Community Bankers Trust Corp
Form 10-K/A
January 14, 2011

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K/A

(Amendment No. 3)

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

For the fiscal year ended December 31, 2008

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)

Delaware	**20-2652949**
(State or other jurisdiction of incorporation of organization)	**(I.R.S. Employer Identification No.)**
4235 Innslake Drive, Suite 200	
Glen Allen, Virginia	**23060**
(Address of principal executive offices)	**(Zip Code)**

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

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

Title of each class	**Name of each exchange on which registered**
Units, each consisting of one share of Common Stock and one Warrant	**NYSE Amex**
Common Stock, $0.01 par value	**NYSE Amex**
Warrants to Purchase Common Stock	**NYSE Amex**

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

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

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

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

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

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

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter. $93,445,412

On March 2, 2009, there were 21,468,455 shares of the registrant s common stock, par value $.01, outstanding, which is the only class of the registrant s common stock.

DOCUMENTS INCORPORATED BY REFERENCE

None

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EXPLANATORY NOTE

The Registrant hereby amends its Annual Report on Form 10-K for the year ended December 31, 2008 (filed on March 31, 2009 with the Securities and Exchange Commission (the Commission)), as amended by its Annual Report on Form 10-K/A (Amendment No. 1) (filed on April 30, 2009 with the Commission) and its Annual Report on Form 10-K/A (Amendment No. 2) (filed on May 21, 2009 with the Commission), as set forth in this Annual Report on Form 10-K/A (Amendment No. 3).

This Form 10-K/A reflects the addition of financial statements and related information with respect to each of the Registrant s predecessors (TransCommunity Financial Corporation and BOE Financial Services of Virginia, Inc.), as the Registrant was a special purpose acquisition company with nominal results prior to the acquisition of each of these entities on May 31, 2008. This Form 10-K/A also includes enhanced disclosure relating to goodwill and intangible assets, fair value measurements, FDIC-covered assets and asset quality in response to comments from the Commission.

The only items that the Registrant is amending in this Form 10-K/A are Items 7, 8 and 15, as set forth below. The disclosures that the Registrant has presented in this Form 10-K/A are as of the date of the original filing, and the Registrant has not undertaken to update such disclosures for any subsequent events or developments.

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PART II

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

Community Bankers Trust Corporation (the Company or CBTC) was incorporated on April 6, 2005, to serve as a vehicle to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating commercial bank or bank holding company. CBTC consummated its initial public offering on June 8, 2006. On May 31, 2008, the Company acquired each of TransCommunity Financial Corporation, a Virginia corporation (TFC), and BOE Financial Services of Virginia, Inc., a Virginia corporation (BOE).

At June 30, 2008, the Company was operating two banking subsidiaries that resulted from the May 31, 2008, acquisitions. These banking subsidiaries were TransCommunity Bank, N.A., headquartered in Glen Allen, Virginia, and Bank of Essex (the Bank), known as Essex Bank since April 20, 2009, headquartered in Tappahannock, Virginia. On May 31, 2008, these institutions became wholly-owned subsidiaries of the Company. On July 31, 2008, TransCommunity Bank, N.A. merged into the Bank. TransCommunity Bank, N.A. s separate operating divisions, Bank of Goochland, Bank of Powhatan, Bank of Louisa and Bank of Rockbridge operated under the Bank s charter, with their own local market Presidents and Advisory Boards until April 20, 2009. On November 21, 2008, the Bank acquired certain assets and assumed all deposit liabilities relating to four former branch offices of The Community Bank (TCB), a Georgia state-chartered bank. On January 30, 2009, the Bank acquired certain assets and assumed all deposit liabilities relating to seven former branch offices of Suburban Federal Savings Bank, Crofton, Maryland (SFSB).

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 either when earning income, recognizing an expense, recovering an asset or relieving a liability. The Company uses historical loss factors as one factor in determining the inherent loss that may be present in its loan portfolio. Actual losses could differ significantly from the historical factors that the Company uses. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of the Company s transactions would be the same, the timing of events that would impact its transactions could change.

Cautionary Statement Regarding Forward-Looking Statements

The following presents management s discussion and analysis of the Company s financial condition and results of operations. The analysis and discussion is intended to assist in understanding the financial condition and results of operation of the Company and should be read in conjunction with the financial statements and related notes included elsewhere in this report, including the financial statements of TFC and BOE (the Predecessor Entities). This discussion contains certain forward-looking statements, including or related to the Company s future results, including certain projections and business trends. Assumptions relating to forward-looking statements involve judgments with respect to, among other things, future economic, competitive and market conditions and future business and regulatory decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the Company s control. When used in this discussion, the words estimate, project, intend, believe and expect and similar expressions identify forward-looking statements. These and other statements, which are not historical facts, are based largely on management s current expectations and assumptions and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. Although the Company believes that the assumptions underlying these forward-looking statements are reasonable, any of the assumptions could prove inaccurate, and the Company may not realize the results contemplated by the forward-looking statement.

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Factors that may cause actual results to differ materially from those contemplated by the forward-looking statements include the following:

- *the Company could lose key personnel or spend a greater amount of resources attracting, retaining and motivating key personnel than it has in the past;*
- *competition among depository and other financial institutions may increase significantly;*
- *changes in the interest rate environment may reduce operating margins;*
- *general economic conditions, either nationally or in Virginia, Maryland and Georgia may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and an increase in credit risk-related losses and expenses;*
- *loan losses may exceed the level of allowance for loan losses;*
- *the rate of delinquencies and amount of charge-offs may be greater than expected;*
- *the rates of loan growth and deposit growth may not increase as expected;*
- *legislative, accounting or regulatory changes may adversely affect the Company s businesses;*
- *the Company may not find suitable merger or acquisition candidates or find other suitable ways in which to invest its excess capital;*
- *the Company may not successfully integrate the business operations of TFC, BOE, TCB and/or SFSB;*
- *the continued growth of the markets that the Company serves, may not be consistent with recent historical experiences of TFC, BOE, TCB and/or SFSB; and*
- *other factors discussed in Risk Factors in Item 1A above.*

The forward-looking statements are based on current expectations about future events. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee that these expectations actually will be achieved. The Company is under no duty to update any of the forward-looking statements after the date of the filing of this report to conform those statements to actual results.

Critical Accounting Policies

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

Allowance for Loan and Lease Losses

The allowance for loan and lease losses (ALLL) is maintained at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired, as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. Since arriving at an appropriate ALLL involves a high degree of management judgment, an ongoing quarterly analysis to develop a range of estimated losses is utilized. In accordance with accounting principles generally accepted in the United States, best estimates within the range of potential credit loss to determine the appropriate ALLL is utilized. Credit losses are charged and recoveries are credited to the ALLL.

The Company utilizes an internal risk grading system for its loans. Those larger credits that exhibit probable or well defined credit weaknesses are subject to individual review. The borrower s cash flow, adequacy of collateral coverage, and other options available to the Company, including legal remedies, are evaluated. The review of individual loans includes those loans that are impaired as defined by SFAS 114, *Accounting by Creditors for Impairment of a Loan*. Collectability of both principal and interest when assessing the need for loss provision is considered. Historical loss rates are applied to other loans not subject to specific allocations. The loss rates are determined from historical net charge offs experienced by the Bank.

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Historical loss rates for commercial and retail loans are adjusted for significant factors that, in management s judgment, reflect the impact of any current conditions on loss recognition. Factors that are considered include delinquency trends, current economic conditions and trends, strength of supervision and administration of the loan portfolio, levels of underperforming loans, level of recoveries to prior year s charge offs, trend in loan losses, industry concentrations and their relative strengths, amount of unsecured loans and underwriting exceptions. These factors are reviewed quarterly and a weighted score is assigned depending on the level and extent of the risk. The total of each of these weighted factors is then applied against the applicable portion of the portfolio and the ALLL is adjusted to ensure an appropriate level.

Goodwill and Other Intangible Assets

The Company adopted SFAS 142, *Goodwill and Other Intangible Assets*. Accordingly, goodwill is no longer subject to amortization over its estimated useful life, but is subject to at least an annual assessment for impairment by applying a fair value-based test. Additionally, under SFAS 142, acquired intangible assets (such as core deposit intangibles) are separately recognized if the benefit of the assets can be sold, transferred, licensed, rented, or exchanged, and amortized over their useful lives. Any branch acquisition transactions were outside the scope of SFAS 142 and, accordingly, intangible assets related to such transactions continued to amortize upon the adoption of SFAS 142. The costs of purchased deposit relationships and other intangible assets, based on independent valuation by a qualified third party, are being amortized over their estimated lives. Core deposit intangible amortization expense charged to operations was $1.0 million for the year ended December 31, 2008. The Company did not record any goodwill or other intangible prior to the TFC and BOE mergers.

Mergers and Acquisitions

The Company was organized under the laws of the State of Delaware on April 6, 2005. As a Targeted Acquisition Corporation[SM] or TAC[SM], it was formed to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business in the banking industry. This strategy was successful with the business combinations completed on May 31, 2008 with TFC and BOE. Additionally, the Company acquired from the FDIC, as receiver, certain assets and liabilities of TCB on November 21, 2008 and SFSB on January 30, 2009.

