Community Bankers Trust Corporation

2019 Annual Report

Essex Bank

Essex Bank

VIRGINIA

Bon Air
(804) 335-1127

Burgess
(804) 453-4268

Callao
(804) 529-5546

Centerville
(804) 784-4000

Deep Run at Mayland
(804) 419-4329

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

Midlothian—Stonehenge
(804) 476-3043

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

Bowie
(301) 850-5071

Crofton
(410) 721-7330

Edgewater
(410) 757-7777

Rockville
(301) 294-9350

Rosedale
(410) 574-3303

Timonium—Loan Production Office
(410) 574-3304

Customer Service Center
(800) 443-5524

www.EssexBank.com

FDIC
EQUAL HOUSING LENDER

To Our Shareholders

As we move forward, our associates will renew their efforts to grow our business through superior service. We believe that together we will get through this difficult time with more support than ever.

The year 2019 was one of many positives for the Company, including another year of our increasing shareholder value, and the information in this Annual Report tells that story through all of our financial metrics and results. However, it is hard to look back with what we are facing this spring. While the future is uncertain in different ways, our goal is to protect the health and safety of our staff and our customers, and to continue to build the Company as best we can.

This management team came into office at the depths of the recession from 2009 to 2011. We managed through that crisis and built tremendous value for the shareholders. We will capitalize on that experience as we work through any issues that come from the COVID-19 pandemic. The balance sheet, specifically our capital position, remains strong, and we will continue our efforts to preserve it.

We are working hard with our regulators and government agencies to support our customers and communities in many ways. Our well-designed business continuity plan has allowed us to continue to operate and serve our customers. As we move forward, our associates will renew their efforts to grow our business through superior service. I am proud of what they are accomplishing and how they continue to support each other and our customers. We believe that together we will get through this difficult time with more support than ever.

We hope that you our shareholders are faring well and are following public health advisories and recommendations from local, state and federal agencies. We will continue to update you throughout the year as we navigate to better times. Thank you for your ongoing support, and stay safe.

Sincerely,

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, 2019

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:	Trading Symbol	Name of each exchange on which registered:
Common Stock, $0.01 par value	ESXB	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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or an 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	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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. $182,692,064

On February 29, 2020, there were 22,426,621 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 2020 Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K.

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PART I

ITEM 1. *BUSINESS*

GENERAL

The Company is the holding company for Essex Bank (the "Bank"), a Virginia state bank with 24 full-service offices in Virginia and Maryland. The Bank also operates two loan production offices in Virginia.

The Bank was established in 1926. The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals, small businesses and larger commercial companies, 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 cash management services.

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 the Bank's ownership interest in Bankers Insurance, LLC, an independent insurance agency.

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 organic growth in its core markets.

The Company's markets are geographically 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 among 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.

The Company continues to expand on its internal "Growing to Win" campaign and engage 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 believes that this strategy not only gives a competitive advantage over larger banks, but also over web-based financial technology companies.

Building a strong and cohesive culture for the Company is a primary objective of management. The Company's strategic focus on offering a broad array of products delivered with individual service has resulted in expanded market presence, earnings 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 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 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.

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. Many 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 such as financial technology companies, 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, financial technology 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.

EMPLOYEES

As of December 31, 2019, the Company had 243 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'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 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 Company 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

Bank holding companies, banks and their affiliates are extensively regulated under both federal and state law. The following summary 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. This summary is not complete, and we refer you to the particular statutory or regulatory provisions or proposals for more information

The Company

As a bank holding company, we are subject to the Bank Holding Company Act of 1956, as amended (the "BHCA"), and regulation and supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Under the BHCA, the Federal Reserve has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable grounds to believe that continuation of such activity or ownership constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company. The Federal Reserve and the Federal Deposit Insurance Corporation (the "FDIC") have adopted guidelines and released interpretative materials that establish operational and managerial standards to promote the safe and sound operation of banks and bank holding companies. These standards relate to the institution's key operating functions, including but not limited to capital management, internal controls, internal audit systems, information systems, data and cybersecurity, loan documentation, credit underwriting, interest rate exposure and risk management, vendor management, executive management and its compensation, corporate governance, asset growth, asset quality, earnings, liquidity and risk management.

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 non-bank 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 is also subject to regulation and supervision by the Bureau of Financial Institutions of the Virginia State Corporation Commission (the "Bureau") under the financial institution holding company laws of Virginia.

The Bank

The Bank is subject to supervision, regulation and examination by the Bureau and its primary federal regulator, the FDIC. The various laws and regulations issued and administered by the regulatory agencies affect corporate practices, such as the payment of dividends, the incurrence of debt and the acquisition of financial institutions and other companies, and affect business practices and operations, such as the payment of interest on deposits, the charging of interest on loans, the types of business conducted, the products and terms offered to customers and the location of offices. Prior approval of the applicable primary federal regulator and the Bureau is required for a Virginia chartered bank or bank holding company to merge with another bank or bank holding company, to purchase the assets or assume the deposits of another bank or bank holding company, or to acquire control of another bank or bank holding company.

The Dodd-Frank Act and the EGRRCPA

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") has significantly restructured the financial regulatory regime in the United States and has had a broad impact on the financial services industry.

The Dodd-Frank Act implemented far-reaching changes across the financial regulatory landscape, including changes that have significantly affected the business of all bank holding companies and banks, including the Company and the Bank. Some of the rules that have been proposed and, in some cases, adopted to comply with the Dodd-Frank Act's mandates are discussed further below. In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "EGRRCPA") was enacted to reduce the regulatory burden on certain banking organizations, including community banks, by modifying or eliminating certain federal regulatory requirements. While the EGRRCPA maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than $10 billion as well as for larger banks with assets above $50 billion. In addition, the EGRRCPA included regulatory relief for community banks regarding regulatory examination cycles, call reports, application of the Volcker Rule (proprietary trading prohibitions), mortgage disclosures, qualified mortgages, and risk weights for certain high-risk commercial real estate loans. However, federal banking regulators retain broad discretion to impose additional regulatory requirements on banking organizations based on safety and soundness and U.S. financial system stability considerations.

The Company continues to experience ongoing regulatory reform. These regulatory changes could have a significant effect on how the Company conducts its business. The specific implications of the Dodd-Frank Act, the EGRRCPA, and other potential regulatory reforms cannot yet be fully predicted and will depend to a large extent on the specific regulations that are to be adopted in the future. Certain aspects of the Dodd-Frank Act and the EGRRCPA are discussed in more detail below.

Capital Requirements

Basel III Capital Framework. The Federal Reserve and the FDIC have adopted rules to implement the Basel III capital framework as outlined by the Basel Committee on Banking Supervision and standards for calculating risk-weighted assets and risk-based capital measurements (collectively, the "Basel III Final Rules") that apply to banking institutions they supervise. For the purposes of these capital rules, (i) common equity tier 1 capital ("CET1") consists principally of common stock (including surplus) and retained earnings; (ii) Tier 1 capital consists principally of CET1 plus non-cumulative preferred stock and related surplus, and certain grandfathered cumulative preferred stocks and trust preferred securities; and (iii) Tier 2 capital consists of other capital instruments, principally qualifying subordinated debt and preferred stock, and limited amounts of an institution's allowance for loan losses. Each regulatory capital classification is subject to certain adjustments and limitations, as implemented by the Basel III Final Rules. The Basel III Final Rules also establish risk weightings that are applied to many classes of assets held by community banks, importantly including applying higher risk weightings to certain commercial real estate loans.

The Basel III Final Rules and minimum capital ratios required to be maintained by banks were effective January 1, 2015. The Basel III Final Rules also include a requirement that banks maintain additional capital (the "capital conservation buffer"), which was phased in beginning January 1, 2016 and was fully phased in effective January 1, 2019. The Basel III Final Rules and fully phased in capital conservation buffer require banks to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5 percent, plus a 2.5 percent capital conservation buffer (which is added to the minimum CET1 ratio, effectively resulting in a required ratio of CET1 to risk-weighted assets of at least 7 percent), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0 percent, plus the capital conservation buffer (effectively resulting in a required Tier 1 capital ratio of 8.5 percent), (iii) a minimum ratio of total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0 percent, plus the capital conservation buffer (effectively resulting in a required total capital ratio of 10.5 percent) and (iv) a minimum leverage ratio of 4 percent, calculated as the ratio of Tier 1 capital to average total assets, subject to certain adjustments and limitations.

The Basel III Final Rules provide deductions from and adjustments to regulatory capital measures, primarily to CET1, including deductions and adjustments that were not applied to reduce CET1 under historical regulatory capital rules. For example, mortgage servicing rights, deferred tax assets dependent upon future taxable income, and significant investments in non-consolidated financial entities must be deducted from CET1 to the extent that any one such category exceeds 10 percent of CET1 or all such categories in the aggregate exceed 15 percent of CET1.

Community Bank Leverage Ratio. As a result of the EGRRCPA, the federal banking agencies were required to develop a Community Bank Leverage Ratio (the ratio of a bank's tangible equity capital to average total consolidated assets) for banking organizations with assets of less than $10 billion, such as the Bank. On October 29, 2019, the federal banking agencies issued a final rule that implements the Community Bank Leverage Ratio Framework (the "CBLRF"). To qualify for the CBLRF, a bank must have less than $10 billion in total consolidated assets, limited amounts of off-balance sheet exposures and trading assets and liabilities, and a leverage ratio greater than 9 percent. A bank that elects the CBLRF and has a leverage ratio greater than 9 percent will be considered to be in compliance with Basel III capital requirements and exempt from the complex Basel III calculations and will also be deemed "well capitalized" under Prompt Corrective Action regulations, discussed below. A bank that falls out of compliance with the CBLRF will have a two-quarter grace period to come back into full compliance, provided its leverage ratio remains above 8 percent (a bank will be deemed "well capitalized" during the grace period). The CBLRF will be available for banking organizations to use as of March 31, 2020 (with the flexibility for banking organizations to subsequently opt into or out of the CBLRF, as applicable).

Small Bank Holding Company. The EGRRCPA also expanded the category of bank holding companies that may rely on the Federal Reserve's Small Bank Holding Company Policy Statement by raising the maximum amount of assets a qualifying bank holding company may have from $1 billion to $3 billion. In addition to meeting the asset threshold, a bank holding company must not engage in significant nonbanking activities, not conduct significant off-balance sheet activities, and not have a material amount of debt or equity securities outstanding and registered with the SEC (subject to certain exceptions). The Federal Reserve may, in its discretion, exclude any bank holding company from the application of the Small Bank Holding Company Policy Statement if such action is warranted for supervisory purposes.

In August 2018, the Federal Reserve issued an interim final rule to apply the Small Bank Holding Company Policy Statement to bank holding companies with consolidated total assets of less than $3 billion. The policy statement, which, among other things, exempts certain bank holding companies from minimum consolidated regulatory capital ratios that apply to other bank holding companies. As a result of the interim final rule, which was effective August 30, 2018, the Company expects that it will be treated as a small bank holding company and will not be subject to regulatory capital requirements. The comment period on the interim final rule closed on October 29, 2018 and, to date, the Federal Reserve has not issued a final rule to replace the interim final rule. The Bank remains subject to the regulatory capital requirements described above.

Dividends

The Company is a legal entity that is separate and distinct from the Bank. 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.

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. 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 as an insured institution, 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 calculated based on average consolidated total assets minus average tangible equity (defined as Tier 1 capital). As required by the Dodd-Frank Act, the FDIC has adopted a large-bank pricing assessment scheme, set a target "designated reserve ratio" (described in more detail below) of 2 percent for the DIF 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 is based on a statistical analysis of financial ratios that estimates the likelihood of failure over a three-year period, which considers the institution's weighted average CAMELS component rating, and is subject to further adjustments including those related to levels of unsecured debt and brokered deposits (not applicable to banks with less than $10 billion in assets). At December 31, 2019, total base assessment rates for institutions that have been insured for at least five years range from 1.5 to 30 basis points applying to banks with less than $10 billion in assets.

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." The FDIA requires that the FDIC consider the appropriate level for the designated reserve ratio on at least an annual basis. As of December 31, 2019, the designated reserve ratio was 2.00 percent and the minimum designated reserve ratio was 1.35 percent.

Banks with less than $10 billion in total consolidated assets are eligible for credits to offset the portion of their assessments that helped to raise the reserve ratio to 1.35 percent. The FDIC automatically applies these credits to reduce an eligible bank's regular DIF assessment up to the entire amount of the assessment. The FDIC will remit any such remaining credits in a lump sum to the appropriate bank following application to the bank's regular DIF assessment for four quarterly assessment periods. The Bank was awarded credits of $365,000, of which $207,000 was used to offset its DIF assessment in the third and fourth quarters of 2019. The Company expects that the remainder of the credits will be utilized to offset the Bank's DIF assessment during 2020.

Consumer Laws and Regulations

The Bank is subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth herein is not exhaustive, these laws and regulations include the Truth-in-Lending Act, the Truth-in-Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Housing Act, and regulations issued under such acts, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans to or engaging in other types of transactions with such customers.

The Dodd-Frank Act centralized responsibility for consumer financial protection by creating the Consumer Financial Protection Bureau (the "CFPB"), and giving it responsibility for implementing, examining, and enforcing compliance with federal consumer protection laws. The CFPB focuses on (i) risks to consumers and compliance with the federal consumer financial laws, (ii) the markets in which firms operate and risks to consumers posed by activities in those markets, (iii) depository institutions that offer a wide variety of consumer financial products and services, and (iv) non-depository companies that offer one or more consumer financial products or services.

The CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB can issue cease-and-desist orders against banks and other entities that violate consumer financial laws. The CFPB may also institute a civil action against an entity in violation of federal consumer financial law in order to impose a civil penalty or injunction.

Community Reinvestment Act

The Bank is subject to the provisions of the Community Reinvestment Act (the "CRA"), which imposes a continuing and affirmative obligation, consistent with their safe and sound operation, to help meet the credit needs of entire communities where the bank accepts deposits, including low- and moderate-income neighborhoods. The Federal Reserve's assessment of the Bank's CRA record is made available to the public. Further, a less than satisfactory CRA rating will slow, if not preclude, expansion of banking activities and prevent a company from becoming or remaining a financial holding company. Federal CRA regulations require, among other things, that evidence of discrimination against applicants on a prohibited basis, and illegal or abusive lending practices be considered in the CRA evaluation. The Bank has a rating of "Satisfactory" in its most recent CRA evaluation.

Cybersecurity

The federal banking agencies have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of a financial institution's board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial products and services. The federal banking agencies expect financial institutions to establish lines of defense and ensure that their risk management processes also address the risk posed by compromised customer credentials, and also expect financial institutions to maintain sufficient business continuity planning processes to ensure rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack. If the Company or the Bank fails to meet the expectations set forth in this regulatory guidance, the Company or the Bank could be subject to various regulatory actions and any remediation efforts may require significant resources of the Company or the Bank. In addition, all federal and state bank regulatory agencies continue to increase focus on cybersecurity programs and risks as part of regular supervisory exams.

In October 2016, the federal banking agencies issued proposed rules on enhanced cybersecurity risk-management and resilience standards that would apply to very large financial institutions and to services provided by third parties to these institutions. The comment period for these proposed rules has closed and a final rule has not been published. Although the proposed rules would apply only to bank holding companies and banks with $50 billion or more in total consolidated assets, these rules could influence the federal banking agencies' expectations and supervisory requirements for information security standards and cybersecurity programs of smaller financial institutions, such as the Company and the Bank.

Incentive Compensation

The federal banking agencies have issued regulatory guidance 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 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." The findings will be included in reports of examination, and deficiencies will be incorporated into the organization's supervisory ratings. 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.

