Community Bankers Trust Corp
Form 10-K
March 14, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

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

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

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

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

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

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

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

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

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

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter. $75,898,238

On February 28, 2014, there were 21,712,846 shares of the registrant s common stock, par value $0.01, outstanding, which is the only class of the registrant s common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement to be used in conjunction with the registrant s 2014 Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K.

Table of Contents

TABLE OF CONTENTS

Table of Contents

ITEM 1. *BUSINESS*
GENERAL

Community Bankers Trust Corporation (the Company) is a bank holding company that was incorporated in 2005. The Company is headquartered in Glen Allen, Virginia and is the holding company for Essex Bank (the Bank), a Virginia state bank with 19 full-service offices in Virginia and Maryland. The Bank also operates two loan production offices in Virginia.

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

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

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

The Company s corporate headquarters are located at 4235 Innslake Drive, Suite 200, Glen Allen, Virginia 23060. The Company expects to relocate its corporate headquarters to 9954 Mayland Drive, Suite 2100, Richmond, Virginia 23233, on March 31, 2014. The telephone number of the corporate headquarters is (804) 934-9999.

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

STRATEGY

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

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

- Ensuring profitable controlled growth and consistent improvement in client delivery standards

- Improving the overall risk profile of the Bank through enterprise risk management

- Solidifying strong management practices and oversight

During 2013, the Company remained focused on expanding its core operations, improving its loan ratios and increasing profits. The sale of the Georgia branches accelerated a strategic focus on growth in its core markets, as the Company consolidates into markets around its core franchise where it can gain a competitive advantage and pursue robust loan and deposit growth. The Company expects to accomplish this growth through a combination of de novo branching, expansion of loan production offices and possible acquisitions that are immediately accretive in value.

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

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

The Company believes that the continued successful execution on its strategies will enhance the major profit drivers of the Bank by increasing interest income and improving its efficiency and result in overall loan growth for better utilization of assets. All of these factors will lead to an increase in profitability for shareholders.

OPERATIONS

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

Table of Contents

loan growth will occur in all three lines, although the retail segment primarily provides the funding through core deposit relationship growth.

Retail and Small Business Banking

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

Commercial and Industrial Banking

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

Commercial Real Estate Lending

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

COMPETITION

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

The activities in which the Company engages are highly competitive. Financial institutions such as credit unions, consumer finance companies, insurance companies, brokerage companies and other financial institutions with varying degrees of regulatory restrictions compete vigorously for a share of the financial services market. Brokerage and insurance companies continue to become more competitive in the financial services arena and pose an ever increasing challenge to banks. Legislative changes also greatly affect the level of competition that the Company faces. Federal legislation allows credit unions to use their expanded membership capabilities, combined with tax-free status, to compete more fiercely for traditional bank business. The tax-free status granted to credit unions provides them a significant competitive advantage. Many of the largest banks operating in Virginia and Maryland, including some of the largest banks in the country, have offices in the Company s market areas. Many of these institutions have capital resources, broader geographic markets, and legal lending limits substantially in excess of those available to the

Company. The Company faces competition from institutions that offer products and services that it does not or cannot currently offer. Some institutions with which the Company competes offer interest rate levels on loan and deposit products that the Company is unwilling to offer due to interest rate risk and overall profitability concerns. The Company expects the level of competition to increase.

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

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

CORPORATE HISTORY

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

Table of Contents

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

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

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

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

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

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

TARP INVESTMENT

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

In 2010, 2011 and 2012, the Company deferred various payments of its regular quarterly cash dividend with respect to the Series A Preferred Stock as it was in the process of resolving certain regulatory concerns. The payment of dividends on the Series A Preferred Stock had also been subject to approval of the Company s regulators, as set forth in a written agreement, which terminated in December 2012. As of December 31, 2013, the Company was current in its payment of dividends with respect to the Series A Preferred Stock. Following the dividend payment in February 2014, the dividend rate automatically increased to 9% per year.