Industry Overview

The banking industry faces a number of challenges in the current economic environment. Widespread problems in the area of mortgage lending have led to the downfall of certain government-sponsored mortgage companies with a ripple effect throughout the financial sector. Companies are having a hard time maintaining an appropriate level of liquidity. The need to increase reserves for loan losses in this uncertain climate, while prudent, has the effect of limiting or threatening profitability. Capital adequacy is more difficult to maintain because of the following:

- Decreased profitability reported throughout the industry;
- Inability to supplement capital through markets; and
- Downgraded credits, resulting in banks being required to maintain higher capital levels to sustain risk-based capital ratios.

Additionally, declining interest rates are compressing net interest margins. To help spur the economy, the Federal Reserve decreased rates 500 basis points since September 18, 2007. However, the anticipated effects of the rate cuts have not been broadly felt. During this challenging time, management plans to focus on its asset quality, liquidity and the net interest margin. While most of the banking industry news has been negative, management believes its conservative and proven banking practices will serve the Company well during this economic downturn.

Management believes that while banking prospects seem uncertain, the industry offers the opportunity for mergers or acquisitions and an attractive operating environment for target businesses. Further, management is aware of a number of distressed or failed depository institutions, and believes there will be more to follow. Management will consider these depository institutions as possible acquisition opportunities in a manner that is best for its

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shareholders. According to statistics as of December 31, 2004, published by the Federal Deposit Insurance Corporation (FDIC), there are more than 3,000 commercial banks in the U.S. with assets of $100 to $500 million, more than 2,400 of which have less than $300 million in assets. Additionally, there were 30 bank failures in the U.S. in 2008, and there have been 17 through March 6, 2009.

Members of the Company s management team and board of directors have experience in operating banks, negotiating and consummating merger and acquisition transactions as well as implementing and integrating such transactions with existing bank operations. We intend to leverage the experience of our management team and our capital to create value for our shareholders.

Strategy

The Company s strategy is to acquire or merge with commercial banks within the United States that have one or more of the following characteristics:

- An opportunity for regional expansion and/or the addition of new banking products and services;
- Constraints on its capital and limited access to alternative capital markets due to its size or other special considerations; and
- A size which is generally too small to attract the interest of larger acquirers.

Management believes the Company s balance sheet, and in particular, its capital structure, can be utilized to further grow the existing banking institution. Growth opportunities may include some or all of the following:

- Expanding the branch network of an existing banking institution;
- Utilizing capital to increase loans and deposits;
- Attracting personnel from other banks who can bring substantial business with them;
- Seeking other profitable business lines to add to the bank s core business; and
- Seeking strategic acquisitions which can provide growth to the existing business or a platform to enter another geographic market.

BUSINESS OVERVIEW

The following discussion is intended to assist readers in understanding and evaluating the financial condition and results of operations of the Company and its subsidiaries. This section should be read in conjunction with the Company s consolidated financial statements and accompanying notes, as well as the financial statements and accompanying notes of the Predecessor Entities, included elsewhere in this report. CBTC is a $1.030 billion community bank holding company formed on May 31, 2008, as a result of the consummation of the mergers between Community Bankers Acquisition Corp. and TFC and between Community Bankers Acquisition Corp. and BOE. The Company s headquarters are located in Glen Allen, Virginia which is a part of the greater Richmond, Virginia metropolitan market. Currently, the Company operates 24 full service banking facilities in Virginia, Maryland and Georgia. Eight offices operate as the Bank, including two branches in Northumberland County operating in temporary facilities while construction on their permanent branches is expected to be completed early in 2009. Operating as divisions of the Bank are two Bank of Goochland offices, one as Bank of Powhatan, one as Bank of Louisa and one as Bank of Rockbridge. In addition to the Virginia branches, the Company acquired from the FDIC, as receiver, certain assets and liabilities of TCB on November 21, 2008, and SFSB, on January 30, 2009. As a result, the Company acquired four additional branches with respect to the TCB acquisition in Georgia and seven additional branches with respect to the SFSB acquisition in Maryland. The new branches in Georgia and Maryland operate under the name Essex Bank, divisions of the Bank of Essex.

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As of December 31, 2008, the Company had total assets of $1.030 billion, an increase of $970.326 million, or 1,632.42%, from $59.441 million at December 31, 2007. Total loans aggregated $523.298 million on December 31, 2008 and were $0 on December 31, 2007. As further described in the Note 1 to the consolidated financial statements, the Company acquired TFC and BOE effective May 31, 2008. Financial statements and accompanying notes for TFC and BOE are included in this report.

The Company s securities portfolio increased $234.016 million, from $58.453 million at December 31, 2007, to $292.469 million at December 31, 2008. The magnitude of the security growth was due to both the BOE and TFC mergers, and the aforementioned purchase of certain assets and assumption of deposits of TCB. The large influx of cash related to TCB s deposits was invested in securities in an effort to maximize earnings, while loan growth remains stagnant due to credit conditions nationwide.

The Company is required to account for the effect of market changes in the value of securities available-for-sale (AFS) under SFAS 115. The market value of the December 31, 2008 securities AFS portfolio was $193.992 million. At December 31, 2008, the Company s net unrealized loss on AFS securities was $700,000.

Total deposits at December 31, 2008 and December 31, 2007 were $806.348 million and $0, respectively. It is important to note that total deposits for TCB aggregated $305.197 million at December 31, 2008, or 37.85%, of the Company s total deposits. The Company had Federal Home Loan Bank (FHLB) advances aggregating $37.900 million at December 31, 2008 and $0 at December 31, 2007. Stockholders equity at December 31, 2008 was $164.403 million and represented 15.97% of total assets. Stockholders equity was $45.312 million, or 76.23% of total assets at December 31, 2007.

RESULTS OF OPERATIONS

Net income for 2008 reflects a full twelve months for the Company and seven months of consolidated operations for the holding company and the banking subsidiary. Net income for 2007 is reflective of the nine month period from April 1, 2007 to December 31, 2007. The Company changed accounting year ends in 2007, thus resulting in the nine month operating period. It is important to note that prior year comparisons should be viewed with realization of Bank operations in 2008 versus no Bank operating activity in 2007.

From its inception until consummation of the acquisitions of TFC and BOE on May 31, 2008, the Company was a special purpose acquisition company, as described above, and had no substantial operations. Accordingly, since the Company s operating activities prior to the acquisitions were insignificant relative to those of TFC and BOE, management believes that both TFC and BOE are the Company s predecessors. Management has reached this conclusion based upon an evaluation of facts and circumstances, including the historical life of each of TFC and BOE, the historical level of operations of each of TFC and BOE, the purchase price paid for each of TFC and BOE and the fact that the consolidated Company s operations, revenues and expenses after the acquisitions are most similar in all respects to those of TFC s and BOE s historical periods. Accordingly, the consolidated financial statements for the Predecessor Entities for the five months ended May 31, 2008 and the year ended December 31, 2007 have been presented.

Net Income

For the year ended December 31, 2008, net income was $1.223 million. This compares with net income of $1.105 million for the year ended December 31, 2007, an increase of 10.68%, or $118,000. Basic earnings per share were $0.07 for 2008 and $0.12 for 2007. Fully diluted earnings per share were $0.07 for 2008 and $0.09 for 2007.

Non-accruing loans were $4.534 million at December 31, 2008, or 0.87% of total loans. Other real estate owned was $223,000. Loans past due 90 days or more and accruing interest were $397,000 at December 31, 2008. Net charged-off on loans were $938,000 in 2008. Total non-performing loans and other real estate owned equaled 0.98% of total loans at December 31, 2008.

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. Interest rate fluctuations, as well as changes in the amount and type of earning assets and liabilities, combine to affect net interest income.

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Net interest income was $14.775 million for the year ended December 31, 2008 compared with $1.944 million in 2007, which was comprised solely of interest income on U.S. Treasury securities. Interest and fee income on loans equaled $19.694 million at December 31, 2008 and represented the largest component of interest income, despite a relatively low volume of loans relative to deposits at December 31, 2008. Total interest expense was primarily driven by deposit expense of $7.695 million during 2008.

The Company s total loan to deposit ratio was 64.90% at December 31, 2008 and 0% at December 31, 2007. This ratio was affected during the fourth quarter of 2008 by the TCB transaction which accounted for $305.197 million of deposits at December 31, 2008. Management expects securities income to become a greater source of net interest earnings in 2009, as the excess deposits related to the TCB acquisition were invested, correspondingly.

The net interest margin on a tax-equivalent basis, defined as net interest income divided by average interest-earning assets, was 3.61% for 2008, while the net interest spread was 3.02%.

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 footnotes, no tax-equivalent adjustments were made. Any non-accruing loans have been included in the table as loans carrying a zero yield.