In 2016, the SEC and the federal banking agencies proposed rules that prohibit covered financial institutions (including bank holding companies and banks) from establishing or maintaining incentive-based compensation arrangements that encourage inappropriate risk taking by providing covered persons (consisting of senior executive officers and significant risk takers, as defined in the rules) with excessive compensation, fees or benefits that could lead to material financial loss to the financial institution. The proposed rules outline factors to be considered when analyzing whether compensation is excessive and whether an incentive-based compensation arrangement encourages inappropriate risks that could lead to material loss to the covered financial institution, and establishes minimum requirements that incentive-based compensation arrangements must meet to be considered to not encourage inappropriate risks and to appropriately balance risk and reward. The proposed rules also impose additional corporate governance requirements on the boards of directors of covered financial institutions and impose additional record-keeping requirements. The comment period for these proposed rules has closed and a final rule has not yet been published.

Prompt Corrective Action

The federal banking agencies have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." These terms are defined under uniform regulations issued by each of the federal banking agencies regulating these institutions. An insured depository institution which is less than adequately capitalized must adopt an acceptable capital restoration plan, is subject to increased regulatory oversight and is increasingly restricted in the scope of its permissible activities. As of December 31, 2019, the Bank was considered "well capitalized."

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, financial technology 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, pandemic conditions, public health emergencies, 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.

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.

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.

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.

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.

In addition, the measure of our allowance for loan losses is dependent on the adoption and interpretation of accounting standards. In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*," Under this ASU, the current incurred loss credit impairment methodology will be replaced with the CECL model, a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. While this ASU is not effective for us until the fiscal year beginning after December 15, 2022, we expect that the implementation of the CECL model will change our current method of setting an allowance and may result in material changes in our accounting for credit losses on financial instruments. The CECL model may create more volatility in our level of allowance for loan losses. If we are required to materially increase this level for any reason, such increase could adversely affect our business, financial condition, and results of operations.

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 81.35% 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 current 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 were phased-in over a four-year period until they were 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.

Major U.S. retailers continue to experience data system incursions resulting in the thefts of credit and debit card information, online account information, and other financial data impacting 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 losses 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, 2019, 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 $187.0 million at December 31, 2019. 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 (81.35% at December 31, 2019). 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 a 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, 2019, we recorded net deferred income tax assets of $4.3 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. The Company does not currently have a valuation allowance; however, due to the uncertainty of estimates and projections, it is possible that we will be required to establish a 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.

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
Deep Run at Mayland — 9954 Mayland Drive, Richmond, VA 23233
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
Midlothian–Stonehenge — 12640 Stone Village Way, Midlothian, VA 23113
Tappahannock–Dillard — 1325 Tappahannock Boulevard, 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
Bowie — 6143 High Bridge Road, Bowie, MD 20720
Crofton — 2120 Baldwin Avenue, Crofton, MD 21114
Edgewater — 3062 Solomons Island Road, MD 21037
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 and the Midlothian–Stonehenge and West Broad Marketplace offices in the Virginia market and the Crofton, Edgewater and Rockville offices in the Maryland market. The Company also has a loan production office in each of Lynchburg, Virginia, and Timonium, Maryland, each of which it leases.

The Company closed its Fairfax (Virginia) branch office on May 31, 2019 and its Cumberland (Virginia) branch office on August 2, 2019.

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 INFORMATION

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

HOLDERS OF RECORD

As of December 31, 2019, there were 1,765 holders of record of the Company's common stock, not including beneficial holders of securities held in street name.

DIVIDENDS

The Company recommenced the payment of quarterly cash dividends in 2019. The payment of dividends 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 had suspended the payment of a quarterly cash dividend following a payment in February 2010. During this suspension period, 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 2014, when the Company completed the redemption of such funding, 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 until 2017, when the Company repaid such loan, and for the payment of intercompany expenses and interest payments on trust preferred securities.

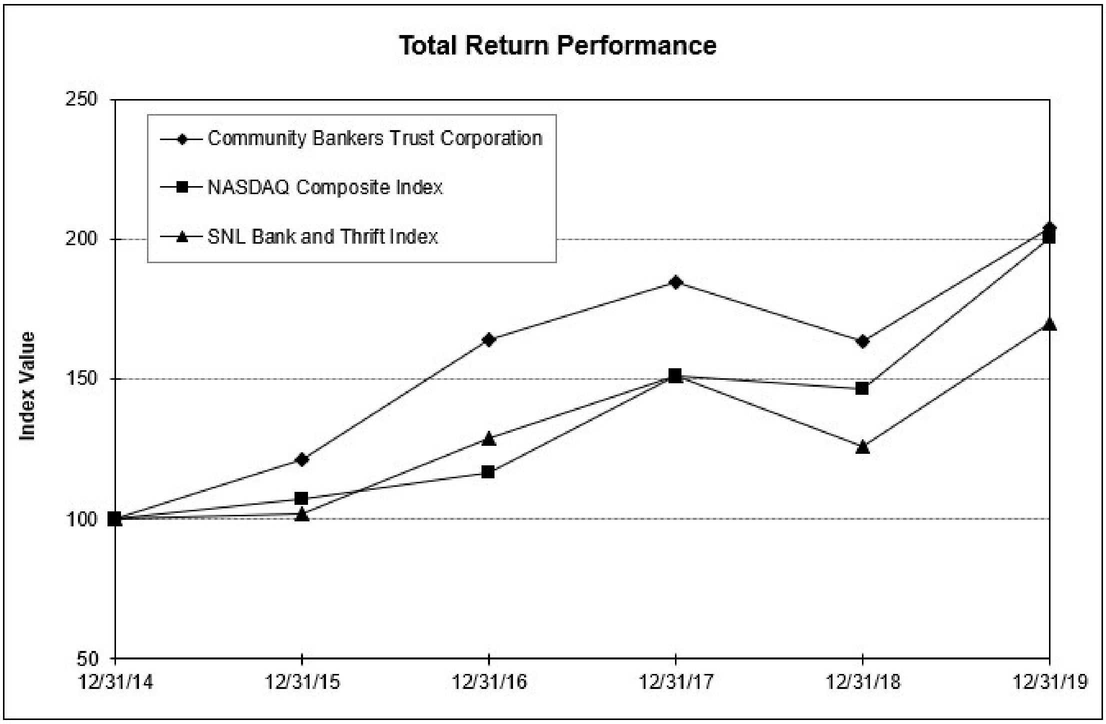
EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about common stock that may be issued upon the exercise of options, warrants and rights under the Company's two stock incentive plans as of December 31, 2019. There are no outstanding warrants or rights under that plan, and the Company does not have any other plans that provide for the issuance of any options, warrants or rights.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)
Equity Compensation Plans Approved by Security Holders			
2009 Stock Incentive Plan	1,593,750	$5.92	--
2019 Stock Incentive Plan	--	--	2,486,331
Equity Compensation Plans Not Approved by Security Holders	--	--	--
Total	1,593,750	$5.18	2,486,331

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, 2014, to December 31, 2019, 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, 2014 in the Company's common stock and in each of the comparable indices and that dividends were reinvested.



	Period Ending					
Index	**12/31/14**	**12/31/15**	**12/31/16**	**12/31/17**	**12/31/18**	**12/31/19**
Community Bankers Trust Corporation	100.00	121.49	164.03	184.39	163.35	204.05
NASDAQ Composite Index	100.00	106.96	116.45	150.96	146.67	200.49
SNL Bank and Thrift Index	100.00	102.02	128.80	151.45	125.81	170.04

PURCHASES OF EQUITY SECURITES BY THE ISSUER

The Company did not repurchase any of its securities during the year ended December 31, 2019.

ITEM 6. ***SELECTED FINANCIAL DATA***

Not applicable

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, 2019 and results of operations for the year ended December 31, 2019 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 24 full-service offices, 18 of which are in Virginia and six of which are in Maryland. The Bank also operates two loan production offices.

The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals, small businesses and larger commercial companies, 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 cash management services.

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 mix and product type for both loans and deposits can have a significant effect on the net interest income of the Bank. For the past several years, the Bank’s focus has been on maximizing that mix through branch growth and targeted product types, with lenders and other employees directly involved with customer relationships. Additionally, the quality of the interest earning assets further influences the amount of interest income lost on nonaccrual loans and the amount of additions to the allowance for loan losses.

The Bank also earns noninterest income from service charges on deposit accounts and other fee or commission-based services and products, such as insurance, mortgage loans, annuities, and other wealth management products. Other sources of noninterest income can include gains or losses on securities transactions and income from bank owned life insurance (BOLI) policies. The Company’s income is offset by noninterest expense, which consists of salaries and employee benefits, occupancy and equipment costs, data processing expenses, professional fees, transactions involving bank-owned property, and other operational expenses. The provision for loan losses and income taxes may also materially affect net income.

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

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

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

- 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 in 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 collateral value (or discounted cash flows 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 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 evaluated for impairment as a pool. Accordingly, the Company does not separately analyze these individual 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 recorded. Judgmental prepayment assumptions are applied to both contractually required payments and cash flows expected to be collected at acquisition. Over the life of the loan or pool, the Company continues to estimate cash flows expected to be collected. Subsequent decreases in cash flows expected to be collected over the life of the pool are recognized as an impairment in the current period through the allowance for loan losses. Subsequent increases in expected or actual cash flows are first used to reverse any existing valuation allowance for that loan or pool. Any remaining increase in cash flows expected to be collected is recognized as an adjustment to the accretable yield with the amount of periodic accretion adjusted over the remaining life of the pool.

OVERVIEW

Total assets increased $38.1 million, or 2.7%, during 2019 to $1.431 billion at December 31, 2019. Total loans, excluding PCI loans, were $1.058 billion at December 31, 2019, increasing $64.6 million, or 6.5%, from year end 2018. Total PCI loans were $32.5 million at December 31, 2019 versus $38.3 million at year end 2018.

The Company's securities portfolio, excluding restricted equity securities, decreased $26.1 million, or 10.5%, since year end 2018, to $222.7 million at December 31, 2019. State, county and municipal bonds, 55.8% of total securities, decreased $20.3 million during the year and totaled $124.3 million at December 31, 2019. The Company actively manages the portfolio to improve its liquidity and maximize the return within the desired risk profile. The fair value of the AFS portfolio was $187.0 million and $206.7 million at December 31, 2019 and 2018, respectively. The Company had a net unrealized gain of $3.7 million and a net unrealized loss of $792,000 in the AFS portfolio at December 31, 2019 and 2018, respectively.

Interest bearing deposits at December 31, 2019 were $984.9 million, a decrease of $15.0 million, or 1.5%, from December 31, 2018. Time deposits over $250,000 declined by $9.5 million and were $119.5 million at December 31, 2019. Time deposits less than or equal to $250,000 decreased $7.7 million and totaled $477.5 million at December 31, 2019. Money market deposit accounts, $120.8 million at December 31, 2019, decreased by $6.1 million during 2019. Offsetting these decreases to interest bearing deposits was an increase of $4.6 million in NOW accounts and an increase of $3.7 million in savings accounts.

In other funding activity, noninterest bearing deposits were $178.6 million at December 31, 2019 and increased by $13.5 million, or 8.2%, during 2019. Federal funds purchased were $24.4 million at December 31, 2019 and $19.4 million at December 31, 2018. FHLB advances were $68.5 million at December 31, 2019, compared with $59.4 million at December 31, 2018.

Shareholders' equity was $155.5 million at December 31, 2019, an increase of $18.0 million, or 13.1%, from shareholders' equity of $137.5 million at December 31, 2018. Shareholders' equity to assets was 10.9% at December 31, 2019 compared with 9.9% at December 31, 2018.

RESULTS OF OPERATIONS

Net Income

Net income was $15.7 million for the year ended December 31, 2019 compared with $13.7 million for the same period in 2018. This is an increase of $2.0 million, or 14.7%. Interest and dividend income increased by $6.2 million, or 10.5%, and noninterest income increased by $891,000, or 20.0%. Offsetting these increases to net income were increases of $3.4 million, or 28.5%, in interest expense, $852,000, or 2.4%, in noninterest expense, $325,000 in provision for loan losses and $467,000 in income tax expense. Earnings per share were $0.71 basic and $0.70 fully diluted for 2019 compared with $0.62 basic and $0.61 fully diluted for 2018.

Net Interest Income

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

Net interest income was $50.0 million for 2019, or an increase of $2.8 million, or 5.9%, when comparing 2018 and 2019. Net interest income on a tax-equivalent basis was $50.4 million for 2019 compared with $47.8 million for 2018, an increase of $2.6 million. The yield on earning assets was 4.99% for 2019 compared with 4.71% for 2018. Interest and fees on loans of $51.6 million in 2019 was an increase of $5.3 million compared with $46.3 million for 2018. Interest and fees on PCI loans increased $820,000 over this same time frame. The PCI portfolio contains six separate pools, two of which, due to the uncertain nature of the cash flows, have no carrying value. A $1.1 million payoff occurred in one of those pools, the Acquisition, Development and Construction pool, resulting in the entire payment being interest income. For 2019 compared with 2018, securities income increased $31,000. On a tax-equivalent basis, the change was a decrease of $124,000. The average balance of tax-exempt securities declined $20.3 million, thus reducing the benefit received on a tax-equivalent basis on these securities. The tax-equivalent yield on the portfolio increased and was 3.23% for 2019 compared with 3.15% for 2018.

Interest expense of $15.5 million represented an increase of $3.4 million, or 28.5%, in 2019 compared with 2018. Average interest bearing liabilities increased $15.1 million, or 1.4%. However, the cost of interest bearing liabilities increased from 1.13% for 2018 to 1.44% for 2019. Driving this cost increase was growth of $46.3 million, or 8.0%, in the average balance of time deposits, from $581.6 million for 2018 to $627.9 million for 2019. This growth in time deposits, as a result of higher rates that the Company offered, came partly from a shift away from savings and money market accounts, which experienced a decline of $8.8 million in average balances between the comparison periods. Additionally, time deposit growth included a shift out of FHLB and other borrowings, which reflected an average balance decline of $25.3 million, or 27.8%, over the two comparison periods.

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 3.58% for the year ended December 31, 2018 to 3.55% for the same period in 2019. The tax equivalent yield (non-GAAP) on earning assets increased from 4.71% for the year ended December 31, 2018 to 4.99% for the year ended December 31, 2019. The yield on total loans increased from 5.14% for the year ended December 31, 2018 to 5.44% for the year ended December 31, 2019. PCI loan yield rose from 12.85% to 16.99%, and the yield on loans, excluding PCI loans, increased 21 basis points, from 4.82% to 5.03%. The tax-equivalent yield on securities increased from 3.15% for 2018 to 3.23% for 2019, as the Company sold lower yielding securities during the course of 2018 to fund loan demand.

The Company's total loan to deposit ratio was 93.8% at December 31, 2019 versus 88.6% at December 31, 2018.

