteristics including product type, delinquency status and loan documentation requirements among others.

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

The Company has made an estimate of the total cash flows it expects to collect from each pool of loans, which includes undiscounted expected principal and interest. The excess of that amount over the fair value of the pool is referred to as accretable yield. Accretable yield is recognized as interest income on a constant yield basis over the life of the pool. The Company also determines each pool's contractual principal and contractual interest payments. The excess of that amount over the total cash flows that it expects to collect from the pool is referred to as nonaccretable difference, which is not accreted into income. Judgmental prepayment assumptions are applied to both contractually required payments and cash flows expected to be collected at acquisition. Over the life of the loan or pool, the Company continues to estimate cash flows expected to be collected. Subsequent decreases in cash flows expected to be collected over the life of the pool are recognized as an impairment in the current period through the allowance for loan losses. Subsequent increases in expected or actual cash flows are first used to reverse any existing valuation allowance for that loan or pool. Any remaining increase in cash flows expected to be collected is recognized as an adjustment to the accretable yield with the amount of periodic accretion adjusted over the remaining life of the pool.

Other Intangible Assets

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

Income Taxes

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

Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the consolidated financial statements when it is more likely than not 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 three and six months ended June 30, 2016 and 2015. 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 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 at the date of foreclosure net of estimated disposal costs, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or the fair value less costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other operating expenses. Costs to bring a property to salable condition are capitalized up to the fair value of the property while costs to maintain a property in salable condition are expensed as incurred.

RESULTS OF OPERATIONS

Overview

Net income was $2.3 million for the second quarter of 2016, compared with $1.7 million in the second quarter of 2015. Earnings per common share, basic and fully diluted, were $0.11 per share and $0.08 per share for the three months ended June 30, 2016 and 2015, respectively.

The increase of $625,000 in net income when comparing the second quarter of 2016 with the same period in 2015 was driven by a $1.2 million decline in total noninterest expense. In September 2015, the Company and the FDIC mutually terminated their shared-loss agreements, which resulted in the elimination of FDIC indemnification amortization expense in future periods, which was $1.2 million in the second quarter of 2015. Also improving in the second quarter of 2016 versus the same period in 2015 was noninterest income, which increased $189,000, or 15.7%. Offsetting this improvement was a decrease of $230,000 in net interest income, the result of lower securities balances and margin pressure. Also affecting net income was an increase in the effective tax rate, due to higher taxable income, from 23.9% to 27.5% year-over-year.

Net income was $4.7 million for the six months ended June 30, 2016 compared with $3.0 million for the first half of 2015. The increase in net income was the result of a decline of $2.7 million in noninterest expenses, driven by the elimination of the FDIC indemnification asset amortization, which was $0 for the first two quarters of 2016 and $2.4 million for the same period in 2015. Offsetting the increase in net income was an increase in the effective tax rate from 22.7% to 28.2%. Fully diluted earnings per common share were $0.22 for the six months ended June 30, 2016 compared with $0.14 for the same period in 2015. This represents an increase of 50.0%. Basic earnings per share were $0.22 for the six month period versus $0.14 for the same period in 2015, an increase of 57.1%.

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 decreased $230,000, or 2.2%, from the second quarter of 2015 to the second quarter of 2016 and was $10.2 million. The yield on earning assets of 4.51% in the second quarter of 2016 declined from 4.78% for the second quarter of 2015. The yields for the second quarter and six months of 2015 were positively influenced by cash payments on previously written down ADC pools in the PCI portfolio. Interest income decreased $200,000, or 1.6%, over this time period. The average balance of loans, excluding PCI loans, increased $92.7 million, or 13.6%, from $681.9 million in the second quarter of 2015 to $774.6 million in the second quarter of 2016. Interest income on securities on a tax equivalent basis decreased by $182,000, year-over-year, from $2.2 million in the second quarter of 2015 to $2.0 million in the second quarter of 2016. Interest and fees on PCI loans decreased by $862,000 year-over-year and was $1.6 million for the second quarter of 2016. The yield on the PCI portfolio was 11.2% in the second quarter of 2016, down from 15.0% in the second quarter of 2015. The average balance of the PCI portfolio declined $9.0 million during the year-over-year comparison period.