COMMUNITY BANKERS TRUST CORPORATION

NET INTEREST MARGIN ANALYSIS

AVERAGE BALANCE SHEET

FOR THE YEAR TO DATE ENDED DECEMBER 31, 2008

(Dollars in thousands)

	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid
ASSETS			
Loans, including fees	$ 291,819	$ 19,694	6.75%
Interest Bearing Bank Balances	40,927	356	0.87%
Federal funds sold	4,895	90	1.84%
Investments (taxable)	60,451	2,297	3.80%
Investments (tax exempt)	23,791	898	3.77%
Total Earning Assets	421,883	23,335	5.53%
Allowance for loan losses	(3,360)		
Non-earning assets	65,682		
Total Assets	$ 484,205		
LIABILITIES AND STOCKHOLDERS EQUITY			
Deposits:			
Demand			
Interest bearing	$ 55,811	$ 845	1.51%
Savings	18,109	229	1.26%
Time deposits	231,756	6,621	2.86%
Total deposits	305,676	7,695	2.52%

Other borrowed			
Federal Funds Purchased	5,436	131	2.41%
FHLB and Other	15,861	734	4.63%
Total interest-bearing			
Liabilities	326,973	8,560	2.62%
Non-interest bearing			
Deposits	52,945		
Other liabilities	23,935		
Total liabilities	403,853		
Stockholders equity	80,352		
Total liabilities and stockholders equity	$ 484,205		
Net interest earnings		$ 14,775	
Interest spread(1)			2.91%
Net interest margin			3.50%

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

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Noninterest Income

Noninterest income was $1.780 million for the year-ended December 31, 2008 compared with $0 for 2007. Service charges on deposit accounts were $1.185 million and other noninterest income was $595,000. The largest components of service charge income were derived from NSF fees which aggregated $780,000 and deposit ATM fees which totaled $274,000 during 2008. The largest components of other noninterest income during 2008 were evidenced in BOLI income of $161,000 and investment advisory fees of $72,000.

Provision for Loan Losses

The Company s provision for loan losses was $2.572 million for the year ended December 31, 2008. Charged-off loans were $980,000 and recoveries totaled $42,000. There were no provisions, charge-offs or recoveries during 2007.

Noninterest Expenses

Noninterest expenses were $12.627 million during 2008. Salaries and employee benefits were $5.590 million and represented the largest component of this category. Other overhead costs included other operating expenses of $3.585 million, amortization of intangibles of $975,000, occupancy expenses of $884,000, equipment expense of $665,000, data processing fees of $499,000 and legal fees of $429,000 for the operating period.

During the fourth quarter of 2008, the Company consolidated its computer operating systems. While this created economies of scale and increased capacity, there were significant installation, training and implementation costs.

Income Taxes

Income tax expense was $133,000 for the year ended December 31, 2008, compared with $576,000 for the same period in 2007. The reduced income tax provision as a percentage of taxable income was due in part to a net operating loss carry-forward afforded by the former TFC and by the addition of nontaxable interest income on bank-qualified state, county, and municipal securities.

Asset Quality

The Company s asset quality remains sound. The allowance for loan losses represents management s estimate of the amount which it believes is appropriate to provide for probable losses 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 adequacy of collateral and guarantors, non-performing credits 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 adequacy, 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.

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The Company maintains a list of loans that have potential weaknesses which 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 Company s allowance for loan losses. At December 31, 2008, nonperforming assets totaled $5.154 million. Net charge-offs were $938,000 for the year ended December 31, 2008. Nationally, industry concerns over asset quality have increased due in large part to issues related to subprime mortgage lending, declining real estate activity and general economic concerns. While the Company has experienced reduced residential real estate activity, the markets in which the Company operates remain relatively stable. While the Company incurred appropriate provisions for loan losses and thus an appropriate level of allowance for loan losses, there has been no significant deterioration in the quality of the loan portfolio. Residential loan demand has moderated somewhat, but the Company is still experiencing continued loan demand, particularly in commercial real estate. Management will continue to monitor delinquencies, risk rating changes, charge-offs, market trends and other indicators of risk in the Company s portfolio, particularly those tied to residential real estate, and adjust the allowance for loan losses accordingly.

The following table sets forth selected asset quality data and ratios as of December 31, 2008 (dollars in thousands):

	2008
Non-accrual loans	$ 4,534
Loans 90 days past due and accruing interest	397
Total nonperforming loans	$ 4,931
Other real estate owned (OREO)	223
Total nonperforming assets	$ 5,154
Nonperforming assets to total loans and OREO	0.98%
Allowance for loan losses to nonperforming loans	140.72%

See Note 3 to the CBTC financial statements for information related to the allowance for loan losses. As of December 31, 2008, total impaired loans equaled $26.216 million.

See Note 3 to the TFC financial statements and Note 3 to the BOE financial statements for asset quality data as of, and for the periods ended, May 31, 2008 and December 31, 2007.

Capital Requirements

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

The federal banking regulators have defined three tests for assessing the capital strength and adequacy of banks, based on two definitions of capital. Tier 1 Capital is defined as a combination of common and qualifying preferred stockholders equity less goodwill. Tier 2 Capital is defined as qualifying subordinated debt and a portion of the allowance for loan losses. Total Capital is defined as Tier 1 Capital plus Tier 2 Capital. Three risk-based capital ratios are computed using the above capital definitions, total assets and risk-weighted assets and 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. Tier 1 Risk-based Capital is Tier 1 Capital divided by risk-weighted assets. Total Risk-based Capital is Total Capital divided by risk-weighted assets. The Leverage ratio is Tier 1 Capital divided by total average assets.

The Company s ratio of total capital to risk-weighted assets was 20.00% on December 31, 2008. The ratio of Tier 1 Capital to risk-weighted assets was 18.92% on December 31, 2008. The Company s leverage ratio (Tier 1 capital to average adjusted total assets) was 12.54% on December 31, 2008. These ratios exceed regulatory

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minimums. In the fourth quarter of 2003, BOE issued trust preferred subordinated debt that qualifies as regulatory capital. This trust preferred debt has a 30-year maturity with a 5-year call option and was issued at a rate of three month LIBOR plus 3.00%. The weighted average cost of this instrument was 6.33% during 2008.

Loans

As of December 31, 2008, total loans outstanding were $523.3 million, versus $0 on December 31, 2007. Nearly all of these loans were acquired through the mergers with both TFC and BOE. As of December 31, 2008, loans purchased under the TCB agreement totaled $1.5 million, all of which were secured by deposits.

The following table indicates the total dollar amount of loans outstanding and the percentage of gross loans as of December 31, 2008 (dollars in thousands):

	2008	
Mortgage loans on real estate		
Residential 1-4 family	$ 129,607	24.73%
Commercial	158,062	30.16%
Construction	139,515	26.62%
Second mortgages	15,599	2.98%
Multifamily	9,370	1.79%
Agriculture	5,143	0.98%
Total real estate loans	457,296	87.26%
Commercial loans	45,320	8.65%
Consumer installment loans		
Personal	14,457	2.76%
All other loans	7,005	1.34%
Gross loans	524,078	100.00%
Less unearned income on loans	(780)	
Loans, net of unearned income	$ 523,298	

See Note 3 to the TFC financial statements and Note 3 to the BOE financial statements for loan information as of May 31, 2008 and December 31, 2007.

The Company has a significant portion of its loan portfolio in real estate secured borrowings. The following table indicates the contractual maturity of commercial and real estate construction loans as of December 31, 2008:

	Commercial	Real Estate Construction
	(Dollars in thousands)	
Within one year	$ 22,323	$ 110,128
Variable rate		
One to five years	$ 6,274	$ 23,288
After five years	1,688	1,224
Total	$ 7,962	$ 24,512
Fixed Rate		

One to five years	$ 14,866	$ 4,845
After five years	169	30
Total	$ 15,035	$ 4,875
Total maturities	$ 45,320	$ 139,515

Most of 1-4 family residential loans have contractual maturities exceeding five years.

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Allowance for Credit Losses

The following table indicates the dollar amount of the allowance for loan losses, including charge-offs and recoveries by loan type as of December 31, 2008 and related ratios:

		Amount (Dollars in thousands)
Balance, beginning of year	$	
Allowance from acquired banks		5,305
Loans charged-off:		
Commercial		539
Real estate		212
Consumer		229
Total loans charged-off		980
Recoveries:		
Consumer		42
Total recoveries		42
Net charge-offs (recoveries)		938
Provision for loan losses		2,572
Balance, end of year	$	6,939
Allowance for loan losses to loans		1.33%
Net charge-offs (recoveries) to average loans		0.32%
Allowance to nonperforming loans		140.72%

During 2008, net charge-offs for commercial loans were 57.46% of total net charge-offs. Net charge-offs for real estate loans were 22.60% of net charge offs, while net charge-offs for consumer loans were 19.94% of net charge offs.

See Note 3 to the TFC financial statements and Note 3 to the BOE financial statements for allowance for loan loss information as of, and for the periods ended, May 31, 2008 and December 31, 2007.

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 total loans as of December 31, 2008 (dollars in thousands):

	$	%(1)
Commercial	$ 2,919	8.7%
Real estate construction	338	26.6%
Real estate mortgage	3,528	60.6%
Consumer and other	154	4.1%
Total	$ 6,939	100.0%

(1) The percent represents the loan balance divided by total loans.

Securities

The Company invests funds in securities primarily to provide liquidity while earning income. As of December 31, 2008, securities equaled $292.5 million, an increase of $234 million, or 400.35%, compared with securities of $58.5 million as of December 31, 2007. This increase was due to the acquisition of TFC and BOE on May 31, 2008, which included their entire securities portfolios. Also, the purchase and assumption of TCB on November 21, 2008, resulted in a large influx of cash immediately available for investment in December 2008. Nearly two-thirds, or 66.33%, of the securities portfolio, is classified available for sale, which equaled $194.0 million at December 31, 2008. Securities classified held to maturity totaled $94.9 million, and the remaining $3.6 million were equity securities concentrated in restricted stock held with the Federal Reserve Bank, FHLB, and Community Bankers Bank.