During 2013, the Company repurchased 7,000 shares of the original 17,680 shares of Series A Preferred Stock. The Company funded the repurchase through the earnings of its banking subsidiary. The form of the repurchase was a redemption under the terms of the Series A Preferred Stock. The Company paid the Treasury $7.0 million, which represented 100% of the par value of the preferred stock repurchased plus accrued dividends with respect to such shares. Following the redemptions in 2013, the Treasury owned 10,680 shares of the Series A Preferred Stock, which represents an investment of $10,680,000.

The Treasury continues to hold a warrant to purchase 780,000 shares of the Company s common stock at an exercise price of $3.40.

EMPLOYEES

As of December 31, 2013, the Company had 234 full-time equivalent employees, including executive officers, loan and other banking officers, branch personnel, operations personnel and other support personnel. None of the Company s employees is

Table of Contents

represented by a union or covered under a collective bargaining agreement. Management of the Company considers its employee relations to be excellent.

AVAILABLE INFORMATION

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

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

SUPERVISION AND REGULATION

General

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

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

Bank Holding Companies

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

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

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

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

The Dodd-Frank Act

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

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

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

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

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

Capital Requirements and Dividends

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

The Company is a legal entity separate and distinct from the Bank. Virtually all of the Company s revenues are from dividends paid to the Company by the Bank. The Bank is subject to laws and regulations that limit the amount of dividends it can pay. In addition, both the Company and the Bank are subject to various regulatory restrictions relating to the payment of dividends, including requirements to maintain capital at or above regulatory minimums. Banking regulators have indicated that banking organizations should generally pay dividends only if the organization s net income available to common shareholders over the past year has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears consistent with the organization s capital needs, asset quality and overall financial condition.

The FDIC has the general authority to limit the dividends paid by insured banks if the payment is deemed an unsafe and unsound practice. The FDIC has indicated that paying dividends that deplete a bank s capital base to an inadequate level would be an unsound and unsafe banking practice.

Deposit Insurance

The Bank s deposits are insured by the DIF of the FDIC up to the standard maximum insurance amount for each deposit insurance ownership category. As of January 1, 2013, the basic limit on FDIC deposit insurance coverage is $250,000 per depositor. Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC, subject to administrative and potential judicial hearing and review processes.

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

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

Incentive Compensation

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

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not large, complex banking organizations. These reviews will be tailored to each organization based on the scope and complexity of the organization s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization s supervisory ratings, which can affect the organization s ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies. At December 31, 2013, the Company had not been made aware of any instances of non-compliance with the new guidance.

The Gramm-Leach-Bliley Act of 1999

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

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

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

Community Reinvestment Act

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

Table of Contents

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

Fair Lending; Consumer Laws

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

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

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

Governmental Policies

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

Future Regulatory Uncertainty

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

ITEM 1A. RISK FACTORS

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

We offer a variety of secured loans, including commercial lines of credit, commercial term loans, real estate, construction, home equity, consumer and other loans. Credit risk and credit losses can increase if our loans are concentrated to borrowers who, as a group, may be uniquely or disproportionately affected by economic or market conditions. Approximately 87% of our loans are secured by real estate, both residential and commercial, substantially all of which are located in our market area. A major change in the region s real estate market, resulting in a deterioration in real estate values, or in the local or national economy, including changes caused by raising interest rates, could adversely affect our customers ability to pay these loans, which in turn could adversely impact us. Risk of loan defaults and foreclosures are inherent in the banking industry, and we try to limit our exposure to this risk by carefully underwriting and monitoring our extensions of credit. We cannot fully eliminate credit risk, and as a result credit losses may occur in the future.

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

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

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

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

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

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

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

We are subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital which we must maintain. In July 2013, the Federal Reserve and the federal banking agencies issued final rules revising risk-based and leverage capital requirements and the method for calculating risk-weighted assets. The rules implement the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The rules

Table of Contents

establish a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and a higher minimum Tier 1 risk-based capital requirement (6% of risk-weighted assets) and assign higher risk weightings to loans that are past due and certain loans financing the acquisition, development or construction of commercial real estate. We will be required to comply with the new rules beginning on January 1, 2015. These requirements and any other new regulations, could adversely affect our ability to pay dividends, or could require us to reduce business levels or to raise capital, including in ways that may adversely affect our financial condition or results of operations.