Interest expense increased $30,000, or 1.6%, when comparing the second quarter of 2015 and the second quarter of 2016. Interest expense on deposits increased $51,000, or 3.4%, as the average balance of interest bearing deposits increased $3.2 million, or 0.4%. Overall, the Bank's cost of interest bearing liabilities remained the same as the second quarter of 2015. While average interest bearing deposit costs increased from 0.71% in the second quarter of 2015 to 0.73% in the second quarter of 2016, there was a decline in the cost of FHLB and other borrowings from 1.26% to 1.17%, thus offsetting higher deposit costs.

The tax equivalent net interest margin declined 25 basis points from 4.07% in the second quarter of 2015 to 3.82% in the second quarter of 2016. Likewise, the interest spread decreased from 3.98% to 3.71% over the same time period. The decline in the margin was precipitated by a reduction in earning asset yields of 27 basis points.

For the first half of 2016, net interest income increased $98,000, or 0.48%, and was $20.3 million. The yield on earning assets of 4.52% compared with 4.70% for the first six months of 2015. Interest and fees on loans of $17.4 million in the first two quarters of 2016 was an increase of $1.7 million compared with $15.8 million for the same period in 2015. Interest and fees on PCI loans declined $1.3 million over this same time frame. Of that decline, $475,000 was related to cash payments on ADC loans related to pools previously written down to a zero carrying value received in the first half of 2015 versus no such payments in the first half of 2016. Securities income declined $146,000 for the first six months of 2016 compared with the same period in 2015. However, on a tax-equivalent basis, income on securities declined only $52,000 as a result of interest income on bank-qualified municipal securities.

Interest expense of $3.8 million represented an increase of $90,000 in the first six months of 2016 compared with the same period in 2015. Total average interest bearing liabilities increased only 1.3%, or $11.7 million, as loan growth has been fueled by an average balance increase of 20.7%, or $18.2 million, in noninterest bearing deposits and by a decline of $22.1 million in securities.

The tax equivalent net interest margin was 3.82% for the first six months of 2016 versus 3.98% for the first six months of 2015. The net interest spread was 3.71% for the first six months of 2016 versus 3.90% for the first six months of 2015.

The following tables set forth, for each category of interest-earning assets and interest bearing liabilities, the average amounts outstanding, the interest earned or paid on such amounts, and the average rate earned or paid for the three and six months ended June 30, 2016 and 2015. The table also sets forth the average rate paid on total interest bearing liabilities, and the net interest margin on average total interest earning assets for the same periods. Except as indicated in the footnotes, no tax equivalent adjustments were made and all average balances are daily average balances. Any nonaccruing loans have been included in the table, as loans carrying a zero yield.

NET INTEREST MARGIN ANALYSIS

AVERAGE BALANCE SHEETS

(Dollars in thousands)

	Three months ended June 30, 2016			Three months ended June 30, 2015		
	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid
ASSETS:						
Loans	$ 774,553	$ 8,873	4.59 %	$ 681,891	$ 8,017	4.72 %
Purchased credit impaired (PCI) loans	55,780	1,556	11.19	64,790	2,418	14.97
Total loans	830,333	10,429	5.04	746,681	10,435	5.61
Interest bearing bank balances	13,338	23	0.71	20,874	17	0.33
Federal funds sold	-	-	-	3,473	1	0.10
Securities (taxable)	178,915	1,124	2.51	212,681	1,355	2.55
Securities (tax exempt)	81,205	844	4.16	74,762	795	4.25
Total earning assets	1,103,791	12,420	4.51	1,058,471	12,603	4.78
Allowance for loan losses	(10,014)			(9,732)		
Non-earning assets	84,859			99,028		
Total assets	$ 1,178,636			$ 1,147,767		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Demand - interest bearing	$ 234,051	152	0.26 %	$ 225,643	169	0.30 %
Savings	84,508	55	0.26	84,576	66	0.31
Time deposits	520,207	1,329	1.02	525,372	1,251	0.96
Total deposits	838,766	1,537	0.73	835,591	1,486	0.71
Short-term borrowings	1,405	3	0.92	283	-	0.62
FHLB and other borrowings	103,883	302	1.17	95,437	300	1.26
Long-term debt	4,862	58	4.75	8,069	84	4.11
Total interest bearing liabilities	948,916	1,900	0.80	939,380	1,870	0.80
Noninterest bearing deposits	113,777			93,623		