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, 2019			Year ended December 31, 2018			Year ended December 31, 2017		
(Dollars in thousands)	**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	$ 1,023,861	$ 51,551	5.03 %	$ 960,978	$ 46,291	4.82 %	$ 870,258	$ 40,301	4.63 %
PCI loans	35,568	6,042	16.99	40,641	5,222	12.85	47,983	5,733	11.95
Total loans	1,059,429	57,593	5.44	1,001,619	51,513	5.14	918,241	46,034	5.01
Interest bearing bank balances	15,977	391	2.45	13,995	303	2.16	15,618	196	1.26
Federal funds sold	688	14	2.16	242	5	2.03	94	1	1.11
Securities (taxable)	188,531	5,870	3.11	178,086	5,258	2.95	181,476	4,682	2.58
Securities (tax exempt) (1)	55,448	2,001	3.61	75,741	2,737	3.61	85,305	3,639	4.27
Total earning assets	1,320,073	65,869	4.99	1,269,683	59,816	4.71	1,200,734	54,552	4.54
Allowance for loan losses	(8,821)			(9,198)			(9,431)		
Non-earning assets	101,590			92,621			89,904		
Total assets	$ 1,412,842			$ 1,353,106			$ 1,281,207		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Demand - interest bearing	$ 157,876	346	0.22	$ 156,541	325	0.21	$ 139,620	$ 260	0.19 %
Savings and money market	221,817	1,268	0.57	230,637	1,187	0.51	216,149	880	0.41
Time deposits	627,913	12,422	1.98	581,619	8,745	1.50	574,630	6,757	1.18
Total interest bearing deposits	1,007,606	14,036	1.39	968,797	10,257	1.06	930,399	7,897	0.85
Short-term borrowings	4,422	113	2.56	2,856	65	2.28	1,556	25	1.58
FHLB and other borrowings	65,673	1,343	2.04	90,966	1,732	1.90	85,127	1,277	1.50
Total interest bearing liabilities	1,077,701	15,492	1.44	1,062,619	12,054	1.13	1,017,082	9,199	0.90
Noninterest bearing deposits	174,163			155,003			136,674		
Other liabilities	13,235			6,219			5,550		
Total liabilities	1,265,099			1,223,841			1,159,306		
Shareholders' equity	147,743			129,265			121,901		
Total liabilities and shareholders' equity	$ 1,412,842			$ 1,353,106			$ 1,281,207		
Net interest earnings		$ 50,377			$ 47,762			$ 45,353	
Interest spread			3.55 %			3.58 %			3.64 %
Net interest margin			3.82 %			3.76 %			3.78 %
Tax equivalent adjustment:									
Securities		$ 420			$ 576			$ 1,237	

(1) Income and yields are reported on a tax equivalent basis assuming a federal tax rate of 21% for each of 2019 and 2018 and 34% for 2017.

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, 2019 AND 2018
(Dollars in thousands)

	2019 compared to 2018 Increase (Decrease)			2018 compared to 2017 Increase (Decrease)		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans, including fees	$ 3,031	$ 2,229	$ 5,260	$ 4,201	$ 1,789	$ 5,990
PCI loans, including fees	(652)	1,472	820	(877)	366	(511)
Interest bearing bank balances and federal funds sold	52	45	97	(18)	129	111
Securities	(288)	319	31	(344)	680	336
Total Earning Assets	2,143	4,065	6,208	2,962	2,964	5,926
Interest Expense:						
Demand - interest bearing	3	18	21	32	33	65
Savings and money market	(45)	126	81	59	249	308
Time deposits	694	2,983	3,677	82	1,905	1,987
Total interest-bearing deposits	652	3,127	3,779	173	2,187	2,360
Other borrowed funds	(455)	113	(342)	107	388	495
Total interest-bearing liabilities	197	3,240	3,437	280	2,575	2,855
Net increase in net interest income	$ 1,946	$ 825	$ 2,771	$ 2,682	$ 389	$ 3,071

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.

Provision for loan losses for the year ended December 31, 2019 was $325,000, compared with no provision for loan losses for the year ended December 31, 2018. The provision during 2019 was due to loan growth and an uptick in delinquencies less than 90 days past due and still accruing interest. The Company records a separate provision for loan losses for its loan portfolio and its PCI loan portfolio. There was no provision for the PCI loan portfolio for the years ended December 31, 2019 and 2018. The absence of a provision during the year ended December 31, 2018 was the direct result of nominal charge-offs and stable asset quality, coupled with the level of loan growth during the period.

The allowance for loan losses, excluding PCI loans, equaled 159.3% of nonaccrual loans at December 31, 2019 compared with 94.6% at December 31, 2018. The ratio of the allowance for loan losses to total loans, excluding PCI loans, was 0.80% at December 31, 2019 compared with 0.90% at December 31, 2018. Net charge-offs were $879,000 in 2019 compared with net recoveries of $14,000 in 2018.

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

Noninterest Income

Noninterest income was $5.4 million for 2019, an increase of $891,000, or 20.0%, compared with $4.5 million for 2018. Service charges and fees, driven by an increase in deposits, were $2.8 million for 2019, an increase of $321,000 compared with the same period in 2018. Other noninterest income was $1.1 million for 2019, an increase of $353,000 versus 2018. The 2019 period benefited from the receipt of life insurance proceeds of $120,000, dividends on an equity investment of $159,000, compared with $30,000 in 2018, and swap fee income of $87,000. Mortgage loan income of $486,000, driven by low interest rates and refinance activity, increased by $167,000 in 2019 compared with the same period in 2018. Gain on securities transactions, net was $235,000 in 2019 compared with $70,000 for 2018. Gain on sale of loans declined by $104,000 in 2019 compared with 2018.

Noninterest Expenses

Noninterest expenses were $35.7 million for 2019, as compared with $34.9 million for 2018. This is an increase of $852,000, or 2.4%. Other real estate expenses, net increased $605,000 and were $718,000 for 2019, compared with $113,000 for 2018. The major cause for the increase was the payment of $624,000 in past due taxes on a $3.8 million construction and land development loan foreclosure. Occupancy expenses increased $265,000 in 2019 compared with 2018 and were $3.5 million. Data processing fees increased $207,000, or 9.8% and were $2.3 million for 2019. Other operating expenses increased $223,000 and were $6.0 million for 2019. Offsetting these increases, the FDIC assessment decreased $480,000 for 2019 compared with the same period in 2018.

Income Taxes

For the year ended December 31, 2019, income tax expense was $3.6 million compared with $3.1 million for 2018. The effective tax rate was 18.4% for each of the years ended December 31, 2019 and 2018.

Loans

Total loans were $1.091 billion at December 31, 2019, increasing $58.9 million from $1.032 billion at December 31, 2018. Total loans, excluding PCI loans, were $1.058 billion at December 31, 2019 versus $993.7 million at December 31, 2018, an increase of $64.6 million, or 6.5%. Construction and land development loans increased by the largest dollar amount during 2019, $26.2 million, or 21.7%, and were $146.6 million at December 31, 2019, or 13.9% of total loans. Commercial mortgage loans, the largest category of loans, grew by $17.0 million during 2019 and were $396.9 million at December 31, 2019, or 37.5% of total loans. Multifamily loans grew by $13.4 million during 2019 and were $73.0 million, or 6.9% of total loans. Residential 1 – 4 family loans grew $7.3 million during 2019 and were $223.5 million, or 21.1% of total loans at year end 2019. Commercial loans, 18.1% of total loans, were $191.2 million at December 31, 2019 and grew by $2.5 million during 2019. PCI loans were $32.5 million at December 31, 2019, $5.8 million lower than at year end 2018.

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):

	2019					
	Loans		PCI Loans		Total Loans	
Mortgage loans on real estate:						
Residential 1-4 family	$ 223,538	21.12 %	$ 29,465	90.58 %	$ 253,003	23.19 %
Commercial	396,858	37.50	490	1.51	397,348	36.42
Construction and land development	146,566	13.85	1,172	3.60	147,738	13.54
Second mortgages	6,639	0.63	1,169	3.59	7,808	0.72
Multifamily	72,978	6.90	232	0.72	73,210	6.71
Agriculture	8,346	0.79	—	—	8,346	0.77
Total real estate loans	854,925	80.79	32,528	100.00	887,453	81.35
Commercial loans	191,183	18.06	—	—	191,183	17.53
Consumer installment loans	11,163	1.05	—	—	11,163	1.02
All other loans	1,052	0.10	—	—	1,052	0.10
Total loans	$ 1,058,323	100.00 %	$ 32,528	100.00 %	$ 1,090,851	100.00 %

	2018					
	Loans		PCI Loans		Total Loans	
Mortgage loans on real estate:						
Residential 1-4 family	$ 216,268	21.77 %	$ 34,240	89.43 %	$ 250,508	24.27 %
Commercial	379,904	38.23	746	1.95	380,650	36.89
Construction and land development	120,413	12.12	1,326	3.46	121,739	11.80
Second mortgages	6,778	0.68	1,729	4.52	8,507	0.82
Multifamily	59,557	5.99	244	0.64	59,801	5.79
Agriculture	8,370	0.84	—	—	8,370	0.81
Total real estate loans	791,290	79.63	38,285	100.00	829,575	80.38
Commercial loans	188,722	18.99	—	—	188,722	18.29
Consumer installment loans	12,048	1.21	—	—	12,048	1.17
All other loans	1,645	0.17	—	—	1,645	0.16
Total loans	$ 993,705	100.00 %	$ 38,285	100.00 %	$ 1,031,990	100.00 %

	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	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 %

The following table indicates the contractual maturity of commercial and construction and land development loans as of December 31, 2019 (dollars in thousands):

	Commercial	Construction and land development
Within 1 year	$ 73,561	$ 98,061
Variable Rate		
One to Five Years	23,260	26,156
After Five Years	33,005	10,997
Total	56,265	37,153
Fixed Rate		
One to Five Years	52,268	11,276
After Five Years	9,089	1,248
Total	61,357	12,524
Total Maturities	$ 191,183	$ 147,738

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, 2019, nonperforming assets totaled $10.8 million and net charge-offs were $879,000. Nonperforming assets totaled $10.6 million and net recoveries were $14,000 at December 31, 2018.

Nonperforming loans were $5.3 million at December 31, 2019 compared to $9.5 million at December 31, 2018. The $4.2 million decrease in nonperforming loans since December 31, 2018, was the net result of $5.2 million in additions to nonperforming loans and $9.4 million in reductions. The additions related mainly to two commercial loans totaling $616,000, one multifamily real estate loan of $2.6 million, and one 1-4 family residential mortgage loan of $764,000. Of the $9.4 million in reductions, there was one foreclosure of a construction and land development credit totaling $3.8 million. In addition, there were $1.4 million in charge-offs, $1.6 million in pay-offs, $1.5 million in payments to existing credits, and $1.1 million in loans returned to accruing status during the year.

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):

	2019	2018	2017	2016	2015
Nonaccrual loans	$ 5,292	$ 9,500	$ 9,026	$ 10,243	$ 10,670
Loans past due 90 days and accruing interest	946	—	—	—	—
Total nonperforming loans	6,238	9,500	9,026	10,243	10,670
OREO	4,527	1,099	2,791	4,427	5,490
Total nonperforming assets	$ 10,765	$ 10,599	$ 11,817	$ 14,670	$ 16,160
Accruing troubled debt restructure loans	$ 4,593	$ 8,359	$ 5,271	$ 4,653	$ 4,596
Balances					
Specific reserve on impaired loans	584	2,246	959	1,130	1,144
General reserve related to unimpaired loans	7,845	6,737	8,010	8,363	8,415
Total allowance for loan losses	8,429	8,983	8,969	9,493	9,559
Average loans during the year, net of unearned income	1,023,861	960,978	870,258	787,245	687,463
Impaired loans	9,885	17,859	14,297	18,541	15,266
Non-impaired loans	1,048,438	975,846	927,721	817,758	733,476
Total loans, net of unearned income	1,058,323	993,705	942,018	836,299	748,742
Ratios					
Allowance for loan losses to loans	0.80 %	0.90 %	0.95 %	1.14 %	1.28 %
Allowance for loan losses to nonaccrual loans	159.28	94.56	99.37	92.68	89.59
General reserve to non-impaired loans	0.75	0.69	0.86	1.02	1.15
Nonaccrual loans to loans	0.50	0.96	0.96	1.22	1.43
Nonperforming assets to loans and OREO	1.01	1.07	1.25	1.74	2.14
Net charge-offs (recoveries) to average loans	0.09	(0.00)	0.12	0.07	(0.04)

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):

	2019	2018	2017	2016	2015
Mortgage loans on real estate:					
Residential 1-4 family	$ 1,378	$ 1,257	$ 1,962	$ 2,893	$ 4,562
Commercial	1,006	2,123	1,498	1,758	1,508
Construction and land development	376	4,571	4,277	5,495	4,509
Second mortgages	—	—	—	—	13
Multifamily	2,463	—	—	—	—
Agriculture	—	—	68	—	—
Total real estate loans	5,223	7,951	7,805	10,146	10,592
Commercial loans	62	1,549	1,214	53	—
Consumer installment loans	7	—	7	44	78
Total loans	$ 5,292	$ 9,500	$ 9,026	$ 10,243	$ 10,670

Allowance for Loan Losses

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 deemed to be stale or 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):

	2019	2018	2017	2016	2015
Balance, beginning of year	$ 8,983	$ 8,969	$ 9,493	$ 9,559	$ 9,267
Loans charged-off:					
Commercial	724	45	431	—	3
Real estate	667	216	797	687	1,183
Consumer and other loans	253	220	285	191	174
Total loans charged-off	1,644	481	1,513	878	1,360
Recoveries:					
Commercial	184	49	5	11	1,211
Real estate	465	234	282	245	343
Consumer and other loans	116	212	152	106	98
Total recoveries	765	495	439	362	1,652
Net charge-offs (recoveries)	879	(14)	1,074	516	(292)
Provision for loan losses	325	—	550	450	—
Balance, end of year	$ 8,429	$ 8,983	$ 8,969	$ 9,493	$ 9,559
Allowance for loan losses to loans	0.80 %	0.90 %	0.95 %	1.14 %	1.28 %
Net charge-offs (recoveries) to average loans	0.09 %	(0.00) %	0.12 %	0.07 %	(0.04)%
Allowance to nonperforming loans	159.28 %	94.57 %	99.37 %	92.68 %	89.59 %

During 2019, the Company's net charge-offs of $879,000 increased $893,000 from net recoveries of $14,000 in the prior year and were primarily centered in commercial loans. Net charge-offs by loan category to total net charge-offs were the following for 2019: 61.4% for commercial loans, 23.0% for real estate loans, and 15.6% for consumer loans.

During 2018, the Company's net recoveries of $14,000 increased $1.1 million from net charge-offs of $1.1 million in the prior year and were primarily centered in real estate loans. Net charge-offs (recoveries) by loan category to total net recoveries were the following for 2018: (28.6%) for commercial loans, (128.6%) for real estate loans, and 57.2% 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):

	2019		2018		2017		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial	$ 1,980	18.1 %	$ 1,894	19.0 %	$ 1,139	16.9 %	$ 602	15.5 %	$ 631	13.6 %
Construction and land development	1,044	13.9	1,161	12.1	1,247	11.4	2,195	11.7	1,298	9.0
Real estate mortgage	5,246	66.9	4,499	67.5	6,423	71.0	5,068	72.0	6,914	76.4
Consumer and other	121	1.1	164	1.4	113	0.7	142	0.8	118	1.0
Unallocated	38	—	1,265	—	47	—	1,486	—	598	—
Total allowance	$ 8,429	100 %	$ 8,983	100 %	$ 8,969	100 %	$ 9,493	100 %	$ 9,559	100 %

The allowance for loan losses for each of the periods presented above includes an amount that could not be related to individual types of loans, and this is referred to as the unallocated component 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. Several factors justified the maintenance of the $1.3 million unallocated component at December 31, 2018. Specifically, at December 31, 2018, in regards to the economic factors, there was significant uncertainty stemming from recent stock market declines and the government shutdown, which ended in early 2019. The stock market suffered major declines in the fourth quarter of 2018 due to concerns about a slowdown in worldwide growth and an increased probability of recession. The Company believed the effects of the government shutdown, which had yet to be ultimately determined, could have dampened economic growth and impeded the economy, specifically, as it related to our government contractor customer base of $10.2 million in loans. While there was no direct impact to our government contractor base during 2019, delinquencies increased $573,000, net charge-offs were $879,000 and the Company took a provision of $325,000, all of which contributed to the reduction of the unallocated amount to $38,000 at December 31, 2019.