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

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

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

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

Regulatory authorities require us to maintain certain levels of capital to support our operations. While we remained well capitalized at December 31, 2013, we may need to raise additional capital in the future if we incur losses or due to regulatory mandates. The ability to raise capital, if needed, will depend in part on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we may not be able to raise capital, if and when needed, on terms acceptable to us, or at all. If we cannot raise capital when needed, our ability to increase our capital ratios could be materially impaired, and we could face regulatory challenges.

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

The total amount of our available-for-sale securities portfolio was $265.8 million at December 31, 2013. The measurement of the fair value of these securities involves significant judgment due to the complexity of the factors contributing to the measurement. Market volatility makes measurement of the fair value of our securities portfolio even more difficult and subjective. More generally, as market conditions continue to be volatile, we cannot provide assurance with respect to the amount of future unrealized losses in the portfolio. To the extent that any portion of the unrealized losses in these portfolios is determined to be other than temporary, and the loss is related to credit factors, we would recognize a charge to our earnings in the quarter during which such determination is made, and our capital ratios could be adversely affected.

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

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

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

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

Table of Contents

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

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

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

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

A significant portion of our loan portfolio consists of loans secured by real estate (81.8% at December 31, 2013). We rely upon independent appraisers to estimate the value of such real estate. Appraisals are only estimates of value and the independent appraisers may make mistakes of fact or judgment which adversely affect the reliability of their appraisals. In addition, events occurring after the initial appraisal may cause the value of the real estate to increase or decrease. As a result of any of these factors, the real estate securing some of our loans may be more or less valuable than anticipated at the time the loans were made. If a default occurs on a loan secured by real estate that is less valuable than originally estimated, we may not be able to recover the outstanding balance of the loan and will suffer a loss.

We are subject to extensive government regulation and supervision.

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

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

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

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

Because the shared loss agreements subject us to a number of contractual requirements, we must implement effective internal processes over covered assets (including consistency in the treatment of covered and non-covered assets) to maintain the guaranty that the FDIC has agreed to provide, which underpins the FDIC indemnification asset, which totaled $25.4 million at December 31, 2013. Any failure to comply with the contractual requirements of the shared loss agreements may lead to the revocation of the agreements, which would necessitate the write-off of the related indemnification asset and the receivable that we carry on our balance sheet for amounts that we have billed the FDIC.

Table of Contents

Certain of our covered assets will no longer be covered by a FDIC shared loss agreement in 2014.

Under the shared loss agreements that we have with the FDIC, the FDIC will reimburse us for 80% of losses arising from covered loans and foreclosed real estate assets, on the first $118 million in losses on such covered loans and foreclosed real estate assets, and for 95% of losses on covered loans and foreclosed real estate assets thereafter. While the reimbursements for losses on single family one-to-four residential mortgage assets are to be made quarterly through March 2019, the reimbursements for losses on other covered assets are to be made quarterly only through March 2014. This reimbursement arrangement expires at that time and, accordingly, any losses with respect to these non-single family assets after March 2014 will be entirely borne by us. While we believe that we are managing and monitoring these assets, which have a carrying value of $6.0 million at December 31, 2013, appropriately, any unforeseen issues with respect to any of them will have a direct effect on our results after March 2014.

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

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

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

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

We continually encounter technological change.

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

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

We can give no assurances that our deferred tax asset will not become impaired in the future. At December 31, 2013, we recorded net deferred income tax assets of $5.8 million. We assess the realization of deferred income tax assets and record a valuation allowance if it is more likely than not that we will not realize all or a portion of the deferred tax asset. We consider all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, we need a valuation allowance. Management s assessment is primarily dependent on historical taxable income and projections of future taxable income, which are directly related to our core earnings capacity and our prospects to generate core earnings in the future. Projections of core earnings and taxable income are inherently subject to uncertainty and estimates that may change given an uncertain economic outlook and current banking industry conditions. Due to the uncertainty of estimates and projections, it is possible that we will be required to record adjustments to the valuation allowance in future reporting periods.

