Community Bankers Trust Corporation

2017 Annual Report

Essex Bank
Growing to Win.

Essex Bank

VIRGINIA

Bon Air
(804) 335-1127

Burgess
(804) 453-4268

Callao
(804) 529-5546

Centerville
(804) 784-4000

Cumberland
(804) 729-6666

Deep Run at Mayland
(804) 934-9999

Fairfax
(703) 385-4596

Flat Rock
(804) 598-6839

Goochland Courthouse
(804) 556-6722

King William
(804) 769-2265

Louisa
(540) 967-5900

Lynchburg—Loan Production Office
(434) 485-0090

Lynchburg—Old Forest Road
(434) 385-1650

Lynchburg—Timberlake
(434) 237-1323

Mechanicsville
(804) 730-3222

Tappahannock—Prince Street
(804) 443-8510

Tappahannock—Dillard
(804) 443-8500

Virginia Center
(804) 262-3991

West Point
(804) 843-4347

West Broad Marketplace
(804) 729-6844

Winterfield
(804) 419-4160

MARYLAND

Annapolis
(443) 569-7515

Arnold
(410) 757-7777

Bowie
(301) 850-5071

Crofton
(410) 721-7330

Rockville
(301) 294-9350

Rosedale
(410) 574-3303

Customer Service Center
(800) 443-5524

www.EssexBank.com

To Our Shareholders

Both loans and retail deposits finished the year with double digit growth. Gross loans increased $105.7 million, or 12.6%, from year-end 2016. Total deposits increased $58.5 million in 2017, which included lowering the level of brokered deposits by $39.8 million. Noninterest bearing deposits grew over $24 million and were 14.0% of total deposits at year end, up from 12.4% at year-end 2016.

The year 2017 continued a familiar trend of transformation in the banking industry. There were numerous changes in legislation, regulation and competition. Through all of the changes, Essex Bank stayed true to our strategy of Growing to Win, creating long term value for our customers and our shareholders. This strategy is simply to provide the products and services of the larger financial institutions, but delivered with the individual care and attention of person-to-person service.

Our new mission statement is, "To provide financial inspiration through intriguingly unique experiences that educate and empower action." What makes Essex Bank intriguingly unique is the consistent delivery of our core values to customers and the communities in which we are a part. These values have brought about significant organic growth in our core markets and our balance sheet.

For our shareholders, our success has translated into consistent growth in earnings and stock value. While reported earnings for 2017 were negatively affected by the passing of the Tax Cuts and Jobs Act at the end of the year, our effective tax rate going forward will be significantly reduced, allowing us to send more profit to the bottom line. The change in the tax law required us to revalue our deferred tax asset (DTA) and take an associated one-time charge of $3.5 million in the fourth quarter that lowered earnings. Without the impact of that charge, the Company had a great quarter and ended the 2017 year on a very positive note. This is impressive given that we continued our branch expansion and opened three new offices in 2017.

Net income prior to the DTA adjustment would have been $10.8 million, or $0.49 a share, while return on assets and return on equity would have been 0.84% and 8.82%, respectively. Additionally, both loans and retail deposits finished the year with double digit growth. Gross loans, excluding purchase credit impaired (PCI) loans, were $942.0 million at December 31, 2017, increasing $105.7 million, or 12.6%, from year-end 2016. Total deposits increased $58.5 million in 2017, which included lowering the level of brokered deposits by $39.8 million. Core interest bearing deposits increased by $74.1 million for the year. Noninterest bearing deposits grew over $24 million and were 14.0% of total deposits at year end, up from 12.4% at year-end 2016. We accomplished these

—*continued*

Essex Bank is well positioned for a rising interest rate environment, and we are optimistic that our results will continue to increase our value.

results through intense focus on customer needs, which led us to create and provide better products and upgrade our branch and digital delivery systems.

We also continue to see improvement in our credit quality as evidenced by our total non-performing assets as a percentage of total assets. The level of total classified and criticized assets has consistently declined over the last five quarters. Total classified and criticized assets were $25.6 million at December 31, 2017 compared with $37.4 million at December 31, 2016. This is a decline of $11.8 million, or 31.5%. Our continued focus on relationship delivery has also enhanced our credit quality, and we should see this trend continue.

Essex Bank is well positioned for a rising interest rate environment, and we are optimistic that our results will continue to increase our value. Our stock price rose over 14% during 2017 and continues to rise through the beginning of 2018. We believe that our value added strategy will continue to enhance earnings at an increasing rate in the coming years. We are excited about our future and, as always, we appreciate the support of our shareholders.

Rex L. Smith, III
President and CEO

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2017

or

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

For the transition period from to

Commission file number 001-32590

COMMUNITY BANKERS TRUST CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐
	Emerging growth company ☐

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. $174,575,122

On February 28, 2018, there were 22,074,523 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 2018 Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K.

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December 31, 2017

PART I

ITEM 1. *BUSINESS*

GENERAL

The Company is the holding company for Essex Bank (the "Bank"), a Virginia state bank with 26 full-service offices in Virginia and Maryland. The Bank also operates one loan production office 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.

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.

The Company's corporate headquarters are located at 9954 Mayland Drive, Suite 2100, Richmond, Virginia 23233. The telephone number of the corporate headquarters is (804) 934-9999. The Company's website is www.cbtrustcorp.com, and the Bank's website is www.essexbank.com.

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

STRATEGY

The Company operates in some of the strongest growth markets in Virginia and Maryland. Its operating strategy has been to provide the products and services of the larger financial institutions, but delivered with the individual service focus of a small community bank. This strategy has allowed the Company to have significant organic growth in its core markets.

The Company's markets are diverse enough to spread economic risk throughout a number of different customer bases. Operating under the individual community delivery philosophy, the Company seeks to enhance customer relationships through superior products delivered with extraordinary service, while maintaining a prudent approach to credit quality and risk controls. The Company's associates are the most important element in its strategy for success, and therefore there is significant focus on training and building a team-oriented environment. In a constantly changing world, competition remains intense for community banks. One of the features that sets the Company apart from other organizations is the ability and desire to give superior personal service to customers.

In 2017, the Company expanded on its internal "Growing to Win" campaign and engaged its associates to determine and reflect on the core values that the Company wants to deliver to associates, customers and shareholders. The Company's mission statement is "To provide financial inspiration through intriguingly unique experiences that educate and empower action". What makes the Company intriguingly unique is the consistent delivery of core values to the customers and the communities of which it is a part.

The Company's strategic focus on offering a broad array of products delivered with individual service has resulted in expanded market presence, earning growth and increased value for shareholders. Since this strategy has been historically successful, management believes that it will continue to provide solid results. Additionally, the Company has been focused on controlling risks and allowing growth in a safe and sound manner. The Company continues to build the capital strength and growth capacities to execute its strategies to create superior value for shareholders.

OPERATIONS

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

Retail and Small Business Banking

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

Commercial and Industrial Banking

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

Commercial Real Estate Lending

The Company has historically held a significant concentration in real estate loans. The current strategy is to manage the existing real estate portfolio and add income producing property loans and builders and other development loans to the 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 formed in 2005 as a special purpose acquisition company to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business in the banking industry.

In May 2008, the Company acquired each of TransCommunity Financial Corporation (TFC), which was the holding company for TransCommunity Bank, N.A., and BOE Financial Services of Virginia, Inc. (BOE), which was the holding company for the Bank. TFC had been the holding company for four separately-chartered banking subsidiaries — Bank of Powhatan, Bank of Goochland, Bank of Louisa and Bank of Rockbridge – until 2007, when they were consolidated into the newly created TransCommunity Bank. Later in 2008, TransCommunity Bank was consolidated into the Bank under the Bank's state charter and, until 2010, the former branch offices of TFC operated as separate divisions under the Bank's charter, using the names of TFC's former banking subsidiaries.

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

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

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

TARP INVESTMENT

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

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

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

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

EMPLOYEES

As of December 31, 2017, the Company had 264 full-time equivalent employees, including executive officers, loan and other banking officers, branch personnel, operations personnel and other support personnel. None of the Company's employees is represented by a union or covered under a collective bargaining agreement. Management of the Company considers its employee relations to be excellent.

AVAILABLE INFORMATION

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

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

SUPERVISION AND REGULATION

General

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

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

Bank Holding Companies

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

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

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

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

The Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (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 were grandfathered for banking entities with less than $15 billion of assets, such as the Company. The Dodd-Frank Act permanently raised deposit insurance levels to $250,000. Pursuant to modifications under the Dodd-Frank Act, deposit insurance assessments are 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 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. 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. 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 behaviour.

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

Capital Requirements

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

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

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

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

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

- "Well capitalized" if it had a Total Capital Ratio of 10% or greater, Tier 1 Ratio of 6% or greater, a Leverage Ratio of 5% or greater, and 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 had a Total Capital Ratio of 8% or greater, a Tier 1 Ratio of 4% or greater, and a Leverage Ratio of 4% or greater — or 3% in certain circumstances — and was not well capitalized;
- "Undercapitalized" if it had a Total Capital Ratio of less than 8% or greater, a Tier 1 Ratio of less than 4%, and a Leverage Ratio of less than 4% — or 3% in certain circumstances;

- "Significantly undercapitalized" if it had a Total Capital Ratio of less than 6%, a Tier 1 Ratio of less than 3%, or a Leverage Ratio of less than 3%; or
- "Critically undercapitalized" if its tangible equity was equal to or less than 2% of average quarterly tangible assets.

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

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

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

The new required capital conservation buffer is comprised of an additional 2.5% above the minimum risk-based capital ratios. 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 minimum ratios 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	Maximum payout ratio (as a percentage of eligible retained income)
Greater than 2.5%..	No applicable limitation.
≤ 2.5% and > 1.875%...	60%
≤ 1.875% and > 1.25%...	40%
≤ 1.25% and > 0.625%...	20%
≤ 0.625%...	0%

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

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

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

Dividends

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

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

Deposit Insurance

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

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

The Dodd-Frank Act transferred to the FDIC increased discretion with regard to managing the required amount of reserves for the DIF, or the "designated reserve ratio." Among other changes, the Dodd-Frank Act (i) raised the minimum designated reserve ratio to 1.35 percent and removed the upper limit on the designated reserve ratio, (ii) requires that the designated reserve ratio reach 1.35 percent by September 2020, and (iii) requires the FDIC to offset the effect on institutions with total consolidated assets of less than $10 billion by raising the designated reserve ratio from 1.15 percent to 1.35 percent. The FDIA requires that the FDIC consider the appropriate level for the designated reserve ratio on at least an annual basis. In 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 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, 2017, the Company had not been made aware of any instances of non-compliance with the new guidance.

The Gramm-Leach-Bliley Act of 1999

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

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

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

Community Reinvestment Act

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

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

Fair Lending; Consumer Laws

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

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

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

Governmental Policies

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

Future Regulations

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Company and the Bank in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. The Company cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Company or the Bank.

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 non-bank competitors are not subject to the same extensive regulations that govern us. As a result, these non-bank competitors have advantages over us in providing certain services.

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

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

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

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

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

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

We may not be able to successfully implement our growth strategy if we are unable to identify attractive markets, locations or opportunities to expand in the future, or if we are subject to regulatory restrictions on growth or expansion of our operations. In addition, we compete with our companies for acquisition and expansion opportunities, and many of those competitors have greater financial resources than us and thus may be able to pay more for such an opportunity than we can.

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.

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.

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 our operations and business strategy. In addition, we rely heavily on communications and information systems to conduct our business. Any failure, interruption, or breach in security or operational integrity of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. 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 or other disruptions. A breach of any kind could compromise systems, and the information stored there could be accessed, damaged or disclosed. A breach in security or other failure could result in legal claims, regulatory penalties, disruption in operations, increased expenses, loss of customers and business partners and damage to our reputation, which could adversely affect our business and financial condition. Furthermore, as cyber threats continue to evolve and increase, we may be required to expend significant additional financial and operational resources to modify or enhance our protective measures, or to investigate and remediate any identified information security vulnerabilities.

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

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

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

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

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

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

We offer a variety of secured loans, including commercial lines of credit, commercial term loans, real estate, construction, home equity, consumer and other loans. Credit risk and credit losses can increase if our loans are concentrated to borrowers who, as a group, may be uniquely or disproportionately affected by economic or market conditions. Approximately 83.23% 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.

If our concentration in commercial real estate increases significantly, we may have to take certain actions that could impact our balance sheet.

Regulators have been paying close attention to banks with higher commercial real estate concentrations, due to concerns about credit risk building in the industry. Concentration levels of concern include commercial real estate loans making up at least 300% of a bank's total risk-based capital, construction, land development and other land loans comprising 100% or more of total risk-based capital and construction and total commercial real estate growth of 50% or more over the prior 36 months. While we currently are below all of these levels, if we exceed one or more of them, we may have to take certain actions to minimize the risk associated with higher concentration levels and otherwise bolster our balance sheet. These actions include ensuring robust risk management practices, including conducting regular appraisals, analyzing borrowers' ability to repay credits, evaluating local economic conditions and operating with enhanced reporting and systems. At an extreme, these actions can also include curtailing our lending in these areas and raising capital.

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 financial services industry, as well as the broader economy, may be subject to new legislation, regulation, and government policy.

At this time, it is difficult to predict the legislative and regulatory changes that will result from the current presidential and congressional administrations. The President and/or Congress may change existing financial services regulations or enact new policies affecting financial institutions, specifically community banks. Such changes may include amendments to the Dodd-Frank Act and structural changes to the CFPB. The new administration and Congress also may cause broader economic changes due to changes in governing ideology and governing style. New appointments to the Board of Governors of the Federal Reserve could affect monetary policy and interest rates, and changes in fiscal policy could affect broader patterns of trade and economic growth. Future legislation, regulation, and government policy could affect the banking industry as a whole, including our business and results of operations, in ways that are difficult to predict. In addition, our results of operations also could be adversely affected by changes in the way in which existing statutes and regulations are interpreted or applied by courts and government agencies.

We are subject to more stringent capital and liquidity requirements as a result of the Basel III regulatory capital reforms and the Dodd-Frank Act, which could adversely affect our return on equity and otherwise affect our business.

We are subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital that we must maintain. From time to time, regulators implement changes to these regulatory capital adequacy guidelines. Under the Dodd-Frank Act, the federal banking agencies have established stricter capital requirements and leverage limits for banks and bank holding companies that are based on the Basel III regulatory capital reforms. These stricter capital requirements will be phased-in over a four-year period, which began on January 1, 2015, until they are fully-implemented on January 1, 2019. See “Business – Supervision and Regulation – Capital Requirements” for further information about the requirements.

The application of more stringent capital requirements could, among other things, result in lower returns on equity, require the raising of additional capital and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could limit our ability to use its capital for strategic opportunities. If we fail to meet these minimum capital guidelines and/or other regulatory requirements, our financial condition would be materially and adversely affected.

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

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

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

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

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

Regulatory authorities require us to maintain certain levels of capital to support our operations. While we remained "well capitalized" at December 31, 2017, we may need to raise additional capital in the future if we unexpectedly incur losses or due to regulatory mandates. The ability to raise capital, if needed, will depend in part on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we may not be able to raise capital, if and when needed, on terms acceptable to us, or at all. If we cannot raise capital when needed, our ability to increase our capital ratios could be materially impaired, and we could face regulatory challenges.

We continually encounter technological change.

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

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

The total amount of our available-for-sale securities portfolio was $204.8 million at December 31, 2017. 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.

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

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

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

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

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

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

A significant portion of our loan portfolio consists of loans secured by real estate (83.23% at December 31, 2017). We rely upon independent appraisers to estimate the value of such real estate. Appraisals are only estimates of value and the independent appraisers may make mistakes of fact or judgment which adversely affect the reliability of their appraisals. In addition, events occurring after the initial appraisal may cause the value of the real estate to increase or decrease. As a result of any of these factors, the real estate securing some of our loans may be more or less valuable than anticipated at the time the loans were made. If a default occurs on a loan secured by real estate that is less valuable than originally estimated, we may not be able to recover the outstanding balance of the loan and will suffer a loss.

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

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

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

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

We are subject to extensive government regulation and supervision.

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

The banking industry continues to be faced with new and complex regulatory requirements and enhanced supervisory oversight. Banking regulators are increasingly concerned about, among other things, growth, commercial real estate concentrations, underwriting of commercial real estate and commercial and industrial loans, capital levels and cyber security. These factors are exerting downward pressure on revenues and upward pressure on required capital levels and the cost of doing business.

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

Changes in accounting standards could impact reported earnings.

The authorities that promulgate accounting standards, including the Financial Accounting Standards Board and Securities and Exchange Commission, periodically change the financial accounting and reporting standards that govern the preparation of the

Company's consolidated financial statements. These changes are difficult to predict and can materially impact how the Company records and reports its financial condition and results of operations. In some cases, the Company could be required to apply a new or revised standard retroactively, resulting in the restatement of financial statements for prior periods. Such changes could also require the Company to incur additional personnel or technology costs.

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

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

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

We can give no assurances that our deferred tax asset will not become impaired in the future. At December 31, 2017, we recorded net deferred income tax assets of $6.1 million. We assess the realization of deferred income tax assets and record a valuation allowance if it is "more likely than not" that we will not realize all or a portion of the deferred tax asset. We consider all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, we need a valuation allowance. Management's assessment is primarily dependent on historical taxable income and projections of future taxable income, which are directly related to our core earnings capacity and our prospects to generate core earnings in the future. Projections of core earnings and taxable income are inherently subject to uncertainty and estimates that may change given an uncertain economic outlook and current banking industry conditions. Due to the uncertainty of estimates and projections, it is possible that we will be required to record adjustments to the valuation allowance in future reporting periods.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

The Company operates the following offices:

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

Virginia Branch Offices:
Bon Air — 2730 Buford Road, Richmond, VA 23235
Burgess — 14598 Northumberland Highway, Burgess, VA 22432
Callao — 654 Northumberland Highway, Callao, VA 22435
Centerville — 100 Broad Street Road, Manakin-Sabot, VA 23103
Cumberland — 1496 Anderson Highway, Cumberland, VA 23040
Deep Run at Mayland — 9954 Mayland Drive, Richmond, VA 23233
Fairfax — 10509 Judicial Drive, Fairfax, VA 22030
Flat Rock — 2320 Anderson Highway, Powhatan, VA 23139
Goochland Courthouse — 1949 Sandy Hook Road, Goochland, VA 23063
King William — 4935 Richmond-Tappahannock Highway, Aylett, VA 23009
Louisa — 217 East Main Street, Louisa, VA 23093
Lynchburg–Old Forest Road — 3638 Old Forest Road, Lynchburg, VA 24501
Lynchburg–Timberlake — 21437 Timberlake Road, Lynchburg, VA 24502
Mechanicsville — 6315 Mechanicsville Turnpike, Mechanicsville, VA 23111
Tappahannock–Dillard — 1325 Tappahannock Boulevard, Tappahannock, VA 22560
Tappahannock–Prince Street — 323 Prince Street, Tappahannock, VA 22560
Virginia Center — 9951 Brook Road, Glen Allen, VA 23060
West Broad Marketplace — 12254 West Broad Marketplace, Henrico, VA 23233
West Point — 16th and Main Street, West Point, VA 23181
Winterfield — 3740 Winterfield Road, Midlothian, VA 23113

Maryland Branch Offices:
Annapolis — 1835 West Street, Annapolis, MD 21401
Arnold — 1460 Ritchie Highway, Arnold, MD 21012
Bowie — 6143 High Bridge Road, Bowie, MD 20720
Crofton — 2120 Baldwin Avenue, Crofton, MD 21114
Rockville — 1101 Nelson Street, Rockville, MD 20850
Rosedale — 1230 Race Road, Rosedale, MD 21237

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

The Company opened its West Board Marketplace branch office on May 16, 2017, its Lynchburg–Timberlake branch office on June 19, 2017 and its Lynchburg–Old Forest Road on December 4, 2017. The Company expects to open a branch office in the Stonehenge Village development in Midlothian, Virginia (12646 Stone Village Way) in July 2018.

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

ITEM 3. *LEGAL PROCEEDINGS*

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

ITEM 4. *MINE SAFETY DISCLOSURES*

Not applicable.

PART II

ITEM 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 trades on the NASDAQ Capital Market under the symbol "ESXB".

The following table sets summarizes the high and low sales prices for the Company's common stock for the quarterly periods during the years ended December 31, 2017 and 2016:

	2017		2016	
	High	**Low**	**High**	**Low**
Quarter ended March 31	$ 8.50	$ 7.00	$ 5.45	$ 4.45
Quarter ended June 30	8.30	6.95	5.30	4.72
Quarter ended September 30	9.25	8.05	5.50	5.10
Quarter ended December 31	9.35	7.90	7.25	5.35

HOLDERS OF RECORD

As of December 31, 2017, there were 1,931 holders of record of the Company's common stock, not including beneficial holders of securities held in street name.

DIVIDENDS

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

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

In addition, until January 2017, the ability of each of the Company and the Bank to distribute cash dividends was subject to restrictions in a third-party term loan that the Company obtained in April 2014 to repurchase its then outstanding Series A Preferred Stock. Specifically, neither the Company nor the Bank could have declared or made a dividend if there existed a default, or such action would have created a default, under the term loan, which required the Company to be in compliance with certain covenants, such as maintenance of minimum regulatory capital ratios, minimum return on assets, minimum cash on hand and minimum dividend capacity. For additional information on the term loan, see Note 10 to the Notes to the Consolidated Financial Statements.

Following the payment of a cash dividend in February 2010, the Company determined to suspend the payment of its quarterly dividend to holders of common stock. While the Company believes that its capital and liquidity levels remain above the averages of its peers, the Company utilized dividends from the Bank for the payment of capital funding (Series A Preferred Stock) received from the Department of the Treasury until April 2014, when the Company completed the redemption of such funding. Until January 2017, the Company primarily utilized dividends from the Bank for principal and interest payments with respect to an unsecured third party loan that the Company obtained at the same time in connection with such redemption. Additional dividends from the Bank would be utilized for the payment of intercompany expenses and interest payments on trust preferred securities.