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, excluding restricted equity securities, decreased $26.1 million, or 10.5%, since year end 2018, to $222.7 million at December 31, 2019. State, county and municipal bonds, 55.8% of total securities, decreased $20.3 million during the year and totaled $124.3 million at December 31, 2019. Gains on securities transactions, net totaled $235,000 during 2019 compared with $70,000 in 2018. The Company actively manages the portfolio to improve its liquidity and maximize the return within the desired risk profile.

The following table summarizes the securities portfolio by contractual maturity and issuer, including weighted average yields, excluding restricted stock, as of December 31, 2019 (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	$ 47	$ 23,208	$ 1,965	$ 6,884	$ 32,104
Fair Value	47	23,122	1,970	6,785	31,924
Weighted Avg Yield	2.33 %	2.05 %	3.10 %	2.44 %	2.19 %
State, county and municipal[(1)]					
Amortized Cost	14,992	39,680	54,660	11,868	121,200
Fair Value	15,139	40,944	56,865	12,289	125,237
Weighted Avg Yield	3.95 %	3.66 %	3.49 %	3.47 %	3.60 %
Corporate and other bonds					
Amortized Cost	1,499	5,602	9,556	996	17,653
Fair Value	1,512	5,647	9,547	995	17,701
Weighted Avg Yield	3.20 %	3.00 %	2.96 %	2.77 %	2.98 %
Mortgage Backed securities					
Amortized Cost	4,707	18,147	23,992	1,199	48,045
Fair Value	4,702	18,323	24,509	1,206	48,740
Weighted Avg Yield	1.36 %	2.42 %	2.86 %	3.45 %	2.56 %
Total					
Amortized Cost	21,245	86,637	90,173	20,947	219,002
Fair Value	21,400	88,036	92,891	21,275	223,602
Weighted Avg Yield	3.32 %	2.93 %	3.26 %	3.10 %	3.12 %

(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, 2019			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Government agencies	$ 22,104	$ 51	$ (219)	$ 21,936
State, county and municipal	95,467	3,167	(42)	98,592
Mortgage backed securities	48,045	808	(113)	48,740
Asset backed securities	11,637	49	(82)	11,604
Corporate bonds	6,016	84	(3)	6,097
Total Securities Available for Sale	$ 183,269	$ 4,159	$ (459)	$ 186,969
Securities Held to Maturity				
U.S. Government agencies	$ 10,000	$ —	$ (12)	$ 9,988
State, county and municipal	25,733	913	(1)	26,645
Total Securities Held to Maturity	$ 35,733	$ 913	$ (13)	$ 36,633

	December 31, 2018			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury securities	$ 13,460	$ —	$ (336)	$ 13,124
U.S. Government agencies	24,689	71	(151)	24,609
State, county and municipal	112,465	1,018	(941)	112,542
Mortgage backed securities	46,877	196	(656)	46,417
Asset backed securities	5,342	73	(4)	5,411
Corporate bonds	4,685	—	(62)	4,623
Total Securities Available for Sale	$ 207,518	$ 1,358	$ (2,150)	$ 206,726
Securities Held to Maturity				
U.S. Government agencies	$ 10,000	$ —	$ (210)	$ 9,790
State, county and municipal	32,108	419	(64)	32,463
Total Securities Held to Maturity	$ 42,108	$ 419	$ (274)	$ 42,253

	December 31, 2017			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury securities	$ 14,963	$ —	$ (319)	$ 14,644
U.S. Government agencies	34,757	221	(87)	34,891
State, county and municipal	124,032	2,324	(596)	125,760
Mortgage backed securities	22,536	63	(520)	22,079
Asset backed securities	7,072	173	(24)	7,221
Corporate bonds	251	—	(12)	239
Total Securities Available for Sale	$ 203,611	$ 2,781	$ (1,558)	$ 204,834
Securities Held to Maturity				
U.S. Government agencies	$ 10,000	$ —	$ (155)	$ 9,845
State, county and municipal	35,678	922	(33)	36,567
Mortgage backed securities	468	8	—	476
Total Securities Held to Maturity	$ 46,146	$ 930	$ (188)	$ 46,888

Deposits

The Company's lending and investing activities are funded primarily through its deposits. Interest bearing deposits at December 31, 2019 were $984.9 million, a decrease of $15.0 million, or 1.5%, from December 31, 2018. Time deposits less than $100,000 declined by $1.1 million and were $263.6 million at December 31, 2019. Time deposits over $100,000 decreased $16.1 million and totaled $333.3 million at December 31, 2019. Money market deposit accounts, $120.8 million at December 31, 2019, decreased by $6.1 million during 2019. Offsetting these decreases to interest bearing deposits was an increase of $4.6 million in NOW accounts and an increase of $3.7 million in savings accounts. Noninterest bearing deposits were $178.6 million at December 31, 2019 and increased by $13.5 million, or 8.2%, during 2019.

The following table summarizes deposits by product and percent of total deposits for the periods ended December 31 of the years presented (dollars in thousands):

	2019		2018		2017	
	Amount	% of deposits	Amount	% of deposits	Amount	% of deposits
Noninterest bearing	$ 178,584	15.3 %	$ 165,086	14.2 %	$ 153,028	14.0 %
Interest bearing:						
NOW	170,532	14.7	165,946	14.2	157,037	14.3
MMDA	120,841	10.4	126,933	10.9	143,363	13.1
Savings	96,570	8.3	92,910	8.0	93,980	8.6
Time deposits less than $100,000	263,619	22.7	264,678	22.7	236,099	21.5
Time deposits $100,000 and over	333,302	28.6	349,422	30.0	312,257	28.5
Total interest bearing deposits	984,864	84.7	999,889	85.8	942,736	86.0
Total deposits	$ 1,163,448	100.0 %	$ 1,164,975	100.0 %	$1,095,764	100.0 %

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, 2019 (dollars in thousands):

Within 3 months	$ 82,910
3-6 months	73,061
6-12 months	107,947
over 12 months	69,384
Total	$ 333,302

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 advances. The following information is provided for borrowings balances, rates, and maturities as of December 31 of the years presented (dollars in thousands):

		FHLB Borrowings		
	Federal Funds Purchased	Short-term Advances	Long-term notes payable	Total
As of December 31, 2019				
Amount outstanding at year end	$ 24,437	$ 20,000	$ 48,500	$ 68,500
Maximum month-end outstanding balance	24,437	50,000	48,667	
Average outstanding balance during the year	4,422	35,123	26,426	
Average interest rate during the year	2.56 %	2.45 %	1.76 %	
Average interest rate at year end	2.26 %	1.74 %	1.45 %	

		FHLB Borrowings		
	Federal Funds Purchased	Short-term Advances	Long-term notes payable	Total
As of December 31, 2018				
Amount outstanding at year end	$ 19,440	$ 40,000	$ 19,447	$ 59,447
Maximum month-end outstanding balance	20,000	75,500	30,929	
Average outstanding balance during the year	2,856	62,138	24,704	
Average interest rate during the year	2.28 %	1.97 %	1.76 %	
Average interest rate at year end	2.94 %	2.53 %	1.87 %	

	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 %	

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, 2019 and 2018 was as follows (dollars in thousands):

	December 31, 2019	December 31, 2018
Cash and due from banks	$ 16,976	$ 18,292
Interest bearing bank deposits	11,708	15,927
Available for sale securities, at fair value, unpledged	157,225	174,842
Total liquid assets	$ 185,909	$ 209,061
Deposits and other liabilities	$ 1,275,361	$ 1,255,689
Ratio of liquid assets to deposits and other liabilities	14.58 %	16.65 %

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. In August 2018, the Federal Reserve Board (Board) issued an interim final rule that raises the asset size threshold for determining applicability of the Board's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement (Policy Statement) from $1 billion to $3 billion of total consolidated assets and makes related and conforming revisions to the Board's regulatory capital rule and requirements for bank holding companies. As such, the Company is no longer required to report nor manage regulatory capital ratios on a consolidated basis. The Company is only required to report these ratios for the Bank. 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 four 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 Bank does not maintain the full amount of the buffer. The capital conservation buffer was 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 Bank had a capital conservation buffer of 5.86% and 5.34% at December 31, 2019 and 2018, respectively, well above the required buffer of 2.5% and 1.875% for 2019 and 2018, respectively.

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

	December 31, 2019		December 31, 2018	
	Amount	Ratio	Amount	Ratio
Total Capital to risk weighted assets	$ 164,783	13.86 %	$ 149,085	13.34 %
Tier 1 Capital to risk weighted assets	156,541	13.16 %	140,289	12.55 %
Common Equity Tier 1 Capital to risk weighted assets	156,541	13.16 %	140,289	12.55 %
Tier 1 Capital to adjusted average total assets	156,541	11.03 %	140,289	10.22 %

All capital ratios exceed regulatory minimums for well capitalized institutions as referenced in Note 19 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, 2019 and 2018, was 5.45% and 5.19%, 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, 2019 and 2018, is as follows (dollars in thousands):'

	December 31, 2019	December 31, 2018
Commitments with off-balance sheet risk:		
Commitments to extend credit	$ 210,086	$ 204,831
Standby letters of credit	15,155	5,280
Total commitments with off-balance sheet risks	$ 225,241	$ 210,111

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

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

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

The Company designates derivatives as cash flow hedges when they are used to manage exposure to variability in cash flows related to forecasted transactions on variable rate borrowings, such as FHLB borrowings, repurchase agreements, and brokered CDs. The Company had cash flow hedges with total notional amounts of $10 million and $30 million at December 31, 2019 and 2018, respectively. The Company recorded a fair value liability of $44,000 and a fair value asset of $253,000 in other assets and other liabilities at December 31, 2019 and 2018, respectively. The Company's cash flow hedges are deemed to be highly effective. Therefore, the net gain (loss) was recorded as a component of other comprehensive income (loss) recorded in the Company's consolidated statements of comprehensive income.

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. It is computed by dividing dividends per share by net income per common share. The Company paid dividends to shareholders of $2.9 million during the year ended December 31, 2019. The Company did not pay dividends to shareholders during the years ended December 31, 2018 and 2017. 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		
	2019	**2018**	**2017**
Return on average assets	1.11 %	1.01 %	0.56 %
Return on average equity	10.63 %	10.59 %	5.91 %
Dividend payout	18.31 %	—	—
Leverage	10.46 %	9.55 %	9.51 %

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 the current rate environment, because all results are monitored regardless of likelihood. A parallel shift in rates over a 12-month period is assumed.

The following table represents the change to net interest income given interest rate shocks up and down 100, 200, 300 and 400 basis points at December 31, 2019, 2018 and 2017 (dollars in thousands):

	2019		2018		2017	
	%	$	%	$	%	$
Change in Yield curve						
+400 bp	4.4	2,211	3.8	1,807	4.7	2,132
+300 bp	3.5	1,775	3.1	1,441	3.6	1,637
+200 bp	2.6	1,286	2.3	1,087	2.6	1,185
+100 bp	1.2	605	1.3	623	1.4	632
most likely	—	—	—	—	—	—
-100 bp	(0.8)	(410)	(1.6)	(758)	(1.2)	(554)
-200 bp	(1.9)	(975)	(3.2)	(1,515)	(3.9)	(1,782)
-300 bp	(2.0)	(995)	(5.1)	(2,403)	(4.5)	(2,051)
-400 bp	(2.0)	(995)	(5.2)	(2,430)	(4.6)	(2,055)

At December 31, 2019, 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 4.4%. 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 2.0%. While these percentages are subjective based upon assumptions used within the model, management believes the balance sheet is appropriately balanced with acceptable risk to changes in interest rates.

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Community Bankers Trust Corporation and its subsidiary (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 13, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's 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 Company 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 audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ YOUNT, HYDE & BARBOUR, P.C.

We have served as the Company's auditor since 2018.

Winchester, Virginia
March 13, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Internal Control over Financial Reporting

We have audited Community Bankers Trust Corporation and its subsidiary's (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements of the Company and our report dated March 13, 2020 expressed an unqualified opinion.

Basis for Opinion

The Company'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 in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company 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 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/ YOUNT, HYDE & BARBOUR, P.C.

Winchester, Virginia
March 13, 2020

COMMUNITY BANKERS TRUST CORPORATION
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2019 AND DECEMBER 31, 2018
(dollars in thousands, except share data)

	December 31, 2019	December 31, 2018
ASSETS		
Cash and due from banks	$ 16,976	$ 18,292
Interest bearing bank deposits	11,708	15,927
Total cash and cash equivalents	28,684	34,219
Securities available for sale, at fair value	186,969	206,726
Securities held to maturity, at cost (fair value of $36,633 and $42,253, respectively)	35,733	42,108
Equity securities, restricted, at cost	8,855	7,800
Total securities	231,557	256,634
Loans held for sale	501	146
Loans	1,058,323	993,705
Purchased credit impaired (PCI) loans	32,528	38,285
Total loans	1,090,851	1,031,990
Allowance for loan losses (loans of $8,429 and $8,983, respectively; PCI loans of $156 and $156, respectively)	(8,585)	(9,139)
Net loans	1,082,266	1,022,851
Bank premises and equipment, net	29,472	31,488
Bank premises and equipment held for sale	1,589	1,252
Right-of-use lease assets	6,472	—
Other real estate owned	4,527	1,099
Bank owned life insurance	29,340	28,834
Other assets	16,432	16,627
Total assets	$ 1,430,840	$ 1,393,150
LIABILITIES		
Deposits:		
Noninterest bearing	$ 178,584	$ 165,086
Interest bearing	984,864	999,889
Total deposits	1,163,448	1,164,975
Federal funds purchased	24,437	19,440
Federal Home Loan Bank borrowings	68,500	59,447
Trust preferred capital notes	4,124	4,124
Lease liabilities	6,737	—
Other liabilities	8,115	7,703
Total liabilities	1,275,361	1,255,689
SHAREHOLDERS' EQUITY		
Common stock (200,000,000 shares authorized, $0.01 par value; 22,422,621 and 22,132,304 shares issued and outstanding, respectively)	224	221
Additional paid in capital	150,728	148,763
Retained earnings (deficit)	2,562	(10,244)
Accumulated other comprehensive income (loss)	1,965	(1,279)
Total shareholders' equity	155,479	137,461
Total liabilities and shareholders' equity	$ 1,430,840	$ 1,393,150

See accompanying notes to consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(dollars and shares in thousands, except per share data)

	2019	2018
Interest and dividend income		
Interest and fees on loans	$ 51,551	$ 46,291
Interest and fees on PCI loans	6,042	5,222
Interest on federal funds sold	14	5
Interest on deposits in other banks	391	303
Interest and dividends on securities		
Taxable	5,870	5,258
Nontaxable	1,581	2,162
Total interest and dividend income	65,449	59,241
Interest expense		
Interest on deposits	14,036	10,257
Interest on borrowed funds	1,456	1,797
Total interest expense	15,492	12,054
Net interest income	49,957	47,187
Provision for loan losses	325	—
Net interest income after provision for loan losses	49,632	47,187
Noninterest income		
Service charges and fees	2,831	2,510
Gain on securities transactions, net	235	70
Gain on sale of other loans	14	118
Income on bank owned life insurance	724	735
Mortgage loan income	486	319
Other	1,064	711
Total noninterest income	5,354	4,463
Noninterest expense		
Salaries and employee benefits	21,423	21,477
Occupancy expenses	3,453	3,188
Equipment expenses	1,484	1,398
FDIC assessment	296	776
Data processing fees	2,329	2,122
Other real estate expense, net	718	113
Other operating expenses	6,026	5,803
Total noninterest expense	35,729	34,877
Income before income taxes	19,257	16,773
Income tax expense	3,552	3,085
Net income	**$ 15,705**	**$ 13,688**
Net income per share — basic	$ 0.71	$ 0.62
Net income per share — diluted	$ 0.70	$ 0.61
Weighted average number of shares outstanding		
Basic	22,264	22,103
Diluted	22,531	22,569