Other liabilities	5,076			4,061		
Total liabilities	1,067,769			1,037,064		
Shareholders' equity	110,867			110,703		
Total liabilities and shareholders' equity	$ 1,178,636			$ 1,147,767		
Net interest earnings		$ 10,520			$ 10,733	
Interest spread			3.71 %			3.98 %
Net interest margin			3.82 %			4.07 %

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

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NET INTEREST MARGIN ANALYSIS

AVERAGE BALANCE SHEETS

(Dollars in thousands)

	Six months ended June 30, 2016			Six months ended June 30, 2015		
	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid
ASSETS:						
Loans	$ 764,093	$ 17,426	4.57 %	$ 674,719	$ 15,764	4.71 %
Purchased credit impaired (PCI) loans	56,820	3,155	11.14	65,934	4,491	13.74
Total loans	820,913	20,581	5.03	740,653	20,255	5.51
Interest bearing bank balances	11,665	44	0.77	18,137	34	0.38
Federal funds sold	-	-	-	3,735	2	0.10
Securities (taxable)	181,788	2,395	2.63	219,311	2,723	2.48
Securities (tax exempt)	83,631	1,744	4.17	68,177	1,468	4.31
Total earning assets	1,097,997	24,764	4.52	1,050,013	24,482	4.70
Allowance for loan losses	(10,046)			(9,713)		
Non-earning assets	83,344			100,882		
Total assets	$ 1,171,295			$ 1,141,182		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Demand - interest bearing	$ 232,356	325	0.28 %	$ 223,518	323	0.29 %
Savings	83,818	118	0.28	82,116	126	0.31
Time deposits	523,337	2,645	1.01	526,042	2,485	0.95
Total deposits	839,511	3,088	0.74	831,676	2,934	0.71
Short-term borrowings	2,102	8	0.80	904	2	0.54
FHLB and other borrowings	103,949	608	1.17	97,959	623	1.28
Long-term debt	5,264	121	4.54	8,560	176	4.09
Total interest bearing liabilities	950,826	3,825	0.81	939,099	3,735	0.80
Noninterest bearing deposits	106,282			88,065		
Other liabilities	5,067			4,152		
Total liabilities	1,062,175			1,031,316		
Shareholders' equity	109,120			109,866		
Total liabilities and shareholders' equity	$ 1,171,295			$ 1,141,182		
Net interest earnings		$ 20,939			$ 20,747	
Interest spread			3.71 %			3.90 %
Net interest margin			3.82 %			3.98 %

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

Provision for Loan Losses

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

The Company recorded a $200,000 provision for loan losses for the three and six months ended June 30, 2016. There was no provision for loan losses for the three and six months ended June 30, 2015. Likewise, there was no provision for loan losses on the PCI loan portfolio during the three and six months ended June 30, 2016 and 2015, respectively. The provision for loan losses booked in the second quarter of 2016 supported general reserves following loan growth of $19.5 million during the quarter. During the other periods, the absence of a provision was the direct result of minimal charge-offs and the ongoing stabilization of asset quality. Additional discussion of loan quality is presented below.