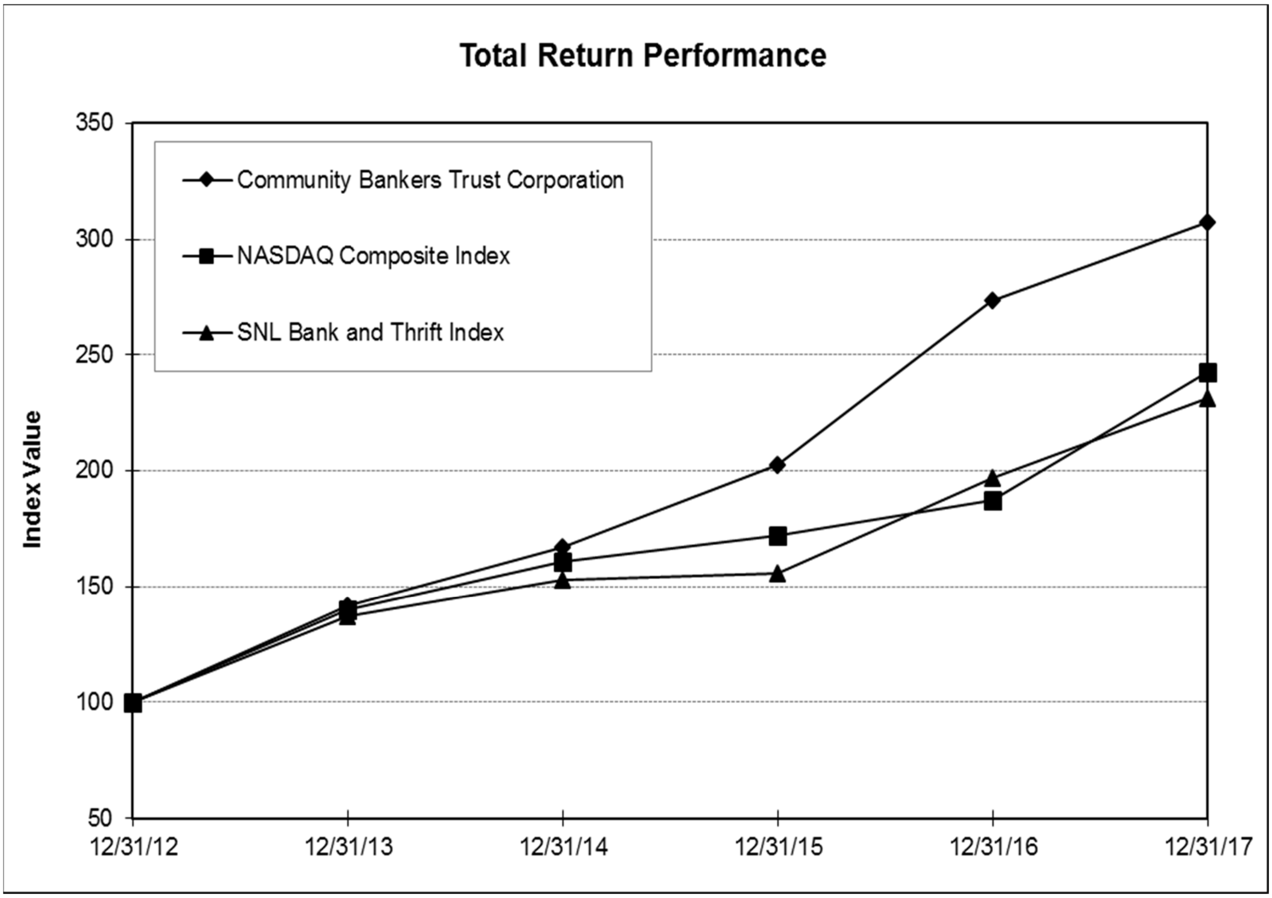
The Company does not plan to recommence the payment of its quarterly dividend to holders of common stock at the current time. The Company believes that the current use of earnings to support growth, maintain current capital levels and support payments under the third party loan are appropriate for the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

PURCHASES OF EQUITY SECURITES 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, 2017.

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, 2012, to December 31, 2017, 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, 2012 in the Company's common stock and in each of the comparable indices and that dividends were reinvested.



	Period Ended					
Index	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**	**12/31/17**
Community Bankers Trust Corporation	100.00	141.89	166.79	202.64	273.58	307.55
NASDAQ Composite Index	100.00	140.12	160.78	171.97	187.22	242.71
SNL Bank and Thrift Index	100.00	136.92	152.85	155.94	196.86	231.49

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.

	Year Ended December 31				
(dollars in thousands, except for per share amounts)	**2017**	**2016**	**2015**	**2014**	**2013**
Results of Operations					
Interest and dividend income	$ 53,315	$ 49,295	$ 47,552	$ 48,725	$ 50,045
Interest expense	9,199	7,820	7,497	6,933	7,078
Net interest income	44,116	41,475	40,055	41,792	42,967
Provision for loan losses	550	166	—	—	—
Net interest income after provision for loan losses	43,566	41,309	40,055	41,792	42,967
Noninterest income	4,697	5,179	5,081	5,269	4,724
Noninterest expenses	34,157	32,750	50,260	36,817	39,288
Income (loss) before income taxes	14,106	13,738	(5,124)	10,244	8,403
Income tax expense (benefit)	6,903	3,816	(2,627)	2,728	2,497
Net income (loss)	$ 7,203	$ 9,922	$ (2,497)	$ 7,516	$ 5,906
Financial Condition					
Assets	$ 1,336,190	$ 1,249,816	$ 1,180,557	$ 1,155,734	$ 1,089,532
FDIC indemnification asset	—	—	—	18,609	25,409
PCI loans	44,333	51,964	58,955	67,460	73,275
Loans	942,018	836,299	748,724	660,020	596,173
Deposits	1,095,764	1,037,294	945,519	918,945	892,341
Shareholders' equity	124,003	114,536	104,487	107,650	106,659
Ratios					
Return on average assets	0.56%	0.83%	(0.22%)	0.67%	0.53%
Return on average equity	5.91%	8.92%	(2.31%)	7.09%	5.22%
Non-GAAP return on average tangible assets (1)	0.61%	0.94%	(0.11%)	0.79%	0.66%
Non-GAAP return on average tangible common equity (1)	6.40%	10.23%	(1.19%)	9.09%	8.38%
Efficiency ratio (2)	69.98%	70.20%	111.35%	78.23%	82.38%
Equity to assets	9.28%	9.15%	8.86%	9.31%	9.79%
Loan to deposits	90.01%	85.63%	85.42%	79.16%	75.02%
Average tangible common equity / average tangible assets (1)	9.50%	9.16%	9.10%	8.70%	7.90%
Asset Quality					
Allowance for loan losses (3)	$ 8,969	$ 9,493	$ 9,559	$ 9,267	$ 10,444
Allowance for loan losses / loans (3)	0.95%	1.14%	1.28%	1.40%	1.75%
Allowance for loan losses / nonaccrual loans (3)	99.37%	92.68%	89.59%	55.92%	86.28%
Non-covered nonperforming assets / loans and other real estate (3)	1.25%	1.74%	2.14%	3.64%	3.05%
Per Share Data					
Earnings per share, basic	$ 0.33	$ 0.45	$ (0.11)	$ 0.33	$ 0.22
Earnings per share, diluted	0.32	0.45	(0.11)	0.33	0.22
Non-GAAP earnings per share, diluted (1)	0.35	0.50	(0.06)	0.40	0.33
Market value per share	8.15	7.25	5.37	4.42	3.76
Book value per tangible common share (1)	5.62	5.17	4.65	4.72	4.07
Price to earnings ratio, diluted	25.47	16.11	(48.82)	13.39	17.09
Price to book value ratio	145.0%	139.2%	112.4%	89.5%	86.0%
Weighted average shares outstanding, basic	22,013,810	21,914,270	21,826,845	21,755,448	21,699,964
Weighted average shares outstanding, diluted	22,512,206	22,161,221	21,826,845	21,980,979	21,922,132

	Year Ended December 31				
	2017	**2016**	**2015**	**2014**	**2013**
Capital Ratios					
Leverage Ratio	9.74%	9.60%	9.38%	9.36%	9.52%
Common equity tier 1 capital ratio	11.50%	11.78%	11.62%	n/a	n/a
Tier 1 risk-based capital ratio	11.88%	12.20%	12.08%	13.52%	15.62%
Total risk-based capital ratio	12.70%	13.16%	13.16%	14.72%	16.82%

(1) Refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations", section "Non GAAP Measures" for a reconciliation.
(2) The efficiency ratio is calculated by dividing noninterest expense over the sum of net interest income plus noninterest income.
(3) Excludes PCI loans.

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

The following discussion and analysis of the financial condition at December 31, 2017 and results of operations for the year ended December 31, 2017 of Community Bankers Trust Corporation (the "Company") should be read in conjunction with the Company's consolidated financial statements and the accompanying notes to consolidated financial statements included in this report.

GENERAL

Community Bankers Trust Corporation (the "Company") is headquartered in Richmond, Virginia and is the holding company for Essex Bank (the "Bank"), a Virginia state bank with 26 full-service offices in Virginia and Maryland. The Bank also operates one loan production office in Virginia.

The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals and small businesses, including individual and commercial demand and time deposit accounts, commercial and industrial loans, consumer and small business loans, real estate and mortgage loans, investment services, on-line and mobile banking products, and safe deposit box facilities.

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

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

- legislative and regulatory requirements.

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

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

CRITICAL ACCOUNTING POLICIES

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

The Company’s critical accounting policies are discussed in detail in Note 1 - “Nature of Banking Activities and Significant Accounting Policies” in Item 8 of this Form 10-K. The following is a summary of the Company’s critical accounting policies that are highly dependent on estimates, assumptions and judgments.

Allowance for Loan Losses on Loans

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

The allowance is an amount that management believes is appropriate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower’s ability to pay. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. The evaluation also considers the following risk characteristics of each loan portfolio:

- Residential 1-4 family mortgage loans include HELOCs and single family investment properties secured by first liens. The carry risks associated with owner-occupied and investment properties are the continued credit-worthiness of the borrower, changes in the value of the collateral, successful property maintenance and collection of rents due from tenants. The Company manages these risks by using specific underwriting policies and procedures and by avoiding concentrations in geographic regions.

- Commercial real estate loans, including owner occupied and non-owner occupied mortgages, carry risks associated with the successful operations of the principal business operated on the property securing the loan or the successful operation of the real estate project securing the loan. General market conditions and economic activity may impact the performance of these loans. In addition to using specific underwriting policies and procedures for these types of loans, the Company manages risk by avoiding concentrations to any one business or industry, and by diversifying the lending to various lines of businesses, such as retail, office, office warehouse, industrial and hotel.

- Construction and land development loans are generally made to commercial and residential builders/developers for specific construction projects, as well as to consumer borrowers. These carry more risk than real estate term loans due to the dynamics of construction projects, changes in interest rates, the long-term financing market and state and local government regulations. The Company manages risk by using specific underwriting policies and procedures for these types of loans and by avoiding concentrations to any one business or industry and by diversifying lending to various lines of businesses, in various geographic regions and in various sales or rental price points.

- Second mortgages on residential 1-4 family loans carry risk associated with the continued credit-worthiness of the borrower, changes in value of the collateral and a higher risk of loss in the event the collateral is liquidated due to the inferior lien position. The Company manages risk by using specific underwriting policies and procedures.

- Multifamily loans carry risks associated with the successful operation of the property, general real estate market conditions and economic activity. In addition to using specific underwriting policies and procedures, the Company manages risk by avoiding concentrations to geographic regions and by diversifying the lending to various unit mixes, tenant profiles and rental rates.

- Agriculture loans carry risks associated with the successful operation of the business, changes in value of non-real estate collateral that may depreciate over time and inventory that may be affected by weather, biological, price, labor, regulatory and economic factors. The Company manages risks by using specific underwriting policies and procedures, as well as avoiding concentrations to individual borrowers and by diversifying lending to various agricultural lines of business (i.e., crops, cattle, dairy, etc.).

- Commercial loans carry risks associated with the successful operation of the business, changes in value of non-real estate collateral that may depreciate over time, accounts receivable whose collectability may change and inventory values that may be subject to various risks including obsolescence. General market conditions and economic activity may also impact the performance of these loans. In addition to using specific underwriting policies and procedures for these types of loans, the Company manages risk by diversifying the lending to various industries and avoids geographic concentrations.

- Consumer installment loans carry risks associated with the continued credit-worthiness of the borrower and the value of rapidly depreciating assets or lack thereof. These types of loans are more likely than real estate loans to be quickly and adversely affected by job loss, divorce, illness or personal bankruptcy. The Company manages risk by using specific underwriting policies and procedures for these types of loans.

- All other loans generally support the obligations of state and political subdivisions in the U.S. and are not a material source of business for the Company. The loans carry risks associated with the continued credit-worthiness of the obligations and economic activity. The Company manages risk by using specific underwriting policies and procedures for these types of loans.

While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses, and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance consists of specific, general and unallocated components. For loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. The unallocated component covers uncertainties the could affect management's estimate of probable losses.

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

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

Accounting for Certain Loans Acquired in a Transfer

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

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

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

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

Other Real Estate Owned

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

Other Intangibles

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

Income Taxes

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

Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the consolidated financial statements when it is more likely than not that the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. The Company provides for interest and, in some cases, penalties on tax positions that may be challenged by the taxing authorities. Interest expense is recognized beginning in the first period that such interest would begin accruing. Penalties are recognized in the period that the Company claims the position in the tax return. Interest and penalties on income tax uncertainties are classified within income tax expense in the consolidated statement of income. The Company had no interest or penalties during the years ended December 31, 2017, 2016 or 2015. Under FASB ASC 740, *Income Taxes,* a valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. In management's opinion, based on a three year taxable income projection, tax strategies that would result in potential securities gains and the effects of off-setting deferred tax liabilities, it is more likely than not that the deferred tax assets are realizable; therefore, no allowance is required.

The Company and its subsidiaries are subject to U. S. federal income tax as well as Virginia and Maryland state income tax. All years from 2014 through 2017 are open to examination by the respective tax authorities.

OVERVIEW

Total assets increased $86.4 million, or 6.9%, to $1.336 billion at December 31, 2017 as compared with $1.250 billion at December 31, 2016. Total loans were $942.0 million at December 31, 2017, increasing $105.7 million, or 12.6%, from year end 2016. Total PCI loans were $44.3 million at December 31, 2017 versus $52.0 million at year end 2016.

The Company's securities portfolio, excluding equity securities, declined $11.7 million, or 4.5%, from $262.7 million at December 31, 2016 to $251.0 million at December 31, 2017. Net realized gains of $210,000 were recognized during 2017 through sales and call activity, as compared with $634,000 recognized during 2016. The decline in the volume of securities was a strategic decision by management to fund strong loan growth with securities sales, normal securities amortization, call activity, sales and maturities.

The Company is required to account for the effect of market changes in the value of securities available-for-sale (AFS) under FASB ASC 320, *Investments - Debt and Equity Securities*. The market value of the AFS portfolio was $204.8 million and $216.1 million at December 31, 2017 and 2016, respectively. The Company had a net unrealized gain of $1.2 million and a net unrealized loss of $621,000 in the AFS portfolio at December 31, 2017 and 2016, respectively.

Noninterest bearing deposits increased $24.1 million, or 18.7%, from $128.9 million at December 31, 2016 to $153.0 million at December 31, 2017. Interest bearing deposits at December 31, 2017 were $942.7 million, an increase of $34.3 million, or 3.8%, from $908.4 million at December 31, 2016. NOW, MMDA and savings account balances increased $19.7 million, $32.0 million and $3.6 million, respectively, since December 31, 2016. Total time deposits declined $21.0 million, or 3.7%. While retail time deposits increased by $18.8 million, or 3.6%, the level of brokered deposits declined by $39.8 million, or 74.5%, and were $13.6 million at December 31, 2017. Excluding brokered deposits, retail interest bearing deposits increased in 2017 by $74.1 million, or 8.7%.

FHLB advances were $101.4 million at December 31, 2017, compared with $81.9 million at December 31, 2016. The increase in FHLB advances was offset by the decline in brokered deposits. FHLB advances were less costly than most brokered deposit alternatives in 2017.

Long term debt totaled $0 and $1.7 million at December 31, 2017 and 2016, respectively. This borrowing, initially in the amount of $10.7 million, was obtained in April 2014, and the proceeds were used to redeem the Company's remaining outstanding TARP preferred stock. The Company had paid down this debt by $9.0 million at December 31, 2016, and the loan, which was scheduled to be fully paid on April 21, 2017, was fully paid on January 9, 2017.

Shareholders' equity was $124.0 million at December 31, 2017 and $114.5 million at December 31, 2016.

RESULTS OF OPERATIONS

Net Income

For the year ended December 31, 2017, net income was $7.2 million, or $0.33 per common share basic and $0.32 fully diluted, compared with net income of $9.9 million, or $0.45 per common share, basic and fully diluted, for the year ended December 31, 2016. Net income in 2017 was affected by a charge of $3.5 million to income tax expense in the fourth quarter of 2017 related to the re-measurement of net deferred tax assets resulting from the new 21% federal corporate tax rate established by the Tax Cuts and Jobs Act of 2017.

For the year ended December 31, 2016, net income was $9.9 million, or $0.45 per common share, basic and fully diluted, compared with a net loss of $2.5 million, or ($0.11) per common share, for the year ended December 31, 2015.

Net income in 2015 was affected by the third quarter termination of the Bank's FDIC shared-loss agreements in order to improve profitability beginning in the fourth quarter of 2015. As part of the termination of the shared-loss agreements, the FDIC paid $3.1 million in cash to the Bank, and the remaining $13.1 million of the FDIC indemnification asset related to the agreements was charged off. This transaction eliminated future indemnification asset amortization expense, which had totaled $5.2 million for the 12-month period from July 1, 2014 through June 30, 2015.

In addition to the shared-loss termination charge, the Company had write-downs totaling $1.1 million with respect to two bank buildings held for sale and one parcel in other real estate owned in the third quarter of 2015. Also contributing to the increase in net income for the year ended 2016 was an increase in net interest income of $1.4 million, or 3.5%, as compared to the year ended 2015.

Net Interest Income

The Company's operating results depend primarily on its net interest income, which is the difference between interest income on interest earning assets, including securities and loans, and interest expense incurred on interest bearing liabilities, including deposits and other borrowed funds. Net interest income is affected by changes in the amount and mix of interest earning assets and interest bearing liabilities, referred to as a "volume change." It is also affected by changes in yields earned on interest earning assets and rates paid on interest bearing deposits and other borrowed funds, referred to as a "rate change."

For the 2017 year, net interest income increased $2.6 million, or 6.4%, and was $44.1 million. The tax equivalent yield (non-GAAP) on earning assets was 4.54% for 2017 compared with 4.50% for 2016. Interest and fees on loans of $40.3 million in 2017 was an increase of $4.3 million, or 12.0%, compared with $36.0 million for 2016. Interest and fees on PCI loans declined $497,000 over this same time frame. Securities income increased $139,000 for 2017 compared to 2016, and the tax-equivalent yield on the portfolio was 3.12% in 2017 and 3.11% in 2016.

Interest expense of $9.2 million for 2017 represented an increase of $1.4 million, or 17.6%, compared with 2016. Total average interest bearing liabilities increased $53.0 million, as loan growth has been fueled by this increase and an average balance increase of $20.5 million, or 17.6%, in noninterest bearing deposits.

Interest spread is the product of yield on earning assets less cost of total interest bearing liabilities. The Company's net interest spread declined from 3.69% for the year ended December 31, 2016 to 3.64% for the same period in 2017. The tax equivalent yield (non-GAAP) on earning assets increased from 4.50% for the year ended December 31, 2016 to 4.54% for the year ended December 31, 2017. The yield on total loans was stable, finishing at 5.01% for each of 2017 and 2016. PCI loan yield rose from 11.29% to 11.95%, and the yield on loans, excluding PCI loans, increased 6 basis points, from 4.57% to 4.63%. The tax-equivalent yield on securities increased from 3.11% for 2016 to 3.12% for 2017, as the Company sold lower yielding securities during the course of 2017 to fund loan demand.

For the 2016 year, net interest income increased $1.4 million, or 3.6%, and was $41.5 million. The tax equivalent yield on earning assets was 4.50% for 2016 compared with 4.57% for 2015. Interest and fees on loans of $36.0 million in 2016 was an increase of $4.0 million, or 12.5%, compared with $32.0 million for 2015. Interest and fees on PCI loans declined $1.6 million over this same time frame. Of that decline, $475,000 related to cash payments on ADC loans related to pools previously written down to a zero carrying value received in 2015 versus no such payments in 2016. Securities income declined $681,000 for 2016 compared 2015, as securities balances have been liquidated to fund loan growth.

Interest expense of $7.8 million for 2016 represented an increase of $323,000, or 4.31%, compared with 2015. Total average interest bearing liabilities increased $21.4 million, as loan growth has been fueled by this increase and an average balance increase of 23.0%, or $21.7 million, in noninterest bearing deposits, coupled with a decline in the average balance of securities of $36.3 million during 2016.

The Company's total loan to deposit ratio was 90.01% at December 31, 2017 versus 85.63% at December 31, 2016 and 85.42% at December 31, 2015.

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

NET INTEREST MARGIN ANALYSIS
AVERAGE BALANCE SHEETS
(Dollars in thousands)

	Year ended December 31, 2017			Year ended December 31, 2016			Year ended December 31, 2015		
	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid
ASSETS:									
Loans, including fees	$ 870,258	$ 40,301	4.63 %	$ 787,245	$ 35,998	4.57 %	$ 687,463	$ 31,990	4.65 %
PCI loans	47,983	5,733	11.95	55,178	6,230	11.29	63,552	7,875	12.39
Total loans	918,241	46,034	5.01	842,423	42,228	5.01	751,015	39,865	5.31
Interest bearing bank balances	15,618	196	1.26	17,922	122	0.68	14,551	59	0.41
Federal funds sold	94	1	1.11	27	—	0.49	1,852	2	0.10
Securities (taxable)	181,476	4,682	2.58	178,833	4,696	2.63	220,525	5,469	2.48
Securities (tax exempt)(1)	85,305	3,639	4.27	82,045	3,407	4.15	76,644	3,268	4.26
Total earning assets	1,200,734	54,552	4.54	1,121,250	50,453	4.50	1,064,587	48,663	4.57
Allowance for loan losses	(9,431)			(9,967)			(9,981)		
Non-earning assets	89,904			85,779			95,190		
Total assets	$ 1,281,207			$ 1,197,062			$ 1,149,796		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Demand - interest bearing	$ 264,082	$ 897	0.34 %	$ 235,571	$ 636	0.27 %	$ 229,220	$ 698	0.30 %
Savings	91,687	243	0.26	86,499	236	0.27	83,614	260	0.31
Time deposits	574,630	6,757	1.18	530,531	5,510	1.04	523,726	5,025	0.96
Total deposits	930,399	7,897	0.85	852,601	6,382	0.75	836,560	5,983	0.72
Short-term borrowings	1,556	25	1.58	1,776	16	0.88	1,516	12	0.76
FHLB and other borrowings	85,127	1,277	1.50	105,455	1,210	1.15	96,937	1,179	1.22
Long-term debt	—	—	—	4,257	212	4.97	7,707	323	4.20
Total interest bearing	1,017,082	9,199	0.90	964,089	7,820	0.81	942,720	7,497	0.80
Noninterest bearing deposits	136,674			116,215			94,476		
Other liabilities	5,550			5,543			4,490		
Total liabilities	1,159,306			1,085,847			1,041,686		
Shareholders' equity	121,901			111,215			108,110		
Total liabilities and shareholders' equity	$ 1,281,207			$ 1,197,062			$ 1,149,796		
Net interest earnings		$ 45,353			$ 42,633			$ 41,166	
Interest spread			3.64 %			3.69 %			3.77 %
Net interest margin			3.78 %			3.80 %			3.87 %
Tax equivalent adjustment:									
Securities		$ 1,237			$ 1,158			$ 1,111	

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

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

EFFECT OF RATE-VOLUME CHANGE ON NET INTEREST INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016
(Dollars in thousands)

	2017 compared to 2016			2016 compared to 2015		
	Increase (Decrease)			Increase (Decrease)		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans, including fees	$ 3,796	$ 507	$ 4,303	$ 4,643	$ (635)	$ 4,008
PCI loans	(812)	315	(497)	(1,038)	(607)	(1,645)
Interest bearing bank balances and federal funds sold	(16)	91	75	12	49	61
Investments	157	(18)	139	(931)	250	(681)
Total Earning Assets	3,125	895	4,020	2,686	(943)	1,743
Interest Expense:						
Demand deposits	77	184	261	19	(80)	(61)
Savings deposits	14	(7)	7	9	(34)	(25)
Time deposits	458	789	1,247	65	420	485
Total deposits	549	966	1,515	93	306	399
Other borrowed funds	(320)	184	(136)	76	(152)	(76)
Total interest-bearing liabilities	229	1,150	1,379	169	154	323
Net increase (decrease) in net interest income	$ 2,896	$ (255)	$ 2,641	$ 2,517	$ (1,097)	$ 1,420

Provision for Loan Losses

Management actively monitors the Company's asset quality and provides specific loss provisions when necessary. Provisions for loan losses are charged to income to bring the total allowance for loan losses to a level deemed appropriate by management of the Company based on such factors as historical credit loss experience, industry diversification of the commercial loan portfolio, the amount of nonperforming loans and related collateral, the volume growth and composition of the loan portfolio, current economic conditions that may affect the borrower's ability to pay and the value of collateral, the evaluation of the loan portfolio through the internal loan review function and other relevant factors. See *Allowance for Loan Losses on Loans* in the Critical Accounting Policies section above for further discussion.