See accompanying notes to consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(dollars in thousands)

	2019	2018
Net income	$ 15,705	$ 13,688
Other comprehensive income (loss):		
Unrealized gain (loss) on investment securities:		
Change in unrealized gain (loss) on investment securities	4,727	(1,946)
Tax related to unrealized (gain) loss on investment securities	(1,039)	428
Reclassification adjustment for gain on securities sold	(235)	(70)
Tax related to realized gain on securities sold	52	16
Defined benefit pension plan:		
Change in prior service cost	5	5
Change in unrealized (loss) gain on plan assets	(41)	238
Tax related to defined benefit pension plan	7	(52)
Cash flow hedge:		
Change in unrealized (loss) gain on cash flow hedge	(297)	76
Tax related to cash flow hedge	65	(17)
Total other comprehensive income (loss)	3,244	(1,322)
Total comprehensive income	$ 18,949	$ 12,366

See accompanying notes to consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(dollars and shares in thousands)

	Common Stock		Additional Paid in	Retained Earnings	Accumulated Other Comprehensive	
	Shares	Amount	Capital	(Deficit)	Income (Loss)	Total
Balance December 31, 2017	22,073	$ 221	$ 147,671	$ (23,932)	$ 43	$ 124,003
Issuance of common stock	18	—	166	—	—	166
Exercise and issuance of employee stock options	41	—	926	—	—	926
Net income	—	—	—	13,688	—	13,688
Other comprehensive loss	—	—	—	—	(1,322)	(1,322)
Balance December 31, 2018	22,132	$ 221	$ 148,763	$ (10,244)	$ (1,279)	$ 137,461
Issuance of common stock	27	—	215	—	—	215
Exercise and issuance of employee stock options	264	3	1,750	—	—	1,753
Net income	—	—	—	15,705	—	15,705
Dividends paid on common stock ($0.13 per share)	—	—	—	(2,899)	—	(2,899)
Other comprehensive income	—	—	—	—	3,244	3,244
Balance December 31, 2019	22,423	$ 224	$ 150,728	$ 2,562	$ 1,965	$ 155,479

See accompanying notes to consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(dollars in thousands)

	December 31, 2019	December 31, 2018
Operating activities:		
Net income	$ 15,705	$ 13,688
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,039	1,985
Lease assets amortization	936	—
Stock-based compensation expense	1,075	946
Tax benefit of exercised stock options	(260)	(48)
Amortization of purchased loan premium	311	258
Deferred tax expense	420	772
Provision for loan losses	325	—
Amortization of security premiums and accretion of discounts, net	1,170	1,543
Net gain on sale of securities	(235)	(70)
Net gain on sale and valuation of other real estate owned	(56)	(42)
Net loss on disposal of premises and equipment	7	
Net gain on sale of loans	(14)	(118)
Originations of mortgages held for sale	(21,061)	(1,018)
Proceeds from sales of mortgages held for sale	20,706	872
Increase in bank owned life insurance investment	(724)	(735)
Changes in assets and liabilities:		
Decrease (increase) in other assets	686	(249)
Increase in accrued expenses and other liabilities	(16)	1,905
Net cash provided by operating activities	21,014	19,689
Investing activities:		
Proceeds from sales/calls/maturities/paydowns of available for sale securities	94,371	47,811
Proceeds from calls/maturities/paydowns of held to maturity securities	6,290	3,929
Proceeds from sales of restricted equity securities	1,511	2,005
Purchase of available for sale securities	(70,972)	(53,082)
Purchase of restricted equity securities	(2,566)	(510)
Proceeds from sale of other real estate owned	826	2,129
Net increase in loans	(66,338)	(43,362)
Principal recoveries of loans previously charged off	587	514
Purchase of premises and equipment, net	(367)	(4,527)
Purchase small business investment company fund investment	(2,142)	(945)
Purchase of loans held for investment	—	(8,991)
Proceeds from bank owned life insurance investment	218	—
Proceeds from sale of loans	1,516	5,635
Net cash used in investing activities	(37,066)	(49,394)
Financing activities:		
Net (decrease) increase in deposits	(1,527)	69,211
Net increase in federal funds purchased	4,997	14,591
Net decrease in short-term Federal Home Loan Bank borrowings	(20,000)	(30,500)
Proceeds from long-term Federal Home Loan Bank borrowings	40,000	—
Payments on long-term Federal Home Loan Bank borrowings	(10,947)	(11,482)
Proceeds from issuance of common stock	893	146
Cash dividends paid	(2,899)	—
Net cash provided by financing activities	10,517	41,966
Net (decrease) increase in cash and cash equivalents	(5,535)	12,261
Cash and cash equivalents:		
Beginning of the period	34,219	21,958
End of the period	$ 28,684	$ 34,219
Supplemental disclosures of cash flow information:		
Interest paid	$ 15,465	$ 11,540
Income taxes paid	3,145	2,198
Transfers of loans to other real estate owned	4,198	396
Transfers of building premises and equipment to held for sale	337	1,252
Right-of-use lease assets in exchange for lease liability	7,408	—

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 24 full-service offices, 18 of which are in Virginia and six of which are in Maryland. The Bank also operates two loan production offices.

The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals, small businesses and larger commercial companies, 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 cash management services.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and the Bank, its wholly-owned subsidiary. 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, 2019 and 2018. The Company issued subordinated debt to the Trust, which is reflected as a liability on the Company's consolidated balance sheet.

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, 2019 and 2018, 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 Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Mortgage loans held for sale are sold with the mortgage servicing rights released by the Company.

The Company enters into commitments to originate certain mortgage loans whereby the interest rate on the loans is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. The period of time between issuance of a loan commitment and closing and the sale of the loan generally ranges from thirty to forty-five days. The Company protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the Company commits to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan. As a result, the Company is not exposed to losses nor will it realize significant gains related to its rate lock commitments due to changes in interest rates. The correlation between the rate lock commitments and the best efforts contracts is very high due to their similarity. Because of this high correlation, the gain or loss that occurs on the rate lock commitments is immaterial.

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 in 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 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.

Accounting for Certain Loans Acquired in a Transfer

FASB ASC 310, *Receivables* requires acquired loans to be recorded at fair value and prohibits carrying over valuation allowances in the initial accounting for acquired impaired loans. Loans carried at fair value, mortgage loans held for sale, and loans to borrowers 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 recorded. 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 $4.5 million and $1.1 million in other real estate at December 31, 2019 and 2018, respectively.

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 $526,000 and $613,000 for 2019 and 2018, 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 had no uncertain tax positions at each of December 31, 2019 and 2018. 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, 2019 or 2018. 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 income tax for various states. All years from 2016 through 2019 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 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. Dividends of $2.9 million were declared and paid during the year ended 2019. There were no dividends declared or paid during the year ended 2018.

Stock-Based Compensation

In April 2009, the Company adopted the Community Bankers Trust Corporation 2009 Stock Incentive Plan, which was authorized to issue up to 2,650,000 shares of common stock. The 2009 Plan terminated June 17, 2019. In 2019, the Company adopted the Community Bankers Trust Corporation 2019 Stock Incentive Plan, which is authorized to issue up to 2,500,000 shares of common stock. See Note 13 for details regarding these plans.

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 changes in the fair value of derivatives designated as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into net income in the period that the hedged forecasted transaction affects earnings. The Company's cash flow hedge was deemed effective for each of the years ended 2019 and 2018.

Recent Accounting Pronouncements

Adopted in 2019

In February 2016, the FASB issued its new lease accounting guidance in Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842).* Under the new guidance, lessees are 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.

For public companies, the guidance was effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. 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 FASB made subsequent amendments to Topic 842 in July 2018 through ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. Among these amendments is the provision in ASU 2018-11 that provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP (*Topic 840, Leases*). The Company has chosen to apply the new transition method. The effect of adopting this standard on January 1, 2019 was an increase of $7.4 million and $7.6 million in assets and liabilities, respectively, on the Company's consolidated balance sheet.

In June 2018, the FASB issued ASU 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. The amendments expand the scope of Topic 718 to include share-based payments issued to non-employees for goods or services, which were previously excluded. The amendments will align the accounting for share-based payments to nonemployees and employees more similarly. The amendments were effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company adopted this guidance with no material impact on its consolidated financial statements.

Adopted January 1, 2020

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.* The ASU removes, modifies, and adds to existing fair value measurement disclosure requirements.

The following public company disclosure requirements are removed:

- Transfers between Level 1 and Level 2 of the fair value hierarchy
- The policy for determining when transfers between any of the three levels have occurred
- The valuation processes used for Level 3 measurements

The following public company disclosure requirements are modified:

- For certain investments that calculate the net asset value, timing of liquidation and redemption restrictions lapsing if the latter has been communicated to the reporting entity
- A clarification that the Level 3 measurement uncertainty disclosure should communicate information about the uncertainty at the balance sheet date

The following public company disclosure requirements are new:

- The changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 instruments held at the balance sheet date
- The range and weighted average of significant unobservable inputs used for Level 3 measurements. For certain unobservable inputs, an option to disclose other quantitative information in place of the weighted average is available to the extent that it would be a more reasonable and rational method to reflect the distribution of unobservable inputs.

The ASU was effective for all entities in fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted. In addition, an entity may early adopt any of the removed or modified disclosures immediately and delay adoption of the new disclosures until the effective date. The Company chose this early adoption option for the year ended December 31, 2018. The Company adopted the remaining guidance with no material impact on its consolidated financial statements.

Issued But Not Yet Adopted

In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses.* This ASU addresses issues raised by stakeholders during the implementation of ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Among other narrow-scope improvements, the new ASU clarifies guidance around how to report expected recoveries. "Expected recoveries" describes a situation in which an organization recognizes a full or partial write-off of the amortized cost basis of a financial asset, but then later determines that the amount written off, or a portion of that amount, will in fact be recovered. While applying the credit losses standard, stakeholders questioned whether expected recoveries were permitted on assets that had already shown credit deterioration at the time of purchase (PCD assets, currently known as PCI loans). In response to this question, the ASU permits organizations to record expected recoveries on PCD assets. In addition to other narrow technical improvements, the ASU also reinforces existing guidance that prohibits organizations from recording negative allowances for available-for-sale debt securities. The ASU includes effective dates and transition requirements that vary depending on whether or not an entity has already adopted ASU 2016-13. The Company is currently assessing the impact that ASU 2019-11 will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 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.

As a smaller reporting company, the Company will be required to apply the guidance for fiscal years, and interim periods within those years, beginning after December 15, 2022. 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 has formed an implementation committee and is working with a third-party vendor to build a model which it plans to run parallel with its current model in the months prior to implementation. The Company cannot yet determine the magnitude of the 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 August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plan.* This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by eliminating the requirement to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year and adding a requirement to disclose an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The ASU is effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-14 to have a material impact on its 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, and the valuation of deferred tax assets.

Reclassifications

Certain reclassifications have been made to prior period balances 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 as of December 31, 2019 and 2018 were as follows (dollars in thousands):

	December 31, 2019			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Government agencies	$ 22,104	$ 51	$ (219)	$ 21,936
State, county and municipal	95,467	3,167	(42)	98,592
Mortgage backed securities	48,045	808	(113)	48,740
Asset backed securities	11,637	49	(82)	11,604
Corporate bonds	6,016	84	(3)	6,097
Total Securities Available for Sale	$ 183,269	$ 4,159	$ (459)	$ 186,969
Securities Held to Maturity				
U.S. Government agencies	$ 10,000	$ —	$ (12)	$ 9,988
State, county and municipal	25,733	913	(1)	26,645
Total Securities Held to Maturity	$ 35,733	$ 913	$ (13)	$ 36,633

	December 31, 2018			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury securities	$ 13,460	$ —	$ (336)	$ 13,124
U.S. Government agencies	24,689	71	(151)	24,609
State, county and municipal	112,465	1,018	(941)	112,542
Mortgage backed securities	46,877	196	(656)	46,417
Asset backed securities	5,342	73	(4)	5,411
Corporate bonds	4,685	—	(62)	4,623
Total Securities Available for Sale	$ 207,518	$ 1,358	$ (2,150)	$ 206,726
Securities Held to Maturity				
U.S. Government agencies	$ 10,000	$ —	$ (210)	$ 9,790
State, county and municipal	32,108	419	(64)	32,463
Total Securities Held to Maturity	$ 42,108	$ 419	$ (274)	$ 42,253

The amortized cost and fair value of securities as of December 31, 2019 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	$ 3,052	$ 3,076	$ 18,193	$ 18,324
Due after one year through five years	25,571	26,172	61,066	61,864
Due after five years through ten years	6,859	7,107	83,314	85,784
Due after ten years	251	278	20,696	20,997
Total securities	$ 35,733	$ 36,633	$ 183,269	$ 186,969

Proceeds from sales and calls of securities available for sale were $64.6 million and $37.0 million during the years ended December 31, 2019 and 2018, 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, 2019 and 2018 were as follows (dollars in thousands):

	2019	2018
Gross realized gains	$ 507	$ 187
Gross realized losses	(272)	(117)
Net securities gain	$ 235	$ 70

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, 2019 and 2018.