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The following table summarizes the securities portfolio, except restricted stock and equity securities, by issuer as of the dates indicated (available for sale securities are not adjusted for unrealized gains or losses):

	December 31, 2008	December 31, 2007
	(Dollars in thousands)	
U.S. Treasury issue and other U.S. Government agencies	$ 34,729	$ 58,453
Mortgage backed securities	173,214	
State, county and municipal	73,873	
Corporate and other	7,418	
Total securities	$ 289,234	$ 58,453

Securities of $58.5 million held in trust at December 31, 2007, were invested solely in short-term U.S. Treasury issues.

See Note 2 to the TFC financial statements and Note 2 to the BOE financial statements for securities portfolio information as of May 31, 2008 and December 31, 2007.

The following table summarizes the securities portfolio by contractual maturity and issuer, including their weighted average yields as of December 31, 2008, excluding restricted stock (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	$ 12,463	$ 14,617	$ 4,649	$ 3,000	$ 34,729
Fair Value	$ 12,543	$ 14,891	$ 4,648	$ 3,021	$ 35,103
Weighted Average Yield	3.55%	3.55%	5.25%	6.00%	3.99%
Mortgage backed securities					
Amortized Cost	$ 1,058	$ 51,933	$ 116,003	$ 4,220	$ 173,214
Fair Value	$ 1,086	$ 52,444	$ 116,294	$ 4,189	$ 174,013
Weighted Average Yield	4.80%	4.54%	5.14%	5.59%	4.97%
State, county and municipal					
Amortized Cost	$ 4,008	$ 20,027	$ 26,025	$ 23,813	$ 73,873
Fair Value	$ 4,050	$ 20,092	$ 26,013	$ 22,013	$ 72,168
Weighted Average Yield	5.44%	5.43%	5.71%	5.94%	5.70%
Corporates & other bonds					
Amortized Cost	$ 5,274	$ 2,144	$	$	$ 7,418
Fair Value	$ 5,144	$ 2,105	$	$	$ 7,249
Weighted Average Yield	4.64%	4.82%	0.00%	0.00%	4.69%
Equity securities					
Amortized Cost	$	$	$	$ 323	$ 323
Fair Value	$	$	$	$ 424	$ 424
Weighted Average Yield	0.00%	0.00%	0.00%	0.00%	0.00%
Total securities					
Amortized Cost	$ 22,803	$ 88,721	$ 146,677	$ 31,356	$ 289,557
Fair Value	$ 22,823	$ 89,532	$ 146,955	$ 29,647	$ 288,957
Weighted Average Yield	4.19%	4.59%	5.24%	5.90%	5.02%

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The amortized cost and fair value of securities available for sale and held to maturity as of December 31, 2008 are as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale December 31, 2008				
U.S. Treasury issue and other U.S. Government agencies	$ 28,732	$ 358	$ (21)	$ 29,069
Mortgage backed securities	93,619	803	(66)	94,356
State, county and municipal	64,600	478	(2,184)	62,894
Corporates & other bonds	7,418	19	(188)	7,249
Other securities	323	111	(10)	424
Total securities available for sale	$ 194,692	$ 1,769	$ (2,469)	$ 193,992

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held to Maturity December 31, 2008				
U.S. Treasury issue and other U.S. Government agencies	$ 5,997	$ 37	$	$ 6,034
Mortgage backed securities	79,595	62		79,657
State, county and municipal	9,273	1		9,274
Total securities held to maturity	$ 94,865	$ 100	$	$ 94,965

Deposits

The Company s lending and investing activities are funded primarily through its deposits. The following table summarizes the average balance and average rate paid on deposits by product for the period ended December 31, 2008 (dollars in thousands):

	Year-to-Date December 31, 2008 Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid
NOW	$ 33,172	$ 197	0.59%
MMDA	22,639	648	2.86%
Savings	18,109	229	1.26%
Time deposits less than $100,000	112,716	3,431	3.04%
Time deposits greater than $100,000	119,040	3,190	2.68%
Total deposits	$ 305,676	$ 7,695	2.52%

See Note 5 to the TFC financial statements and Note 5 to the BOE financial statements for average balance and average rate paid on deposits for the periods ended May 31, 2008 and December 31, 2007.

The Company derives a significant amount of its deposits through time deposits, and certificates of deposit specifically. The following tables summarize the contractual maturity of time deposits, including those $100,000 or more, as of December 31, 2008:

Scheduled maturities of time deposits

		Total (Dollars in thousands)
2009	$	452,601
2010		78,293
2011		29,963
2012		9,907
2013		9,290
Thereafter		132
Total	$	580,186

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Maturities of time deposits of $100,000 and over

	Total	% of Deposits
	(Dollars in thousands)	
Within 3 months	$ 87,443	10.69%
3-6 months	66,799	8.28%
6-12 months	80,740	10.01%
over 12 months	41,780	5.18%
Total	$ 276,762	34.32%

Other Borrowings

The Company uses borrowings in conjunction with deposits to fund lending and investing activities. Borrowings include funding of a short-term and long-term nature. Short-term funding includes overnight borrowings from correspondent banks and securities sold under an agreement to repurchase. Long-term borrowings are obtained through the FHLB of Atlanta. At December 31, 2008, there were no short-term borrowings. The following information is provided for long-term borrowings balances, rates, and maturities with the FHLB (dollars in thousands):

	December 31, 2008
Federal Home Loan Bank advances	$ 37,900
Maximum month-end outstanding balance	$ 37,900
Average outstanding balance during the year	$ 15,861
Average interest rate during the year	4.63%
Average interest rate at end of year	3.14%

Maturities	Fixed Rate	Adjustable Rate	Total
2009	$	$ 900	$ 900
2010			
2011			
2012	22,000		22,000
2013	10,000		10,000
Thereafter	5,000		5,000
Total	$ 37,000	$ 900	$ 37,900

See Note 6 to the TFC financial statements and Note 7 to the BOE financial statements for information regarding Borrowings as of, and for the periods ended, May 31, 2008 and December 31, 2007.

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. At December 31, 2008, the Company s interest-earning assets exceeded its interest-bearing liabilities by approximately $144.9 million, compared with a $58.453 million excess at December 31, 2007.

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SUMMARY OF LIQUID ASSETS

	December 31, 2008 (Dollars in thousands)
Cash and due from banks	$ 10,864
Interest bearing bank deposits	107,376
Federal funds sold	10,193
Available for sale securities, at fair value	193,992
Total liquid assets	$ 322,425
Deposits and other liabilities	$ 865,364
Ratio of liquid assets to deposits and other liabilities	37.26%

Capital Resources

Capital resources are obtained and accumulated through earnings with which financial institutions may exercise control in comparison with deposits and borrowed funds. The adequacy of the Company s capital is reviewed by management on an ongoing basis with reference to size, composition, and quality of the Company s balance sheet. Moreover, capital levels are regulated and compared with industry standards. Management seeks to maintain a capital level exceeding regulatory statutes of well capitalized which is consistent to its overall growth plans, yet allows the Company to provide the optimal return to its shareholders.

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

On December 12, 2003, BOE Statutory Trust I, a wholly-owned subsidiary of BOE, 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. Since May 31, 2008 through December 31, 2008, the weighted-average interest rate was 6.33%. The securities have a mandatory redemption date of December 12, 2033 and are subject to varying call provisions which began December 12, 2008. The trust preferred notes may be included in Tier 1 capital for regulatory capital adequacy determination purposes up to 25% of Tier 1 capital after its inclusion. The portion of the trust preferred not considered as Tier 1 capital may be included in Tier 2 capital. At December 31, 2008, all trust preferred notes were included in Tier 1 capital.

The following table shows the Company s capital ratios:

	Actual	
	Amount	Ratio
	(Dollars in thousands)	
As of December 31, 2008		
Total Capital to risk weighted assets		
CBTC consolidated	$ 125,523	20.00%
Bank of Essex	62,517	10.30%
Tier 1 Capital to risk weighted assets		
CBTC consolidated	114,965	18.92%
Bank of Essex	55,959	9.22%
Tier 1 Capital to average adjusted assets		
CBTC consolidated	114,965	12.54%
Bank of Essex	55,959	6.12%

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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 assets was 0.25% in 2008. Return on average equity is net income as a percentage of average shareholders equity. It provides a measure of how productively a Company s equity has been employed. CBTC s return on average equity was 1.52% in 2008. Dividend payout ratio is the percentage of net income paid to shareholders as cash dividends during a given period. It is computed by dividing dividends per share by net income per share. CBTC had a dividend payout ratio of 143.50% in 2008. The Company utilizes leverage within guidelines prescribed by federal banking regulators as described in the section Capital Requirements in the preceding section. Leverage is average stockholders equity divided by total average assets. This ratio was 16.59% in 2008.

	Year Ended December 31, 2008
Return on average assets	0.25%
Return on average equity	1.52%
Dividend payout ratio	143.50%
Average equity to average asset ratio	16.59%

Off-Balance Sheet Arrangements

A summary of the contract amount of the Bank s exposure to off-balance sheet risk as of December 31, 2008, is as follows (dollars in thousands):

	Amount
Commitments with off-balance sheet risk:	
Commitments to extend credit	$ 106,378
Standby letters of credit	12,356
Total commitments with off-balance sheet risk	118,734
Commitments with balance sheet risk:	
Loans held for sale	200
Total commitments with balance sheet risk	200
Total other commitments	**$ 118,934**

Commitments to extend credit are agreements to lend to a client 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 Bank evaluates each client s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank 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 clients. Those lines of credit may be drawn upon only to the total extent to which the Bank is committed.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a client 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 Bank holds certificates of deposit, deposit accounts, and real estate as collateral supporting those commitments for which collateral is deemed necessary.