Table of Contents

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

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

Current levels of market volatility are unprecedented.

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

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

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

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

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

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

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

Our operations may be adversely affected by cyber security risks.

In the ordinary course of business, we collect and store sensitive data, including proprietary business information and personally identifiable information of our customers and employees in systems and on networks. The secure processing, maintenance and use of this information is critical to operations and our business strategy. We have invested in accepted technologies, and we continually review processes and practices that are designed to protect our networks, computers and data from damage or unauthorized access. Despite these security measures, our computer systems and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance, technology failure or other disruptions. A breach of any kind could

Table of Contents

compromise systems, and the information stored there could be accessed, damaged or disclosed. A breach in security could result in legal claims, regulatory penalties, disruption in operations, and damage to our reputation, which could adversely affect our business.

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

None.

ITEM 2. ***PROPERTIES***

The Company operates the following offices:

Corporate Headquarters:

Innslake 4235 Innslake Drive, Glen Allen, VA 23060

Virginia Market:

Burgess 14598 Northumberland Highway, Burgess, VA 22432

Callao 654 Northumberland Highway, Callao, VA 22435

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

Courthouse 1949 Sandy Hook Road, Goochland, VA 23063

Flat Rock 2320 Anderson Highway, Powhatan, VA 23139

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

Louisa 217 East Main Street, Louisa, VA 23093

Mechanicsville 6315 Mechanicsville Turnpike, Mechanicsville, VA 23111

Prince Street 323 Prince Street, Tappahannock, VA 22560

Tappahannock 1325 Tappahannock Boulevard, Tappahannock, VA 22560

Virginia Center 9951 Brook Road, Glen Allen, VA 23060

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

Winterfield 3740 Winterfield Road, Midlothian, VA 23113

Maryland Market:

Arnold 1460 Ritchie Highway, Arnold, MD 21012

Catonsville 1000 Ingleside Avenue, Catonsville, MD 21228

Crofton 2120 Baldwin Avenue, Crofton, MD 21114

Landover Hills 7467 Annapolis Road, Landover Hills, MD 20784

Rockville 1101 Nelson Street, Rockville, MD 20850

Rosedale 1230 Race Road, Rosedale, MD 21237

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

On August 16, 2013, the Company closed its office in Clinton, Maryland, which it had leased. On November 8, 2013, the Company sold its four Georgia offices in Covington, Grayson, Loganville and Snellville, Georgia, all of which it had owned.

The Company expects to relocate its corporate headquarters to 9954 Mayland Drive, Suite 2100, Richmond, Virginia 23233, on March 31, 2014, and to open a banking office there on April 1, 2014. The Company expects to open an office in Annapolis, Maryland (1835 West Street) on March 24, 2014. The Company will lease the corporate headquarters and banking office and owns the office in Annapolis.

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

Table of Contents

ITEM 3. ***LEGAL PROCEEDINGS***

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

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

Not applicable.

PART II

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

MARKET PRICES FOR SECURITIES

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

The following table sets summarizes the high and low sales prices for the Company s common stock for the quarterly periods during the years ended December 31, 2013 and 2012:

	2013		2012	
	High	**Low**	**High**	**Low**
Quarter ended March 31	$ 3.74	$ 2.54	$ 2.30	$ 1.03
Quarter ended June 30	3.70	3.11	2.50	1.62
Quarter ended September 30	4.00	3.50	2.95	1.77
Quarter ended December 31	3.83	3.09	2.92	2.26

HOLDERS OF RECORD

As of December 31, 2013, there were 2,998 holders of record of the Company s common stock, not including beneficial holders of securities held in street name.