There were net charge-offs of $360,000 in the second quarter of 2016, compared with net recoveries of $853,000 in the second quarter of 2015. Total charge-offs for the second quarter of 2016 were $414,000 compared with $489,000 in the second quarter of 2015. Recoveries of previously charged-off loans were $54,000 for the second quarter of 2016 compared with $1.3 million in the second quarter of 2015. In the second quarter of 2015, there was a $1.2 million recovery related to a large commercial relationship.

There were net charge-offs of $325,000 for the six months ended June 30, 2016, compared with net recoveries of $597,000 for the six months ended June 30, 2015. Total charge-offs for the six months ended June 30, 2016 were

$553,000 compared with $851,000 for the six months ended June 30, 2015. Recoveries of previously charged-off loans were $228,000 for the six months ended June 30, 2016 compared with $1.4 million for the six months ended June 30, 2015.

Noninterest Income

Noninterest income increased $189,000, or 15.7%, from the second quarter of 2015 to the second quarter of 2016. Gains on securities transactions were $261,000 in the second quarter of 2016 compared with losses of $8,000 in the second quarter of 2015. Securities were liquidated during the second quarter of 2016, with gains taken, and the proceeds were converted into higher yielding loans. Service charges on deposit accounts increased by $42,000, or 7.5%, on a higher level of demand deposit accounts. Income on bank owned life insurance increased by $16,000 over the comparison period. Offsetting these increases were a decline of $88,000 in mortgage loan income and a decline of $27,000 in other noninterest income.

Noninterest income was $2.7 million for the first six months of 2016, an increase of $113,000, or 4.3%, over $2.6 million reported for the first six months of 2015. Securities gains of $520,000 in the first two quarters of 2016 compared with $289,000 for the same period in 2015. Likewise, service charges on deposit accounts increased by $83,000 and were $1.2 million for the first six months of 2016. Offsetting these increases were declines of $87,000 in other noninterest income, which was $289,000, and $63,000 in mortgage loan income, which was $347,000.

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As of August 31, 2016, the Bank will cease operating its wholesale mortgage division. While mortgage loan income will decline starting in the fourth quarter of 2016, there will be a very similar decline in salaries and employee benefits.

Noninterest Expense

Noninterest expense decreased $1.2 million, or 12.9%, when comparing the second quarter of 2016 to the same period in 2015. Amortization expense related to the FDIC indemnification asset was $1.2 million in the second quarter of 2015 and $0 in the current quarter as a result of the termination of the shared-loss agreement. OREO expenses declined by $152,000. Other operating expenses decreased $103,000. Offsetting these improvements was an increase year-over-year in salaries and employee benefits of $155,000, or 3.5%, due to an increase in the number of full-time equivalent employees.

Noninterest expense were $16.3 million for the first six months of 2016, as compared with $19.0 million for the same period in 2015. This is a decrease of $2.7 million, or 14.2%. FDIC indemnification asset amortization was $0 for the period and $2.4 million for the 2015 comparison period. Other real estate expenses declined $339,000 as there was expense of $222,000 for the first six months of 2015 compared with a credit, the result of gains on the sale of other real estate, of $117,000 for 2016. There was also a meaningful decline of $220,000 in other operating expenses, mainly the result of improved credit expenses. Offsetting these improvements was an increase of $271,000 in salaries and employee benefits.

Income Taxes

Income tax expense was $881,000 for the three months ended June 30, 2016 compared with income tax expense of $533,000 for the second quarter of 2015. The effective tax rate for the second quarter of 2016 was 27.5% compared with 23.9% for the second quarter of 2015.

Income tax expense was $1.9 million for the six months ended June 30, 2016 compared with $884,000 for the same period in 2015. The effective tax rate was 28.2% and 22.7% for the six months ended June 30, 2016 and 2015, respectively. For 2016, the level of pre-tax income increased by 69.8% while the level of tax-exempt securities income increased only 18.8%, thus being the primary driver in the higher effective tax rate.