A summary of the Bank s contractual obligations at December 31, 2008 is as follows (dollars in thousands):

	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Trust preferred debt	$ 4,124	$	$	$	$ 4,124
Federal Home Loan Bank advances	37,900	900		32,000	5,000
Operating leases	7,476	499	914	779	5,284
Total contractual obligations	$ 49,500	$ 1,399	$ 914	$ 32,779	$ 14,408

Supplemental Information on Predecessor Entities

The following information represents a discussion and analysis of the results of operations of each of the Company s Predecessor Entities for the five months ended May 31, 2008 and the year ended December 31, 2007.

TransCommunity Financial Corporation (TFC)

Results of Operations for the five months ended May 31, 2008

For the five months ended May 31, 2008, net losses were $3.9 million or $(.85) per share. The loss incurred was primarily the result of one-time noninterest expenses related to the May 31, 2008 acquisition by the Company as well as an increase in the provision for loan losses.

Net interest income was $3.8 million for the five months ended May 31, 2008. Net interest margin was 3.86%. During this period, the Federal Reserve decreased interest rates four times for a total of 225 basis points. Most of TFC s earning assets were centered in loans, and approximately two-thirds of those loans were adjustable rate. As a result, the balance sheet was considered to be asset sensitive. Therefore, the rate cuts were unfavorable to the net interest margin, which declined approximately 127 basis points for the five months ended May 31, 2008.

For the five months ended May 31, 2008, TFC s provision for loan losses was $1.3 million. The increase in loan loss reserves was due to a combination of the provisions required to support loan growth, plus downgraded loans and seasoning of the loan portfolio. The ratio of net charge-offs to average loans was 0.43% for the five month period ended May 31, 2008.

For the five months ended May 31, 2008, noninterest income was $429,000. Service charges on bank accounts made up $342,000 of this amount.

For the five months ended May 31, 2008, noninterest expenses were $8.2 million. Salaries and employee benefits were $3.7 million and represented 45.06% of all noninterest expenses for the period. Additionally, TFC incurred occupancy expenses of $318,000, equipment expense of $295,000, and other noninterest expenses of $3.9 million, which were comprised of data processing fees of $1.9 million, professional fees of $1.0 million, legal and accounting fees of $260,000, and other expenses totaling $702,000. Management continued to focus its attention related to the proposed merger with the Company.

One-time noninterest expenses related to the May 31, 2008 acquisition by the Company included $1.3 million in salaries and benefits related to severance and bonuses, $1.7 million in data processing resulting from the termination of a data processing contract and $1.0 million in professional fees.

An income tax benefit of $1.5 million was recorded for the five months ended May 31, 2008.

Overview as of December 31, 2007 and Results of Operations for the year then ended

As of December 31, 2007, TFC had total assets of $238.3 million, total loans of $205.5 million, total deposits of $203.6 million, and total stockholders equity of $33.2 million. For 2007, TFC reported net income of $2.5 million. Net income from continuing operations was $2.6 million, which included an income tax benefit of $3.3 million resulting from the removal of a previously established valuation allowance against the net deferred tax asset. Earnings per share from continuing operations for 2007 was $0.56. Net losses from discontinued operations equalled $77,000. Net income per share, both basic and diluted, for 2007 was $0.54.

Results of operations for 2007 were affected by non-recurring expenses related to bank charter consolidation and operating system conversion. Four bank charters were legally consolidated under a single bank, TFC, effective June 30, 2007. Also, during 2007, higher than expected accounting costs were incurred associated with amendments to TFC s 2005 Form 10-KSB and First Quarter 2006 Form 10-Q. Strong loan growth coupled with net charge-offs of $715,000 resulted in a provision for loan losses of $1.7 million during 2007.

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Net interest income was $10.5 million for the year ended December 31, 2007. Average total interest-earning assets were $204.1 million in 2007 and the average yield was 8.40%. Average total interest-bearing liabilities were $161.8 during 2007. Interest rates declined from September to December 2007, however, the average cost of interest-bearing liabilities was 4.13% during 2007. This overall increase in interest expense was attributable to core deposit growth concentrated in relatively higher cost certificates of deposit. For the year ended December 31, 2007, net interest spread was 4.27% and net interest margin was 5.13%.

TFC recorded a provision for loan losses of $1.7 million for the year ended December 31, 2007. The loan loss provision for 2007 was consistent with loan growth and net charge-offs that were experienced. The ratio of the allowance for loan losses to period-ending total loans was 1.48%, at December 31, 2007. The ratio of net charge-offs to average loans was 0.41% for the year ended December 31, 2007.

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 total loans as of December 31, 2007 (dollars in thousands):

Real estate:		
Construction	$ 607	20%
Residential	577	19%
Commercial	941	31%
Commercial, industrial and agricultural	729	24%
Consumer and installment	152	5%
All other	30	1%
Total allowance for loan losses	$ 3,036	100%

For the year ended December 31, 2007, non-interest income from continuing operations was $1.1 million, all of which was customer service fees.

For the year ended December 31, 2007, non-interest expense was $10.6 million. Salary and benefits expense of $5.4 million composed the largest portion of this amount. Professional fees were $1.4 million and supplies and equipment were $1.1 million. Increases in these expenses in 2007 were due to (i) the consolidation of the division bank charters and associated operational support, and system conversion efforts, (ii) operation of the Bank of Rockbridge for a full calendar year, (iii) processing cost increases due to growth in accounts and activity, (iv) extraordinary fees charged by the TFC s former outside auditing firm, and (v) employee merit adjustments, increased benefit costs, and implementation of a compensation plan for our directors.

TRANSCOMMUNITY FINANCIAL CORPORATION

NET INTEREST MARGIN ANALYSIS

AVERAGE BALANCE SHEET

FOR THE YEAR ENDED DECEMBER 31, 2007

(dollars in thousands)

	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid
ASSETS:			
Loans, including fees	$ 176,240	$ 15,795	8.96%
Federal funds sold	11,471	570	4.97
Investments (1)	16,374	778	4.75

Total Earning Assets	204,085	17,143	8.40
Allowance for loan losses	(2,211)		
Non-earning assets	13,234		
Total Assets	$ 215,108		
LIABILITIES AND STOCKHOLDERS EQUITY			
Deposits:			
Demand interest bearing	$ 37,209	$ 723	1.94
Savings	10,097	156	1.55
Time deposits	113,712	5,749	5.06
Total deposits	161,018	6,628	4.12
Other borrowed Funds (1)	752	48	6.38
Total interest-bearing liabilities	161,770	6,676	4.13
Non-interest bearing deposits	21,921		
Other liabilities	1,087		
Total liabilities	184,778		
Stockholders equity	30,330		
Total liabilities and stockholders equity	$ 215,108		
Net interest earnings		$ 10,467	
Interest spread			4.27%
Net interest margin			5.13%

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

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The economic conditions during 2007 weakened and had a profound affect throughout the financial services and banking industry. In response to the economic downturn, the Federal Reserve began the first of several interest rate cuts in September 2007. During the last four months of 2007, there were three rate decreases that totalled 100 basis points. However, these rate cuts did not materially affect the net interest margin until after 2007.

Financial Ratios

	Year Ended December 31, 2007
Return on average assets	1.16%
Return on average equity	8.23%
Dividend payout ratio	0.00%
Average equity to average assets	14.10%

BOE Financial Services of Virginia, Inc. (BOE)

Results of Operations for the five months ended May 31, 2008

For the five months ended May 31, 2008, net losses were $188,000 or $(0.15) per share. The loss incurred was primarily the result of one-time noninterest expenses related to the May 31, 2008 acquisition by the Company.

Net interest income was $4.0 million for the five months ended May 31, 2008. Net interest margin was 3.62%. Interest rate cuts by the Federal Reserve during the five months ended May 31, 2008 compressed the net interest margin, which declined 41 basis points since year-end 2007.

For the five months ended May 31, 2008, the Company s provision for loan losses was $200,000. Increases were made to the loan loss reserve due to general seasoning of the portfolio. The ratio of net charge-offs to average loans was 0.03% for the five month period ended May 31, 2008.

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For the five months ended May 31, 2008, noninterest income was $854,000. Comprising this amount, service charge income was $464,000 and other income was $390,000. Included in other income for the five months ended May 31, 2008 is a $92,000 loss on sale of other real estate.

For the five months ended May 31, 2008, noninterest expenses were $4.9 million. Salaries and employee benefits were $2.5 million and represented 51.07% of all noninterest expenses for the period. Additionally BOE incurred data processing fees of $394,000, legal fees of $306,000, equipment expense of $286,000, professional fees of $258,000, and occupancy expenses of $216,000.

One-time noninterest expenses related to the May 31, 2008 acquisition by the Company included $375,000 in salaries and benefits, $160,000 in professional fees, $84,000 in legal fees, $54,000 in equipment expenses, and $167,000 in data processing expenses.

An income tax benefit of $10,000 was recorded for the five months ended May 31, 2008.

Overview as of December 31, 2007 and Results of Operations for the year then ended

On December 31, 2007, BOE had total assets of $302.4 million, total loans of $221.5 million, total deposits of $244.6 million, and total stockholder s equity of $30.1 million. BOE had net income of $2.6 million in 2007 resulting in fully diluted earnings per common share of $2.15. Return on average equity was 9.03% and return on average assets was 0.90% in 2007.