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, 2019 and 2018 were as follows (dollars in thousands):

	December 31, 2019					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available for Sale						
U.S. Government agencies	$ 6,396	$ (102)	$ 8,020	$ (117)	$ 14,416	$ (219)
State, county and municipal	7,088	(32)	308	(10)	7,396	(42)
Mortgage backed securities	11,001	(40)	4,287	(73)	15,288	(113)
Asset backed securities	4,861	(74)	625	(8)	5,486	(82)
Corporate bonds	248	(3)	—	—	248	(3)
Total	$ 29,594	$ (251)	$ 13,240	$ (208)	$ 42,834	$ (459)
Securities Held to Maturity						
U.S. Government agencies	$ —	$ —	$ 9,988	$ (12)	$ 9,988	$ (12)
State, county and municipal	31	—	622	(1)	653	(1)
Total	$ 31	$ —	$ 10,610	$ (13)	$ 10,641	$ (13)

	December 31, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available for Sale						
U.S. Treasury securities	$ 1,480	$ (1)	$ 11,644	$ (335)	$ 13,124	$ (336)
U.S. Government agencies	6,959	(47)	5,155	(104)	12,114	(151)
State, county and municipal	7,918	(81)	34,540	(860)	42,458	(941)
Mortgage backed securities	11,513	(94)	15,811	(562)	27,324	(656)
Asset backed securities	537	(1)	294	(3)	831	(4)
Corporate bonds	3,661	(47)	236	(15)	3,897	(62)
Total	$ 32,068	$ (271)	$ 67,680	$ (1,879)	$ 99,748	$ (2,150)
Securities Held to Maturity						
U.S. Government agencies	$ —	$ —	$ 9,790	$ (210)	$ 9,790	$ (210)
State, county and municipal	2,452	(20)	3,985	(44)	6,437	(64)
Total	$ 2,452	$ (20)	$ 13,775	$ (254)	$ 16,227	$ (274)

The unrealized losses (impairments) in the investment portfolio at December 31, 2019 and 2018 are generally a result of market fluctuations that occur daily. Interest rates increased consistently across the United States Treasury yield curve during 2018, thereby increasing unrealized losses on securities. Likewise, these interest rates consistently decreased during 2019, thereby decreasing unrealized losses on the Company’s securities. The unrealized losses are from 66 securities at December 31, 2019. Of those, 59 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. Six 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, 2019. The Company considers the reason for impairment, length of impairment, and 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 $47.3 million and $56.0 million at December 31, 2019 and 2018, respectively, were pledged to secure public deposits as required or permitted by law. Securities with amortized costs of $5.8 million and $7.0 million at December 31, 2019 and 2018, respectively, were pledged to secure lines of credit at the Federal Reserve discount window with a lendable collateral value of $5.7 million at December 31, 2019. At each of December 31, 2019 and 2018, there were no securities purchased from a single issuer, other than U.S. Treasury securities 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, as of December 31, 2019 and 2018 were comprised of the following (dollars in thousands):

	2019		2018	
	Amount	**% of Loans**	**Amount**	**% of Loans**
Mortgage loans on real estate:				
Residential 1-4 family	$ 223,538	21.12 %	$ 216,268	21.77 %
Commercial	396,858	37.50	379,904	38.23
Construction and land development	146,566	13.85	120,413	12.12
Second mortgages	6,639	0.63	6,778	0.68
Multifamily	72,978	6.90	59,557	5.99
Agriculture	8,346	0.79	8,370	0.84
Total real estate loans	854,925	80.79	791,290	79.63
Commercial loans	191,183	18.06	188,722	18.99
Consumer installment loans	11,163	1.05	12,048	1.21
All other loans	1,052	0.10	1,645	0.17
Total loans	$ 1,058,323	100.00 %	$ 993,705	100.00 %

The Company held $12.7 million and $17.4 million in balances of loans guaranteed by the United States Department of Agriculture (USDA), which are included in various categories in the table above, at December 31, 2019 and 2018, respectively. As these loans are 100% guaranteed by the USDA, no loan loss allowance is required. These loan balances included a purchase premium of $1.0 million and $1.2 million at December 31, 2019 and 2018, 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. Any unamortized purchase premium remaining on loans prepaid by the borrower is written off.

At December 31, 2019 and 2018, the Company's allowance for loan 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, 2019 and 2018 (dollars in thousands):

	2019			2018		
	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	$ 1,483	$ 1,850	$ —	$ 1,563	$ 1,890	$ —
Commercial	3,226	3,966	—	3,502	4,176	—
Construction and land development	328	328	—	—	—	—
Multifamily	2,463	2,463	—	2,559	2,559	—
Total real estate loans	7,500	8,607	—	7,624	8,625	—
Subtotal impaired loans with no valuation allowance	7,500	8,607	—	7,624	8,625	—
With an allowance recorded:						
Mortgage loans on real estate:						
Residential 1-4 family	1,498	1,808	380	2,131	2,538	349
Commercial	378	876	87	1,550	2,034	482
Construction and land development	48	147	11	4,571	5,840	515
Total real estate loans	1,924	2,831	478	8,252	10,412	1,346
Commercial loans	454	460	105	1,983	1,991	900
Consumer installment loans	7	7	1	—	—	—
Subtotal impaired loans with a valuation allowance	2,385	3,298	584	10,235	12,403	2,246
Total:						
Mortgage loans on real estate:						
Residential 1-4 family	2,981	3,658	380	3,694	4,428	349
Commercial	3,604	4,842	87	5,052	6,210	482
Construction and land development	376	475	11	4,571	5,840	515
Multifamily	2,463	2,463	—	2,559	2,559	—
Total real estate loans	9,424	11,438	478	15,876	19,037	1,346
Commercial loans	454	460	105	1,983	1,991	900
Consumer installment loans	7	7	1	—	—	—
Total impaired loans	$ 9,885	$ 11,905	$ 584	$ 17,859	$ 21,028	$ 2,246

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

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

The following table summarizes the average recorded investment of impaired loans for the years ended December 31, 2019 and 2018 (dollars in thousands):

	2019		2018	
	Average Investment	Interest Recognized	Average Investment	Interest Recognized
Mortgage loans on real estate:				
Residential 1-4 family	$ 3,395	$ 87	$ 3,993	$ 124
Commercial	4,096	145	4,822	164
Construction and land development	2,709	—	4,839	—
Multifamily	2,519	—	1,535	123
Agriculture	—	—	27	—
Total real estate loans	12,719	232	15,216	411
Commercial loans	1,386	16	1,175	19
Consumer installment loans	5	—	3	—
Total impaired loans	$ 14,110	$ 248	$ 16,394	$ 430

Troubled debt restructures 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 as of December 31, 2019 and December 31, 2018 is set forth in the table below (dollars in thousands):

	2019	2018
Nonaccrual loans	$ 5,292	$ 9,500
Trouble debt restructure and still accruing	4,593	8,359
Total impaired	$ 9,885	$ 17,859

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, 2019 and 2018. For the years ended December 31, 2019 and 2018, estimated interest income of $345,000 and $634,000, respectively, would have been recorded if all such loans had been accruing interest according to their original contractual terms.

The following tables present an age analysis of past due status of loans by category as of December 31, 2019 and 2018 (dollars in thousands):

	December 31, 2019					
	30-89 Days Past Due	90+ Days Past Due and Accruing	Nonaccrual	Total Past Due	Current	Total Loans Receivable
Mortgage loans on real estate:						
Residential 1-4 family	$ 1,308	$ —	$ 1,378	$ 2,686	$ 220,852	$ 223,538
Commercial	552	—	1,006	1,558	395,300	396,858
Construction and land development	166	—	376	542	146,024	146,566
Second mortgages	229	—	—	229	6,410	6,639
Multifamily	—	—	2,463	2,463	70,515	72,978
Agriculture	—	—	—	—	8,346	8,346
Total real estate loans	2,255	—	5,223	7,478	847,447	854,925
Commercial loans	1,085	946	62	2,093	189,090	191,183
Consumer installment loans	41	—	7	48	11,115	11,163
All other loans	—	—	—	—	1,052	1,052
Total loans	$ 3,381	$ 946	$ 5,292	$ 9,619	$ 1,048,704	$ 1,058,32 3

	December 31, 2018					
	30-89 Days Past Due	90+ Days Past Due and Accruing	Nonaccrual	Total Past Due	Current	Total Loans Receivable
Mortgage loans on real estate:						
Residential 1-4 family	$ 495	$ —	$ 1,257	$ 1,752	$ 214,516	$ 216,268
Commercial	551	—	2,123	2,674	377,230	379,904
Construction and land development	59	—	4,571	4,630	115,783	120,413
Second mortgages	—	—	—	—	6,778	6,778
Multifamily	2,559	—	—	2,559	56,998	59,557
Agriculture	—	—	—	—	8,370	8,370
Total real estate loans	3,664	—	7,951	11,615	779,675	791,290
Commercial loans	80	—	1,549	1,629	187,093	188,722
Consumer installment loans	10	—	—	10	12,038	12,048
All other loans	—	—	—	—	1,645	1,645
Total loans	$ 3,754	$ —	$ 9,500	$ 13,254	$ 980,451	$ 993,705

Activity in the allowance for loan losses on loans by segment for the years ended December 31, 2019 and 2018 is presented in the following tables (dollars in thousands):

	Year Ended December 31, 2019				
	December 31, 2018	Provision Allocation	Charge-offs	Recoveries	December 31, 2019
Mortgage loans on real estate:					
Residential 1-4 family	$ 2,281	$ 315	$ (178)	$ 267	$ 2,685
Commercial	1,810	583	(277)	80	2,196
Construction and land development	1,161	24	(212)	71	1,044
Second mortgages	20	53	—	6	79
Multifamily	371	(164)	—	41	248
Agriculture	17	21	—	—	38
Total real estate loans	5,660	832	(667)	465	6,290
Commercial loans	1,894	626	(724)	184	1,980
Consumer installment loans	152	99	(253)	116	114
All other loans	12	(5)	—	—	7
Unallocated	1,265	(1,227)	—	—	38
Total loans	$ 8,983	$ 325	$ (1,644)	$ 765	$ 8,429

	Year Ended December 31, 2018				
	December 31, 2017	Provision Allocation	Charge-offs	Recoveries	December 31, 2018
Mortgage loans on real estate:					
Residential 1-4 family	$ 3,466	$ (1,252)	$ (89)	$ 156	$ 2,281
Commercial	2,423	(647)	—	34	1,810
Construction and land development	1,247	3	(127)	38	1,161
Second mortgages	24	(10)	—	6	20
Multifamily	496	(125)	—	—	371
Agriculture	14	3	—	—	17
Total real estate loans	7,670	(2,028)	(216)	234	5,660
Commercial loans	1,139	751	(45)	49	1,894
Consumer installment loans	110	53	(220)	209	152
All other loans	3	6	—	3	12
Unallocated	47	1,218	—	—	1,265
Total loans	$ 8,969	$ —	$ (481)	$ 495	$ 8,983

The following tables present information on the loans evaluated for impairment in the allowance for loan losses as of December 31, 2019 and 2018 (dollars in thousands):

	December 31, 2019					
	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	$ 380	$ 2,305	$ 2,685	$ 2,981	$ 220,557	$ 223,538
Commercial	87	2,109	2,196	3,604	393,254	396,858
Construction and land development	11	1,033	1,044	376	146,190	146,566
Second mortgages	—	79	79	—	6,639	6,639
Multifamily	—	248	248	2,463	70,515	72,978
Agriculture	—	38	38	—	8,346	8,346
Total real estate loans	478	5,812	6,290	9,424	845,501	854,925
Commercial loans	105	1,875	1,980	454	190,729	191,183
Consumer installment loans	1	113	114	7	11,156	11,163
All other loans	—	7	7	—	1,052	1,052
Unallocated	—	38	38	—	—	—
Total loans	$ 584	$ 7,845	$ 8,429	$ 9,885	$ 1,048,438	$ 1,058,323

	December 31, 2018					
	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated fo r Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Mortgage loans on real estate:						
Residential 1-4 family	$ 349	$ 1,932	$ 2,281	$ 3,694	$ 212,574	$ 216,268
Commercial	482	1,328	1,810	5,052	374,852	379,904
Construction and land development	515	646	1,161	4,571	115,842	120,413
Second mortgages	—	20	20	—	6,778	6,778
Multifamily	—	371	371	2,559	56,998	59,557
Agriculture	—	17	17	—	8,370	8,370
Total real estate loans	1,346	4,314	5,660	15,876	775,414	791,290
Commercial loans	900	994	1,894	1,983	186,739	188,722
Consumer installment loans	—	152	152	—	12,048	12,048
All other loans	—	12	12	—	1,645	1,645
Unallocated	—	1,265	1,265	—	—	—
Total loans	$ 2,246	$ 6,737	$ 8,983	$ 17,859	$ 975,846	$ 993,705

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 $12.7 million and $17.4 million at December 31, 2019 and 2018, respectively.

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

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

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

The following tables present the composition of loans by credit quality indicator as of December 31, 2019 and 2018 (dollars in thousands):

	December 31, 2019				
	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential 1-4 family	$ 219,210	$ 2,964	$ 1,364	$ —	$ 223,538
Commercial	391,251	3,188	2,419	—	396,858
Construction and land development	145,782	408	376	—	146,566
Second mortgages	6,096	543	—	—	6,639
Multifamily	70,515	—	2,463	—	72,978
Agriculture	8,098	248	—	—	8,346
Total real estate loans	840,952	7,351	6,622	—	854,925
Commercial loans	185,123	2,770	3,290	—	191,183
Consumer installment loans	11,140	16	7	—	11,163
All other loans	1,052	—	—	—	1,052
Total loans	$ 1,038,267	$ 10,137	$ 9,919	$ —	$ 1,058,323

	December 31, 2018				
	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential 1-4 family	$ 211,832	$ 3,179	$ 1,257	$ —	$ 216,268
Commercial	372,745	3,551	3,608	—	379,904
Construction and land development	115,650	192	4,571	—	120,413
Second mortgages	6,686	92	—	—	6,778
Multifamily	56,802	196	2,559	—	59,557
Agriculture	8,312	58	—	—	8,370
Total real estate loans	772,027	7,268	11,995	—	791,290
Commercial loans	184,004	1,798	2,920	—	188,722
Consumer installment loans	12,042	6	—	—	12,048
All other loans	1,645	—	—	—	1,645
Total loans	$ 969,718	$ 9,072	$ 14,915	$ —	$ 993,705

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 24 and 25 loans that met the definition of a TDR at December 31, 2019 and 2018, respectively.

The Company had no loan modifications considered to be TDRs during the year ended December 31, 2019. During the year ended December 31, 2018, the Company modified one multifamily loan, one commercial real estate loan, and one commercial loan that were considered to be TDRs, which had total pre- and post-modification balances of $2.6 million, $126,000, and $233,000 respectively. The Company restructured the terms for the multifamily and commercial loans to interest only payments for six months and extended the maturity for the commercial real estate loan.

A loan is considered to be in default if it is 90 days or more past due. During the year ended December 31, 2019, one loan defaulted that had been restructured during the previous 12 months prior to the default. This multifamily real estate loan had a recorded investment of $2.5 million. During the year ended December 31, 2018, the Company had no loans that went into default that had been restructured in the 12 month period prior to the time of default.

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, 2019 the Company had 1-4 family mortgages in the amount of $107.0 million pledged as collateral to the Federal Home Loan Bank for a total borrowing capacity of $90.4 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, 2019 and 2018, the outstanding contractual balance of the PCI loans was $53.2 million and $62.2 million, respectively. The carrying amount, by loan type, as of these dates is as follows (dollars in thousands):

	2019		2018	
	Amount	% of PCI Loans	Amount	% of PCI Loans
Mortgage loans on real estate:				
Residential 1-4 family	$ 29,465	90.58 %	$ 34,240	89.43 %
Commercial	490	1.51	746	1.95
Construction and land development	1,172	3.60	1,326	3.46
Second mortgages	1,169	3.59	1,729	4.52
Multifamily	232	0.72	244	0.64
Total real estate loans	32,528	100.00	38,285	100.00
Total PCI loans	$ 32,528	100.00 %	$ 38,285	100.00 %

There was no activity in the allowance for loan losses on PCI loans for the year ended December 31, 2019. During the year ended December 31, 2018, the Company recorded charge-offs of $62,000 and recoveries of $18,000 on PCI loans in the residential 1-4 family loan category.

The following table presents information on the PCI loans collectively evaluated for impairment in the allowance for loan losses as of December 31, 2019 and 2018 (dollars in thousands):

	2019		2018	
	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	$ 156	$ 29,465	$ 156	$ 34,240
Commercial	—	490	—	746
Construction and land development	—	1,172	—	1,326
Second mortgages	—	1,169	—	1,729
Multifamily	—	232	—	244
Total real estate loans	156	32,528	156	38,285
Total PCI loans	$ 156	$ 32,528	$ 156	$ 38,285

The change in the accretable yield balance for the years ended December 31, 2019 and 2018 is as follows (dollars in thousands):

Balance, January 1, 2018	$ 44,126
Accretion	(5,219)
Reclassification to nonaccretable difference	(800)
Balance, December 31, 2018	$ 38,107
Accretion	(6,010)
Reclassification from nonaccretable difference	1,369
Balance, December 31, 2019	$ 33,466

The PCI loans were not classified as nonperforming assets as of December 31, 2019 or 2018, 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. Bank Premises and Equipment Held for Sale

Bank premises and equipment held for sale includes two buildings relating to branch closures, which are currently listed for sale. The Prince Street branch in Tappahannock, Virginia closed in 2018. The book value of $552,000 reflects the lower of cost or fair market value at each of December 31, 2019 and 2018. The Cumberland branch in Cumberland, Virginia closed in 2019. The book value of $337,000 reflects the lower of cost or fair market value at December 31, 2019.