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

Management also actively monitors its PCI loan portfolio for impairment and necessary loan loss provisions. Provisions for PCI loans may be necessary due to a change in expected cash flows or an increase in expected losses within a pool of loans.

The provision for loan losses was $550,000 for the year ended December 31, 2017 compared with $166,000 and $0 for the years ended December 31, 2016 and 2015, respectively. The Company records a separate provision for loan losses for its loan portfolio and its PCI loan portfolio. The provision for loan losses on loans, excluding PCI loans, was $550,000 for the year ended December 31, 2017 compared with $450,000 and $0 for the years ended December 31, 2016 and 2015, respectively. The provision for loan losses on PCI loans was a $284,000 credit for the year ended December 31, 2016, which was the result of improvement in expected losses on the Company's PCI portfolio. There was no provision for the PCI loan portfolio for the years ended December 31, 2017 and 2015. With respect to the loan portfolio, the provision was taken as additional general reserves to support current period loan growth.

The allowance for loan losses, excluding PCI loans, equaled 99.4% of nonaccrual loans at December 31, 2017 compared with 92.7% at December 31, 2016. The ratio of the allowance for loan losses to total loans, excluding PCI loans, was 0.95% at December 31, 2017 compared with 1.14% at December 31, 2016. Net charge-offs were $1.1 million in 2017 compared with net charge-offs of $516,000 in 2016.

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

Noninterest Income

Noninterest income was $4.7 million for the year ended December 31, 2017, a decrease of $482,000, or 9.3%, from $5.2 million for the year ended December 31, 2016. Securities gains were $210,000 in 2017 compared with $634,000 for 2016. Mortgage loan income declined by $364,000 from 2016 to 2017 and was $242,000. The Bank instituted a lower cost mortgage platform beginning in 2017, which resulted in a steady improvement in results during the year. Offsetting these decreases for 2017 compared with 2016 was an increase of $261,000 in service charges on deposit accounts, which were $2.7 million for the year ended December 31, 2017.

Noninterest income was $5.2 million for the year ended December 31, 2016, an increase of $98,000, or 1.9%, over $5.1 million for the year ended December 31, 2015. Securities gains of $634,000 in 2016 compared with $472,000 for 2015. Likewise, service charges on deposit accounts increased by $151,000 and were $2.4 million for 2016. Income on bank owned life insurance of $870,000 in 2016 is an increase of $119,000, or 15.9%. Offsetting these increases for 2016 compared with 2015 were decreases of $178,000 in mortgage loan income, which was $606,000 in 2016, $87,000 in other noninterest income, which was $649,000 in 2016, and $69,000 in gain on sale of loans in 2015, which was zero in 2016.

Noninterest Expenses

Noninterest expenses were $34.2 million for the year ended December 31, 2017, as compared with $32.8 million for the year ended December 31, 2016. This is an increase of $1.4 million, or 4.3%. Salaries and employee benefits increased $1.2 million in 2017 compared with 2016 reflecting two branch openings in 2016 and three in 2017. These new branches also impacted the 2017 increase in occupancy expenses, which were $393,000 higher in 2017 than the previous year. Data processing, advertising, equipment expenses and supplies all also were affected by the new branches as they increased $249,000, $157,000, $145,000 and $112,000, respectively. Offsetting these increases was a reduction of amortization of intangible assets, which was $1.9 million in 2016 and $898,000 in 2017. The Company has no intangible assets that are being amortized as of December 31, 2017.

Noninterest expenses were $32.8 million for the year ended December 31, 2016 compared with $50.3 million for the year ended December 31, 2015. This is a decrease of $17.5 million, or 34.8%. FDIC indemnification asset amortization was $0 for 2016 and $16.2 million for 2015, as a result of the termination of the shared-loss agreements and associated write-off. Other real estate expenses improved $1.1 million in 2016 and were $175,000. The expense in this category in 2015 was primarily from the write-down of $1.1 million in the two bank owned properties and other real estate owned noted previously. Other operating expenses declined $444,000 over the comparison period. Salaries and employee benefits increased $271,000, or 1.5%, in 2016 compared with 2015. FDIC assessment decreased $115,000 and occupancy expenses increased $145,000 in 2016, the result of the Bank’s new branches in Fairfax and Cumberland, Virginia.

Income Taxes

For the year ended December 31 2017, income tax expense of $6.9 million represented an effective tax rate of 48.9% compared with an income tax expense of $3.8 million for the year ended December 31, 2016. The increase in income tax expense for the year ended December 31, 2017 was related to a $3.5 million re-measurement of net deferred tax assets resulting from the new 21% federal corporate tax rate established by the Tax Cuts and Jobs Act of 2017 enacted in December 2017.

For the year ended December 31 2016, income tax expense of $3.8 million represented an effective tax rate of 27.8% compared with an income tax benefit of $2.6 million for the year ended December 31, 2015. The benefit for the year ended 2015 was the result of the net loss for the year generated by the accounting for the termination of the shared-loss agreements.

Loans

Total loans were $986.4 million at December 31, 2017, increasing $98.1 million from $888.3 million at December 31, 2016. Total loans, excluding PCI loans, were $942.0 million at December 31, 2017 versus $836.3 million at December 31, 2016. Total loans, excluding PCI loans, increased $105.7 million, or 12.6%, during 2017. Commercial loans exhibited the largest dollar volume increase year-over-year and were up $29.7 million, or 23.0%, and ended the year at $159.0 million. Commercial mortgage loans of $366.3 million at December 31, 2017 reflected an increase of 7.8%, or $26.5 million, since year end 2016. This is also the largest category of loans in the portfolio. Residential 1-4 family mortgage loans increased $19.7 million, or 9.5%, over this time frame and were $227.5 million at December 31, 2017. Multifamily loans of $59.0 million at December 31, 2017 was an increase of $19.9 million over the balance at December 31, 2016. PCI loans were $44.3 million at December 31, 2017, $7.6 million lower than at year-end 2016.

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

	2017					
	Loans		PCI Loans		Total Loans	
Mortgage loans on real estate:						
Residential 1-4 family	$ 227,542	24.16 %	$ 39,805	89.79 %	$ 267,347	27.10 %
Commercial	366,331	38.89	547	1.23	366,878	37.20
Construction and land development	107,814	11.44	1,588	3.58	109,402	11.09
Second mortgages	8,410	0.89	2,136	4.82	10,546	1.07
Multifamily	59,024	6.27	257	0.58	59,281	6.01
Agriculture	7,483	0.79	—	—	7,483	0.76
Total real estate loans	776,604	82.44	44,333	100.00	820,937	83.23
Commercial loans	159,024	16.88	—	—	159,024	16.13
Consumer installment loans	5,169	0.55	—	—	5,169	0.52
All other loans	1,221	0.13	—	—	1,221	0.12
Total loans	$ 942,018	100.00 %	$ 44,333	100.00 %	$ 986,351	100.00 %

	2016					
	Loans		PCI Loans		Total Loans	
Mortgage loans on real estate:						
Residential 1-4 family	$ 207,863	24.86 %	$ 46,623	89.72 %	$ 254,486	28.64 %
Commercial	339,804	40.63	649	1.25	340,453	38.33
Construction and land development	98,282	11.75	1,969	3.79	100,251	11.29
Second mortgages	7,911	0.95	2,453	4.72	10,364	1.17
Multifamily	39,084	4.67	270	0.52	39,354	4.43
Agriculture	7,185	0.86	—	—	7,185	0.81
Total real estate loans	700,129	83.72	51,964	100.00	752,093	84.67
Commercial loans	129,300	15.46	—	—	129,300	14.56
Consumer installment loans	5,627	0.67	—	—	5,627	0.63
All other loans	1,243	0.15	—	—	1,243	0.14
Total loans	$ 836,299	100.00 %	$ 51,964	100.00 %	$ 888,263	100.00 %

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

	2014					
	Loans		PCI Loans		Total Loans	
Mortgage loans on real estate:						
Residential 1-4 family	$167,171	25.33 %	$60,171	89.20 %	$227,342	31.25 %
Commercial	282,127	42.75	1,148	1.70	283,275	38.94
Construction and land development	57,027	8.64	2,456	3.64	59,483	8.18
Second mortgages	5,997	0.91	3,409	5.05	9,406	1.29
Multifamily	33,812	5.12	276	0.41	34,088	4.69
Agriculture	7,163	1.08	—	—	7,163	0.98
Total real estate loans	553,297	83.83	67,460	100.00	620,757	85.33
Commercial loans	99,783	15.12	—	—	99,783	13.72
Consumer installment loans	5,496	0.83	—	—	5,496	0.76
All other loans	1,444	0.22	—	—	1,444	0.19
Total loans	$660,020	100.00 %	$67,460	100.00 %	$727,480	100.00 %

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

The following table indicates the contractual maturity of commercial and construction and land development loans as of December 31, 2017 (dollars in thousands):

	Commercial	Construction and land development
Within 1 year	$ 63,464	$ 69,975
Variable Rate		
One to Five Years	$ 24,534	$ 3,551
After Five Years	14,326	15,231
Total	$ 38,860	$ 18,782
Fixed Rate		
One to Five Years	$ 47,944	$ 19,901
After Five Years	8,756	744
Total	$ 56,700	$ 20,645
Total Maturities	$ 159,024	$ 109,402

Asset Quality – Assets, Excluding PCI Loans

The Company maintains a list of loans that have potential weaknesses and thus may need special attention. This nonperforming loan list is used to monitor such loans and is used in the determination of the appropriateness of the allowance for loan losses. At December 31, 2017, nonperforming assets totaled $11.8 million and net charge-offs were $1.1 million. Nonperforming assets totaled $14.7 million and net charge-offs were $516,000 at December 31, 2016.

Nonperforming loans were $9.0 million at December 31, 2017 compared to $10.2 million at December 31, 2016, a $1.2 million decrease. Additions to nonaccrual loans during 2017 totaled $7.0 million. The increase related to one relationship comprised of commercial and commercial real estate loans totaling $3.9 million, one commercial loan relationship of $1.3 million and several small real estate relationships. There were $1.2 million in charge-offs taken during 2017, including $693,000 related to the $3.9 million relationship noted above. The remaining charge-offs were mainly centered in real estate and commercial loans. There were $4.7 million in pay-offs, including $3.2 million related to the $3.9 million relationship noted above. There were also $1.4 million in pay-downs during the year and $926,000 in loans returned to accruing status. Foreclosures for the period totaled $23,000.

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

	2017	2016	2015	2014	2013
Nonaccrual loans	$ 9,026	$ 10,243	$ 10,670	$16,571	$12,105
Loans past due 90 days and accruing interest	—	—	—	—	—
Total nonperforming loans	9,026	10,243	10,670	16,571	12,105
OREO	2,791	4,427	5,490	7,743	6,244
Total nonperforming assets	$ 11,817	$ 14,670	$ 16,160	$24,314	$18,349
Accruing troubled debt restructure loans	$ 5,271	$ 4,653	$ 4,596	$6,195	$9,922
Balances					
Specific reserve on impaired loans	959	1,130	1,144	1,761	1,636
General reserve related to unimpaired loans	8,010	8,363	8,415	7,506	8,808
Total allowance for loan losses	8,969	9,493	9,559	9,267	10,444
Average loans during the year, net of unearned income	870,258	787,245	687,463	621,213	585,343
Impaired loans	14,297	18,541	15,266	22,929	22,027
Non-impaired loans	927,721	817,758	733,476	637,091	574,146
Total loans, net of unearned income	942,018	836,299	748,742	660,020	596,173
Ratios					
Allowance for loan losses to loans	0.95 %	1.14 %	1.28 %	1.40 %	1.75 %
Allowance for loan losses to nonaccrual loans	99.37	92.68	89.59	55.92	86.28
General reserve to non-impaired loans	0.86	1.02	1.15	1.18	1.53
Nonaccrual loans to loans	0.96	1.22	1.43	2.51	2.03
Nonperforming assets to loans and OREO	1.25	1.74	2.14	3.64	3.05
Net charge-offs (recoveries) to average loans	0.12	0.07	(0.04)	0.19	0.42

At December 31, 2017, the Company had six construction and land development credit relationships in nonaccrual status. The borrowers for all of these relationships are residential land developers. All of the relationships are secured by the real estate to be developed, and all of such projects are in the Company's central Virginia market. The total amount of the credit exposure outstanding at December 31, 2017 was $4.3 million. These loans have either been charged down or sufficiently reserved against to equate to the current expected realizable value. The total amount of the allowance for loan losses attributed to all six relationships was $556,000 at December 31, 2017, or 13.00% of the total credit exposure outstanding.

The Company performs troubled debt restructures (TDR) and other various loan workouts whereby an existing loan may be restructured into multiple new loans. The Company had 23 and 19 loans for the years ended December 31, 2017 and 2016, respectively, that met the definition of a TDR, which are loans that for reasons related to the debtor's financial difficulties have been restructured on terms and conditions that would otherwise not be offered or granted. There were six loans totaling $3.4 million and seven loans totaling $4.1 million for the years ended December 31, 2017 and 2016, respectively, that were restructured using multiple new loans. At December 31, 2017 and 2016, the aggregated outstanding principal of all TDRs was $7.0 million and $6.7 million, respectively, of which $1.7 million and $2.0 million, respectively, were classified as nonaccrual.

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

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

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

	2017	2016	2015	2014	2013
Mortgage loans on real estate:					
Residential 1-4 family	$ 1,962	$ 2,893	$ 4,562	$ 3,342	$ 4,229
Commercial	1,498	1,758	1,508	607	1,382
Construction and land development	4,277	5,495	4,509	4,920	5,882
Second mortgages	—	—	13	61	225
Agriculture	68	—	—	—	205
Total real estate loans	7,805	10,146	10,592	8,930	11,923
Commercial loans	1,214	53	—	7,521	127
Consumer installment loans	7	44	78	120	55
Total loans	$ 9,026	$ 10,243	$ 10,670	$ 16,571	$ 12,105

<u>Allowance for Credit Losses on Loans</u>

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

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

In conjunction with the impairment analysis the Company performs as part of its allowance methodology, the Company frequently orders appraisals for all loans with balances in excess of $250,000 when the most recent appraisal is greater than 18 months old and /or deemed to be invalid. The Company may also utilize internally prepared estimates that generally result from current market data and actual sales data related to the Company's collateral. A ratio analysis is used for all loans with balances less than $250,000. The Company maintains detailed analysis and other information for its allowance methodology, both for internal purposes and for review by its regulators.

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

	2017	2016	2015	2014	2013
Balance, beginning of year	$ 9,493	$ 9,559	$ 9,267	$ 10,444	$ 12,920
Loans charged-off:					
Commercial	431	-	3	1,217	325
Real estate	797	687	1,183	1,179	2,999
Consumer and other loans	285	191	174	134	167
Total loans charged-off	1,513	878	1,360	2,530	3,491
Recoveries:					
Commercial	5	11	1,211	1,065	82
Real estate	282	245	343	178	857
Consumer and other loans	152	106	98	110	76
Total recoveries	439	362	1,652	1,353	1,015
Net charge-offs (recoveries)	1,074	516	(292)	1,177	2,476
Provision for loan losses	550	450	-	-	-
Balance, end of year	$ 8,969	$ 9,493	$ 9,559	$ 9,267	$ 10,444
Allowance for loan losses to loans	0.95 %	1.14 %	1.28 %	1.40 %	1.75 %
Net charge-offs (recoveries) to average loans	0.12 %	0.07 %	(0.04)%	0.19 %	0.42 %
Allowance to nonperforming loans	99.37 %	92.68 %	89.59 %	55.92 %	86.28 %

During 2017, the Company's net charge-offs increased $558,000 from net charge-offs in the prior year and were primarily centered in real estate loans. Net charge-offs by loan category to total net charge-offs were the following for 2017: 39.7% for commercial loans, 47.9% for real estate loans, and 12.4% for consumer loans.

During 2016, the Company's net charge-offs increased $808,000 from a net recovery in the prior year and were primarily centered in real estate loans. Net charge-offs (recoveries) by loan category to total net charge-offs were the following for 2016: (2.1%) for commercial loans, 85.7% for real estate loans, and 16.4% for consumer loans.

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

	2017		2016		2015		2014		2013	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Commercial	$ 1,139	16.9 %	$ 602	15.5 %	$ 631	13.6 %	$ 977	15.2 %	$ 1,554	15.1%
Construction and land development	1,247	11.4	2,195	11.7	1,298	9.0	1,792	8.6	2,163	9.3
Real estate mortgage	6,423	71.0	5,068	72.0	6,914	76.4	4,822	75.2	6,065	74.4
Consumer and other	113	0.7	142	0.8	118	1.0	131	1.0	160	1.2
Unallocated	47	—	1,486	—	598	—	1,545	—	502	—
Total allowance	$ 8,969	100.00 %	$ 9,493	100.00 %	$ 9,559	100.00 %	$ 9,267	100.00 %	$ 10,444	100.00%

The allowance for loan losses for each of the periods presented includes an amount that could not be related to individual types of loans and thus is referred to as the unallocated portion of the allowance. The Company recognizes the inherent imprecision in the estimates of losses due to various uncertainties and variability related to the factors used. Specifically, the provision of $450,000 taken during the year ended 2016 primarily due to loan growth resulted in an elevated unallocated amount of $1.5 million at December 31, 2016. Several factors justified the maintenance of this unallocated amount, including an unusually low level of delinquencies at December 31, 2016, which the Company believed was unsustainable over the next several quarters and was not reflective of the Company's experience, as well as the fact that the Company believed the allowance as reported was indicative of the credit risks of the loan portfolio at December 31, 2016. During 2017, delinquencies increased $886,000, net charge-offs were $1.1 million, and the Company recorded a provision of $550,000, all of which contributed to the reduction of the unallocated amount to $47,000 at December 31, 2017.

Asset Quality and Allowance for Credit Losses – PCI assets

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

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

Securities

The Company's securities portfolio decreased $10.7 million, or 4.0%, from $271.0 million at December 31, 2016 to $260.3 million at December 31, 2017. This decrease is the result of a shift in assets to higher yielding loans. At December 31, 2017, the Company had $204.8 million in securities available for sale and $46.1 million of securities held to maturity. Equity securities totaled $9.3 million. Realized gains of $210,000 occurred during 2017 through sales and call activity.

The Company's securities portfolio decreased $17.2 million, or 6.0%, from $288.2 million at December 31, 2015 to $271.0 million at December 31, 2016. This decrease is the result of a shift in assets to higher yielding loans. At December 31, 2016, the Company had $216.1 million in securities available for sale and $46.6 million of securities held to maturity. Equity securities totaled $8.3 million. Realized gains of $634,000 occurred during 2016 through sales and call activity.

The following table summarizes the securities portfolio by contractual maturity and issuer, including weighted average yields, excluding restricted stock, as of December 31, 2017 (dollars in thousands):

		1 Year or Less	1-5 Years	5-10 Years	Over 10 Years	Total
U.S. Treasury Issue and other U.S. Government agencies						
	Amortized Cost	4,343	26,678	23,487	5,212	59,720
	Fair Value	4,312	26,392	23,414	5,261	59,379
	Weighted Avg Yield	(2.36%)	1.18%	2.24%	3.44%	1.54%
State, county and municipal [1]						
	Amortized Cost	5,575	71,114	75,198	7,823	159,710
	Fair Value	5,621	72,571	76,129	8,006	162,327
	Weighted Avg Yield	5.40%	3.90%	3.96%	4.41%	4.01%
Corporate bonds and other securities						
	Amortized Cost	-	801	4,699	1,823	7,323
	Fair Value	-	786	4,737	1,937	7,460
	Weighted Avg Yield	-	1.78%	1.77%	1.82%	1.78%
Mortgage Backed securities						
	Amortized Cost	-	13,435	9,569	-	23,004
	Fair Value	-	13,324	9,232	-	22,556
	Weighted Avg Yield	-	1.83%	2.22%	-	2.00%
Total						
	Amortized Cost	9,918	112,028	112,953	14,858	249,757
	Fair Value	9,933	113,073	113,512	15,204	251,722
	Weighted Avg Yield	2.00%	2.99%	3.36%	3.75%	3.16%

[1] Computed on a tax equivalent basis

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

	December 31, 2017			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov't agencies	$ 40,473	$ 165	$ (382)	$ 40,256
U.S. Gov't sponsored agencies	9,247	55	(24)	9,278
State, county and municipal	124,032	2,324	(596)	125,760
Corporate and other bonds	7,323	173	(36)	7,460
Mortgage backed – U.S. Gov't agencies	5,551	37	(146)	5,442
Mortgage backed – U.S. Gov't sponsored agencies	16,985	26	(373)	16,638
Total Securities Available for Sale	$ 203,611	$ 2,780	$ (1,557)	$ 204,834
Securities Held to Maturity				
U.S. Treasury issue and other U.S. Gov't agencies	$ 10,000	$ —	$ (155)	$ 9,845
State, county and municipal	35,678	922	(33)	36,567
Mortgage backed – U.S. Gov't agencies	468	8	—	476
Total Securities Held to Maturity	$ 46,146	$ 930	$ (188)	$ 46,888

	December 31, 2016			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov't agencies	$ 58,724	$ 15	$ (763)	$ 57,976
U.S. Gov't sponsored agencies	3,452	—	(116)	3,336
State, county and municipal	121,686	2,247	(1,160)	122,773
Corporate and other bonds	15,936	—	(433)	15,503
Mortgage backed – U.S. Gov't agencies	3,614	—	(119)	3,495
Mortgage backed – U.S. Gov't sponsored agencies	13,330	21	(313)	13,038
Total Securities Available for Sale	$ 216,742	$ 2,283	$ (2,904)	$ 216,121
Securities Held to Maturity				
U.S. Treasury issue and other U.S. Gov't agencies	$ 10,000	$ —	$ (154)	$ 9,846
State, county and municipal	35,847	568	(185)	36,230
Mortgage backed – U.S. Gov't agencies	761	21	—	782
Total Securities Held to Maturity	$ 46,608	$ 589	$ (339)	$ 46,858

	December 31, 2015			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov't agencies	$ 50,590	$ 11	$ (660)	$ 49,941
U.S. Gov't sponsored agencies	756	—	(14)	742
State, county and municipal	138,965	3,400	(867)	141,498
Corporate and other bonds	14,997	10	(711)	14,296
Mortgage backed – U.S. Gov't agencies	8,654	9	(167)	8,496
Mortgage backed – U.S. Gov't sponsored agencies	28,637	22	(362)	28,297
Total Securities Available for Sale	$ 242,599	$ 3,452	$ (2,781)	$ 243,270
Securities Held to Maturity				
State, county and municipal	$ 35,456	$ 1,136	$ (35)	$ 36,557
Mortgage backed – U.S. Gov't agencies	1,022	32	—	1,054
Mortgage backed – U.S. Gov't sponsored agencies	—	—	—	—
Total Securities Held to Maturity	$ 36,478	$ 1,168	$ (35)	$ 37,611