Net interest income, on a tax equivalent basis, was $10.7 million in 2007. BOE s earning assets were $265.2 million. Income on loans receivable was $16.2 million and, on a tax equivalent basis, the yield on the loan portfolio was 7.80%, based on an average balance in loans receivable of $207.6 million. Average investment securities and federal funds sold were $57.6 million. The tax equivalent yield on investment securities, including equity securities and federal funds sold was 5.52%. The yield on earning assets of $265.2 million was 7.31%, based on $19.4 million in fully taxable equivalent income. BOE s interest-bearing liabilities were $229.0 million. The cost of total interest bearing liabilities was 3.80%, based on $8.7 million in total interest expense. BOE s net interest margin was 4.03% in 2007 and the net interest spread was 3.51%.

The provision for loan losses was $6,000 in 2007. During the third quarter of 2007 the Company realized a recovery of $400,000 on a loan charge-off from 2002. This bolstered the Company s allowance for loan losses. Allowance for loan losses was $2.6 million on December 31, 2007. This was 1.17% of total loans as of that date. Charged-off loans were in a net recovery position in 2007 of $189,000 after charging off $256,000 and recovering a total of $445,000. The ratio of net charge-offs (recoveries) to average loans was (0.09)% for the year ended December 31, 2007.

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 total loans as of December 31, 2007 (dollars in thousands):

Real estate	$ 1,887	86%
Commercial, industrial and agricultural	508	11%
Consumer and installment	200	3%
Total allowance for loan losses	$ 2,595	100%

Non-interest income in 2007 was $2.0 million. Service charge income of $1.1 million made up the significant portion of this amount. Other income amounted to $848,000.

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Non-interest expense was $8.8 million in 2007. Salaries and benefits were the largest component amounting to $4.8 million. Other operating expenses were $2.2 million. Occupancy expenses were $517,000, furniture and equipment related expenses were $514,000, and data processing expenses were $608,000 for the year.

BOE FINANCIAL SERVICES OF VIRGINIA, INC.

NET INTEREST MARGIN ANALYSIS

AVERAGE BALANCE SHEET

FOR THE YEAR ENDED DECEMBER 31, 2007

(dollars in thousands)

	AVERAGE BALANCE	INTEREST INCOME / EXPENSE	AVERAGE YIELD RATE
Earning Assets:			
Loans receivable(1)	207,620	16,202	7.80%
Securities, taxable	19,332	963	4.98%
Securities, non-taxable	34,627	2,022	5.84%
Equity securities	2,132	122	5.74%
Federal funds sold	1,490	73	4.89%
Total earning assets	$ 265,201	$ 19,382	7.31%
Non-Earning Assets:			
Cash and due from banks	5,049		
Allowance for loan losses	(2,535)		
Other assets	21,470		
Total non-earning assets	23,984		
Total assets	$ 289,185		
Interest-Bearing Liabilities:			
Deposits:			
Interest-bearing demand (NOW) deposits	$ 26,391	$ 91	0.34%
Money market deposits	16,195	439	2.71%
Savings deposits	20,221	249	1.23%
Time deposits	144,954	6,807	4.70%
Federal funds purchased	742	44	5.90%
FHLB advances & other borrowings	20,450	1,065	5.21%
Total interest-bearing liabilities	$ 228,953	$ 8,695	3.80%
Non-Interest Bearing Liabilities:			
Demand deposits	28,066		
Other liabilities	3,299		
Total non-interest bearing liabilities	31,365		

Total liabilities	260,318		
Stockholders equity	28,867		
Total liabilities and stockholders equity	$ 289,185		
Interest spread			3.51%
Net interest margin		$ 10,687	4.03%

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

Financial Ratios

	Year Ended December 31, 2007
Return on average assets	0.90%
Return on average equity	9.03%
Dividend payout ratio	38.04%
Average equity to average assets	9.98%

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders Community Bankers Trust Corporation.

We have audited the accompanying balance sheet of Community Bankers Trust Corporation (formerly Community Bankers Acquisition Corp.) (a corporation in the development stage) as of December 31, 2007 and the related statements of income, stockholders equity and cash flows for the nine months ended December 31, 2007. These financial statements are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Bankers Trust Corporation (formerly Community Bankers Acquisition Corp.) as of December 31, 2007 and the results of its operations and its cash flows for the nine months ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

/s/ MILLER ELLIN & COMPANY, LLP

New York, NY

March 26, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Community Bankers Trust Corporation

Glen Allen, Virginia

We have audited the accompanying consolidated balance sheet of Community Bankers Trust Corporation and subsidiaries (the Company) as of December 31, 2008, and the related consolidated statements of income, comprehensive income, stockholders equity and cash flows for the year December 31, 2008. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Bankers Trust Corporation and subsidiaries as of December 31, 2008, and the results of their operations and their cash flows for the year ended December 31, 2008 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), the Company s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Our report dated March 31, 2009 expressed an opinion that Community Bankers Trust Corporation and subsidiaries had not maintained effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

Galax, Virginia

March 31, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Community Bankers Trust Corporation

Glen Allen, Virginia

We have audited the internal control over financial reporting of Community Bankers Trust Corporation and subsidiaries (the Company) as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). 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 included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

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

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. 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 accounting principles generally accepted in the United States of America, 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.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management s assessment.

Management failed to reconcile goodwill related to a recent business acquisition to supporting information. As a result a material error related to the capitalization of merger related expenses went undetected. In addition, there were several material balance sheet reclassifications that did not impact net income.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2008 financial statements, and this report does not affect our report dated March 31, 2009 on those financial statements. The financial statements were adjusted for this error.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2008 and the related consolidated statements of income, comprehensive income, shareholders equity, and cash flows for the year ended December 31, 2008 and our report dated March 31, 2009 expressed an unqualified opinion thereon.

Galax, Virginia

March 31, 2009

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COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED BALANCE SHEETS

as of December 31, 2008 (Restated) and 2007

	December 31, 2008	December 31, 2007
	(Dollars in thousands)	
ASSETS		
Cash and due from banks	$ 10,864	$ 162
Interest bearing bank deposits	107,376	
Federal funds sold	10,193	
Total cash and cash equivalents	128,433	162
United States Treasury securities held in trust fund		58,453
Securities available for sale, at fair value	193,992	
Securities held to maturity, fair value of $94,965 at December 31, 2008	94,865	
Equity securities, restricted, at cost	3,612	
Total securities	292,469	58,453
Loans held for sale	200	
Loans	523,298	
Allowance for loan losses	(6,939)	
Net loans	516,359	
Bank premises and equipment	24,111	
Other real estate owned	223	
Bank owned life insurance	6,300	
Core deposit intangibles, net	17,163	
Goodwill	37,184	
Other assets	7,798	826
Total assets	$ 1,030,240	$ 59,441
LIABILITIES		
Deposits:		
Noninterest bearing	$ 59,699	$
Interest bearing	746,649	
Total deposits	806,348	
Federal Home Loan Bank advances	37,900	
Trust preferred capital notes	4,124	
Deferred payment to underwriter		2,100
Other liabilities	17,465	339
Total liabilities	865,837	2,439
Common stock, subject to conversion, 1,499,250 shares at conversion value		11,690
STOCKHOLDERS EQUITY		
Preferred stock (5,000,000 shares authorized)	17,680	
Warrants on preferred stock	1,037	
Discount on preferred stock	(1,031)	

Common stock (50,000,000 shares authorized $.01 par value) 21,468,455 and 9,375,000 shares issued and outstanding at December 31, 2008, and December 31, 2007, respectively	215	94
Additional paid in capital	146,076	42,989
Retained earnings	1,691	2,229
Accumulated other comprehensive loss	(1,265)	
Total stockholders equity	164,403	45,312
Total liabilities and stockholders equity	$ 1,030,240	$ 59,441

See accompanying notes to consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

For the Year Ended December 31, 2008 and Nine Months Ended December 31, 2007

	December 31, 2008	December 31, 2007
	(Dollars and shares in thousands, except per share data)	
Interest and dividend income		
Interest and fees on loans	$ 19,694	$
Interest on federal funds sold	90	
Interest on deposits in other banks	356	
Interest and dividends on securities		
Taxable	2,297	1,944
Nontaxable	898	
Total interest income	23,335	1,944
Interest expense		
Interest on deposits	7,695	
Interest on federal funds purchased	131	
Interest on other borrowed funds	734	
Total interest expense	8,560	
Net interest income	14,775	1,944
Provision for loan losses	2,572	
Net interest income after provision for loan losses	12,203	1,944
Noninterest income		
Service charges on deposit accounts	1,185	
Other	595	
Total noninterest income	1,780	
Noninterest expense		
Salaries and employee benefits	5,590	
Occupancy expenses	884	
Equipment expenses	665	
Legal fees	429	
Data processing fees	499	
Amortization of intangibles	975	
Other operating expenses	3,585	263
Total noninterest expense	12,627	263
Net income before income tax expense	1,356	1,681
Income tax expense	133	576
Net income	$ 1,223	$ 1,105

Net income per share basic	$ 0.07	$ 0.12
Net income per share diluted	$ 0.07	$ 0.09
Weighted average number of shares outstanding		
Basic	16,430	9,375
Diluted	17,518	11,807