Also included in bank premises and equipment held for sale is a piece of land the Company had been holding as a possible future branch site. The Company has decided not to pursue that location and is marketing the property. The book value of $700,000 reflects the lower of cost or fair market value at each of December 31, 2019 and 2018.

Note 6. Premises and Equipment

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

	December 31	
	2019	2018
Land	$ 7,797	$ 7,991
Land improvements and buildings	21,248	21,405
Leasehold improvements	3,739	3,908
Furniture and equipment	11,652	11,422
Construction in progress	222	65
Total	44,658	44,791
Less accumulated depreciation and amortization	(15,186)	(13,303)
Bank premises and equipment, net	$ 29,472	$ 31,488

Depreciation expense was $2.0 million and $1.9 million for the years ended December 31, 2019 and 2018, respectively.

Note 7. Other Real Estate Owned

The following table presents the balances of other real estate owned as of December 31, 2019 and 2018 (dollars in thousands):

	2019	2018
Residential 1-4 family	$ 21	$ 314
Commercial	—	15
Construction and land development	4,506	770
Total other real estate owned	$ 4,527	$ 1,099

At December 31, 2019, the Company had $455,000 in residential 1-4 family loans and PCI loans that were in the process of foreclosure.

Note 8. Deposits

The following table provides interest bearing deposit information, by type, as of December 31, 2019 and 2018 (dollars in thousands):

	2019	2018
NOW	$ 170,532	$ 165,946
MMDA	120,841	126,933
Savings	96,570	92,910
Time deposits less than or equal to $250,000	477,461	485,155
Time deposits over $250,000	119,460	128,945
Total interest bearing deposits	$ 984,864	$ 999,889

The scheduled maturities of time deposits at December 31, 2019 are as follows (dollars in thousands):

2020	$ 470,281
2021	74,490
2022	25,941
2023	13,143
2024	13,066
Total	$ 596,921

Brokered deposits totaled $11.6 million and $16.4 million at December 31, 2019 and 2018, respectively.

Note 9. 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 advances.

The following table presents the Company's borrowings as of December 31, 2019 and 2018 (dollars in thousands):

	2019	2018
Federal funds purchased	$ 24,437	$ 19,440
FHLB:		
Short-term advances	$ 20,000	$ 40,000
Long-term notes payable	48,500	19,447
Total	$ 68,500	$ 59,447

The average interest rate of federal funds purchased during the years ended December 31, 2019 and 2018 was 2.56% and 2.28%, 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, 2019, the Company had residential 1-4 family mortgages in the amount of $107.0 million pledged as collateral to the FHLB for a total borrowing capacity of $90.4 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, 2019 and 2018 was 2.45% and 1.97%, respectively. Long-term notes payable have interest rates ranging from 0.85% to 2.07% with maturities ranging from 2022-2024. The Company had $0 and $8.3 million in variable LIBOR rate long-term notes payable at December 31, 2019 and 2018, respectively.

Maturities of long-term debt at December 31, 2019 are as follows (dollars in thousands):

2022	$ 28,500
2024	20,000
Total	$ 48,500

The Company had unsecured lines of credit with correspondent banks available for overnight borrowing totaling $55.0 million at December 31, 2019.

Note 10. 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, 2019 and 2018 (dollars in thousands):

	Year ended December 31, 2019			
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Gain (Loss) on Cash Flow Hedge	Total Other Comprehensive Income (Loss)
Beginning balance	$ (618)	$ (857)	$ 196	$ (1,279)
Other comprehensive income (loss) before reclassifications	3,688	(33)	(232)	3,423
Amounts reclassified from AOCI	(183)	4	—	(179)
Net current period other comprehensive income (loss)	3,505	(29)	(232)	3,244
Ending balance	$ 2,887	$ (886)	$ (36)	$ 1,965

	Year ended December 31, 2018			
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Gain (Loss) on Cash Flow Hedge	Total Other Comprehensive Income (Loss)
Beginning balance	$ 954	$ (1,048)	$ 137	$ 43
Other comprehensive (loss) income before reclassifications	(1,518)	188	59	(1,271)
Amounts reclassified from AOCI	(54)	3	—	(51)
Net current period other comprehensive (loss) income	(1,572)	191	59	(1,322)
Ending balance	$ (618)	$ (857)	$ 196	$ (1,279)

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 income (loss) for the years ended December 31, 2019 and 2018 (dollars in thousands):

Details about AOCI Components	Amount Reclassified from AOCI		Affected Line Item in the Unaudited Consolidated Statement of Income
	Year ended		
	2019	2018	
Securities available for sale:			
Unrealized gains on securities available for sale	$ (235)	$ (70)	Gain on securities transactions, net
Related tax expense	52	16	Income tax expense
	$ (183)	$ (54)	Net of tax
Defined benefit plan			
Amortization of prior service cost	$ 5	$ 5	Salaries and employee benefits
Related tax benefit	(1)	(2)	Income tax expense
	$ 4	$ 3	Net of tax
Total reclassifications for the period	$ (179)	$ (51)	

Note 11. 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, 2019 and 2018 are as follows (dollars in thousands):

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 1,852	$ 1,974
Deferred compensation	762	675
Unrealized loss on available for sale securities	—	174
Pension adjustment	249	242
Purchase accounting adjustment[1]	2,625	3,113
OREO	59	59
Leased assets	1,481	—
Other	185	168
	7,213	6,405
Deferred tax liabilities:		
Accrued pension	226	256
Unrealized gain on available for sale securities	813	—
Depreciation premises and equipment	399	408
Lease liabilities	1,422	—
Other	12	67
	2,872	731
Net deferred tax asset	$ 4,341	$ 5,674

(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*.

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

	2019	2018
Current tax provision	$ 3,132	$ 2,313
Deferred tax expense	420	772
Income tax expense	$ 3,552	$ 3,085

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

	2019	2018
Statutory federal income tax rate	21 %	21 %
(Reduction) increase in taxes resulting from:		
Municipal interest	(1.5)	(2.5)
Bank owned life insurance income	(0.8)	(0.9)
Stock compensation	(0.4)	0.7
Other, net	0.1	0.1
Effective tax rate	18.4 %	18.4 %

Note 12. 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, which are included in salaries and employee benefits in the consolidated statement of income, in accordance with the funding provisions of the Employee Retirement Income Security Act.

The Company froze the plan benefits for all defined benefit plan participants effective December 31, 2010. Information pertaining to the activity in the plan for the years ended December 31, 2019 and 2018 is as follows (dollars in thousands):

	2019	2018
Change in Benefit Obligation		
Benefit obligation, beginning of year	$ 4,112	$ 4,560
Interest cost	162	158
Actuarial loss/(gain)	473	(507)
Benefits paid	(635)	(99)
Settlement loss	2	—
Benefit obligation, ending	$ 4,114	$ 4,112
Change in Plan Assets		
Fair value of plan assets, beginning of year	$ 4,180	$ 4,369
Actual return on plan assets	461	(90)
Benefits paid	(635)	(99)
Fair value of plan assets, ending	4,006	4,180
Funded status	$ (108)	$ 68
Amounts Recognized in the Balance Sheet		
Other assets	$ —	$ 68
Other liabilities	(108)	—
Amounts Recognized in Accumulated Other Comprehensive Income (Loss)		
Net loss	$ 1,095	$ 1,054
Prior service cost	40	45
Deferred tax	(249)	(242)
Total amount recognized	$ 886	$ 857
Accumulated benefit obligation	$ 4,114	$ 4,112

Components of net periodic cost (income)		
Interest cost	$ 162	$ 158
Expected return on plan assets	(214)	(238)
Amortization of prior service cost	5	5
Recognized net loss due to settlement	140	—
Recognized net actuarial loss	47	60
Net periodic cost (income)	$ 140	$ (15)

Other changes in plan assets and benefit obligations recognized in other comprehensive income

Net (gain) loss	$ 41	$ (238)
Amortization of prior service cost	(5)	(5)
Total amount recognized	$ 36	$ (243)
Total recognized in net periodic benefit (income) cost and accumulated other comprehensive (loss) income	$ 176	$ (258)

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	
	2019	2018
Discount rate used for net periodic pension cost	4.25 %	3.50 %
Discount rate used to determine obligation	3.25 %	4.25 %
Expected return on plan assets	5.50 %	5.50 %

The estimated amounts that will amortize from accumulated other comprehensive income into net periodic benefit cost in 2020 are as follows (dollars in thousands):

Prior service cost	$ 5
Net loss	49
Total amount recognized	$ 54

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, 2019 and 2018 by asset category were as follows:

	2019	2018
Asset Category		
Mutual funds — fixed income	74.00 %	77.00 %
Mutual funds — equity	26.00	23.00
Cash and equivalents	—	—
Total	100.00 %	100.00 %

The fair value of plan assets is measured based on the fair value hierarchy as discussed in Note 21, "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, 2019 and 2018 (dollars in thousands):

	Assets measured at Fair Value (Level 1)	
	2019	2018
Cash	$ 4	$ 6
Mutual funds:		
Fixed income funds	2,956	3,205
International funds	272	269
Large cap funds	364	342
Mid cap funds	137	125
Small cap funds	79	76
Stock fund	194	157
	$ 4,006	$ 4,180

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	
2020	$ —
Expected Benefit Payments	
2020	182
2021	63
2022	125
2023	64
2024	177
2025-2029	2,940

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, 2019 and 2018 were $614,000 and $617,000, 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 $110,000 and $204,000 for the years ended December 31, 2019 and 2018, respectively. The associated liabilities related to these agreements were $2.1 million at each of December 31, 2019 and 2018.

In 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. 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, 2019. The expense related to this plan was $444,000 and $343,000 for the years ended December 31, 2019 and 2018, respectively, with an associated liability of $1.6 million and $1.2 million at December 31, 2019 and 2018, respectively.

Note 13. Stock Option Plans

Stock Option Plan

In 2019, the Company adopted the Community Bankers Trust Corporation 2019 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 2,500,000 shares of common stock, all of which may be issued in connection with the exercise of incentive stock options. Annual grants of stock options are limited to 200,000 shares for each participant, except that each non-employee directors is limited to 20,000 shares.

The exercise price of a 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 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 terminate on May 16, 2029, unless terminated sooner by the Board of Directors.

The Company's previously adopted 2009 Stock Incentive Plan terminated June 17, 2019. The 2009 Plan had the same general terms as the newly adopted 2019 Plan. Outstanding awards under the 2009 Plan will be administered in accordance with their terms under such plan.

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, 2019 and 2018:

	2019	2018
Expected volatility	40 %	40 %
Expected term (years)	6.25	6.25
Risk free rate	2.66 %	2.54 %

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 minimal historical exercise data exists.

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 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, 2019 and 2018 is shown in the following table:

	2019		2018	
Month	**Shares Issued**	**Fair Value**	**Shares Issued**	**Fair Value**
March	6,675	8.08	4,670	8.35
June	6,723	7.28	3,552	9.85
July	—	—	616	9.85
September	7,459	7.76	4,741	9.05
December	6,210	8.69	5,192	8.27

The Company granted 279,000 options in 2018 and 322,000 options in 2019 to employees which vest ratably over the requisite service period of four years. A summary of options outstanding for the year ended December 31, 2019, is shown in the following table:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at beginning of year	1,574,250	$ 5.18	
Granted	322,000	7.70	
Forfeited	(32,500)	7.56	
Expired	(6,750)	8.37	
Exercised	(263,250)	3.39	
Outstanding at end of year	1,593,750	5.92	$ 4,714,405
Options outstanding and exercisable at end of year	886,500	4.56	$ 3,827,808
Weighted average remaining contractual life for outstanding and exercisable shares at year end	60 months		

The weighted average fair value per option of options granted during the year was $3.34 and $3.65 for the years ended December 31, 2019 and 2018, 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, 2019. This amount changes with changes in the market value of the Company's stock. The Company received $893,000 and $146,000 in cash related to option exercises with a total intrinsic value of $1.2 million and $220,000 during the years ended December 31, 2019 and 2018, respectively. A tax benefit in connection with the option exercises of $260,000 and $48,000 was recognized in income tax expense during 2019 and 2018, respectively.

The Company recorded total stock-based compensation expense of $1.1 million and $947,000 for the years ended December 31, 2019 and 2018, respectively. Of the $1.1 million in expense that was recorded in 2019, $860,000 related to employee grants and is classified as salaries and employee benefits expense; $215,000 related to the non-employee director grants and is classified as other operating expenses. Of the $947,000 in expense that was recorded in 2018, $781,000 related to employee grants and is classified as salaries and employee benefits expense; $166,000 related to the non-employee director grants and is classified as other operating expenses.

The following table summarizes non-vested options outstanding as of December 31, 2019:

	Number of Shares	Weighted Average Grant-Date Fair Value
Non-vested at beginning of the year	695,500	$ 3.10
Granted	322,000	3.34
Vested	(277,750)	2.82
Forfeited	(32,500)	3.31
Non-vested at end of year	707,250	3.32

The unrecognized compensation expense related to non-vested options was $1.5 million at December 31, 2019 to be recognized over a weighted average period of 29 months. The total fair market value of shares vested during the years ended December 31, 2019 and 2018 was $782,000 and $593,000, respectively.

Note 14. Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income or loss by the weighted average number of shares outstanding during the period. Diluted EPS is computed using the weighted average number of shares outstanding during the period, including the effect of all potentially dilutive shares outstanding attributable to stock instruments. The following table presents basic and diluted EPS for the years ended December 31, 2019 and 2018 (dollars and shares in thousands, except per share data):

	Net Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the year ended December 31, 2019			
Basic EPS	$ 15,705	22,264	$ 0.71
Effect of dilutive stock awards	—	267	(0.01)
Diluted EPS	$ 15,705	22,531	$ 0.70
For the year ended December 31, 2018			
Basic EPS	$ 13,688	22,103	$ 0.62
Effect of dilutive stock awards	—	466	(0.01)
Diluted EPS	$ 13,688	22,569	$ 0.61

There were no antidilutive exclusions from the computation of diluted earnings per share for the years ended December 31, 2019 and 2018.

Note 15. 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 Bank had an insignificant amount of such loans outstanding at December 31, 2019 and 2018, respectively.

The Bank held deposits of related parties in the amount of $2.5 million and $2.6 million as of December 31, 2019 and 2018, respectively.

Note 16. Cash Flow Hedge

The Company designates derivatives as cash flow hedges when they are used to manage exposure to variability in cash flows related to forecasted transactions on variable rate borrowings, such as FHLB borrowings, repurchase agreements, and brokered CDs. The Company had interest rate swaps designated as cash flow hedges with total notional amounts of $10 million and $30 million at December 31, 2019 and 2018, respectively. The swaps were 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 $180,000 and $0 of cash pledged as collateral as of December 31, 2019 and 2018, respectively.

Amounts receivable or payable are recognized as accrued under the terms of the agreements. In accordance with FASB ASC 815, *Derivatives and Hedging*, the Company has designated the swap as a cash flow hedge, with the derivatives' unrealized gains or losses recorded as a component of other comprehensive income. 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 highly effective for the years ended 2019 and 2018. The Company recorded a fair value liability of $44,000 and a fair value asset of $253,000 at December 31, 2019 and 2018, respectively. The net gain (loss) was recorded as a component of other comprehensive income net of associated tax effects.