FINANCIAL CONDITION

General

Total assets increased $9.0 million, or 0.8%, to $1.190 billion at June 30, 2016 as compared with $1.181 billion at December 31, 2015. Total loans, excluding PCI loans, were $785.0 million at June 30, 2016, increasing $36.3 million, or 4.8%, from year end 2015. Total PCI loans were $54.8 million at June 30, 2016 versus $59.0 million at year end 2015.

During the first six months of 2016, construction and land development loans grew $12.4 million, or 18.4%, residential 1-4 family loans grew $10.1 million, or 5.2%, commercial mortgage loans on real estate grew $7.4 million, or 2.3%, and commercial loans grew $5.4 million, or 5.3%.

The Company's securities portfolio, excluding equity securities, declined $26.7 million, or 9.5%, from $279.7 million at December 31, 2015 to $253.0 million at June 30, 2016. Net realized gains of $520,000 were recognized during the first six months of 2016 through sales and call activity, as compared with $289,000 recognized during the first six months of 2015. The decline in the volume of securities was a strategic decision by management to let brokered funding mature and fund strong loan growth with normal securities amortization, call activity, sales and maturities.

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 $203.8 million at June 30, 2016 and $243.3 million at December 31, 2015. At June 30, 2016, the Company had a net unrealized gain on the AFS portfolio of $5.3 million compared with a net unrealized gain of $671,000 at December 31, 2015. Municipal securities comprised 63.3% of the total AFS portfolio at June 30, 2016. These securities exhibit more price volatility in a changing interest rate environment because of their longer weighted average life, as compared to other categories contained within the rest of the portfolio.

The Company had cash and cash equivalents of $18.2 million and $17.0 million at June 30, 2016 and December 31, 2015, respectively. There were federal funds purchased at June 30, 2016 of $12.3 million versus $18.9 million at December 31, 2015.

Interest bearing deposits at June 30, 2016 were $841.3 million, a decline of $8.0 million, or 0.9%, from $849.3 million at December 31, 2015. Time deposits less than or equal to $250,000 decreased $6.7 million, time deposits over $250,000 declined $5.2 million and MMDA balances declined $1.7 million during this period. Offsetting these decreases were increases in lower cost accounts. NOW account balances increased $4.6 million, or 3.6%, from December 31, 2015, while savings account balances increased $1.0 million.

FHLB advances were $94.3 million at June 30, 2016, compared with $95.7 million at December 31, 2015. Long term debt totaled $3.8 million at June 30, 2016, declining by $1.9 million, or 32.9%, since 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 has paid down this debt by $6.9 million and the loan is scheduled to be fully paid on April 21, 2017.

Shareholders' equity was $112.3 million at June 30, 2016 and $104.5 million at December 31, 2015. In September 2015, equity was reduced by the net loss generated in the quarter from the pre-tax write-off of $13.1 million from the termination of the FDIC shared-loss agreements. Shareholders' equity increased $7.7 million, or 7.4%, from year end 2015 due to an increase in other comprehensive income related to net gains in the investment portfolio of $2.6 million and net income of $4.7 million in the first six months of 2016.

Asset Quality – 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 loan list is used to monitor such loans and is used in the determination of the appropriateness of the allowance for loan losses. Nonperforming assets totaled $16.6 million at June 30, 2016 and net charge-offs were $325,000 for the six months ended June 30, 2016. This compares with nonperforming assets of $16.2 million and net recoveries of $292,000 at and for the year ended December 31, 2015.

Nonperforming loans were $11.7 million at June 30, 2016, a $1.0 million increase from $10.7 million at December 31, 2015. The $1.0 million increase in nonperforming loans since December 31, 2015 was the net result of $2.2 million in additions to nonperforming loans and $1.2 million in reductions. With respect to the reductions to nonperforming loans, $400,000 were payments to existing credits, $441,000 were charge-offs, $308,000 were loans returned to accruing status, and $96,000 were transferred to OREO.