DIVIDENDS

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

The Company s ability to distribute cash dividends will depend primarily on the ability of its banking subsidiary to pay dividends to it. The Bank is subject to legal limitations on the amount of dividends that it is permitted to pay under Section 5199(b) of the Revised Statues (12 U.S.C. 60). The approval of the Federal Reserve would be required if the total of all dividends declared by a state member bank in any calendar year shall exceed the total of its net profits of that year combined with its retained net profits of the preceding two years. Furthermore, neither the Company nor the

Bank may declare or pay a cash dividend on any of its capital stock if it is insolvent or if the payment of the dividend would render the entity insolvent or unable to pay its obligations as they become due in the ordinary course of business. For additional information on these limitations, see Supervision and Regulation Capital Requirements and Dividends in Item 1 above.

Following the payment of a cash dividend in February 2010, the Company determined to suspend the payment of its quarterly dividend to holders of common stock. While the Company believes that its capital and liquidity levels remain above the averages of its peers, the Company utilizes dividends from the Bank for the payment of capital funding (Series A Preferred Stock) received from the Department of the Treasury, as outlined below. Additional dividends from the Bank would be utilized for the payment of intercompany expenses and dividend and interest payments on trust preferred securities and Series A Preferred Stock.

On December 19, 2008, the Company received $17.680 million of capital funding from the Department of the Treasury, and the capital is considered senior preferred stock. Under the terms of the Series A Preferred Stock, the Company is required to pay on a quarterly basis a dividend rate of 5% per year for the first five years, after which the dividend rate automatically increases to 9% per year. The Company made dividend payments for this capital on a quarterly basis from February 2009 through May 2010, at which

Table of Contents

time the Company began deferring the payment of such dividends. The Company may defer dividend payments, but the dividend is a cumulative dividend that accumulates for payment in the future, and the failure to pay dividends for six dividend periods would trigger board appointment rights for the holder of the preferred stock. The Company paid certain deferred and current payments during 2012 and paid all remaining outstanding deferred payments on August 21, 2012.

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

As of December 31, 2013, the Company was current in its payment of dividends with respect to the Series A Preferred Stock.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER

The Company does not currently have in place a repurchase program with respect to any of its securities. In addition, the Company did not repurchase any of its securities during the year ended December 31, 2013.

STOCK PERFORMANCE GRAPH

The stock performance graph set forth below shows the cumulative stockholder return on the Company s common stock during the period from December 31, 2008, to December 31, 2013, as compared with (i) an overall stock market index, the NASDAQ Composite Index, and (ii) a published industry index, the SNL Bank and Thrift Index. The graph assumes that $100 was invested on December 31, 2008 in the Company s common stock and in each of the comparable indices and that dividends were reinvested.

	Period Ending					
Index	**12/31/08**	**12/31/09**	**12/31/10**	**12/31/11**	**12/31/12**	**12/31/13**
Community Bankers Trust Corporation	100.00	113.86	37.18	40.72	93.83	133.13
NASDAQ Composite	100.00	145.36	171.74	170.38	200.63	281.22
SNL Bank and Thrift	100.00	98.66	110.14	85.64	115.00	157.46

Table of Contents

ITEM 6 ***SELECTED FINANCIAL DATA***

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

(dollars in thousands, except per share amounts)

	Year ended December 31				
	2013	**2012**	**2011**	**2010**	**2009**
Results of Operations					
Interest and dividend income	$ 50,045	$ 53,719	$ 56,035	$ 58,926	$ 64,520
Interest expense	7,078	9,692	12,228	18,389	25,134
Net interest income	42,967	44,027	43,807	40,537	39,386
Provision for loan losses		1,200	1,498	27,363	19,089
Net interest income after provision for loan losses	42,967	42,827	42,309	13,174	20,297
Noninterest income	4,724	6,206	8,233	9,847	26,400
Noninterest expenses	39,288	41,303	49,038	53,456	76,120
Income (loss) before income taxes	8,403	7,730	1,504	(30,435)	(29,423)
Income tax expense (benefit)	2,497	2,148	60	(9,442)	404
Net income (loss)	$ 5,906	$ 5,582	$ 1,444	$ (20,993)	$ (29,827)
Financial Condition					
Assets	$ 1,089,532	$ 1,153,288	$ 1,092,496	$ 1,115,594	$ 1,226,723
FDIC indemnification asset	25,409	33,837	42,641	58,369	76,107
Loans, covered by FDIC shared-loss agreements	73,275	84,637	97,561	115,537	150,935
Loans, net of unearned income (excluding covered loans)	596,173	575,482	544,718	525,548	578,629
Deposits	892,341	974,318	933,491	961,725	1,031,402
Stockholders equity	106,659	115,317	111,180	107,127	131,102
Ratios					
Return on average assets	0.53%	0.50%	0.13%	(1.75%)	(2.37%)
Return on average equity	5.22%	4.85%	1.32%	(17.53%)	(19.31%)
Non-GAAP return on average tangible assets (1)	0.66%	0.65%	0.28%	(1.17%)	0.30%
Non-GAAP return on average tangible common equity (1)	8.38%	8.31%	3.80%	(16.60%)	3.74%
Efficiency ratio (2)	82.38%	82.22%	94.23%	106.10%	115.71%
Equity to assets	9.79%	10.00%	10.18%	9.60%	10.69%