See accompanying notes to consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE TWELVE MONTHS and NINE MONTHS ENDED

DECEMBER 31, 2008 (Restated) AND 2007, respectively

(Dollars and shares in thousands)

	Preferred Stock	Warrants	Discount on Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, March 31, 2007	$	$	$	9,375	$ 94	$ 43,061	$ 1,124	$	$ 44,279
Change in shares subject to conversion						(72)			(72)
Comprehensive income:									
Net income							1,105		1,105
Total comprehensive income									1,105
Balance December 31, 2007				9,375	94	42,989	2,229		45,312
Issuance of preferred stock and related warrants	17,680	1,037	(1,037)						17,680
Amortization of preferred stock warrants			6				(6)		
Redemption of shares related to appraisal rights				(2)		(11)			(11)
Transfer of shares previously subject to conversion						11,690			11,690
Issuance of stock related to business combination				13,502	135	100,769			100,904
Issuance of options and stock awards related to business combination						1,487			1,487
Redemption of shares, net of fractional shares				(1,407)	(14)	(10,813)			(10,827)
Repurchase of warrants						(35)			(35)
Comprehensive income:									
Net income							1,223		1,223
Change in unrealized gain in investment securities, net of tax of $238								(462)	(462)
Change in funded status of pension plan, net of tax of $413								(803)	(803)
Total comprehensive income									(42)
Dividends paid on common stock ($.08 per share)							(1,755)		(1,755)
Balance December 31, 2008	$ 17,680	$ 1,037	$ (1,031)	21,468	$ 215	$ 146,076	$ 1,691	$ (1,265)	$ 164,403

See accompanying notes to consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2008 (Restated) and

Nine Months Ended December 31, 2007

	2008	2007
	(Dollars in thousands)	
Operating activities:		
Net income	$ 1,223	$ 1,105
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and intangibles amortization	1,663	
Provision for loan losses	2,572	
Deferred taxes	110	
Amortization of security premiums and accretion of discounts, net	117	
Net amortization of preferred warrants	6	
Net decrease in loans held for sale	506	
Changes in assets and liabilities:		
Increase in other assets	(6,832)	(809)
Increase (decrease) in accrued expenses and other liabilities	5,357	(476)
Net cash provided by (used in) operating activities	4,722	(180)
Investing activities:		
Net increase in federal funds sold	(10,335)	
Proceeds from securities sales, calls, maturities and paydowns	68,562	
Purchase of securities	(204,549)	(334)
Net increase in loans	(47,992)	
Purchase of premises and equipment, net	(2,655)	
Securities acquired in bank acquisition	(29,420)	
Cash acquired in bank acquisitions	10,016	
Net cash used in investing activities	(216,373)	(334)
Financing activities:		
Net increase in noninterest bearing and interest bearing demand deposits	9,689	
Increase in deposits from bank acquisition	305,197	
Net increase in Federal Home Loan Bank advances	20,000	
Cash paid to redeem shares related to asserted appraisal rights and retire warrants	(46)	
Cash dividends paid	(1,755)	
Issuance of preferred stock	17,680	
Cash paid to shareholders for converted shares	(10,843)	
Net cash provided by financing activities	339,922	
Net increase (decrease) in cash and cash equivalents	128,271	(514)
Cash and cash equivalents:		
Beginning of the period	162	676
End of the period	$ 128,433	$ 162

Supplemental disclosures of cash flow information:		
Interest paid	$ 5,780	$
Income taxes paid	406	
Transfers of OREO property	223	
Non-cash transactions related to the acquisition of TFC and BOE assets and liabilities		
Increase in assets and liabilities:		
Loans	$ 471,864	
Securities	71,123	
Other assets	83,664	
Non-interest bearing deposits	52,790	
Interest bearing deposits	438,672	
Borrowings	32,359	
Other Liabilities	10,216	

See accompanying notes to consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

Notes to Consolidated Financial Statements

Note 1. Nature of Banking Activities and Significant Accounting Policies
Organization

Community Bankers Trust Corporation (the Company) is a bank holding company that was incorporated under Delaware law on April 6, 2005. The Company is headquartered in Glen Allen, Virginia and is the holding company for Essex Bank (the Bank), a Virginia state bank with 25 full-service offices in Virginia, Maryland and Georgia.

The Company was initially formed as a special purpose acquisition company to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business in the banking industry. Prior to its acquisition of two bank holding companies in 2008, the Company s activities were limited to organizational matters, completing its initial public offering and seeking and evaluating possible business combination opportunities. On May 31, 2008, the Company acquired each of TransCommunity Financial Corporation, a Virginia corporation (TFC), and BOE Financial Services of Virginia, Inc., a Virginia corporation (BOE). The Company changed its corporate name in connection with the acquisitions. On November 21, 2008, the Bank acquired certain assets and assumed all deposit liabilities relating to four former branch offices of The Community Bank (TCB), a Georgia state-chartered bank. On January 30, 2009, the Bank acquired certain assets and assumed all deposit liabilities relating to seven former branch offices of Suburban Federal Savings Bank, Crofton, Maryland (SFSB).

The Bank was established in 1926 and is headquartered in Tappahannock, Virginia. The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals and small businesses, including individual and commercial demand and time deposit accounts, commercial and consumer loans, travelers checks, safe deposit box facilities, investment services and fixed rate residential mortgages. Fourteen offices are located in Virginia, primarily from the Chesapeake Bay to just west of Richmond, seven are located in Maryland along the Baltimore-Washington corridor and four are located in the Atlanta, Georgia metropolitan market.

Predecessors

From its inception until consummation of the acquisitions of TFC and BOE on May 31, 2008, the Company was a special purpose acquisition company, as described above, and had no substantial operations. Accordingly, since the Company s operating activities prior to the acquisitions were insignificant relative to those of TFC and BOE, management believes that both TFC and BOE are the Company s predecessors. Management has reached this conclusion based upon an evaluation of facts and circumstances, including the historical life of each of TFC and BOE, the historical level of operations of each of TFC and BOE, the purchase price paid for each of TFC and BOE and the fact that the consolidated Company s operations, revenues and expenses after the acquisitions are most similar in all respects to those of BOE s and TFC s historical periods. Accordingly, the statements should be read in conjunction with the consolidated financial statements and the accompanying notes to consolidated financial statements of TFC and BOE for the periods ended May 31, 2008 and December 31, 2007. These statements have also been presented.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and the Bank, its wholly-owned subsidiary. All material intercompany balances and transactions have been eliminated in consolidation. FASB Interpretation No. 46(R) requires that the Company no longer eliminate through consolidation the equity investment in BOE Statutory Trust I, which approximated $124,000 at December 31, 2008. The subordinated debt of the Trust is reflected as a liability of the Company.

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COMMUNITY BANKERS TRUST CORPORATION

Notes to Consolidated Financial Statements

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, interest-bearing bank balances, and Federal funds sold.

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 recorded on the trade date and 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 market 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 ninety 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 substantial portion of the loan portfolio is represented by 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.

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COMMUNITY BANKERS TRUST CORPORATION

Notes to Consolidated Financial Statements

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 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 non-accrual 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 non-accrual 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. 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

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

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

The allowance consists of specific, general and unallocated components. For loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

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

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COMMUNITY BANKERS TRUST CORPORATION

Notes to Consolidated Financial Statements

Accounting for Certain Loans or Debt Securities Acquired in a Transfer

On January 1, 2005, Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (AICPA, *Technical Practice Aids*, ACC sec. 10,880) was adopted for loan acquisitions. SOP 03-3 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 SOP 03-3. SOP 03-3 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.

In our acquisition of TFC and BOE, the preliminary fair value of SOP 03-3 loans was determined based on assigned risk ratings, expected cash flows and the fair value of the collateral. The fair value of non SOP 03-3 loans was determined based on preliminary estimates of default probabilities. The Company determined which purchased loans were impaired at the time of the acquisition, and considered those loans for SOP 03-3 application. Those loans that were not considered impaired at the time of acquisition were not considered for SOP 03-3.

As a result of the acquisitions of TFC and BOE, the Company had loans amounting to approximately $5.0 million as of December 31, 2008 which met the criteria of SOP 03-3. Due to the immateriality of these loans in relation to the overall financial condition of the Company, detailed disclosures have not been included in these financial statements.

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 20 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 lower of the loan balance or 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 $223,000 in other real estate at December 31, 2008.

Goodwill and Other Intangibles

SFAS No. 141, *Business Combinations*, requires that the purchase method of accounting be used for all business combinations after June 30, 2001. With purchase acquisitions, the Company is required to record assets acquired, including any intangible assets, and liabilities assumed at fair value, which involves relying on estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analysis or

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COMMUNITY BANKERS TRUST CORPORATION

Notes to Consolidated Financial Statements

other valuation methods. The Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. Accordingly, goodwill is no longer subject to amortization over its estimated useful life, but is subject to at least an annual assessment for impairment by applying a fair value-based test. Additionally, under SFAS No. 142, acquired intangible assets (such as core deposit intangibles) are separately recognized if the benefit of the assets can be sold, transferred, licensed, rented, or exchanged, and amortized over their useful lives. SFAS No. 142 discontinued any amortization of goodwill and other intangible assets with indefinite lives, but required an impairment review at least annually or more often if certain conditions exist. The Company follows SFAS No. 147, *Acquisitions of Certain Financial Instruments*, and determined that any core deposit intangibles will be amortized over the estimated useful life.