The allowance for loan losses, excluding PCI, equaled 80.94% of nonaccrual loans at June 30, 2016 compared with 89.59% at December 31, 2015. The ratio of the allowance for loan losses to total nonperforming assets was 59.92% at June 30, 2016, compared with 62.15% at December 31, 2015. The ratio of nonperforming assets to loans and OREO continued to decline. The ratio was 2.10% at June 30, 2016 versus 2.14% at December 31, 2015.

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

See Note 3 to the Company's financial statements for information related to the allowance for loan losses. At June 30, 2016 and December 31, 2015, total impaired loans, excluding PCI loans, equaled $11.7 million and $10.7 million, respectively.

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

	June 30, 2016	December 31, 2015
Nonaccrual loans	$ 11,655	$ 10,670
Loans past due 90 days and accruing interest	—	—
Total nonperforming loans	11,655	10,670
OREO	4,898	5,490
Total nonperforming assets	$ 16,553	$ 16,160
Accruing troubled debt restructure loans	$ 4,658	$ 4,596
Balances		
Specific reserve on impaired loans	1,069	1,039
General reserve related to unimpaired loans	8,365	8,520
Total allowance for loan losses	9,434	9,559
Average loans during the year, net of unearned income	764,093	687,463
Impaired loans	11,655	10,670
Non-impaired loans	773,361	738,054
Total loans, net of unearned income	785,016	748,742
Ratios		
Allowance for loan losses to loans, excluding PCI loans, to loans	1.20 %	1.28 %
Allowance for loan losses to nonperforming assets	59.92	62.15
Allowance for loan losses, excluding PCI loans, to nonaccrual loans	80.94	89.59
General reserve to non-impaired loans	1.08	1.15
Nonaccrual loans to loans	1.48	1.43
Nonperforming assets to loans and OREO	2.10	2.14

Net charge-offs (recoveries) to average loans	0.09	(0.04)

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The Company performs troubled debt restructures (TDR) and other various loan workouts whereby an existing loan may be restructured into multiple new loans. At June 30, 2016, the Company had 19 loans that met the definition of a TDR, which are loans that for reasons related to the debtor's financial difficulties have been restructured on terms and conditions that would otherwise not be offered or granted. Five of these loans were restructured using multiple new loans. The aggregated outstanding principal of all TDR loans at June 30, 2016 was $6.5 million, of which $1.9 million were classified as nonaccrual.

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

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

A further breakout of nonaccrual loans, excluding PCI loans, at June 30, 2016 and December 31, 2015 is below (dollars in thousands):

	June 30, 2016	December 31, 2015
Mortgage loans on real estate:		
Residential 1-4 family	$ 3,976	$ 4,562
Commercial	1,702	1,508
Construction and land development	5,705	4,509
Second mortgages	135	13
Total real estate loans	11,518	10,592
Commercial loans	54	—
Consumer installment loans	83	78
Total loans	$ 11,655	$ 10,670

At June 30, 2016, the Company had nine construction and land development credit relationships in nonaccrual status. The borrowers for all of these relationships are residential land developers. All of the relationships are secured by the real estate to be developed and are in the Company's central Virginia market. The total amount of the credit exposure outstanding at June 30, 2016 was $5.7 million. These loans have either been charged-down or sufficiently reserved against to equal the current expected realizable value.

The total amount of the allowance for loan losses attributed to all nine relationships was $771,000 at June 30, 2016, or 13.5% of the total credit exposure outstanding. The Company establishes its reserves as described above in *Allowance for Loan Losses on Loans* in the Critical Accounting Policies section. In conjunction with the impairment analysis the Company performs as part of its allowance methodology, the Company ordered appraisals for all loans with balances in excess of $250,000 unless there existed an appraisal that was not older than 18 months and/or deemed to be invalid. The Company orders an automated valuation for balances between $100,000 and $250,000 and uses a ratio analysis for balances less than $100,000. The Company maintains detailed analysis and other information for its allowance methodology, both for internal purposes and for review by its regulators.