Loan to deposits		75.02%		67.75%		68.80%		66.66%		70.74%
Average tangible common equity / average tangible assets		7.90%		7.77%		7.25%		7.04%		7.89%
Asset Quality										
Allowance for loan losses (non-covered)	$	10,444	$	12,920	$	14,835	$	25,543	$	18,169
Allowance for loan losses / non-covered loans (3)		1.75%		2.25%		2.72%		4.86%		3.14%
Allowance for loan losses / nonperforming non-covered loans (3)		86.28%		59.93%		48.56%		69.18%		89.69%
Allowance for loan losses / nonaccrual non-covered loans (3)		86.28%		61.38%		51.97%		69.92%		90.80%
Non-covered nonperforming assets / non-covered loans and non-covered other real estate (3)		3.05%		5.52%		7.35%		8.06%		3.77%
Per Share Data										
Earnings per share, basic	$	0.22	$	0.21	$	0.02	$	(1.03)	$	(1.43)
Earnings per share, diluted		0.22		0.21		0.02		(1.03)		(1.43)
Non-GAAP earnings per share, diluted (1)		0.33		0.33		0.14		(0.64)		0.17
Cash dividends paid								859		3,435
Market value per share		3.76		2.65		1.15		1.05		3.21
Book value per tangible common share		4.07		3.92		3.58		3.46		4.24
Price to earnings ratio, diluted		17.09		12.62		57.50		(1.02)		(2.24)
Price to common book value ratio		86.0%		59.3%		26.5%		25.3%		60.9%

Table of Contents

	Year ended December 31				
	2013	**2012**	**2011**	**2010**	**2009**
Dividend payout ratio	n/a	n/a	n/a	(3.89%)	(11.15%)
Weighted average shares outstanding, basic	21,699,964	21,647,372	21,565,366	21,468,455	21,468,455
Weighted average shares outstanding, diluted	22,211,228	21,717,499	21,565,366	21,468,455	21,468,455
Capital Ratios					
Leverage Ratio	9.52%	9.41%	8.91%	8.12%	8.93%
Tier 1 risk-based capital ratio	15.62%	15.79%	15.01%	14.40%	14.82%
Total risk-based capital ratio	16.82%	16.87%	16.16%	15.58%	16.03%

(1) *Refer to the Non-GAAP Measures section in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations for a reconciliation.*

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

(3) *Excludes assets covered by FDIC shared-loss agreements.*

Table of Contents

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

The following discussion and analysis of the financial condition at December 31, 2013 and results of operations for the year ended December 31, 2013 of Community Bankers Trust Corporation (the Company) should be read in conjunction with the Company s consolidated financial statements and the accompanying notes to consolidated financial statements included in this report.

GENERAL

The Company is a bank holding company that was incorporated in 2005. The Company is headquartered in Glen Allen, Virginia and is the holding company for Essex Bank (the Bank), a Virginia state bank with 19 full-service offices in Virginia and Maryland. The Bank also operates two loan production offices in Virginia.

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

Prior to November 8, 2013, the Bank also had four full-service offices in Georgia. The Bank sold