Note 17. Concentration of Credit Risk

At December 31, 2019 and 2018, the Company's loan portfolio consisted of commercial, real estate and consumer (installment) loans. Real estate secured loans represented the largest concentration at 81.35% and 80.38% of the loan portfolio for 2019 and 2018, 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 $9.5 million and $11.0 million at December 31, 2019 and 2018, respectively.

Note 18. 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, 2019 and 2018, is as follows (dollars in thousands):

	2019	2018
Commitments with off-balance sheet risk:		
Commitments to extend credit	$ 210,086	$ 204,831
Standby letters of credit	15,155	5,280
Total commitments with off-balance sheet risks	$ 225,241	$ 210,111

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 19. Minimum Regulatory Capital Requirements

The Bank is 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, 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.

Quantitative measures established by regulation to ensure capital adequacy require 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, 2019 and 2018, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2019, based on regulatory guidelines, 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 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, 2019:						
Total Capital to risk weighted assets	$ 164,783	13.86 %	$ 95,137	8.00 %	$ 118,922	10.00
Tier 1 Capital to risk weighted assets	156,541	13.16 %	71,353	6.00 %	95,137	8.00 %
Common Equity Tier 1 Capital to risk weighted assets	156,541	13.16 %	53,515	4.50 %	77,299	6.50 %
Tier 1 Capital to adjusted average total assets	156,541	11.03 %	56,750	4.00 %	70,937	5.00 %
As of December 31, 2018:						
Total Capital to risk weighted assets	$ 149,085	13.34 %	$ 89,409	8.00 %	$ 111,762	10.00 %
Tier 1 Capital to risk weighted assets	140,289	12.55 %	67,057	6.00 %	89,409	8.00 %
Common Equity Tier 1 Capital to risk weighted assets	140,289	12.55 %	50,292	4.50 %	72,645	6.50 %
Tier 1 Capital to adjusted average total assets	140,289	10.22 %	54,882	4.00 %	68,603	5.00 %

Under the Basel III regulatory capital framework, a capital conservation buffer of 2.5% above the minimum risk-based capital thresholds was established. Dividend and executive compensation restrictions begin if the Bank does not maintain the full amount of the buffer. The capital conservation buffer was phased in between January 1, 2016 and January 1, 2019. The Bank had a capital conservation buffer of 5.86% and 5.34% at December 31, 2019 and 2018, respectively, above the required buffer of 2.5% and 1.875% for 2019 and 2018, respectively.

Note 20. 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 (an exit price) 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, 2019.

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 the cash flow hedge 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, 2019			
	Total	Level 1	Level 2	Level 3
Investment securities available for sale				
U.S. Treasury securities	$ —	$ —	$ —	$ —
U.S. Government agencies	21,936	—	21,936	—
State, county and municipal	98,592	10,072	88,520	—
Mortgage backed securities	48,740	1,181	47,559	—
Asset backed securities	11,604	—	11,604	—
Corporate bonds	6,097	—	6,097	—
Total investment securities available for sale	186,969	11,253	175,716	—
Total assets at fair value	$ 186,969	$ 11,253	$ 175,716	$ —
Cash flow hedge liability	$ 44	—	$ 44	—
Total liabilities at fair value	$ 44	$ —	$ 44	$ —

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Investment securities available for sale				
U.S. Treasury securities	$ 13,124	$ 1,479	$ 11,645	$ —
U.S. Government agencies	24,609	2,178	22,431	—
State, county and municipal	112,542	2,644	109,898	—
Mortgage backed securities	46,417	3,496	42,921	—
Asset backed securities	5,411	—	5,411	—
Corporate bonds	4,623	—	4,623	—
Total investment securities available for sale	206,726	9,797	196,929	—
Cash flow hedge asset	253	—	253	—
Total assets at fair value	$ 206,979	$ 9,797	$ 197,182	$ —
Total liabilities at fair value	$ —	$ —	$ —	$ —

Investment securities available for sale

Investment securities available for sale are recorded at fair value each reporting period. Fair value measurement is based upon quoted prices, if available (Level 1). 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 reputable pricing companies 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. 18 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, 2019 and 2018 (dollars in thousands):

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Impaired loans	$ 3,020	$ —	$ —	$ 3,020
Loans held for sale	501	—	501	—
Bank premises and equipment held for sale	1,589	—	—	1,589
Other real estate owned	4,527	—	—	4,527
Total assets at fair value	$ 9,637	$ —	$ 501	$ 9,136
Total liabilities at fair value	$ —	$ —	$ —	$ —

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Impaired loans	$ 9,343	$ —	$ —	$ 9,343
Loans held for sale	146	—	146	—
Bank premises and equipment held for sale	1,252	—	—	1,252
Other real estate owned	1,099	—	—	1,099
Total assets at fair value	$ 11,840	$ —	$ 146	$ 11,694
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, 2019 and December 31, 2018, 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 deemed to be stale or 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 without further adjustment for unobservable inputs, 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.

Loans held for sale

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

Bank premises and equipment held for sale

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

Other real estate owned

OREO assets are adjusted to fair value less estimated 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. Additionally, in accordance with FASB ASU 2016-01, which the Company adopted on January 1, 2018 on a prospective basis, the Company uses the exit price notion, rather than the entry price notion, in calculating fair values of financial instruments not measured at fair value on a recurring basis.

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, 2019				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Securities held to maturity	$ 35,733	$ 36,633	$ —	$ 36,633	$ —
Loans, net of allowance	1,049,894	1,041,671	—	—	1,041,671
PCI loans, net of allowance	32,372	38,982	—	—	38,982
Financial liabilities:					
Interest bearing deposits	984,864	985,853	—	985,853	—
Borrowings	72,624	72,457	—	72,457	—

	December 31, 2018				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Securities held to maturity	$ 42,108	$ 42,253	$ —	$ 42,253	$ —
Loans, net of allowance	984,722	978,778	—	—	978,778
PCI loans, net of allowance	38,129	42,674	—	—	42,674
Financial liabilities:					
Interest bearing deposits	999,889	997,714	—	997,714	—
Borrowings	63,571	63,393	—	63,393	—

Note 21. Trust Preferred Capital Notes

On December 12, 2003, BOE Statutory Trust I, a wholly-owned unconsolidated 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, 2019 and 2018 was 5.45% and 5.19%, 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 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 22. Revenue Recognition

On January 1, 2018, the Company adopted FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* and all subsequent ASUs that modified Topic 606. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as deposit related fees, interchange fees, merchant income, and brokerage fees and commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service charges on deposit accounts

The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange and ATM fees

The Company earns interchange and ATM fees from debit/credit cardholder transactions conducted through the Visa and ATM payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Because the Company acts as an agent and does not control the services rendered to the customers, related costs are netted against the fee income. These costs were included in other operating expenses prior to the adoption of Topic 606.

Brokerage fees and commissions

Brokerage fees and commissions consist of other recurring revenue streams such as commissions from sales of mutual funds and other investments to customers by a third-party service provider and investment advisor fees. The Company receives commissions from the third-party service provider on a monthly basis based upon customer activity for the month. The investment advisor fees are charged to the customer's account in advance on the first month of the quarter, and the revenue is recognized over the following three-month period.

The following table presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2019 and 2018 (dollars in thousands):

	2019	2018
Noninterest income		
In-scope of Topic 606:		
Service charges on deposit accounts	$ 1,833	$ 1,646
Interchange and ATM fees	999	864
Brokerage fees and commissions	399	364
Noninterest income (in-scope of Topic 606)	3,231	2,874
Noninterest income (out-of-scope of Topic 606)	2,123	1,589
Total noninterest income	$ 5,354	$ 4,463

Note 23. Leases

On January 1, 2019, the Company adopted FASB ASU 2016-02, *Leases (Topic 842),* as it relates to its non-cancellable operating leases and subleases of bank premises. The guidance was implemented using the modified retrospective transition approach at the date of adoption with no cumulative effect adjustment to opening retained earnings and no material impact on the measurement of operating lease costs. Prior period amounts were not adjusted and continue to be reported in accordance with the Company's historical accounting policies, resulting in a balance sheet presentation that is not comparable to the prior period in the first year of adoption. The Company elected the practical expedient package, which allowed it to not reassess (1) whether expired or existing contracts are or contain a lease, (2) the lease classification of expired or existing leases, and (3) the initial direct costs for any existing leases. The Company also elected the practical expedient to use hindsight in determining the lease term for existing leases, thereby including renewal options that the Company is reasonably certain will be exercised in the lease term. The adoption of this ASU resulted in the recognition of operating lease assets of $7.4 million and lease liabilities of $7.6 million at January 1, 2019.

The Company's leases have lease terms between five years and 20 years, with the longest lease term having an expiration date in 2038. Most of these leases include one or more renewal options for five years or less. At lease commencement, the Company assesses whether it is reasonably certain to exercise a renewal option by considering various economic factors. Options that are reasonably certain of being exercised are factored into the determination of the lease term, and related payments are included in the calculation of the right-of-use asset and lease liability. The Company uses its incremental borrowing rate to calculate the present value of lease payments when the interest rate implicit in a lease is not disclosed. None of the Company's current leases contain variable lease payment terms. The Company accounts for associated non-lease components separately.

The following table presents operating lease liabilities at December 31, 2019 (dollars in thousands):

	December 31, 2019
Gross lease liability	$ 9,278
Less: imputed interest	(2,541)
Present value of lease liability	$ 6,737

The weighted average remaining lease term and weighted average discount rate for operating leases at December 31, 2019 was 12.0 years and 4.63%, respectively. Maturities of the gross operating lease liability at December 31, 2019 are as follows (dollars in thousands):

2020	$ 1,231
2021	1,191
2022	600
2023	630
2024	573
Thereafter	5,053
Total of future payments	$ 9,278

Operating lease costs and sublease rental income for the year ended December 31, 2019 were $1.5 million and $191,000, respectively. Included in operating lease costs was $138,000 for the year ended December 31, 2019, related to the early termination of an unprofitable branch recognized on June 30, 2019. Rental expense and sublease rental income under operating lease agreements for the year ended December 31, 2018 were $1.4 million and $109,000, respectively.

Note 24. Other Operating Expenses

Other operating expenses 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 two years are stated separately (dollars in thousands).

	2019	2018
Bank franchise tax	$ 880	$ 574
Stationery, printing and supplies	625	586
Advertising expense	526	613
Credit expense	617	501
Outside vendor fees	673	631
Other expenses	2,705	2,898
Total other operating expenses	$ 6,026	$ 5,803

Note 25. Parent Corporation Only Financial Statements

PARENT COMPANY
CONDENSED BALANCE SHEETS
AS OF DECEMBER 31, 2019 and 2018
(dollars in thousands)

	2019	2018
Assets		
Cash	$ 811	$ 2,324
Other assets	286	252
Investments in subsidiaries	158,506	139,010
Total assets	$ 159,603	$ 141,586
Liabilities		
Other liabilities	$ —	$ 1
Balances due to non-bank subsidiary	4,124	4,124
Total liabilities	4,124	4,125
Shareholders' Equity		
Common stock (200,000,000 shares authorized $0.01 par value; 22,422,621 and 22,132,304 shares issued and outstanding, respectively)	224	221
Additional paid in capital	150,728	148,763
Retained earnings (deficit)	2,562	(10,244)
Accumulated other comprehensive income (loss)	1,965	(1,279)
Total shareholders' equity	$ 155,479	$ 137,461
Total liabilities and shareholders' equity	$ 159,603	$ 141,586

PARENT COMPANY
CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(dollars in thousands)

	2019	2018
Income:		
Dividends received from subsidiaries	$ —	$ —
Other operating income	7	8
Total income	7	8
Expenses:		
Interest expense	228	217
Management fee paid to subsidiaries	242	186
Stock compensation expense	90	64
Professional and legal expenses	79	59
Other operating expenses	55	51
Total expenses	694	577
Equity in undistributed income of subsidiaries	16,252	14,144
Net income before income taxes	15,565	13,575
Income tax benefit	140	113
Net income	$ 15,705	$ 13,688
Comprehensive income	$ 18,949	$ 12,366

PARENT COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(dollars in thousands)

	2019	2018
Operating activities:		
Net income	$ 15,705	$ 13,688
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock compensation expense	1,075	946
Undistributed equity in income of subsidiary	(16,252)	(14,144)
(Increase) decrease in other assets	(34)	71
Decrease in other liabilities	(1)	(90)
Net cash and cash equivalents provided by operating activities	493	471
Financing activities:		
Proceeds from issuance of common stock	893	146
Cash dividends paid	(2,899)	—
Net cash and cash equivalents (used in) provided by financing activities	(2,006)	146
(Decrease) increase in cash and cash equivalents	(1,513)	617
Cash and cash equivalents at beginning of the period	2,324	1,707
Cash and cash equivalents at end of the period	$ 811	$ 2,324

Note 26. 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.

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, 2019, 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, 2019, the Company’s internal control over financial reporting was effective based on the criteria set forth by COSO in its “Internal Control — Integrated Framework.”

Yount, Hyde & Barbour, P.C., the independent registered public accounting firm that audited the consolidated financial statements of the Company for the year ended December 31, 2019, has issued an attestation report on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2019. 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 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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, 2019, 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, 2019, the Company's internal control over financial reporting was effective based on the criteria set forth by COSO in its "Internal Control — Integrated Framework."

Yount, Hyde & Barbour, P.C., the independent registered public accounting firm that audited the consolidated financial statements of the Company for the year ended December 31, 2019, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. 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 2019 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 2020 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 2020 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 2020 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 2020 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 2020 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 43 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
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 Description of Securities*

10.1 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)

10.2 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)

10.3 Community Bankers Trust Corporation 2019 Stock Incentive Plan, incorporated by reference to the Company's Registration Statement on Form S-8 filed on September 3, 2019 (File No. 333-233606)

10.4 Form of Non-Qualified Stock Option Agreement for Community Bankers Trust Corporation 2019 Stock Incentive Plan*

10.5 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)

10.6 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 20, 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 (Yount, Hyde & Barbour, P.C.)*

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, 2019, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statement of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements*

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* 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 13, 2020

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 13, 2020
/s/ Bruce E. Thomas Bruce E. Thomas	Executive Vice President and Chief Financial Officer (principal financial officer)	March 13, 2020
/s/ Laureen D. Trice Laureen D. Trice	Senior Vice Presidentand Controller (principal accounting officer)	March 13, 2020
/s/ John C. Watkins John C. Watkins	Chairman of the Board	March 13, 2020
/s/ Gerald F. Barber Gerald F. Barber	Director	March 13, 2020
/s/ Richard F. Bozard Richard F. Bozard	Director	March 13, 2020
/s/ Hugh M. Fain, III Hugh M. Fain, III	Director	March 13, 2020
/s/ William E. Hardy William E. Hardy	Director	March 13, 2020
/s/ Gail L. Letts Gail L. Letts	Director	March 13, 2020
/s/ Eugene S. Putnam, Jr. Eugene S. Putnam, Jr.	Director	March 13, 2020
/s/ S. Waite Rawls III S. Waite Rawls III	Director	March 13, 2020
/s/ Oliver L. Way Oliver L. Way	Director	March 13, 2020
/s/ Robin Traywick Williams Robin Traywick Williams	Director	March 13, 2020

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, 2019 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 13, 2020

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, 2019 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 13, 2020

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, 2019 (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 13, 2020

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BOARD OF DIRECTORS

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(212) 509-4000, extension 536
(212) 509-5150 fax
www.continentalstock.com

Investor Relations

Corporate Secretary

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Richmond, VA 23233
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NASDAQ Capital Market: ESXB

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2019 ANNUAL REPORT

COMMUNITY BANKERS TRUST CORPORATION

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