Asset Quality – PCI loans

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

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

Capital Requirements

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

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

The Company’s ratio of total risk-based capital was 13.3% at June 30, 2016 compared with 13.2% at December 31, 2015. The tier 1 risk-based capital ratio was 12.3% at June 30, 2016 and 12.1% at December 31, 2015. The Company’s tier 1 leverage ratio was 9.7% at June 30, 2016 and 9.4% at December 31, 2015. All capital ratios exceed regulatory minimums to be considered well capitalized. BASEL III introduced the common equity tier 1 capital ratio, which was 11.8% at June 30, 2016 and 11.6% at December 31, 2015.

Under Basel III, a capital conservation buffer of 2.5% above the minimum risk-based capital thresholds was established. Dividend and executive compensation restrictions begin if the Company does not maintain the full amount of the buffer. The capital conservation buffer will be phased in between January 1, 2016 and January 1, 2019. At June 30, 2016, the Company had a capital conservation buffer of 5.3%, well above the 2016 required buffer of 0.625%.

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 June 30, 2016 and December 31, 2015 was as follows (dollars in thousands):

	June 30, 2016	December 31, 2015
Cash and due from banks	$ 9,215	$ 7,393
Interest bearing bank deposits	8,979	9,576
Available for sale securities, at fair value, unpledged	162,602	189,692
Total liquid assets	$ 180,796	$ 206,661
Deposits and other liabilities	$ 1,077,291	$ 1,076,070
Ratio of liquid assets to deposits and other liabilities	16.78 %	19.21 %

Off-Balance Sheet Arrangements and Contractual Obligations

A summary of the contract amount of the Company's exposure to off-balance sheet and balance sheet risk as of June 30, 2016 and December 31, 2015, is as follows (dollars in thousands):

	June 30, 2016	December 31, 2015
Commitments with off-balance sheet risk:		
Commitments to extend credit	$ 128,999	$ 106,099
Standby letters of credit	7,282	7,146
Total commitments with off-balance sheet risks	$ 136,281	$ 113,245

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

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

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

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

The fair value of the Company's cash flow hedge was an unrealized loss of $875,000 and $199,000 at June 30, 2016 and December 31, 2015, respectively, which was recorded in other liabilities. The Company's cash flow hedge is deemed to be effective. Therefore, the loss was recorded as a component of other comprehensive income recorded in the Company's Consolidated Statements of Comprehensive Income.

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

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

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

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

The following table represents the change to net interest income given interest rate shocks up and down 100, 200, 300 and 400 basis points at June 30, 2016 (dollars in thousands):

	June 30, 2016	
	%	$
Change in Yield curve		
+400 bp	(3.2)	(1,266)
+300 bp	(2.7)	(1,066)
+200 bp	(1.8)	(714)
+100 bp	(1.0)	(407)
most likely	—	—

-100 bp	1.2	499
-200 bp	1.1	442
-300 bp	1.1	437
-400 bp	1.1	437

At June 30, 2016, 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 3.2%. 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 1.1%. While these percentages are subjective based upon assumptions used within the model, management believes the balance sheet is appropriately balanced with acceptable risk to changes in interest rates.

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

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

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

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

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

Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

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

Item 1A. *Risk Factors*

As of the date of this report, there were no material changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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

None.

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

None.

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

Not applicable

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification for Chief Executive Officer*
31.2	Rule 13a-14(a)/15d-14(a) Certification for Chief Financial Officer*
32.1	Section 1350 Certifications*
101	Interactive Data File with respect to the following materials from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2016 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Income, (iii) the Unaudited Consolidated Statements of Comprehensive Income (Loss), (iv) the Unaudited Consolidated Statements of Changes in Shareholders' Equity, (v) the Unaudited Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Consolidated Financial Statements*

* Filed herewith.

SIGNATURES

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

COMMUNITY BANKERS TRUST CORPORATION
(Registrant)

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

Date: August 8, 2016

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

Date: August 8, 2016