Deposits

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

	2017		2016		2015	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
NOW	$ 139,620	0.19 %	$ 127,723	0.18 %	$ 121,329	0.21 %
MMDA	124,462	0.51	107,848	0.38	107,891	0.41
Savings	91,687	0.26	86,499	0.27	83,614	0.31
Time deposits less than $100,000	239,267	1.13	222,475	1.00	233,784	0.94
Time deposits $100,000 and over	335,363	1.21	308,056	1.07	289,942	0.98
Total deposits	$ 930,399	0.85	$ 852,601	0.75	$ 836,560	0.72

The Company derives a significant amount of its deposits through time deposits, and certificates of deposit specifically. The following table summarizes the contractual maturity of time deposits $100,000 or more, as of December 31, 2017 (dollars in thousands):

Within 3 months	$ 55,506
3-6 months	59,434
6-12 months	102,181
over 12 months	95,136
Total	$ 312,257

Borrowings

The Company uses borrowings in conjunction with deposits to fund lending and investing activities. Borrowings include overnight borrowings from correspondent banks (federal funds purchased) and funding from the Federal Home Loan Bank (FHLB). The Company classifies all borrowings that will mature within a year from the date on which the Company enters into them as short-term borrowings. The following information is provided for borrowings balances, rates, and maturities as of December 31 of the years presented (dollars in thousands):

	Federal Funds Purchased	FHLB Borrowings Short-term Advances	FHLB Borrowings Long-term notes payable	Total
As of December 31, 2017				
Amount outstanding at year end	$ 4,849	$ 70,500	$ 30,929	$ 101,429
Maximum month-end outstanding balance	14,878	101,429	31,296	
Average outstanding balance during the year	1,556	53,884	27,083	
Average interest rate during the year	1.58 %	1.34 %	1.37 %	
Average interest rate at year end	1.85 %	1.45 %	1.62 %	
As of December 31, 2016				
Amount outstanding at year end	$ 4,714	$ 55,000	$ 26,887	$ 81,887
Maximum month-end outstanding balance	12,301	121,466	37,082	
Average outstanding balance during the year	1,776	73,806	27,524	
Average interest rate during the year	0.88 %	0.96 %	1.26 %	
Average interest rate at year end	1.10 %	0.62 %	1.35 %	

Liquidity

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

The Company's results of operations are significantly affected by its ability to manage effectively the interest rate sensitivity and maturity of its interest earning assets and interest bearing liabilities. A summary of the Company's liquid assets at December 31, 2017 and 2016 was as follows (dollars in thousands):

	December 31, 2017		December 31, 2016	
Cash and due from banks	$	14,642	$	13,828
Interest bearing bank deposits		7,316		7,244
Federal funds sold		—		—
Available for sale securities, at fair value, unpledged		168,221		170,898
Total liquid assets	$	190,179	$	191,970
Deposits and other liabilities	$	1,212,187	$	1,135,280
Ratio of liquid assets to deposits and other liabilities		15.69%		16.91%

Capital Resources

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

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

Under Basel III, a capital conservation buffer of 2.5% above the minimum risk-based capital thresholds was established. Dividend and executive compensation restrictions begin if the Company does not maintain the full amount of the buffer. The capital conservation buffer will be phased in between January 1, 2016 and January 1, 2019 as follows: 2016 - 0.625%, 2017 – 1.25%, 2018 – 1.875% and 2019 – 2.5%. The Company had a capital conservation buffer of 4.70% and 5.16% at December 31, 2017 and 2016, respectively, well above the required buffer of 1.25% and 0.625% for 2017 and 2016, respectively.

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

	December 31, 2017		December 31, 2016	
	Amount	Ratio	Amount	Ratio
Total Capital to risk weighted assets				
Company	$ 136,910	12.70 %	$ 128,877	13.16 %
Bank	134,972	12.52 %	127,606	13.03 %
Tier 1 Capital to risk weighted assets				
Company	128,084	11.88 %	119,527	12.20 %
Bank	126,146	11.71 %	118,256	12.07 %
Common Equity Tier 1 Capital to risk weighted assets				
Company	123,960	11.50 %	115,403	11.78 %
Bank	126,146	11.71 %	118,256	12.07 %
Tier 1 Capital to adjusted average total assets				
Company	128,084	9.74 %	119,527	9.60 %
Bank	126,146	9.59 %	118,256	9.50 %

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

On December 12, 2003, BOE Statutory Trust I, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable capital securities. On December 12, 2003, $4.124 million of trust preferred securities were issued through a direct placement. The securities have a LIBOR-indexed floating rate of interest. The average interest rate at December 31, 2017, 2016 and 2015 was 4.20%, 3.68% and 3.28%, respectively. The securities have a mandatory redemption date of December 12, 2033 and are subject to varying call provisions that began December 12, 2008. The principal asset of the Trust is $4.124 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the capital securities.

Off-Balance Sheet Arrangements

A summary of the contract amount of the Company's exposure to off-balance sheet risk as of December 31, 2017 and 2016, is as follows (dollars in thousands):

	December 31, 2017	December 31, 2016
Commitments with off-balance sheet risk:		
Commitments to extend credit	$ 163,686	$ 134,517
Standby letters of credit	6,532	7,151
Total commitments with off-balance sheet risks	$ 170,218	$ 141,668

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

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

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

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

At December 31, 2017, the fair value of the Company's cash flow hedge was an unrealized gain of $177,000, which was recorded in other assets. The Company's cash flow hedge is deemed to be effective. Therefore, the gain was recorded as a component of other comprehensive income recorded in the Company's Consolidated Statements of Comprehensive Income (Loss).

Contractual Obligations

A summary of the Company's contractual obligations at December 31, 2017 is as follows (dollars in thousands):

	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Time deposits	$ 548,356	$ 376,168	$ 152,240	$ 19,948	$ —
Trust preferred debt	4,124	—	—	—	4,124
Federal Home Loan Bank advances	101,429	80,500	11,096	9,833	—
Operating leases	12,205	1,349	2,626	1,464	6,766
Total contractual obligations	$ 666,114	$ 458,017	$ 165,962	$ 31,245	$ 10,890

Financial Ratios

Financial ratios give investors a way to compare companies within industries to analyze financial performance. Return on average assets is net income as a percentage of average total assets. It is a key profitability ratio that indicates how effectively a bank has used its total resources. Return on average equity is net income as a percentage of average stockholders' equity. It provides a measure of how productively a Company's equity has been employed. Dividend payout ratio is the percentage of net income paid to common shareholders as cash dividends during a given period. The Company did not pay dividends to common shareholders during the years ended December 31, 2017, 2016 and 2015. It is computed by dividing dividends per share by net income per common share. The Company utilizes leverage within guidelines prescribed by federal banking regulators as described in the "Capital Requirements" section. Leverage is average shareholders' equity divided by average total assets.

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

	Year Ended December 31		
	2017	2016	2015
Return on average assets	0.56 %	0.83 %	(0.22)%
Return on average equity	5.91 %	8.92 %	(2.31)%
Leverage	9.51 %	9.29 %	9.40 %

Non-GAAP Measures

The Company accounts for business combinations under FASB ASC 805, *Business Combinations*, using the acquisition method of accounting. The original merger between the Company, TFC and BOE as well as the SFSB transaction were business combinations accounted for using the purchase method of accounting. The TCB transaction was accounted for as an asset purchase. At December 31, 2017, 2016 and 2015, core deposit intangible assets totaled $0, $898,000 and $2.8 million, respectively.

In reporting the results of 2017, 2016 and 2015 in Item 6 above, the Company has provided supplemental performance measures on an operating or tangible basis. Such measures exclude amortization expense related to intangible assets, such as core deposit intangibles. The Company believes these measures are useful to investors as they exclude non-operating adjustments resulting from acquisition activity and allow investors to see the combined economic results of the organization. Non-GAAP operating earnings (loss) per share were $0.35 for the year ended December 31, 2017 compared with $0.50 in 2016 and $(0.06) in 2015. Non-GAAP return on average tangible common equity and assets for the year ended December 31, 2017 was 6.40% and 0.61%, respectively, compared with 10.23% and 0.94%, respectively, in 2016 and (1.19)% and (0.11)%, respectively, in 2015.

These measures are a supplement to GAAP used to prepare the Company's financial statements and should not be viewed as a substitute for GAAP measures. In addition, the Company's non-GAAP measures may not be comparable to non-GAAP measures of other companies. The following table reconciles these non-GAAP measures from their respective GAAP basis measures for the years ended December 31, 2017, 2016 and 2015 (dollars in thousands):

	2017	2016	2015
Net (loss) income	$ 7,203	$ 9,922	$ (2,497)
Plus: core deposit intangible amortization, net of tax	585	1,259	1,259
Non-GAAP operating earnings	$ 7,788	$ 11,181	$ (1,238)
Total shareholders' equity	$ 124,003	$ 114,536	$ 104,487
Preferred stock (net)	—	—	—
Core deposit intangible (net)	—	898	2,805
Common tangible book value	$ 124,003	$ 113,638	$ 101,682
Shares outstanding	22,073	21,960	21,867
Common tangible book value per share	$ 5.62	$ 5.17	$ 4.65
Average assets	$ 1,281,207	$ 1,197,062	$ 1,149,796
Less: average core deposit intangibles	248	1,893	3,797
Average tangible assets	$ 1,280,959	$ 1,195,169	$ 1,145,999
Average equity	$ 121,901	$ 111,215	$ 108,110
Less: average core deposit intangibles	248	1,893	3,797
Less: average preferred equity	—	—	—
Average tangible common equity	$ 121,653	$ 109,322	$ 104,313
Weighted average shares outstanding, diluted	22,512	22,161	21,827
Non-GAAP earnings per share, diluted	$ 0.35	$ 0.50	$ (0.06)
Average tangible common equity/average tangible assets	9.50 %	9.15 %	9.10 %
Non-GAAP return on average tangible assets	0.61 %	0.94 %	(0.11)%
Non-GAAP return on average tangible common equity	6.40 %	10.23 %	(1.19)%

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

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

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

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

The following table represents the change to net interest income given interest rate shocks up and down 100, 200, 300 and 400 basis points at December 31, 2017, 2016 and 2015 (dollars in thousands):

	2017		2016		2015	
	%	$	%	$	%	$
Change in Yield curve						
+400 bp	4.7	2,132	4.6	1,931	(7.7)	(3,100)
+300 bp	3.6	1,637	3.3	1,369	(6.2)	(2,479)
+200 bp	2.6	1,185	2.2	897	(4.2)	(1,677)
+100 bp	1.4	632	0.9	390	(2.3)	(924)
most likely	—	—	—	—	—	—
-100 bp	(1.2)	(554)	0.1	45	2.6	1,054
-200 bp	(3.9)	(1,782)	(1.4)	(585)	1.1	437
-300 bp	(4.5)	(2,051)	(1.5)	(644)	0.9	376
-400 bp	(4.6)	(2,055)	(1.6)	(648)	0.9	374

At December 31, 2017, the Company's interest rate risk model indicated that, in a rising rate environment of 400 basis points over a 12 month period, net interest income could increase by 4.7%. For the same time period, the interest rate risk model indicated that in a declining rate environment of 400 basis points, net interest income could decrease by 4.6%. While these percentages are subjective based upon assumptions used within the model, management believes the balance sheet is appropriately balanced with acceptable risk to changes in interest rates.

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Community Bankers Trust Corporation
Richmond, Virginia

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Community Bankers Trust Corporation as of December 31, 2017 and 2016, the related consolidated statements of income (loss), comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Community Bankers Trust Corporation at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017**,** in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), Community Bankers Trust Corporation's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 15, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Community Bankers Trust Corporation's management. Our responsibility is to express an opinion on Community Bankers Trust Corporation's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP
We have served as Community Bankers Trust Corporation's auditor since 2015.
Richmond, Virginia
March 15, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Community Bankers Trust Corporation
Richmond, Virginia

Opinion on Internal Control over Financial Reporting

We have audited Community Bankers Trust Corporation's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, Community Bankers Trust Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of Community Bankers Trust Corporation as of December 31, 2017 and 2016, the related consolidated statements of income (loss), comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017 and the related notes and our report dated March 15, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

Community Bankers Trust Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Controls over Financial Reporting". Our responsibility is to express an opinion on Community Bankers Trust Corporation's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Community Bankers Trust Corporation in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/S/ BDO USA, LLP
Richmond, Virginia
March 15, 2018

COMMUNITY BANKERS TRUST CORPORATION
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND DECEMBER 31, 2016
(dollars in thousands)

	December 31, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$ 14,642	$ 13,828
Interest bearing bank deposits	7,316	7,244
Total cash and cash equivalents	21,958	21,072
Securities available for sale, at fair value	204,834	216,121
Securities held to maturity, at cost (fair value of $46,888 and $46,858, respectively)	46,146	46,608
Equity securities, restricted, at cost	9,295	8,290
Total securities	260,275	271,019
Loans	942,018	836,299
Purchased credit impaired (PCI) loans	44,333	51,964
Total loans	986,351	888,263
Allowance for loan losses (loans of $8,969 and $9,493, respectively; PCI loans of $200 and $200, respectively)	(9,169)	(9,693)
Net loans	977,182	878,570
Bank premises and equipment, net	30,198	28,357
Other real estate owned	2,791	4,427
Bank owned life insurance	28,099	27,339
Core deposit intangibles, net	—	898
Other assets	15,687	18,134
Total assets	$ 1,336,190	$ 1,249,816
LIABILITIES		
Deposits:		
Noninterest bearing	$ 153,028	$ 128,887
Interest bearing	942,736	908,407
Total deposits	1,095,764	1,037,294
Federal funds purchased	4,849	4,714
Federal Home Loan Bank borrowings	101,429	81,887
Long-term debt	—	1,670
Trust preferred capital notes	4,124	4,124
Other liabilities	6,021	5,591
Total liabilities	1,212,187	1,135,280
SHAREHOLDERS' EQUITY		
Common stock (200,000,000 shares authorized, $0.01 par value; 22,072,523 and 21,959,648 shares issued and outstanding, respectively)	221	220
Additional paid in capital	147,671	146,667
Retained deficit	(23,932)	(31,128)
Accumulated other comprehensive income (loss)	43	(1,223)
Total shareholders' equity	124,003	114,536
Total liabilities and shareholders' equity	$ 1,336,190	$ 1,249,816

See accompanying notes to consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(dollars and shares in thousands, except per share data)

	2017	2016	2015
Interest and dividend income			
Interest and fees on loans	$ 40,301	$ 35,998	$ 31,990
Interest and fees on PCI loans	5,733	6,230	7,875
Interest on federal funds sold	1	—	2
Interest on deposits in other banks	196	122	59
Interest and dividends on securities			
Taxable	4,682	4,696	5,469
Nontaxable	2,402	2,249	2,157
Total interest and dividend income	53,315	49,295	47,552
Interest expense			
Interest on deposits	7,897	6,382	5,983
Interest on borrowed funds	1,302	1,438	1,514
Total interest expense	9,199	7,820	7,497
Net interest income	44,116	41,475	40,055
Provision for loan losses	550	166	—
Net interest income after provision for loan losses	43,566	41,309	40,055
Noninterest income			
Service charges on deposit accounts	2,681	2,420	2,269
Gain on securities transactions, net	210	634	472
Gain on sale of loans, net	—	—	69
Income on bank owned life insurance	939	870	751
Mortgage loan income	242	606	784
Other	625	649	736
Total noninterest income	4,697	5,179	5,081
Noninterest expense			
Salaries and employee benefits	19,604	18,412	18,141
Occupancy expenses	3,130	2,737	2,592
Equipment expenses	1,144	999	1,035
FDIC assessment	726	823	938
Data processing fees	1,923	1,674	1,709
FDIC indemnification asset amortization	—	—	16,195
Amortization of intangibles	898	1,907	1,908
Other real estate expense, net	162	175	1,275
Other operating expenses	6,570	6,023	6,467
Total noninterest expense	34,157	32,750	50,260
Income (loss) before income taxes	14,106	13,738	(5,124)
Income tax expense (benefit)	6,903	3,816	(2,627)
Net income (loss)	$ 7,203	$ 9,922	$ (2,497)
Net income (loss) per share — basic	$ 0.33	$ 0.45	$ (0.11)
Net income (loss) per share — diluted	$ 0.32	$ 0.45	$ (0.11)
Weighted average number of shares outstanding			
Basic	22,014	21,914	21,827
Diluted	22,512	22,161	21,827

See accompanying notes to consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(dollars in thousands)

	2017	2016	2015
Net income (loss)	$ 7,203	$ 9,922	$ (2,497)
Other comprehensive income (loss):			
Unrealized gain on investment securities:			
Change in unrealized (loss) gain in investment securities	2,054	(658)	(1,056)
Tax related to unrealized loss (gain) in investment securities	(712)	224	359
Reclassification adjustment for gain in securities sold	(210)	(634)	(472)
Tax related to realized gain in securities sold	73	215	160
Defined benefit pension plan:			
Change in prior service cost	5	4	5
Change in unrealized gain (loss) in plan assets	(185)	199	(142)
Tax related to defined benefit pension plan	74	(69)	47
Cash flow hedge:			
Change in unrealized gain (loss) in cash flow hedge	246	129	(234)
Tax related to cash flow hedge	(86)	(44)	80
Total other comprehensive income (loss)	1,259	(634)	(1,253)
Total comprehensive income (loss)	$ 8,462	$ 9,288	$ (3,750)

See accompanying notes to consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(dollars and shares in thousands)

	Common Stock		Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance December 31, 2014	21,792	$ 218	$ 145,321	$ (38,553)	$ 664	$ 107,650
Issuance of common stock	42	1	276	—	—	277
Exercise and issuance of employee stock options	33	—	310	—	—	310
Net loss	—	—	—	(2,497)	—	(2,497)
Other comprehensive loss	—	—	—	—	(1,253)	(1,253)
Balance December 31, 2015	21,867	219	145,907	(41,050)	(589)	104,487
Issuance of common stock	29	—	155	—	—	155
Exercise and issuance of employee stock options	64	1	605	—	—	606
Net income	—	—	—	9,922	—	9,922
Other comprehensive loss	—	—	—	—	(634)	(634)
Balance December 31, 2016	21,960	220	146,667	(31,128)	(1,223)	114,536
Issuance of common stock	19	—	159	—	—	159
Exercise and issuance of employee stock options	94	1	845	—	—	846
Net income	—	—	—	7,203	—	7,203
Impact of the Tax Cut and Jobs Act	—	—	—	(7)	7	—
Other comprehensive income	—	—	—	—	1,259	1,259
Balance December 31, 2017	22,073	$ 221	$ 147,671	$ (23,932)	$ 43	$ 124,003

See accompanying notes to consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Dollars in thousands)

	2017	2016	2015
Operating activities:			
Net income (loss)	$ 7,203	$ 9,922	$ (2,497)
Adjustments to reconcile net income (loss) to net cash provided by			
Depreciation and intangibles amortization	2,601	3,447	3,494
Stock-based compensation expense	745	566	467
Tax benefit of exercised stock options	(163)	(62)	(34)
Amortization of purchased loan premium	195	243	304
Deferred tax expense (benefit)	3,729	—	(6,077)
Provision for loan losses	550	166	—
Amortization of security premiums and accretion of discounts, net	1,848	1,691	2,546
Net gain on sale of securities	(210)	(634)	(472)
Net (gain) loss on sale and valuation of other real estate owned	(5)	(122)	1,111
Net gain on sale of loans	—	—	(69)
Originations of mortgages held for sale	—	(49,185)	(55,465)
Proceeds from sales of mortgages held for sale	—	51,286	53,564
Increase in bank owned life insurance investment	(760)	(719)	(751)
Loss on termination of FDIC shared-loss agreement	—	—	13,084
Changes in assets and liabilities:			
(Increase) decrease in other assets	(1,490)	467	4,558
Increase (decrease) in accrued expenses and other liabilities	741	(127)	1,522
Net cash provided by operating activities	14,984	16,939	15,285
Investing activities:			
Proceeds from available for sale securities	61,825	108,226	146,906
Proceeds from held to maturity securities	946	10,484	4,583
Proceeds from equity securities	1,255	3,961	1,845
Purchase of available for sale securities	(50,174)	(83,357)	(121,854)
Purchase of held to maturity securities	(642)	(20,683)	(2,221)
Purchase of equity securities	(2,260)	(3,828)	(1,452)
Proceeds from sale of other real estate owned	2,141	2,376	2,900
Improvements of other real estate, net of insurance proceeds	—	(34)	(516)
Net increase in loans	(100,296)	(83,115)	(85,675)
Principal recoveries of loans previously charged off	439	362	1,652
Purchase of premises and equipment, net	(3,544)	(2,524)	(1,768)
Proceeds from termination of FDIC shared-loss agreements	—	—	3,100
Purchase of small business investment company fund investment	(525)	—	—
Proceeds from sale of loans	—	224	3,380
Purchase of bank owned life insurance investment	—	(5,000)	—
Proceeds from sale of premises and equipment	—	145	2,120
Net cash used in investing activities	(90,835)	(72,763)	(47,000)
Financing activities:			
Net increase in deposits	58,470	91,775	26,574
Net increase (decrease) in federal funds purchased	135	(14,207)	4,421
Net increase (decrease) in short-term Federal Home Loan Bank borrowings	15,500	(15,000)	20,000
Proceeds from long-term Federal Home Loan Bank borrowings	10,000	12,000	—
Payments on long-term Federal Home Loan Bank borrowings	(5,958)	(10,769)	(20,745)
Proceeds from issuance of common stock	260	133	86
Payments on long-term debt	(1,670)	(4,005)	(4,005)
Net cash provided by financing activities	76,737	59,927	26,331
Net increase (decrease) in cash and cash equivalents	886	4,103	(5,384)
Cash and cash equivalents:			
Beginning of the period	21,072	16,969	22,353
End of the period	$ 21,958	$ 21,072	$ 16,969

	2017	2016	2015
Supplemental disclosures of cash flow information:			
Interest paid	$ 9,124	$ 7,706	$ 7,533
Income taxes paid	3,570	4,784	1,995
Transfers of loans to other real estate owned	500	1,187	821
Transfers of building premises and equipment to held for sale	—	—	2,118

See accompanying notes to consolidated financial statements

Note 1. Nature of Banking Activities and Significant Accounting Policies

Organization

Community Bankers Trust Corporation (the "Company") is headquartered in Richmond, Virginia and is the holding company for Essex Bank (the "Bank"), a Virginia state bank with 26 full-service offices in Virginia and Maryland. The Bank also operates one loan production office in Virginia.

The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals and small businesses, including individual and commercial demand and time deposit accounts, commercial and industrial loans, consumer and small business loans, real estate and mortgage loans, investment services, on-line and mobile banking products, and safe deposit box facilities.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and the Bank, its wholly-owned subsidiary (and subsidiaries of the Bank). All intercompany balances and transactions have been eliminated in consolidation. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation,* requires that the Company no longer eliminate through consolidation the equity investment in BOE Statutory Trust I, which was $124,000 at each of December 31, 2017 and 2016. The subordinated debt of the Trust is reflected as a liability of the Company.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company has defined cash and cash equivalents as cash and due from banks and interest-bearing bank balances.

Restricted Cash

The Bank is required to maintain a reserve against its deposits in accordance with Regulation D of the Federal Reserve Act. At December 31, 2017 and 2016, the Bank's levels of vault cash sufficiently covered the reserve requirement.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are determined using the specific identification method.

Restricted Securities

The Company is required to maintain an investment in the capital stock of certain correspondent banks. The Company's investment in these securities is recorded at cost.

Loans

The Bank grants mortgage, commercial and consumer loans to customers. A significant portion of the loan portfolio is represented by 1-4 family residential and commercial mortgage loans. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the Bank's market area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the effective interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Consumer loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual status. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses on loans

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

The allowance is an amount that management believes is appropriate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower’s ability to pay. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. The evaluation also considers the following risk characteristics of each loan portfolio:

- Residential 1-4 family mortgage loans include HELOCs and single family investment properties secured by first liens. The carry risks associated with owner-occupied and investment properties are the continued credit-worthiness of the borrower, changes in the value of the collateral, successful property maintenance and collection of rents due from tenants. The Company manages these risks by using specific underwriting policies and procedures and by avoiding concentrations in geographic regions.

- Commercial real estate loans, including owner occupied and non-owner occupied mortgages, carry risks associated with the successful operations of the principal business operated on the property securing the loan or the successful operation of the real estate project securing the loan. General market conditions and economic activity may impact the performance of these loans. In addition to using specific underwriting policies and procedures for these types of loans, the Company manages risk by avoiding concentrations to any one business or industry, and by diversifying the lending to various lines of businesses, such as retail, office, office warehouse, industrial and hotel.

- Construction and land development loans are generally made to commercial and residential builders/developers for specific construction projects, as well as to consumer borrowers. These carry more risk than real estate term loans due to the dynamics of construction projects, changes in interest rates, the long-term financing market and state and local government regulations. The Company manages risk by using specific underwriting policies and procedures for these types of loans and by avoiding concentrations to any one business or industry and by diversifying lending to various lines of businesses, in various geographic regions and in various sales or rental price points.

- Second mortgages on residential 1-4 family loans carry risk associated with the continued credit-worthiness of the borrower, changes in value of the collateral and a higher risk of loss in the event the collateral is liquidated due to the inferior lien position. The Company manages risk by using specific underwriting policies and procedures.

- Multifamily loans carry risks associated with the successful operation of the property, general real estate market conditions and economic activity. In addition to using specific underwriting policies and procedures, the Company manages risk by avoiding concentrations to geographic regions and by diversifying the lending to various unit mixes, tenant profiles and rental rates.

- Agriculture loans carry risks associated with the successful operation of the business, changes in value of non-real estate collateral that may depreciate over time and inventory that may be affected by weather, biological, price, labor, regulatory and economic factors. The Company manages risks by using specific underwriting policies and procedures, as well as avoiding concentrations to individual borrowers and by diversifying lending to various agricultural lines of business (i.e., crops, cattle, dairy, etc.).

- Commercial loans carry risks associated with the successful operation of the business, changes in value of non-real estate collateral that may depreciate over time, accounts receivable whose collectability may change and inventory values that may be subject to various risk including obsolescence. General market conditions and economic activity may also impact the performance of these loans. In addition to using specific underwriting policies and procedures for these types of loans, the Company manages risk by diversifying the lending to various industries and avoids geographic concentrations.

- Consumer installment loans carry risks associated with the continued credit-worthiness of the borrower and the value of rapidly depreciating assets or lack thereof. These types of loans are more likely than real estate loans to be quickly and adversely affected by job loss, divorce, illness or personal bankruptcy. The Company manages risk by using specific underwriting policies and procedures for these types of loans.

- All other loans generally support the obligations of state and political subdivisions in the U.S. and are not a material source of business for the Company. The loans carry risks associated with the continued credit-worthiness of the obligations and economic activity. The Company manages risk by using specific underwriting policies and procedures for these types of loans.

While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses, and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance consists of specific, general and unallocated components. For loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. The unallocated component covers uncertainties that could affect management's estimate of probable losses.

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

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

<u>Accounting for Certain Loans Acquired in a Transfer</u>

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

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

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

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

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Land is carried at cost. Depreciation of bank premises and equipment is computed on the straight-line method over estimated useful lives of 10 to 50 years for premises and 3 to 10 years for equipment, furniture and fixtures.

Costs of maintenance and repairs are charged to expense as incurred and major improvements are capitalized. Upon sale or retirement of depreciable properties, the cost and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is included in the determination of income.

Other Real Estate Owned

Real estate acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at the fair value at the date of foreclosure net of estimated disposal costs, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or the fair value less costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other operating expenses. Costs to bring a property to salable condition are capitalized up to the fair value of the property while costs to maintain a property in salable condition are expensed as incurred. The Company had $2.8 million and $4.4 million in other real estate at December 31, 2017 and 2016, respectively.

Other Intangibles

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

Bank Owned Life Insurance

The Company is the owner and beneficiary of bank owned life insurance (BOLI) policies on certain current and former Bank employees. These policies are recorded at their cash surrender value and can be liquidated, if necessary, with associated tax costs. Income generated from these policies is recorded as noninterest income. The Bank is exposed to credit risk to the extent an insurance company is unable to fulfill its financial obligations under a policy.

Advertising Costs

The Company follows the policy of expensing advertising costs as incurred, which totaled $656,000, $499,000 and $651,000 for 2017, 2016 and 2015, respectively.

Income Taxes

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

Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the consolidated financial statements when it is more likely than not that the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. The Company provides for interest and, in some cases, penalties on tax positions that may be challenged by the taxing authorities. Interest expense is recognized beginning in the first period that such interest would begin accruing. Penalties are recognized in the period that the Company claims the position in the tax return. Interest and penalties on income tax uncertainties are classified within income tax expense in the consolidated statement of income. The Company had no interest or penalties during the years ended December 31, 2017, 2016 or 2015. Under FASB ASC 740, *Income Taxes,* a valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. In management's opinion, based on a three year taxable income projection, tax strategies that would result in potential securities gains and the effects of off-setting deferred tax liabilities, it is more likely than not that the deferred tax assets are realizable; therefore no allowance is required.

The Company and its subsidiaries are subject to U. S. federal income tax as well as Virginia and Maryland state income tax. All years from 2014 through 2017 are open to examination by the respective tax authorities.

Earnings Per Share

Basic earnings per share (EPS) is computed based on the weighted average number of shares outstanding and excludes any dilutive effects of options, warrants and convertible securities. Diluted EPS is computed in a manner similar to basic EPS, except for certain adjustments to the numerator and the denominator. Diluted EPS gives effect to all dilutive potential common shares that were outstanding at the end of the period. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method. There were no dividends declared or paid in each of the years 2017, 2016 and 2015.

Stock-Based Compensation

In April 2009, the Company adopted the Community Bankers Trust Corporation 2009 Stock Incentive Plan which is authorized to issue up to 2,650,000 shares of common stock. See Note 14 for details regarding this plan.

Derivatives - Cash Flow Hedge

The Company uses interest rate derivatives to manage certain amounts of its exposure to interest rate movements. To accomplish this objective, the Company is a party to interest rate swaps whereby the Company pays fixed amounts to a counterparty in exchange for receiving variable payments over the life of an underlying agreement without the exchange of underlying notional amounts.

Derivatives designated as cash flow hedges are used primarily to minimize the variability in cash flows of assets or liabilities caused by interest rates. Cash flow hedges are periodically tested for effectiveness, which measures the correlation of the cash flows of the hedged item with the cash flows from the derivative. The effective portion of changes in the fair value of derivatives designated as cash flow hedges is recorded in accumulated other comprehensive loss and is subsequently reclassified into net income in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivative is recognized directly in earnings. The Company's cash flow hedge was deemed effective for each of the years ended 2017 and 2016.

Change in Accounting Principles

In February 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-02, *Income Statement – Reporting Comprehensive Income,* in response to the recently passed Tax Cuts and Jobs Act of 2017 (the "Act"), which reduced the Company's federal corporate income tax rate from 34% to 21% effective January 1, 2018. As a result of the Act, the Company recorded $3.5 million in income tax expense to adjust the net deferred tax asset to reflect the reduction in the corporate income tax rate. This ASU allows for the reclassification of the stranded tax effects in accumulated other comprehensive income (loss) (AOCI) resulting from the Act effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The Company has elected early adoption and has reclassified $7,000 from AOCI to retained deficit at December 31, 2017.

Recent Accounting Pronouncements

Adopted in 2017

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

For public companies, the amendments were effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted this guidance with no material impact on its consolidated financial statements as stock based compensation is not expected to be a material component of earnings.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities.* The ASU shortens the amortization period for certain callable debt securities held at a premium to the earliest call date.

Under current U.S. generally accepted accounting principles (GAAP), entities normally amortize the premium as an adjustment of yield over the contractual life of the instrument. Stakeholders have expressed concerns with the current approach on the basis that current GAAP excludes certain callable debt securities from consideration of early repayment of principal even if the holder is certain that the call will be exercised. As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium is recorded as a loss in earnings. Further, there is diversity in practice in (1) the amortization period for premiums of callable debt securities and (2) how the potential for exercise of a call is factored into current impairment assessments.

The ASU shortens the amortization period for certain callable debt securities held at a premium and requires the premium to be amortized to the earliest call date. However, the amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity.

The amendments are effective for public business entities for annual periods beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted. The Company adopted this guidance in 2017 with no material impact on its consolidated financial statements.

Adopted January 1, 2018

Also in March 2017, the FASB issued ASU No. 2017-07, *Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost***.** The amendments apply to all employers, including not-for-profit entities, that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715, *Compensation — Retirement Benefits*.

The amendments require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component. The line item or items used in the income statement to present the other components of net benefit cost must be disclosed.

The amendments were effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company expect the adopted this guidance with no material impact on its consolidated financial statements. The Company does not offer a post retirement benefit plan. As the Company's pension plan is frozen, no additional service cost will be incurred. The remaining components of net periodic benefit cost are not expected to be significant. See Note 13 for further details.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business,* clarifying the definition of a business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business.

The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable.

For public companies, this ASU was effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company adopted the guidance with no material impact on its consolidated financial statements due to the nature of the entities that it may reasonably be expected to enter into business combinations with.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* The amendments apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows.

The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents.

For public business entities, this ASU was effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted the guidance with no material impact on its consolidated financial statements, as the primary impact deals with classification within the statement of cash flows.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The new guidance is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP by:

- Requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income;
- Requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes;
- Requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements;
- Eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and
- Requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

The new guidance was effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this guidance with no material impact on its consolidated financial statements, as the Company has an insignificant amount of equity investments and its currently methodology incorporates exit price.

From 2014 to 2016, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers;* ASU No. 2015-14, *Deferral of the Effective Date;* ASU No. 2016-08, *Principal versus Agent Considerations;* ASU No. 2016-10, *Identifying Performance Obligations and Licensing;* ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients; and* ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.* These ASUs supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of the ASUs is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASUs may be adopted either retrospectively or on a modified retrospective basis to new contracts and existing contracts, with remaining performance obligations as of the effective date. For public companies, the ASUs were effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017.

The Company has evaluated the anticipated effects of these ASUs on its consolidated financial statements and related disclosures. While the guidance will replace most existing revenue recognition guidance in GAAP, the ASUs are not applicable to financial instruments and, therefore, will not impact a majority of the Company's revenue, including interest income. The Company's analysis indicates that service charges on deposit accounts and certain components within other noninterest income contain revenue streams that are in scope of these updates; however, there will not be a material change in the timing or measurement of these revenues. The updates are expected to impact the presentation and disclosure related to these revenues. The Company has analyzed the underlying contracts, as applicable, related to these revenues in determining the ultimate impact of these updates. The Company adopted the standards beginning January 1, 2018 utilizing the modified retrospective method of adoption with no cumulative effect adjustment being required.

Issued But Not Yet Adopted

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

For public companies, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (i.e., January 1, 2020, for calendar year entities). Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact this guidance will have on its accounting, but it expects to recognize a one-time cumulative-effect adjustment to its allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, consistent with regulatory expectations set forth in interagency guidance issued at the end of 2016. The Company cannot yet determine the magnitude of any such one-time cumulative adjustment or of the overall impact of the new standard on our financial condition or results of operations, as the final impact will be dependent, among other things, upon the loan portfolio composition and credit quality at the adoption date, as well as economic conditions, financial models used and forecasts at the time.

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, *Leases (Topic 842).* Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

Public business entities should apply the amendments in ASU No. 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Early application is permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The adoption of this standard is expected to result in additional assets and liabilities, as the Company will be required to recognize operating leases on the Consolidated Balance Sheet. Other implementation matters to be addressed include, but are not limited to, the determination of effects on the financial and capital ratios and the quantification of the impacts that this accounting guidance will have on the Company's consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of other real estate owned, projected cash flows relating to certain acquired loans, the value of the indemnification asset, and the valuation of deferred tax assets.

Reclassifications

Certain reclassifications have been made to prior period balances on the consolidated statement cash flows to conform to the current year presentations. Such reclassifications had no impact on net income or shareholders’ equity.

Note 2. Securities

Amortized costs and fair values of securities available for sale and held to maturity at December 31, 2017 and 2016 were as follows (dollars in thousands):

	December 31, 2017			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov't agencies	$ 40,473	$ 165	$ (382)	$ 40,256
U.S. Gov't sponsored agencies	9,247	55	(24)	9,278
State, county and municipal	124,032	2,324	(596)	125,760
Corporate and other bonds	7,323	173	(36)	7,460
Mortgage backed – U.S. Gov't agencies	5,551	37	(146)	5,442
Mortgage backed – U.S. Gov't sponsored agencies	16,985	26	(373)	16,638
Total Securities Available for Sale	$ 203,611	$ 2,780	$ (1,557)	$ 204,834
Securities Held to Maturity				
U.S. Treasury issue and other U.S. Gov't agencies	$ 10,000	$ —	$ (155)	$ 9,845
State, county and municipal	35,678	922	(33)	36,567
Mortgage backed – U.S. Gov't agencies	468	8	—	476
Total Securities Held to Maturity	$ 46,146	$ 930	$ (188)	$ 46,888

	December 31, 2016			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov't agencies	$ 58,724	$ 15	$ (763)	$ 57,976
U.S. Gov't sponsored agencies	3,452	—	(116)	3,336
State, county and municipal	121,686	2,247	(1,160)	122,773
Corporate and other bonds	15,936	—	(433)	15,503
Mortgage backed – U.S. Gov't agencies	3,614	—	(119)	3,495
Mortgage backed – U.S. Gov't sponsored agencies	13,330	21	(313)	13,038
Total Securities Available for Sale	$ 216,742	$ 2,283	$ (2,904)	$ 216,121
Securities Held to Maturity				
U.S. Treasury issue and other U.S. Gov't agencies	$ 10,000	$ —	$ (154)	$ 9,846
State, county and municipal	35,847	568	(185)	36,230
Mortgage backed – U.S. Gov't agencies	761	21	—	782
Total Securities Held to Maturity	$ 46,608	$ 589	$ (339)	$ 46,858

The amortized cost and fair value of securities at December 31, 2017 by final contractual maturity are shown below. Expected maturities may differ from final contractual maturities because issuers may have the right to call or prepay obligations without any penalties.

	Held to Maturity		Available for Sale	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 3,866	$ 3,903	$ 6,052	$ 6,030
Due after one year through five years	23,928	24,013	88,100	89,061
Due after five years through ten years	12,768	13,206	100,185	100,304
Due after ten years	5,584	5,766	9,274	9,439
Total securities	$ 46,146	$ 46,888	$ 203,611	$ 204,834

Proceeds from sales of securities available for sale were $41.4 million, $103.7 million and $105.8 million during the years ended December 31, 2017, 2016 and 2015, respectively. Gains and losses on the sale of securities are determined using the specific identification method. Gross realized gains and losses on sales of securities available for sale during the years ended December 31, 2017, 2016 and 2015 were as follows (dollars in thousands):

	2017	2016	2015
Gross realized gains	$ 520	$ 1,265	$ 974
Gross realized losses	(310)	(631)	(502)
Net securities gains	$ 210	$ 634	$ 472

In estimating other than temporary impairment (OTTI) losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and short-term prospects for the issuer, and the intent and ability of management to hold its investment for a period of time to allow a recovery in fair value. There were no investments held that had OTTI losses for the years ended December 31, 2017, 2016 and 2015.

The fair value and gross unrealized losses for securities, segregated by the length of time that individual securities have been in a continuous gross unrealized loss position, at December 31, 2017 and 2016 were as follows (dollars in thousands):

December 31, 2017	Less than 12 Months		12 Months or More		Total	
Securities Available for Sale	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury issue and other U.S. Gov't agencies	$ 5,097	$ (36)	$ 19,443	$ (346)	$ 24,540	$ (382)
U.S. Gov't sponsored agencies	497	(3)	5,040	(21)	5,537	(24)
State, county and municipal	20,740	(188)	9,569	(408)	30,309	(596)
Corporate and other bonds	-	-	2,772	(36)	2,772	(36)
Mortgage backed – U.S. Gov't agencies	1,722	(25)	1,876	(121)	3,598	(146)
Mortgage backed – U.S. Gov't sponsored agencies	6,525	(111)	7,985	(262)	14,510	(373)
Total	$ 34,581	$ (363)	$ 46,685	$ (1,194)	$ 81,266	$ (1,557)
Securities Held to Maturity						
U.S. Treasury issue and other U.S. Gov't agencies	$ -	$ -	$ 9,845	$ (155)	$ 9,845	$ (155)
State, county and municipal	1,485	(14)	1,262	(19)	2,747	(33)
Total	$ 1,485	$ (14)	$ 11,107	$ (174)	$ 12,592	$ (188)

December 31, 2016	Less than 12 Months		12 Months or More		Total	
Securities Available for Sale	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury issue and other U.S. Gov't agencies	$ 29,756	$ (324)	$ 25,155	$ (439)	$ 54,911	$ (763)
U.S. Gov't sponsored agencies	-	-	2,523	(116)	2,523	(116)
State, county and municipal	39,713	(848)	3,885	(312)	43,598	(1,160)
Corporate and other bonds	6,864	(103)	8,639	(330)	15,503	(433)
Mortgage backed – U.S. Gov't agencies	1,598	(18)	1,897	(101)	3,495	(119)
Mortgage backed – U.S. Gov't sponsored agencies	9,247	(313)	-	-	9,247	(313)
Total	$ 87,178	$ (1,606)	$ 42,099	$ (1,298)	$ 129,277	$ (2,904)
Securities Held to Maturity						
U.S. Treasury issue and other U.S. Gov't agencies	$ 9,846	$ (154)	$ -	$ -	$ 9,846	$ (154)
State, county and municipal	8,052	(185)	-	-	8,052	(185)
Total	$ 17,898	$ (339)	$ -	$ -	$ 17,898	$ (339)

The unrealized losses (impairments) in the investment portfolio at December 31, 2017 and 2016 are generally a result of market fluctuations that occur daily. The unrealized losses are from 112 securities at December 31, 2017. Of those, 99 are investment grade, have U.S. government agency guarantees, or are backed by the full faith and credit of local municipalities throughout the United States. Twelve investment grade asset-backed securities comprised of student loan pools included in corporate obligations and one corporate bond make up the remaining securities with unrealized losses at December 31, 2017. The Company considers the reason for impairment, length of impairment, intent, and ability to hold until the full value is recovered in determining if the impairment is temporary in nature. Based on this analysis, the Company has determined these impairments to be temporary in nature. The Company does not intend and it is more likely than not that the Company will not be required to sell these securities until they recover in value or reach maturity.

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

Securities with amortized costs of $71.7 million and $80.2 million at December 31, 2017 and 2016, respectively, were pledged to secure the cash flow hedge and public deposits as required or permitted by law. At each of December 31, 2017 and 2016, there were no securities purchased from a single issuer, other than U.S. Treasury issue and other U.S. Government agencies that comprised more than 10% of the consolidated shareholders' equity.

Note 3. Loans and Related Allowance for Loan Losses

The Company's loans, net of deferred fees and costs, at December 31, 2017 and 2016 were comprised of the following (dollars in thousands):

	December 31, 2017		December 31, 2016	
	Amount	% of Loans	Amount	% of Loans
Mortgage loans on real estate:				
Residential 1-4 family	$ 227,542	24.16 %	$ 207,863	24.86 %
Commercial	366,331	38.89	339,804	40.63
Construction and land development	107,814	11.44	98,282	11.75
Second mortgages	8,410	0.89	7,911	0.95
Multifamily	59,024	6.27	39,084	4.67
Agriculture	7,483	0.79	7,185	0.86
Total real estate loans	776,604	82.44	700,129	83.72
Commercial loans	159,024	16.88	129,300	15.46
Consumer installment loans	5,169	0.55	5,627	0.67
All other loans	1,221	0.13	1,243	0.15
Total loans	$ 942,018	100.00 %	$ 836,299	100.00 %

The Company held $18.0 million and $15.8 million in balances of loans guaranteed by the United States Department of Agriculture (USDA), which are included in various categories in the table above, at December 31, 2017 and 2016, respectively. As these loans are 100% guaranteed by the USDA, no loan loss allowance is required. These loan balances included a purchase premium of $824,000 and $749,000 at December 31, 2017 and 2016, respectively. The purchase premium is amortized as an adjustment of the related loan yield on a straight line basis, which is substantially equivalent to the results obtained using the effective interest method.

At December 31, 2017 and 2016, the Company's allowance for credit losses was comprised of the following: (i) a specific valuation component calculated in accordance with FASB ASC 310, *Receivables,* (ii) a general valuation component calculated in accordance with FASB ASC 450, *Contingencies*, based on historical loan loss experience, current economic conditions and other qualitative risk factors, and (iii) an unallocated component to cover uncertainties that could affect management's estimate of probable losses. Management identified loans subject to impairment in accordance with ASC 310.

The following table summarizes information related to impaired loans as of December 31, 2017 and 2016 (dollars in thousands):

	December 31, 2017			December 31, 2016		
	Recorded Investment (1)	Unpaid Principal Balance (2)	Related Allowance	Recorded Investment (1)	Unpaid Principal Balance (2)	Related Allowance
With no related allowance recorded:						
Mortgage loans on real estate:						
Residential 1-4 family	$ 1,901	$ 2,246	$ —	$ 1,704	$ 1,931	$ —
Commercial	3,862	4,477	—	6,570	7,078	—
Construction and land development	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
Total real estate loans	5,763	6,723	—	8,274	9,009	—
Commercial loans	1,108	1,108	—	1,200	1,200	—
Consumer installment loans	—	—	—	—	—	—
Subtotal impaired loans with no valuation allowance	6,871	7,831	—	9,474	10,209	—
With an allowance recorded:						
Mortgage loans on real estate:						
Residential 1-4 family	2,216	2,640	290	2,621	3,062	283
Commercial	533	958	65	617	1,051	73
Construction and land development	4,277	5,537	556	5,495	6,746	730
Agriculture	68	71	8	—	—	—
Total real estate loans	7,094	9,206	919	8,733	10,859	1,086
Commercial loans	325	446	39	53	53	7
Consumer installment loans	7	7	1	281	285	37
Subtotal impaired loans with a valuation allowance	7,426	9,659	959	9,067	11,197	1,130
Total:						
Mortgage loans on real estate:						
Residential 1-4 family	4,117	4,886	290	4,325	4,993	283
Commercial	4,395	5,435	65	7,187	8,129	73
Construction and land development	4,277	5,537	556	5,495	6,746	730
Agriculture	68	71	8	—	—	—
Total real estate loans	12,857	15,929	919	17,007	19,868	1,086
Commercial loans	1,433	1,554	39	1,253	1,253	7
Consumer installment loans	7	7	1	281	285	37
Total impaired loans	$ 14,297	$ 17,490	$ 959	$ 18,541	$ 21,406	$ 1,130

(1) The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment
(2) The contractual amount due, which reflects paydowns applied in accordance with loan documents, but which does not reflect any direct write-downs

The following table summarizes the average recorded investment of impaired loans for the years ended December 31, 2017, 2016, and 2015 (dollars in thousands):

	2017		2016		2015	
	Average Investment	Interest Recognized	Average Investment	Interest Recognized	Average Investment	Interest Recognized
Mortgage loans on real estate:						
Residential 1-4 family	$ 4,317	$ 106	$ 5,301	$ 78	$ 5,544	$ 73
Commercial	5,808	160	5,217	284	5,066	173
Construction and land development	4,531	—	5,178	—	5,054	—
Second mortgages	—	—	86	—	42	—
Agriculture	79	—	—	—	—	—
Total real estate loans	14,735	266	15,782	362	15,706	246
Commercial loans	1,471	4	283	49	2,987	—
Consumer installment loans	74	—	266	4	92	—
Total impaired loans	$ 16,280	$ 270	$ 16,331	$ 415	$ 18,785	$ 246

Troubled debt restructures and some substandard loans still accruing interest are loans that management expects to ultimately collect all principal and interest due, but not under the terms of the original contract. A reconciliation of impaired loans to nonaccrual loans at December 31, 2017 and December 31, 2016 is set forth in the table below (dollars in thousands):

	December 31, 2017		December 31, 2016	
Nonaccruals	$	9,026	$	10,243
Trouble debt restructure and still accruing		5,271		4,653
Substandard and still accruing		—		3,645
Total impaired	$	14,297	$	18,541

Interest income on nonaccrual loans, if recognized, is recorded using the cash basis method of accounting. There was an insignificant amount of cash basis income recognized during the years ended December 31, 2017 and 2016. Cash basis income of $465,000 was recognized during the year ended December 31, 2015. For the years ended December 31, 2017, 2016 and 2015, estimated interest income of $625,000, $681,000 and $734,000, respectively, would have been recorded if all such loans had been accruing interest according to their original contractual terms.

There were no loans greater than 90 days old and still accruing interest at December 31, 2017 and 2016. The following tables present an age analysis of past due status of loans, excluding PCI loans, by category as of December 31, 2017 and 2016 (dollars in thousands):

	December 31, 2017									
		30-89 Days Past Due		Nonaccrual		Total Past Due		Current		Total Loans Receivable
Mortgage loans on real estate:										
Residential 1-4 family	$	1,056	$	1,962	$	3,018	$	224,524	$	227,542
Commercial		104		1,498		1,602		364,729		366,331
Construction and land development		—		4,277		4,277		103,537		107,814
Second mortgages		—		—		—		8,410		8,410
Multifamily		—		—		—		59,024		59,024
Agriculture		19		68		87		7,396		7,483
Total real estate loans		1,179		7,805		8,984		767,620		776,604
Commercial loans		48		1,214		1,262		157,762		159,024
Consumer installment loans		12		7		19		5,150		5,169
All other loans		—		—		—		1,221		1,221
Total loans	$	1,239	$	9,026	$	10,265	$	931,753	$	942,018

	December 31, 2016									
		30-89 Days Past Due		Nonaccrual		Total Past Due		Current		Total Loans Receivable
Mortgage loans on real estate:										
Residential 1-4 family	$	296	$	2,893	$	3,189	$	204,674	$	207,863
Commercial		—		1,758		1,758		338,046		339,804
Construction and land development		54		5,495		5,549		92,733		98,282
Second mortgages		—		—		—		7,911		7,911
Multifamily		—		—		—		39,084		39,084
Agriculture		—		—		—		7,185		7,185
Total real estate loans		350		10,146		10,496		689,633		700,129
Commercial loans		—		53		53		129,247		129,300
Consumer installment loans		3		44		47		5,580		5,627
All other loans		—		—		—		1,243		1,243
Total loans	$	353	$	10,243	$	10,596	$	825,703	$	836,299

Activity in the allowance for loan losses on loans, excluding PCI loans, by segment for the years ended December 31, 2017, 2016 and 2015 is presented in the following tables (dollars in thousands):

	December 31, 2016	Provision Allocation	Charge-offs	Recoveries	December 31, 2017
Mortgage loans on real estate:					
Residential 1-4 family	$ 2,769	$ 726	$ (146)	$ 117	$ 3,466
Commercial	1,952	879	(457)	49	2,423
Construction and land development	2,195	(817)	(194)	63	1,247
Second mortgages	72	(101)	—	53	24
Multifamily	260	236	—	—	496
Agriculture	15	(1)	—	—	14
Total real estate loans	7,263	922	(797)	282	7,670
Commercial loans	602	963	(431)	5	1,139
Consumer installment loans	135	108	(285)	152	110
All other loans	7	(4)	—	—	3
Unallocated	1,486	(1,439)	—	—	47
Total loans	$ 9,493	$ 550	$ (1,513)	$ 439	$ 8,969

	December 31, 2015	Provision Allocation	Charge-offs	Recoveries	December 31, 2016
Mortgage loans on real estate:					
Residential 1-4 family	$ 2,884	$ 303	$ (560)	$ 142	$ 2,769
Commercial	3,769	(1,772)	(112)	67	1,952
Construction and land development	1,298	886	(15)	26	2,195
Second mortgages	96	(34)	—	10	72
Multifamily	141	119	—	—	260
Agriculture	24	(9)	—	—	15
Total real estate loans	8,212	(507)	(687)	245	7,263
Commercial loans	631	(40)	—	11	602
Consumer installment loans	93	127	(191)	106	135
All other loans	25	(18)	—	—	7
Unallocated	598	888	—	—	1,486
Total loans	$ 9,559	$ 450	$ (878)	$ 362	$ 9,493

	December 31, 2014	Provision Allocation	Charge-offs	Recoveries	December 31, 2015
Mortgage loans on real estate:					
Residential 1-4 family	$ 2,698	$ 593	$ (490)	$ 83	$ 2,884
Commercial	1,963	1,773	—	33	3,769
Construction and land development	1,792	(31)	(593)	130	1,298
Second mortgages	49	50	(100)	97	96
Multifamily	54	87	—	—	141
Agriculture	58	(34)	—	—	24
Total real estate loans	6,614	2,438	(1,183)	343	8,212
Commercial loans	977	(1,554)	(3)	1,211	631
Consumer installment loans	72	97	(174)	98	93
All other loans	59	(34)	—	—	25
Unallocated	1,545	(947)	—	—	598
Total loans	$ 9,267	$ —	$ (1,360)	$ 1,652	$ 9,559

The provision for loan losses at December 31, 2016 as presented on Consolidated Statement of Income (Loss) included a credit of $284,000 related to the PCI loans. See Note 4 for more details.

The following tables present information on the loans evaluated for impairment in the allowance for loan losses as of December 31, 2017 and 2016 (dollars in thousands):

	December 31, 2017					
	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Mortgage loans on real estate:						
Residential 1-4 family	$ 290	$ 3,176	$ 3,466	$ 4,117	$ 223,425	$ 227,542
Commercial	65	2,358	2,423	4,396	361,935	366,331
Construction and land development	556	691	1,247	4,276	103,538	107,814
Second mortgages	—	24	24	—	8,410	8,410
Multifamily	—	496	496	—	59,024	59,024
Agriculture	8	6	14	68	7,415	7,483
Total real estate loans	919	6,751	7,670	12,857	763,747	776,604
Commercial loans	39	1,100	1,139	1,433	157,591	159,024
Consumer installment loans	1	109	110	7	5,162	5,169
All other loans	—	3	3	—	1,221	1,221
Unallocated	—	47	47	—	—	—
Total loans	$ 959	$ 8,010	$ 8,969	$ 14,297	$ 927,721	$ 942,018

	December 31, 2016					
	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Mortgage loans on real estate:						
Residential 1-4 family	$ 283	$ 2,486	$ 2,769	$ 4,325	$ 203,538	$ 207,863
Commercial	73	1,879	1,952	7,187	332,617	339,804
Construction and land development	730	1,465	2,195	5,495	92,787	98,282
Second mortgages	—	72	72	—	7,911	7,911
Multifamily	—	260	260	—	39,084	39,084
Agriculture	—	15	15	—	7,185	7,185
Total real estate loans	1,086	6,177	7,263	17,007	683,122	700,129
Commercial loans	7	595	602	1,253	128,047	129,300
Consumer installment loans	37	98	135	281	5,346	5,627
All other loans	—	7	7	—	1,243	1,243
Unallocated	—	1,486	1,486	—	—	—
Total loans	$ 1,130	$ 8,363	$ 9,493	$ 18,541	$ 817,758	$ 836,299

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

Pass - A pass loan is not adversely classified, as it does not display any of the characteristics for adverse classification. This category includes purchased loans that are 100% guaranteed by U.S. Government agencies of $18.0 million and $15.8 million at December 31, 2017 and 2016, respectively.

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

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

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

The following tables present the composition of loans, excluding PCI loans, by credit quality indicator at December 31, 2017 and 2016 (dollars in thousands):

	December 31, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential 1-4 family	$ 222,026	$ 3,442	$ 2,074	$ —	$ 227,542
Commercial	355,188	8,145	2,998	—	366,331
Construction and land development	103,356	182	4,276	—	107,814
Second mortgages	8,187	223	—	—	8,410
Multifamily	56,452	—	2,572	—	59,024
Agriculture	7,010	385	88	—	7,483
Total real estate loans	752,219	12,377	12,008	—	776,604
Commercial loans	156,604	1,171	1,249	—	159,024
Consumer installment loans	5,137	25	7	—	5,169
All other loans	1,221	—	—	—	1,221
Total loans	$ 915,181	$ 13,573	$ 13,264	$ —	$ 942,018

	December 31, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential 1-4 family	$ 199,973	$ 4,612	$ 3,278	$ —	$ 207,863
Commercial	330,851	3,168	5,785	—	339,804
Construction and land development	92,556	234	5,492	—	98,282
Second mortgages	7,474	437	—	—	7,911
Multifamily	36,474	—	2,610	—	39,084
Agriculture	7,067	118	—	—	7,185
Total real estate loans	674,395	8,569	17,165	—	700,129
Commercial loans	122,129	5,879	1,292	—	129,300
Consumer installment loans	5,563	20	44	—	5,627
All other loans	1,243	—	—	—	1,243
Total loans	$ 803,330	$ 14,468	$ 18,501	$ —	$ 836,299

In accordance with FASB ASU 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring,* the Company assesses all loan modifications to determine whether they are considered troubled debt restructurings (TDRs) under the guidance. The Company had 23 and 17 loans that met the definition of a TDR at December 31, 2017 and 2016, respectively.

During the year ended December 31, 2017, the Company modified three 1-4 family loans and one agriculture loan that were considered to be TDRs. The Company extended the terms for two of the 1-4 family loans and lowered the interest rate for each of these loans, which had a pre- and post-modification balance of $1.1 million. The Company extended the term for the agriculture loan, which had a pre- and post-modification balance of $258,000.

During the year ended December 31, 2016, the Company modified four loans that were considered to be TDRs. The Company extended the terms for all four loans and the interest rate was lowered for three of these loans. The following table presents information relating to loans modified as TDRs during the year ended December 31, 2016 (dollars in thousands):

	Year ended December 31, 2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Mortgage loans on real estate:			
Residential 1-4 family	1	$ 81	$ 93
Commercial	1	298	298
Construction and land development	1	217	217
Total real estate loans	3	596	608
Consumer loans	1	248	248
Total loans	4	$ 844	$ 856

During the year ended December 31, 2015, the Company modified one residential 1-4 family loan that was considered to be a TDR. The Company extended the terms and lowered the interest rate for this loan, which had a pre- and post-modification balance of $68,000.

A loan is considered to be in default if it is 90 days or more past due. There were no TDRs that had been restructured during the previous 12 months that resulted in default during the years ended December 31, 2017, 2016 and 2015.

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

At December 31, 2017 the Company had 1-4 family mortgages in the amount of $139.8 million pledged as collateral to the Federal Home Loan Bank for a total borrowing capacity of $113.9 million.

Note 4. PCI Loans and Related Allowance for Loan Losses

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

As of December 31, 2017 and 2016, the outstanding contractual balance of the PCI loans was $71.0 million and $81.1 million, respectively. The carrying amount, by loan type, as of these dates is as follows (dollars in thousands):

	December 31, 2017		December 31, 2016	
	Amount	% of PCI Loans	Amount	% of PCI Loans
Mortgage loans on real estate:				
Residential 1-4 family	$ 39,805	89.79 %	$ 46,623	89.72 %
Commercial	547	1.23	649	1.25
Construction and land development	1,588	3.58	1,969	3.79
Second mortgages	2,136	4.82	2,453	4.72
Multifamily	257	0.58	270	0.52
Total real estate loans	44,333	100.00	51,964	100.00
Total PCI loans	$ 44,333	100.00 %	$ 51,964	100.00 %

There was no activity in the allowance for loan losses on PCI loans for the years ended December 31, 2017 and 2015. The only activity in the allowance for the year ended December 31, 2016 was a $284,000 credit to the provision for loan losses on PCI loans, which was the result of an increase in expected cash flows in the Company's PCI loan portfolio.

The following table presents information on the PCI loans collectively evaluated for impairment in the allowance for loan losses at December 31, 2017 and 2016 (dollars in thousands):

	December 31, 2017		December 31, 2016	
	Allowance for loan losses	Recorded investment in loans	Allowance for loan losses	Recorded investment in loans
Mortgage loans on real estate:				
Residential 1-4 family	$ 200	$ 39,805	$ 200	$ 46,623
Commercial	—	547	—	649
Construction and land development	—	1,588	—	1,969
Second mortgages	—	2,136	—	2,453
Multifamily	—	257	—	270
Total real estate loans	200	44,333	200	51,964
Total PCI loans	$ 200	$ 44,333	$ 200	$ 51,964

The change in the accretable yield balance for the years ended December 31, 2017, 2016 and 2015 is as follows (dollars in thousands):

Balance, January 1, 2015	$	51,082
Accretion		(7,811)
Reclassification from nonaccretable yield		5,857
Balance, December 31, 2015		49,128
Accretion		(6,206)
Reclassification from nonaccretable yield		5,433
Balance, December 31, 2016		48,355
Accretion		(5,729)
Reclassification from nonaccretable yield		1,500
Balance, December 31, 2017	$	44,126

The PCI loans were not classified as nonperforming assets as of December 31, 2017 or 2016, as the loans are accounted for on a pooled basis, and interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all PCI loans.

Note 5. FDIC Agreements and FDIC Indemnification Asset

On January 30, 2009, the Company entered into a Purchase and Assumption Agreement with the FDIC to assume all of the deposits and certain other liabilities and acquire substantially all assets of SFSB. Under the shared-loss agreements that are part of that agreement, the FDIC reimbursed the Bank for 80% of losses arising from the acquired loans and foreclosed real estate assets, on the first $118 million in losses on such loans and foreclosed real estate assets, and for 95% of losses on acquired loans and foreclosed real estate assets thereafter. Under the shared-loss agreements, a “loss” on an acquired loan or foreclosed real estate was defined generally as a realized loss incurred through a permitted disposition, foreclosure, short-sale or restructuring of the acquired loan or foreclosed real estate. The reimbursements for losses on single family, residential 1-4 family mortgage assets were to be made quarterly through March 2019 for losses incurred through January 2019, and the reimbursements for losses on other assets were made quarterly through March 2014. The shared-loss agreements provided for indemnification from the first dollar of losses without any threshold requirement. The reimbursable losses from the FDIC were based on the book value of the relevant loan as determined by the FDIC at the date of the transaction, January 30, 2009. New loans made after that date were not covered by the shared-loss agreements. The fair value of the shared-loss agreements is detailed below.

The Company accounted for the shared-loss agreements with the FDIC as an indemnification asset pursuant to the guidance in FASB ASC 805, *Business Combinations*. The FDIC indemnification asset was required to be measured in the same manner as the asset or liability to which it related. The FDIC indemnification asset was measured separately from the acquired loans and other real estate owned assets (OREO) because it was not contractually embedded in the acquired loan and OREO and was not transferable had the Company chosen to dispose of them. Fair value was estimated using projected cash flows available for loss sharing based on the credit adjustments estimated for each loan pool and other real estate owned and the loss sharing percentages outlined in the shared-loss agreements. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

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

The following table presents the balances of the FDIC indemnification asset at December 31, 2015 (dollars in thousands):

	Anticipated Expected Losses	Estimated Loss Sharing Value	Amortizable Premium (Discount) at Present Value	FDIC Indemnification Asset Total
January 1, 2015	$ 5,551	$ 4,441	$ 14,168	$ 18,609
Increases:				
Writedown of OREO property to FMV	—	—		—
Decreases:				
Net amortization of premium			(3,104)	(3,104)
Charge-off due to termination of shared-loss agreement			(13,091)	(13,091)
Reclassifications to FDIC receivable:				
Net loan charge-offs and recoveries	34	27		27
OREO sales	(131)	(105)		(105)
Reimbursements requested from FDIC	(2,920)	(2,336)		(2,336)
Reforecasted Change in Anticipated Expected Losses	(2,534)	(2,027)	2,027	—
December 31, 2015	$ —	$ —	$ —	$ —

Note 6. Premises and Equipment

A summary of the bank premises and equipment is as follows (dollars in thousands):

	December 31	
	2017	2016
Land	$ 8,623	$ 8,035
Land improvements and buildings	22,475	20,048
Leasehold improvements	802	762
Furniture and equipment	9,840	8,797
Construction in progress	290	892
Total	42,030	38,534
Less accumulated depreciation and amortization	(11,832)	(10,177)
Bank premises and equipment, net	$ 30,198	$ 28,357

Depreciation expense was $1.7 million, $1.5 million and $1.6 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Note 7. Other Real Estate Owned

The following table presents the balances of other real estate owned at December 31, 2017 and December 31, 2016 (dollars in thousands):

	December 31, 2017	December 31, 2016
Residential 1-4 family	$ 486	$ 1,276
Commercial	15	643
Construction and land development	2,290	2,508
Total other real estate owned	$ 2,791	$ 4,427

At December 31, 2017, the Company had $1.0 million in residential 1-4 family loans and PCI loans that were in the process of foreclosure.

Note 8. Other Intangibles

Core deposit intangibles are recognized, amortized and evaluated for impairment as required by FASB ASC 350, *Intangibles*. As a result of the mergers with TransCommunity Financial Corporation (TFC), and BOE Financial Services of Virginia, Inc. (BOE) on May 31, 2008, the Company recorded $15.0 million in core deposit intangible assets, which are being amortized over 9 years. Core deposit intangibles resulting from the Georgia and Maryland transactions, in 2008 and 2009, respectively, equaled $3.2 million and $2.1 million, respectively, and are being amortized over 9 years. The core deposit intangible related to the Georgia transaction was written off in conjunction with the sale of the branches in that market in 2013. The Company recognized amortization expense of $898,000 in the year ended December 31, 2017, which was the final year of amortization.

Other intangible assets are presented in the following table (dollars in thousands):

	December 31, 2017		December 31, 2016	
Core deposit intangibles	$	20,290	$	20,290
Accumulated amortization		(18,817)		(17,919)
Reduction due to sale of deposits		(1,473)		(1,473)
Balance	$	-	$	898

Note 9. Deposits

The following table provides interest bearing deposit information, by type, as of December 31, 2017 and 2016 (dollars in thousands):

	December 31, 2017		December 31, 2016	
NOW	$	157,037	$	137,332
MMDA		143,363		111,346
Savings		93,980		90,340
Time deposits less than or equal to $250,000		437,810		440,699
Time deposits over $250,000		110,546		128,690
Total interest bearing deposits	$	942,736	$	908,407

The scheduled maturities of time deposits at December 31, 2017 are as follows (dollars in thousands):

2018	$	376,168
2019		130,343
2020		21,897
2021		13,068
2022		6,880
2023		—
Total	$	548,356

Brokered deposits totaled $13.6 million and $53.4 million at December 31, 2017 and 2016, respectively.

Note 10. Borrowings

The Company uses borrowings in conjunction with deposits to fund lending and investing activities. Borrowings include overnight borrowings from correspondent banks (federal funds purchased) and funding from the Federal Home Loan Bank (FHLB). The Company classifies all borrowings that will mature within a year from the date on which the company enters into them as short-term borrowings.

The following table presents the Company's borrowings at December 31, 2017 and 2016 (dollars in thousands):

	As of December 31	
	2017	2016
Federal funds purchased	$ 4,849	$ 4,714
FHLB:		
Short-term advances	$ 70,500	$ 55,000
Long-term notes payable	30,929	26,887
Total	$ 101,429	$ 81,887
Long-term debt	$ —	$ 1,670

The average interest rate of federal funds purchased during December 31, 2017 and 2016 was 1.58% and 0.88%, respectively.

The Company has an available line of credit with the FHLB of Atlanta which allows the company to borrow on a collateralized basis. As of December 31, 2017, the Company had residential 1-4 family mortgages in the amount of $139.8 million pledged as collateral to the FHLB for a total borrowing capacity of $113.9 million. FHLB advances are considered short-term borrowings and are used to manage liquidity as needed. The average interest rate of FHLB advances during the years ended December 31, 2017 and 2016 was 1.34% and 0.96%, respectively. Long-term notes payable have interest rates ranging from 1.07% to 2.07% with maturities ranging from 2018-2022. The Company had $29.6 million and $11.6 million in variable LIBOR rate long-term notes payable at December 31, 2017 and 2016, respectively

On April 23, 2014, the Company repurchased the then outstanding 10,680 shares of Series A Preferred Stock. The Company funded the repurchase through an unsecured third-party term loan. The term loan, which had a maturity date of April 21, 2017, required that the Company make quarterly payments of 7.5% of the initial outstanding principal, plus accrued interest, during a six-quarter period beginning with the quarter ending December 31, 2014, quarterly payments of 10% of the initial outstanding principal, plus accrued interest, during the subsequent four-quarter period and the remaining principal amount and accrued interest at maturity. The interest rate reset quarterly based on three-month LIBOR plus 3.50% per annum. The terms of the loan required the Company to be in compliance with certain covenants, such as maintenance of minimum regulatory capital ratios, minimum return on assets, minimum cash on hand, minimum dividend capacity, and subsidiary dividend restrictions.

In January 2017, the Company paid the then remaining outstanding balance of $1.7 million. There were no prepayment penalties related to this transaction

Maturities of long-term debt at December 31, 2017 are as follows (dollars in thousands):

2018	$ 10,000
2019	11,096
2022	9,833
Total	$ 30,929

The Company had unsecured lines of credit with correspondent banks available for overnight borrowing totaling $35.0 million at December 31, 2017.

Note 11. Accumulated Other Comprehensive Income (Loss)

The following tables present activity net of tax in accumulated other comprehensive income (loss) (AOCI) for the years ended December 31, 2017, 2016 and 2015 (dollars in thousands):

	December 31, 2017			
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Gain (Loss) on Cash Flow Hedge	Total Other Comprehensive Income (Loss)
Beginning balance	$ (410)	$ (767)	$ (46)	$ (1,223)
Other comprehensive income (loss) before reclassifications	1,342	(109)	160	1,393
Amounts reclassified from AOCI	(137)	3	-	(134)
Net current period other comprehensive income (loss)	1,205	(106)	160	1,259
Impact of the Tax Cuts and Jobs Act	159	(175)	23	7
Ending balance	$ 954	$ (1,048)	$ 137	$ 43

	December 31, 2016			
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Gain (Loss) on Cash Flow Hedge	Total Other Comprehensive Income (Loss)
Beginning balance	$ 443	$ (901)	$ (131)	$ (589)
Other comprehensive (loss) income before reclassifications	(434)	131	85	(218)
Amounts reclassified from AOCI	(419)	3	—	(416)
Net current period other comprehensive (loss) income	(853)	134	85	(634)
Ending balance	$ (410)	$ (767)	$ (46)	$ (1,223)

	December 31, 2015			
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Gain (Loss) on Cash Flow Hedge	Total Other Comprehensive Income (Loss)
Beginning balance	$ 1,452	$ (811)	$ 23	$ 664
Other comprehensive (loss) income before reclassifications	(697)	(93)	(154)	(944)
Amounts reclassified from AOCI	(312)	3	—	(309)
Net current period other comprehensive (loss) income	(1,009)	(90)	(154)	(1,253)
Ending balance	$ 443	$ (901)	$ (131)	$ (589)

The Company releases the income tax effects included in AOCI when income or loss from the related items has been recognized in earnings. The following tables present the effects of reclassifications out of AOCI on line items of consolidated (loss) income for the years ended December 31, 2017, 2016 and 2015 (dollars in thousands):

Details about AOCI	Amount Reclassified from AOCI			Affected Line Item in the Consolidated Statement of Income
	Year ended			
	December 31, 2017	December 31, 2016	December 31, 2015	
Securities available for sale				
Unrealized gains on securities available for sale	$ (210)	$ (634)	$ (472)	Gain on securities transactions, net
Related tax expense	73	215	160	Income tax expense (benefit)
	(137)	(419)	(312)	Net of tax
Defined benefit plan				
Amortization of prior service cost	5	4	5	Salaries and employee benefits
Related tax benefit	(2)	(1)	(2)	Income tax expense (benefit)
	3	3	3	Net of tax
Total reclassifications for the period	$ (134)	$ (416)	$ (309)	

Note 12. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31 are as follows (dollars in thousands):

	2017	2016	2015
Deferred tax assets:			
Allowance for loan losses	$ 1,971	$ 3,228	$ 3,415
Deferred compensation	686	761	493
Unrealized loss on available for sale securities	—	211	—
Pension adjustment	294	395	464
Purchase accounting adjustment	3,544	5,730	5,696
OREO	394	608	569
Other	123	392	440
	7,012	11,325	11,077
Deferred tax liabilities:			
Accrued pension	253	367	426
Unrealized gain on available for sale securities	269	—	228
Depreciation premises and equipment	367	496	287
Other	51	18	18
	940	881	959
Net deferred tax asset	$ 6,072	$ 10,444	$ 10,118

(1) Purchase accounting adjustment includes timing differences related to PCI loans, purchased fixed assets, and differences in income recognition on the purchase transactions.

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded that it has no liability related to uncertain tax positions in accordance with FASB ASC 740, *Income Taxes*.

In December 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") reduced the Company's federal corporate income tax rate from 34% to 21% effective January 1, 2018. In accordance with FASB ASC 740, the Company recorded additional income tax expense of $3.5 million to write down the net deferred tax asset to reflect the realizable value as of December 31, 2017 based on the new 21% tax rate. The Company has determined that the impacts of the Act are final as December 31, 2017.

Allocation of the income tax expense between current and deferred portions is as follows (dollars in thousands):

	2017	2016	2015
Current tax expense	$ 3,174	$ 3,816	$ 3,450
Deferred tax expense (benefit)	3,729	—	(6,077)
Income tax expense (benefit)	$ 6,903	$ 3,816	$ (2,627)

The following is a reconciliation of the expected income tax expense (benefit) with the reported expense for each year:

	2017	2016	2015
Statutory federal income tax rate	34.0 %	34.0 %	(34.0) %
(Reduction) Increase in taxes resulting from:			
Impact of the Act	25.2	—	—
Municipal interest	(5.5)	(5.3)	(13.6)
Bank owned life insurance income	(2.2)	(1.9)	(4.9)
Other, net	(2.6)	1.0	1.2
Effective tax rate	48.9 %	27.8 %	(51.3)%

Note 13. Employee Benefit Plans

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

The Company has frozen the plan benefits for all the Defined Benefit Plan participants effective December 31, 2010. The following table provides a reconciliation of the changes in the plan's benefit obligations and fair value of assets for the year ended December 31, 2017 and 2016 (dollars in thousands):

	December 31	
	2017	2016
Change in Benefit Obligation		
Benefit obligation, beginning of year	$ 3,997	$ 4,836
Interest cost	158	190
Actuarial (gain)/loss	481	29
Benefits paid	(76)	(1,068)
Settlement gain	—	10
Benefit obligation, ending	$ 4,560	$ 3,997
Change in Plan Assets		
Fair value of plan assets, beginning of year	$ 3,915	$ 4,725
Actual return on plan assets	530	258
Benefits paid	(76)	(1,068)
Fair value of plan assets, ending	4,369	3,915
Funded Status	$ (191)	$ (82)
Amounts Recognized in the Balance Sheet		
Other liabilities	$ (191)	$ (82)
Amounts Recognized in Accumulated Other Comprehensive Income (Loss)		
Net loss	$ 1,293	$ 1,108
Prior service cost	49	54
Deferred tax	(294)	(395)
Total amount recognized	$ 1,048	$ 767

The accumulated benefit obligation for the defined benefit pension plan at December 31, 2017 and 2016 was $4.6 million and $4.0 million, respectively.

The following table provides the components of net periodic benefit cost (income) for the plan for the years ended December 31, 2017, 2016 and 2015 (dollars in thousands):

	2017	2016	2015
Interest cost	$ 158	190	$ 189
Expected return on plan assets	(281)	(326)	(353)
Amortization of prior service cost	5	4	5
Recognized net loss due to settlement	—	253	70
Recognized net actuarial loss	46	54	43
Net periodic benefit cost (income)	$ (72)	$ 175	$ (46)
Total recognized in net periodic benefit cost (income) and accumulated other comprehensive (loss) income	$ 281	$ (29)	$ 92

The weighted-average assumptions used in the measurement of the Company's benefit obligation and net periodic benefit cost are shown in the following table:

	December 31		
	2017	2016	2015
Discount rate used for net periodic pension cost	4.00%	4.25%	4.00%
Discount rate used to determine obligation	3.50%	4.00%	4.25%
Expected return on plan assets	7.25%	7.50%	7.50%

Other changes in plan assets and benefit obligations recognized in other comprehensive income during 2017 are as follows (dollars in thousands):

Net loss	$ 185
Amortization of prior service cost	(5)
Total amount recognized	$ 180

The estimated amounts that will amortize from accumulated other comprehensive income into net periodic benefit cost in 2018 are as follows (dollars in thousands):

Prior service cost	$ 4
Net loss	60
Total amount recognized	$ 64

Long-Term Rate of Return

The plan sponsor selects the expected long-term rate of return on assets assumption in consultation with its investment advisors and actuary. This rate is intended to reflect the average rate of earnings expected to be earned on the funds invested or to be invested to provide plan benefits. Historical performance is reviewed, especially with respect to real rates of return (net of inflation), for the major asset classes held or anticipated to be held by the trust, and for the trust itself. Undue weight is not given to recent experience that may not continue over the measurement period, with higher significance placed on current forecasts of future long-term economic conditions.

Because assets are held in a qualified trust, anticipated returns are not reduced for taxes. Further, solely for this purpose, the plan is assumed to continue in force and not terminate during the period during which assets are invested. However, consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses (both investment and non-investment) typically paid from plan assets (to the extent such expenses are not explicitly estimated within periodic cost).

Asset Allocation

The pension plan's weighted-average asset allocations as of December 31, 2017 and 2016 by asset category were as follows:

	December 31	
	2017	**2016**
Asset Category		
Mutual funds — fixed income	74.00%	39.00%
Mutual funds — equity	26.00	61.00
Cash and equivalents	0.00	0.00
Total	100.00%	100.00%

The fair value of plan assets is measured based on the fair value hierarchy as discussed in Note 22, "Fair Values of Assets and Liabilities", to the Consolidated Financial Statements. The valuations are based on third party data received as of the balance sheet date. All plan assets are considered Level 1 assets, as quoted prices exist in active markets for identical assets.

The following table presents the fair value of plan assets as of December 31, 2017 and 2016 (dollars in thousands):

	Assets measured at Fair Value (Level 1)	
	December 31, 2017	**December 31, 2016**
Cash	$5	$ —
Mutual funds:		
Fixed income funds	3,239	1,517
International funds	319	568
Large cap funds	390	807
Mid cap funds	145	412
Small cap funds	76	185
Stock fund	195	426
	$4,369	$3,915

The trust fund is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 74% fixed income and 26% equities. The investment manager selects investment fund managers with demonstrated experience and expertise, and funds with demonstrated historical performance, for the implementation of the plan's investment strategy. The investment manager will consider both actively and passively managed investment strategies and will allocate funds across the asset classes to develop an efficient investment structure.

It is the responsibility of the trustee to administer the investments of the trust within reasonable costs, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the trust.

Estimated future contributions and benefit payments, which reflect expected future service, as appropriate, are as follows (dollars in thousands):

Expected Employer Contributions		
2018	$	—
Expected Benefit Payments		
2018		100
2019		649
2020		192
2021		76
2022		137
2023-2027		1,739

401(k) Plan

The Company maintains the Essex Bank 401(k) plan. The employee may contribute up to 100% of compensation, subject to statutory limitations. The Company matches 100% of employee contributions on the first 3% of compensation, then the Company matches 50% of employee contributions on the next 2% of compensation.

The amounts charged to expense under these plans for the years ended December 31, 2017, 2016 and 2015 were $595,000, $568,000 and $584,000, respectively.

Deferred Compensation Agreements

The Company has deferred compensation agreements with certain key employees and the Board of Directors. The retirement benefits to be provided are fixed based upon the amount of compensation earned and deferred. Deferred compensation expense amounted to $155,000, $290,000 and $154,000 for the years ended December 31, 2017, 2016 and 2015, respectively. The associated liabilities related to these agreements were $2.1 million and $2.4 million at December 31, 2017 and 2016, respectively. During 2016, the Company changed the discount rate related to these plans from 6% to 5%. This resulted in an expense of $134,000 for the year ended December 31, 2016.

Effective June 1, 2016, the Company commenced a non-qualified defined contribution retirement plan for certain key executive officers. The purpose of the plan is to enhance the retirement benefits that the Company provides to each officer and to recognize each officer for overall performance through additional incentive-based compensation. For 2017 and 2016, the planned contributions were based on the same metrics that the Company used for its annual incentive plan for executive officers. All contributions were 100% vested as of December 31, 2017. The expense related to this plan was $515,000 and $345,000 for the years ended December 31, 2017 and 2016, respectively, with an associated liability of $860,000 and $345,000 at December 31, 2017 and 2016, respectively.

Note 14. Stock Option Plans

2009 Stock Option Plan

In 2009, the Company adopted the Community Bankers Trust Corporation 2009 Stock Incentive Plan (the "Plan"). The purpose of the Plan is to further the long-term stability and financial success of the Company by attracting and retaining employees and directors through the use of stock incentives and other rights that promote and recognize the financial success and growth of the Company. The Company believes that ownership of company stock will stimulate the efforts of such employees and directors by further aligning their interests with the interest of the Company's shareholders. The Plan is to be used to grant restricted stock awards, stock options in the form of incentive stock options and nonstatutory stock options, stock appreciation rights and other stock-based awards to employees and directors of the Company for up to 2,650,000 shares of common stock. No more than 1,500,000 shares may be issued in connection with the exercise of incentive stock options. Annual grants of stock options are limited to 500,000 shares for each participant.

The exercise price of an incentive stock option cannot be less than 100% of the fair market value of such shares on the date of grant, provided that if the participant owns, directly or indirectly, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, the exercise price of an incentive stock option shall not be less than 110% of the fair market value of such shares on the date of grant. The exercise price of nonstatutory stock option awards cannot be less than 100% of the fair market value of such shares on the date of grant. The option exercise price may be paid in cash or with shares of common stock, or a combination of cash and common stock, if permitted under the participant's option agreement. The Plan will expire on June 17, 2019, unless terminated sooner by the Board of Directors.

The fair value of each option granted is estimated on the date of grant using the "Black Scholes Option Pricing" method with the following assumptions for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
Expected volatility	40.0%	50.0%	50.0%
Expected dividend	—	—	1.0%
Expected term (years)	6.25	6.25	6.25
Risk free rate	1.97% -2.02%	1.70%	1.67%

The expected volatility is an estimate of the volatility of the Company's share price based on historical performance. The risk free interest rates for periods within the contractual life of the awards are based on the U. S. Treasury Zero Coupon implied yield at the time of the grant correlating to the expected term. The expected term is based on the simplified method as provided by the Securities and Exchange Commission Staff Accounting Bulletin No 110 (SAB 110). In accordance with SAB 110, the Company has chosen to use the simplified method, as this is the first plan issued by the Company as Community Bankers Trust Corporation; therefore, minimal historical exercise data exists. The dividend yield assumption is based on the Company's history and expectation of dividend payouts over the life of the options at the time of the grant.

The Company plans to issue new shares of common stock when options are exercised. The Company recognizes forfeitures as they occur.

The Company issues equity grants to non-employee directors as payment for annual retainer fees. The fair market value of these grants was the closing price of the Company's stock at the grant date. A summary of these grants for the years ended December 31, 2017, 2016 and 2015 is shown in the following table:

	For the Year Ended					
	2017		2016		2015	
Month	Shares Issued	Fair Market Value	Shares Issued	Fair Market Value	Shares Issued	Fair Market Value
March	4,875	8.00	7,956	4.90	8,882	4.39
May	391	8.20	—	—	—	—
June	4,807	8.10	7,400	5.27	8,862	4.40
September	4,612	8.45	7,166	5.44	7,722	5.05
December	4,690	8.30	6,182	6.30	7,205	5.41

The Company granted 320,000 options in 2015, 263,000 options in 2016, and 293,000 options in 2017 to employees which vest ratably over the requisite service period of four years. A summary of options outstanding for the year ended December 31, 2017, is shown in the following table:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at beginning of year	1,135,000	$ 3.58	
Granted	293,000	7.40	
Forfeited	(2,000)	7.40	
Expired	—	—	
Exercised	(87,250)	2.98	
Outstanding at end of year	1,338,750	4.45	$ 4,949,273
Options outstanding and exercisable at end of year	674,750	3.06	$ 3,437,595
Weighted average remaining contractual life for outstanding and exercisable shares at year end	64 months		

The weighted average fair value per option of options granted during the year was $3.12, $2.52, and $1.97 for the years ended December 31, 2017, 2016 and 2015, respectively. The aggregate intrinsic value of a stock option in the table above represents the aggregate pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by option holders had all option holders exercised their options on December 31, 2017. This amount changes with changes in the market value of the Company's stock. The Company received $260,000, $133,000 and $86,000 in cash related to option exercises with a total intrinsic value of $452,000, $167,000 and $93,000 during the years ended December 31, 2017, 2016 and 2015, respectively. A tax benefit in connection with the option exercises and issuances of restricted stock of $163,000 was recognized in income tax expense during 2017, and $62,000 and $34,000 was recognized in additional paid-in-capital during 2016 and 2015, respectively.

The Company recorded total stock-based compensation expense of $745,000, $566,000 and $467,000 for the years ended December 31, 2017, 2016 and 2015, respectively. Of the $745,000 in expense that was recorded in 2017, $586,000 related to employee grants and is classified as salaries and employee benefits expense; $159,000 related to the non-employee director grants and is classified as other operating expenses. Of the $566,000 in expense that was recorded in 2016, $410,000 related to employee grants and is classified as salaries and employee benefits expense; $156,000 related to the non-employee director grants and is classified as other operating expenses. Of the $467,000 in expense that was recorded in 2015, $310,000 related to employee grants and is classified as salaries and employee benefits expense; $157,000 related to the non-employee director grants and is classified as other operating expenses.

The following table summarizes non-vested options and restricted stock outstanding at December 31, 2017:

	Options		Restricted Stock	
	Number of Shares	Weighted Average Grant-Date Fair Value	Number of Shares	Weighted Average Grant-Date Fair Value
Non-vested at beginning of the year	584,000	$ 2.13	6,250	$ 2.86
Granted	293,000	3.12	—	—
Vested	(211,000)	1.95	(6,250)	2.86
Forfeited	(2,000)	3.12	—	—
Non-vested at end of year	664,000	2.62	—	—

The unrecognized compensation expense related to non-vested options was $1.2 million at December 31, 2017 to be recognized over a weighted average period of 30 months. The total fair market value of shares vested during the years ended December 31, 2017, 2016 and 2015 was $410,000, $284,000 and $148,000, respectively.

Note 15. Earnings (Loss) Per Common Share

Basic earnings (loss) per common share (EPS) is computed by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares outstanding during the period, including the effect of all potentially dilutive common shares outstanding attributable to stock instruments.

The following table presents basic and diluted EPS for the years ended December 31, 2017, 2016 and 2015 (dollars and shares in thousands, except per share data):

	Net Income (Loss) (Numerator)	Weighted Average Common Shares (Denominator)	Per Common Share Amount
For the year ended December 31, 2017			
Basic EPS	$ 7,203	22,014	$ 0.33
Effect of dilutive stock awards	—	498	—
Diluted EPS	$ 7,203	22,512	$ 0.32
For the year ended December 31, 2016			
Basic EPS	$ 9,922	21,914	$ 0.45
Effect of dilutive stock awards	—	247	—
Diluted EPS	$ 9,922	22,161	$ 0.45
For the year ended December 31, 2015			
Basic EPS	$ (2,497)	21,827	$ (0.11)
Effect of dilutive stock awards	—	—	—
Diluted EPS	$ (2,497)	21,827	$ (0.11)

Antidilutive common shares issuable under awards or options of 953,000 were excluded from the computation of diluted earnings per common share for the year ended 2015. There were no antidilutive exclusions from the computation of diluted earnings per common share for the years ended 2017 and 2016, respectively.

Note 16. Related Party Transactions

In the ordinary course of business, the Bank has and expects to continue to have transactions, including borrowings, with its executive officers, directors, and their affiliates. The table below presents the activity for loans at December 31, 2017 and 2016 (dollars in thousands).

	December 31	
	2017	2016
Balance, beginning of year	$ 6,524	$ 6,727
Principal additions	35	1,481
Repayments and reclassifications	(679)	(1,684)
Balance, end of year	$ 5,880	$ 6,524

The Bank held deposits of related parties in the amount of $3.0 million and $2.0 million at December 31, 2017 and 2016, respectively.

Note 17. Cash Flow Hedge

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

The swap was entered into with a counterparty that met the Company's credit standards, and the agreement contains collateral provisions protecting the at-risk party. The Company believes that the credit risk inherent in the contract is not significant. The Company had $390,000 of cash pledged as collateral as of each of December 31, 2017 and 2016.

Amounts receivable or payable are recognized as accrued under the terms of the agreements. In accordance with FASB ASC 815, *Derivatives and Hedging*, the Company has designated the swap as a cash flow hedge, with the effective portions of the derivatives' unrealized gains or losses recorded as a component of other comprehensive income. The ineffective portions of the unrealized gains or losses, if any, would be recorded in other operating expense. The Company has assessed the effectiveness of each hedging relationship by comparing the changes in cash flows on the designated hedged item. The Company's cash flow hedge was deemed to be effective for the years ended 2017 and 2016. The fair value of the Company's cash flow hedge was an unrealized gain of $177,000 at December 31, 2017, and was recorded in other assets. The fair value of the Company's cash flow hedge was an unrealized loss of $70,000 at December 31, 2016, and was recorded in other liabilities. The gain and loss were recorded as a component of other comprehensive income net of associated tax effects.

Note 18. Dividend Limitations on Affiliate Bank

Transfers of funds from the banking subsidiary to the parent corporation in the form of loans, advances and cash dividends are restricted by federal and state regulatory authorities. All transfers of funds from the banking subsidiary to the parent corporation require prior approval from federal and state regulatory authorities as a result of the retained deficit at the banking subsidiary. However, there are guidelines that exist that guide the bank as to amounts that may be transferred with appropriate prior approval. As of December 31, 2017, 2016 and 2015, the aggregate amount of funds that could be transferred from the banking subsidiary to the parent corporation, with prior regulatory approval, totaled $13.5 million, $5.7 million and $0, respectively.

Note 19. Concentration of Credit Risk

At December 31, 2017 and 2016, the Company's loan portfolio consisted of commercial, real estate and consumer (installment) loans. Real estate secured loans represented the largest concentration at 83.23% and 84.67% of the loan portfolio for 2017 and 2016, respectively.

The Company maintains a portion of its cash balances with several financial institutions located in its market area. Accounts at each institution are secured by the FDIC up to $250,000. Uninsured balances were $8.2 million and $10.8 million at December 31, 2017 and 2016, respectively.

Note 20. Financial Instruments With Off-Balance Sheet Risk

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. A summary of the contract amounts of the Company's exposure to off-balance sheet risk as of December 31, 2017 and 2016, is as follows (dollars in thousands):

	December 31, 2017	December 31, 2016
Commitments with off-balance sheet risk:		
Commitments to extend credit	$ 163,686	$ 134,517
Standby letters of credit	6,532	7,151
Total commitments with off-balance sheet risks	$ 170,218	$ 141,668

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

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are generally uncollateralized and usually do not contain a specified maturity date and may be drawn upon only to the total extent to which the Company is committed.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's evaluation of the counterparty. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

Note 21. Minimum Regulatory Capital Requirements

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, tier 1 and common equity tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of tier 1 capital (as defined) to adjusted average total assets (as defined). Management believes, as of December 31, 2017 and 2016, that the Company and Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2017, based on regulatory guidelines, the Company believes that the Bank is well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, tier 1 risk-based, common equity tier 1, and tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that date that management believes have changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios are presented in the following table (dollars in thousands).

	Actual		Required for Capital Adequacy Purposes		Required in Order to be Well Capitalized Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017:						
Total Capital to risk weighted assets						
Company	$ 136,910	12.70 %	$ 86,232	8.00 %	NA	NA
Bank	134,972	12.52 %	86,217	8.00 %	107,771	10.00 %
Tier 1 Capital to risk weighted assets						
Company	128,084	11.88 %	64,674	6.00 %	NA	NA
Bank	126,146	11.71 %	64,663	6.00 %	86,217	8.00 %
Common Equity Tier 1 Capital to risk weighted assets						
Company	123,960	11.50 %	48,506	4.50 %	NA	NA
Bank	126,146	11.71 %	48,497	4.50 %	70,051	6.50 %
Tier 1 Capital to adjusted average total assets						
Company	128,084	9.74 %	52,619	4.00 %	NA	NA
Bank	126,146	9.59 %	52,613	4.00 %	65,767	5.00 %
As of December 31, 2016:						
Total Capital to risk weighted assets						
Company	$ 128,877	13.16 %	$ 78,369	8.00 %	NA	NA
Bank	127,606	13.03 %	78,355	8.00 %	97,943	10.00 %
Tier 1 Capital to risk weighted assets						
Company	119,527	12.20 %	58,777	6.00 %	NA	NA
Bank	118,256	12.07 %	58,766	6.00 %	78,354	8.00 %
Common Equity Tier 1 Capital to risk weighted assets						
Company	115,403	11.78 %	44,083	4.50 %	NA	NA
Bank	118,256	12.07 %	44,074	4.50 %	63,663	6.50 %
Tier 1 Capital to adjusted average total assets						
Company	119,527	9.60 %	49,823	4.00 %	NA	NA
Bank	118,256	9.50 %	49,815	4.00 %	62,269	5.00 %

Under Basel III, a capital conservation buffer of 2.5% above the minimum risk-based capital thresholds was established. Dividend and executive compensation restrictions begin if the Company does not maintain the full amount of the buffer. The capital conservation buffer will be phased in between January 1, 2016 and January 1, 2019. The Company had a capital conservation buffer of 4.70% and 5.16% at December 31, 2017 and 2016, respectively, above the required buffer of 1.25% and 0.625% for 2017 and 2016, respectively.

Note 22. Fair Values of Assets and Liabilities

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

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

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

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

FASB ASC 825, *Financial Instruments*, allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Company has not made any material FASB ASC 825 elections as of December 31, 2017.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Investment securities available for sale				
U.S. Treasury issue and other U.S. Gov't agencies	$ 40,256	$ -	$ 40,256	$ -
U.S. Gov't sponsored agencies	9,278	-	9,278	-
State, county and municipal	125,760	332	125,428	-
Corporate and other bonds	7,460	-	7,460	-
Mortgage backed – U.S. Gov't agencies	5,442	-	5,442	-
Mortgage backed – U.S. Gov't sponsored agencies	16,638	-	16,638	-
Total investment securities available for sale	204,834	332	204,502	-
Cash flow hedge	177	-	177	-
Total assets at fair value	$ 205,011	$ 332	$ 204,679	$ -
Total liabilities at fair value	$ -	$ -	$ -	$ -

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Investment securities available for sale				
U.S. Treasury issue and other U.S. Gov't agencies	$ 57,976	$ 11,055	$ 46,921	$ -
U.S. Gov't sponsored agencies	3,336	952	2,384	-
State, county and municipal	122,773	2,345	120,428	-
Corporate and other bonds	15,503	-	15,503	-
Mortgage backed – U.S. Gov't agencies	3,495	-	3,495	-
Mortgage backed – U.S. Gov't sponsored agencies	13,038	-	13,038	-
Total investment securities available for sale	216,121	14,352	201,769	-
Total assets at fair value	$ 216,121	$ 14,352	$ 201,769	$ -
Cash flow hedge	$ (70)	$ -	$ (70)	$ -
Total liabilities at fair value	$ (70)	$ -	$ (70)	$ -

Investment securities available for sale

Investment securities available for sale are recorded at fair value each reporting period. Fair value measurement is based upon quoted prices, if available (Level 1). Quoted prices are available within the same month as the settlement date of the related security transaction. As a result, investment securities held at December 31, 2016 priced as level 1 that were still held at December 31, 2017 were priced as level 2 securities. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions (Level 2).

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

Cash flow hedge

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company is also required to measure and recognize certain other financial assets at fair value on a nonrecurring basis on the consolidated balance sheet. The following tables present assets measured at fair value on a nonrecurring basis for the years ended December 31, 2017 and 2016 (dollars in thousands):

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Impaired loans	$ 7,915	$ —	$ 1,306	$ 6,609
Other real estate owned	2,791	—	1,203	1,588
Total assets at fair value	$ 10,706	$ —	$ 2,509	$ 8,197
Total liabilities at fair value	$ —	$ —	$ —	$ —

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Impaired loans	$ 9,536	$ —	$ 2,168	$ 7,368
Other real estate owned	4,427	—	3,408	1,019
Total assets at fair value	$ 13,963	$ —	$ 5,576	$ 8,387
Total liabilities at fair value	$ —	$ —	$ —	$ —

Impaired loans

Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures the impairment in accordance with FASB ASC 310, *Receivables*. The fair value of impaired loans is estimated using one of several methods, including collateral value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investments in such loans. At December 31, 2017 and December 31, 2016, a majority of total impaired loans were evaluated based on the fair value of the collateral. The Company frequently obtains appraisals prepared by external professional appraisers for classified loans greater than $250,000 when the most recent appraisal is greater than 18 months old and /or deemed to be invalid. The Company may also utilize internally prepared estimates that generally result from current market data and actual sales data related to the Company's collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan within Level 2.

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

Other real estate owned

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

Fair Value of Financial Instruments

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

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

	December 31, 2017				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Securities held to maturity	$ 46,146	$ 46,888	$ —	$ 46,888	$ —
Loans, net of allowance	933,049	933,938	—	927,329	6,609
PCI loans, net of allowance	44,133	48,655	—	—	48,655
Financial liabilities:					
Interest bearing deposits	942,736	943,037	—	943,037	—
Borrowings	105,553	105,363	—	105,363	—

	December 31, 2016				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Securities held to maturity	$ 46,608	$ 46,858	$ 1,093	$ 45,765	$ —
Loans, net of allowance	826,806	829,349	—	821,981	7,368
PCI loans, net of allowance	51,764	57,100	—	—	57,100
Financial liabilities:					
Interest bearing deposits	908,407	909,627	—	909,627	—
Borrowings	87,681	87,611	—	87,611	—

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value as of December 31, 2017 and 2016. The Company applied the provisions of FASB ASC 820 to the fair value measurements of financial instruments not recognized on the consolidated balance sheet at fair value. The provisions requiring the Company to maximize the use of observable inputs and to measure fair value using a notion of exit price were factored into the Company's selection of inputs into its established valuation techniques.

Financial Assets

Cash and cash equivalents

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

Securities held for investment

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

Restricted securities

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

Loans

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

PCI loans

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

Accrued interest receivable

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

Financial Liabilities

Noninterest bearing deposits

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

Interest bearing deposits

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

Federal funds purchased

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

Borrowings

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

Accrued interest payable

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

Off-balance sheet financial instruments

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

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

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

Note 23. Trust Preferred Capital Notes

On December 12, 2003, BOE Statutory Trust I, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable capital securities. On December 12, 2003, $4.124 million of trust preferred securities were issued through a direct placement. The securities have a LIBOR-indexed floating rate of interest. The average interest rate at December 31, 2017, 2016 and 2015 was 4.20%, 3.68% and 3.28%, respectively. The securities have a mandatory redemption date of December 12, 2033 and are subject to varying call provisions which began December 12, 2008. The principal asset of the Trust is $4.124 million of the Company's junior subordinated debt securities with the like maturities and like interest rates to the capital securities.

The trust preferred notes may be included in tier 1 capital for regulatory capital adequacy determination purposes up to 25% of tier 1 capital after its inclusion. The portion of the trust preferred not considered as tier 1 capital may be included in tier 2 capital. At December 31, 2017 and 2016, all trust preferred notes were included in tier 1 capital.

The obligations of the Company with respect to the issuance of the capital securities constitute a full and unconditional guarantee by the Company of the Trust's obligations with respect to the capital securities.

Subject to certain exceptions and limitations, the Company may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related capital securities. The Company is current in its obligations under the trust preferred notes.

Note 24. Lease Commitments

The following table represents a summary of non-cancelable operating leases for bank premises that have initial or remaining terms in excess of one year, some with renewal options, as of December 31, 2017 (dollars in thousands):

2018	$	1,349
2019		1,324
2020		1,302
2021		986
2022		478
Thereafter		6,766
Total of future payments [1]	$	12,205

[1] Future payments have not been reduced by minimum sublease rentals of $1.3 million due in the future under a non-cancelable sublease.

Rent expense for the years ended December 31, 2017, 2016 and 2015 was $1.3 million, $1.1 million and $790,000, respectively.

Note 25. Other Operating Expense

Other noninterest expense totals are presented in the following tables. Components of these expenses exceeding 1.0% of the aggregate of total net interest income and total noninterest income for any of the past three years are stated separately (dollars in thousands).

	Year Ended		
	2017	2016	2015
Bank franchise tax	$ 632	$ 587	$ 574
Telephone and internet line	676	647	714
Stationery, printing and supplies	674	562	446
Marketing expense	656	499	651
Credit expense	584	442	745
Outside vendor fees	562	536	532
Other expenses	2,786	2,750	2,805
Total other operating expenses	$ 6,570	$ 6,023	$ 6,467

Note 26. Parent Corporation Only Financial Statements

PARENT COMPANY
BALANCE SHEETS
AS OF DECEMBER 31, 2017 and 2016
(dollars in thousands)

	2017	2016
Assets		
Cash	$ 1,707	$ 2,521
Other assets	322	443
Investments in subsidiaries	126,189	117,389
Total assets	$ 128,218	$ 120,353
Liabilities		
Other liabilities	$ 91	$ 23
Balances due to non-bank subsidiary	4,124	4,124
Long term debt	—	1,670
Total liabilities	4,215	5,817
Shareholders' Equity		
Common stock (200,000,000 shares authorized $0.01 par value; 22,072,523 and 21,959,648 shares issued and outstanding, respectively)	221	220
Additional paid in capital	147,671	146,667
Retained deficit	(23,932)	(31,128)
Accumulated other comprehensive income (loss)	43	(1,223)
Total shareholders' equity	124,003	114,536
Total liabilities and shareholders' equity	$ 128,218	$ 120,353

PARENT COMPANY
STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 and 2015
(dollars in thousands)

	2017	2016	2015
Income:			
Dividends received from subsidiaries	$ —	$ 2,500	$ —
Other operating income	4	5	4
Total income	4	2,505	4
Expenses:			
Interest expense	187	366	461
Management fee paid to subsidiaries	177	179	175
Stock option expense	25	19	13
Professional and legal expenses	56	62	61
Other operating expenses	81	76	80
Total expenses	526	702	790
Equity in undistributed income (loss) of subsidiaries	7,541	7,887	(1,975)
Net income (loss) before income taxes	7,019	9,690	(2,761)
Income tax benefit	184	232	264
Net income (loss)	$ 7,203	$ 9,922	$ (2,497)
Comprehensive income (loss)	$ 8,462	$ 9,288	$ (3,750)

PARENT COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 and 2015
(dollars in thousands)

	2017	2016	2015
Operating activities:			
Net income (loss)	$ 7,203	$ 9,922	$ (2,497)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Stock-based compensation expense	745	566	467
Tax benefit of exercised stock options	(15)	(4)	—
Undistributed equity in income (loss) of subsidiary	(7,541)	(7,887)	1,975
Decrease (increase) in other assets	136	139	(231)
(Decrease) increase in other liabilities, net	68	(23)	(25)
Net cash and cash equivalents provided by (used in) operating activities	596	2,713	(311)
Financing activities:			
Proceeds from long term debt	—	—	—
Payment on long term debt	(1,670)	(4,005)	(4,005)
Redemption of preferred stock and related warrants	—	—	—
Cash dividends paid	—	—	—
Proceeds from issuance of common stock	260	133	86
Net cash and cash equivalents used in financing activities	(1,410)	(3,872)	(3,919)
Decrease in cash and cash equivalents	(814)	(1,159)	(4,230)
Cash and cash equivalents at beginning of the period	2,521	3,680	7,910
Cash and cash equivalents at end of the period	$ 1,707	$ 2,521	$ 3,680

Note 27. Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued noting no items to be disclosed.

Note 28. Quarterly Data (unaudited)

	2017				2016			
(dollars in thousands)	First	Second	Third	Fourth	First	Second	Third	Fourth
Interest and dividend income	$ 12,948	$ 13,220	$ 13,389	$ 13,758	$ 12,038	$ 12,133	$ 12,407	$ 12,717
Interest expense	2,081	2,246	2,363	2,509	1,925	1,900	1,904	2,091
Net interest income	10,867	10,974	11,026	11,249	10,113	10,233	10,503	10,626
Provision for loan losses	—	—	150	400	—	200	250	(284)
Net interest income after provision for loan losses	10,867	10,974	10,876	10,849	10,113	10,033	10,253	10,910
Noninterest income	1,153	1,188	1,165	1,191	1,321	1,395	1,345	1,118
Noninterest expense	8,451	8,536	8,706	8,464	8,031	8,229	8,278	8,212
Income before income taxes	3,569	3,626	3,335	3,576	3,403	3,199	3,320	3,816
Income tax expense	1,076	692	919	4,216	983	881	862	1,090
Net income (loss)	$ 2,493	$ 2,934	$ 2,416	$ (640)	$ 2,420	$ 2,318	$ 2,458	$ 2,726
Net income (loss) per common share, basic	$ 0.11	$ 0.13	$ 0.11	$ (0.03)	$ 0.11	$ 0.11	$ 0.11	$ 0.12
Net income (loss) per common share, diluted	$ 0.11	$ 0.13	$ 0.11	$ (0.03)	$ 0.11	$ 0.11	$ 0.11	$ 0.12

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

Not applicable.

ITEM 9A. *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

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

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

Management's Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Certifying Officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external purposes in accordance with generally accepted accounting principles.

As of December 31, 2017, management assessed the effectiveness of the Company’s internal control over financial reporting based on the criteria for effective internal control over financial reporting established in “Internal Control — Integrated Framework (2013),” issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. This assessment included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C) to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act.

Based on its assessment, management concluded that, as of December 31, 2017, the Company’s internal control over financial reporting was effective based on the criteria set forth by COSO in its “Internal Control — Integrated Framework.”

BDO USA, LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company for the year ended December 31, 2017, has issued an attestation report on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2017. The report is included in Item 8, “Financial Statements and Supplementary Data”, above under the heading “Report of Independent Registered Public Accounting Firm.”

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting identified in connection with the evaluation of internal controls that occurred during the fourth quarter of 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. *OTHER INFORMATION*

Not applicable.

PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

The information required by this item is incorporated by reference to the Company’s definitive Proxy Statement for the 2018 Annual Meeting of Shareholders, to be filed within 120 days after the end of the fiscal year that this Form 10-K covers.

ITEM 11. *EXECUTIVE COMPENSATION*

The information required by this item is incorporated by reference to the Company’s definitive Proxy Statement for the 2018 Annual Meeting of Shareholders, to be filed within 120 days after the end of the fiscal year that this Form 10-K covers.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

The information required by this item is incorporated by reference to the Company’s definitive Proxy Statement for the 2018 Annual Meeting of Shareholders, to be filed within 120 days after the end of the fiscal year that this Form 10-K covers.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE*

The information required by this item is incorporated by reference to the Company’s definitive Proxy Statement for the 2018 Annual Meeting of Shareholders, to be filed within 120 days after the end of the fiscal year that this Form 10-K covers.

ITEM 14. *PRINCIPAL ACCOUNTING FEES AND SERVICES*

The information required by this item is incorporated by reference to the Company’s definitive Proxy Statement for the 2018 Annual Meeting of Shareholders, to be filed within 120 days after the end of the fiscal year that this Form 10-K covers.

PART IV

ITEM 15. *EXHIBITS, FINANCIAL STATEMENT SCHEDULES*

(a) The following documents are filed as part of this Form 10-K:

1. Consolidated Financial Statements. Reference is made to the Consolidated Financial Statements, the report thereon and the notes thereto, with respect to the Company, commencing at page 44 of this Form 10-K.

2. Financial Statement Schedules. All supplemental schedules are omitted as inapplicable or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. Exhibits

No.	Description
2.1	Purchase and Assumption Agreement, dated as of January 30, 2009, by and among the Federal Deposit Insurance Corporation, Receiver of Suburban Federal Savings Bank, Crofton, Maryland, Bank of Essex and the Federal Deposit Insurance Corporation, incorporated by reference to the Company's Current Report on Form 8-K filed on February 5, 2009 (File No. 001-32590)
3.1	Amended and Restated Articles of Incorporation of Community Bankers Trust Corporation, a Virginia corporation (formerly known as CBTC Virginia Corporation), incorporated by reference to the Company's Current Report on Form 8-K filed on January 7, 2014 (File No. 001-32590)
3.2	Certificate of Designations for Fixed Rate Cumulative Perpetual Preferred Stock, Series A of Community Bankers Trust Corporation, a Virginia corporation (formerly known as CBTC Virginia Corporation), incorporated by reference to the Company's Current Report on Form 8-K filed on January 7, 2014 (File No. 001-32590)
3.3	Amended and Restated Bylaws of Community Bankers Trust Corporation, a Virginia corporation (formerly known as CBTC Virginia Corporation), incorporated by reference to the Company's Current Report on Form 8-K filed on January 7, 2014 (File No. 001-32590)
4.1	Specimen Common Stock Certificate, incorporated by reference to the Company's Registration Statement on Form S-1 or amendments thereto (File No. 333-124240)
10.1	Termination Agreement among Federal Deposit Insurance Corporation, as Receiver of Suburban Federal Savings Bank, Crofton, Maryland, Federal Deposit Insurance Corporation and Essex Bank (formerly known as Bank of Essex), Richmond, Virginia, dated as of September 10, 2015, incorporated by reference to the Company's Current Report on Form 8-K filed on September 16, 2015 (File No. 001-32590)
10.2	Term Loan Agreement, dated as of April 22, 2014, among Community Bankers Trust Corporation as Borrower, the Lenders from Time to Time Party Hereto and SunTrust Bank as Administrative Agent, incorporated by reference to the Company's Current Report on Form 8-K filed on April 28, 2014 (File No. 001-32590)
10.3	Letter Amendment to Term Loan Agreement, dated December 28, 2015, between Community Bankers Trust Corporation as Borrower and SunTrust Bank as Lender and Administrative Agent, incorporated by reference to the Company's Annual Report on Form 10-K filed on March 16, 2017 (File No. 001-32590)
10.4	Employment Agreement between Community Bankers Acquisition Corp. and Bruce E. Thomas, incorporated by reference to the Company's Current Report on Form 8-K/A filed on July 28, 2008 (File No. 001-32590)
10.5	Community Bankers Trust Corporation 2009 Stock Incentive Plan, incorporated by reference to the Company's Current Report on Form 8-K filed on June 24, 2009 (File No. 001-32590)
10.6	Form of Non-Qualified Stock Option Agreement for Community Bankers Trust Corporation 2009 Stock Incentive Plan, incorporated by reference to the Company's Annual Report on Form 10-K filed on March 30, 2012 (File No. 001-32590)

10.7	Form of Performance Driven Retirement Agreement (Rex L. Smith, III, Bruce E. Thomas, Jeff R. Cantrell, John M. Oakey, III and Patricia M. Davis), incorporated by reference to the Company's Current Report on Form 8-K filed on July 7, 2016 (File No. 001-32590)
10.8	Form of Change in Control Employment Agreement (Rex L. Smith, III, Bruce E. Thomas, Jeff R. Cantrell, John M. Oakey, III and Patricia M. Davis), incorporated by reference to the Company's Current Report on Form 8-K filed on October 25, 2016 (File No. 001-32590)
14.1	Code of Business Conduct and Ethics (amended as of November 18, 2016), incorporated by reference to the Company's Current Report on Form 8-K filed on November 25, 2016 (File No. 001-32590)
21.1	Subsidiaries of Community Bankers Trust Corporation*
23.1	Consent of Independent Registered Public Accounting Firm (BDO USA, LLP)*
31.1	Rule 13a-14(a)/15d-14(a) Certification for Chief Executive Officer*
31.2	Rule 13a-14(a)/15d-14(a) Certification for Chief Financial Officer*
32.1	Section 1350 Certifications*
101	Interactive Data File with respect to the following materials from the Company's Annual Report on Form 10-K for the period ended December 31, 2017, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income (Loss), (iii) the Consolidated Statement of Comprehensive Income (Loss), (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements*

* Filed herewith.

(b) Exhibits. See Item 15(a)3. above
(c) Financial Statement Schedules. See Item 15(a)2. above

ITEM 16. ***FORM 10-K SUMMARY***

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMUNITY BANKERS TRUST CORPORATION

By: /s/ Rex L. Smith, III
Rex L. Smith, III
President and Chief Executive Officer

Date: March 15, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Rex L. Smith, III Rex L. Smith, III	President and Chief Executive Officer and Director (principal executive officer)	March 15, 2018
/s/ Bruce E. Thomas Bruce E. Thomas	Executive Vice President and Chief Financial Officer (principal financial officer)	March 15, 2018
/s/ Laureen D. Trice Laureen D. Trice	Senior Vice President and Controller (principal accounting officer)	March 15, 2018
/s/ John C. Watkins John C. Watkins	Chairman of the Board	March 15, 2018
/s/ Gerald F. Barber Gerald F. Barber	Director	March 15, 2018
/s/ Richard F. Bozard Richard F. Bozard	Director	March 15, 2018
/s/ William E. Hardy William E. Hardy	Director	March 15, 2018
/s/ P. Emerson Hughes, Jr. P. Emerson Hughes, Jr.	Director	March 15, 2018
/s/ Troy A. Peery, Jr. Troy A. Peery, Jr.	Director	March 15, 2018
/s/ Eugene S. Putnam, Jr. Eugene S. Putnam, Jr.	Director	March 15, 2018
/s/ S. Waite Rawls III S. Waite Rawls III	Director	March 15, 2018
/s/ Robin Traywick Williams Robin Traywick Williams	Director	March 15, 2018

Exhibit 31.1

CERTIFICATIONS

I, Rex L. Smith, III, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2017 of Community Bankers Trust Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Rex L. Smith, III
Rex L. Smith, III
President and Chief Executive Officer

Date: March 15, 2018

Exhibit 31.2

CERTIFICATIONS

I, Bruce E. Thomas, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2017 of Community Bankers Trust Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Bruce E. Thomas
Bruce E. Thomas
Executive Vice President and Chief Financial Officer

Date: March 15, 2018

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K for the year ended December 31, 2017 (the "Report") of Community Bankers Trust Corporation (the "Company"), the undersigned President and Chief Executive Officer and Executive Vice President and Chief Financial Officer certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to their knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company and its subsidiaries as of, and for, the periods presented in the Report.

/s/ Rex L. Smith, III
Rex L. Smith, III
President and Chief Executive Officer

/s/ Bruce E. Thomas
Bruce E. Thomas
Executive Vice President and Chief Financial Officer

Date: March 15, 2018

BOARD OF DIRECTORS

Gerald F. Barber

Consultant
Retired Transaction Services Partner, PricewaterhouseCoopers LLP

Richard F. Bozard

Retired Vice President and Treasurer, Owens & Minor, Inc.

William E. Hardy

Founding Partner and Chief Executive Officer,
Harris, Hardy & Johnstone, P.C.

P. Emerson Hughes, Jr.

Chairman, Holiday Barn Pet Resorts

Troy A. Peery, Jr.

President, Peery Enterprises

Eugene S. Putnam, Jr.

Past President and Chief Financial Officer,
Universal Technical Institute, Inc.

S. Waite Rawls III

President, American Civil War Museum Foundation

Rex L. Smith, III

President and Chief Executive Officer,
Community Bankers Trust Corporation and Essex Bank

John C. Watkins

Manager and Development Director, Watkins Land, LLC

Robin Traywick Williams

Writer

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NASDAQ Capital Market: ESXB