Advertising Costs

The Company follows the policy of expensing advertising costs as incurred, which total $308,000 for 2008.

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.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income.

As of December 31, 2008 and 2007, the Company did not have any tax benefit disallowed under FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* (FIN 48).

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, it is more likely than not that the results of future operations will generate sufficient taxable income to recognize the deferred tax assets.

Included in deferred tax assets are the tax benefits derived from net operating loss carryforwards totaling $2,945 million relating to an acquisition, which expire in various amounts from 2021 through 2024. Management expects to utilize all of these carryforward amounts prior to expiration.

The Company and its subsidiaries are subject to U. S. federal income tax as well as various state income taxes. All years from 2005 through 2008 are open to examination by the respective tax authorities.

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Earnings Per Share

Basic earnings per share (EPS) is computed based on the weighted average number of shares outstanding and excludes any dilutive effects of options, warrants and convertible securities. Diluted EPS is computed in a manner similar to basic EPS, except for certain adjustments to the numerator and the denominator. Diluted EPS gives effect to all dilutive potential common shares that were outstanding during the period. Potential common shares that may be issued by the Company relate solely to outstanding stock options and warrants and are determined using the treasury stock method. Preferred stock was issued on December 19, 2008. No dividend was declared on this stock during 2008.

Stock-Based Compensation

Prior to the Company s mergers with BOE and TFC, both of these entities had stock-based compensation plans, which are more fully described in Note 12.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) reached a consensus on Emerging Issues Task Force (EITF) Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements, (EITF Issue 06-4). In March 2007, the FASB reached a consensus on EITF Issue 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements, (EITF Issue 06-10). Both of these standards require a company to recognize an obligation over an employee s service period based upon the substantive agreement with the employee such as the promise to maintain a life insurance policy or provide a death benefit postretirement. *The Company adopted the provisions of these standards effective January 1, 2008. The adoption of these standards was not material to the consolidated financial statements.*

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but rather, provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The FASB has approved a one-year deferral for the implementation of the Statement for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. *The Company adopted SFAS 157 effective January 1, 2008. The adoption of SFAS 157 was not material to the consolidated financial statements.*

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of this Statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument and is irrevocable. SFAS 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007, with early adoption available in certain circumstances. *The Company adopted SFAS 159 effective January 1, 2008. The Company decided not to report any existing financial assets or liabilities at fair value that are not already reported, thus the adoption of this statement did not have a material impact on the (consolidated) financial statements.*

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In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (SFAS 141(R)). The Standard will significantly change the financial accounting and reporting of business combination transactions. SFAS 141(R) establishes principles for how an acquirer recognizes and measures the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for acquisition dates on or after the beginning of an entity s first year that begins after December 15, 2008. *The Company does not expect the implementation of SFAS 141(R) to have a material impact on its consolidated financial statements, at this time.*

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51 (SFAS 160). The Standard will significantly change the financial accounting and reporting of noncontrolling (or minority) interests in consolidated financial statements. SFAS 160 is effective as of the beginning of an entity s first fiscal year that begins after December 15, 2008, with early adoption prohibited. *The Company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements, at this time.*

In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 109, Written Loan Commitments Recorded at Fair Value Through Earnings (SAB 109). SAB 109 expresses the current view of the staff that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SEC registrants are expected to apply the views in Question 1 of SAB 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. *Implementation of SAB 109 did not have a material impact on its consolidated financial statements.*

In December 2007, the SEC issued Staff Accounting Bulletin No. 110, Use of a Simplified Method in Developing Expected Term of Share Options (SAB 110). SAB 110 expresses the current view of the staff that it will accept a company s election to use the simplified method discussed in SAB 107 for estimating the expected term of plain vanilla share options regardless of whether the company has sufficient information to make more refined estimates. The staff noted that it understands that detailed information about employee exercise patterns may not be widely available by December 31, 2007. Accordingly, the staff will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. *Implementation of SAB 110 did not have a material impact on its consolidated financial statements.*

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133, (SFAS No. 161). SFAS No. 161 requires that an entity provide enhanced disclosures related to derivative and hedging activities. *SFAS No. 161 is effective for the Company on January 1, 2009.*

In April 2008, the FASB issued FASB Staff Position (FSP) No. 142-3, Determination of the Useful Life of Intangible Assets (FSP No. 142-3). FSP No. 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). The intent of FSP No. 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the assets under SFAS No. 141(R). FSP No. 142-3 is effective for the Company on January 1, 2009, and applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. *The adoption of FSP No. 142-3 is not expected to have a material impact on the Company s consolidated financial statements.*

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. *Management does not expect the adoption of the provision of SFAS No. 162 to have any impact on the consolidated financial statements.*

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In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161, (FSP 133-1 and FIN 45-4). FSP 133-1 and FIN 45-4 require a seller of credit derivatives to disclose information about its credit derivatives and hybrid instruments that have embedded credit derivatives to enable users of financial statements to assess their potential effect on its financial position, financial performance and cash flows. *The disclosures required by FSP 133-1 and FIN 45-4 will be effective for the Company on December 31, 2008 and is not expected to have a material impact on the consolidated financial statements.*

In October 2008, the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, (FSP 157-3). FSP 157-3 clarifies the application of SFAS No. 157 in determining the fair value of a financial asset during periods of inactive markets. *FSP 157-3 was effective as of September 30, 2008 and did not have material impact on the Company s consolidated financial statements.*

In December 2008, the FASB issued FSP No. FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities. FSP No. FAS 140-4 and FIN 46(R)-8 requires enhanced disclosures about transfers of financial assets and interests in variable interest entities. The FSP is effective for interim and annual periods ending after December 15, 2008. *Since the FSP requires only additional disclosures concerning transfers of financial assets and interest in variable interest entities, adoption of the FSP will not affect the Company s financial condition, results of operations or cash flows*.

In January 2009, the FASB reached a consensus on EITF Issue 99-20-1. This FSP amends the impairment guidance in EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets, to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, and other related guidance. The FSP is effective for interim and annual reporting periods ending after December 15, 2008 and shall be applied prospectively. *The FSP was effective as of December 31, 2008 and did not have a material impact on the consolidated financial statements.*

Business Combinations

On September 7, 2007, the Company issued a press release and filed a Current Report on Form 8-K reporting that it had entered into an Agreement and Plan of Merger, dated as of September 5, 2007, with TFC (the TFC Agreement), which provided for the merger of TFC with and into the Company. Effective May 31, 2008 at 11:58 p.m., the Company consummated the merger between the Company and TFC pursuant to the terms of the TFC Agreement (the TFC Merger). In connection with the TFC Merger, TransCommunity Bank, N.A., a wholly-owned subsidiary of TFC, became a wholly-owned subsidiary of the Company. The material terms of the TFC Merger Agreement and certain financial and other information about the Company and TFC are contained in the Company s registration statement on Form S-4 (SEC File No. 333-148675) originally filed January 15, 2008, as amended, the definitive joint proxy statement/prospectus thereto, filed March 31, 2008 (hereinafter referred to as the TFC Merger Proxy), TFC s annual report on Form 10-K for the year ended December 31, 2007, filed March 31, 2008 (SEC File No. 000-33355), and TFC s quarterly report on Form 10-Q for the quarter ended March 31, 2008, filed May 15, 2008 (SEC File No. 000-33355).

On December 14, 2007, the Company issued a press release and filed a Current Report on Form 8-K reporting that it had entered into an Agreement and Plan of Merger, dated as of December 14, 2007, with BOE Financial Services of Virginia, Inc. (the BOE Agreement), which provided for the merger of BOE with and into the Company. Effective May 31, 2008 at 11:59 p.m., the Company consummated the merger between the Company and BOE pursuant to the terms of the BOE Agreement (the BOE Merger). In connection with the BOE Merger, the

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Bank, a wholly-owned subsidiary of BOE, became a wholly-owned subsidiary of the Company. The material terms of the BOE Merger Agreement and certain financial and other information about the Company and BOE are contained in the Company s registration statement on Form S-4 (SEC File No. 333-149384) originally filed February 26, 2008, as amended, the definitive joint proxy statement/prospectus thereto, filed March 31, 2008 (hereinafter referred to as the BOE Merger Proxy), BOE s annual report on Form 10-K for the year ended December 31, 2007, filed March 31, 2008 (SEC File No. 000-31711), and BOE s quarterly report on Form 10-Q for the quarter ended March 31, 2008, filed May 15, 2008 (SEC File No. 000-31711).

Prior to the mergers, $54.35 million of the net proceeds from the CBTC initial public offering including $2.1 million of deferred underwriting discounts and commissions was held in trust by CBTC for the purpose of completing a business combination. Of such funds, $45.6 million was released to the Company upon completion of the TFC Business Combination and BOE Merger, after payment of the deferred discount and $10.8 million to stockholders who converted their shares to cash.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, and the valuation of deferred tax assets.

Restatement

During 2008, management discovered that there was an error in the fair value of stock options issued by the Company in settlement of the TFC and BOE stock options outstanding as of the respective merger dates. When correcting this valuation error, the adjustment was inadvertently recorded twice. The result was an understatement of Goodwill and Deferred Taxes Liabilities of approximately $2.9 million and $1.5 million, respectively. An adjustment has been made to correct this error.

Reclassifications

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

COMMUNITY BANKERS TRUST CORPORATION

Notes to Consolidated Financial Statements

Note 2. Securities

The amortized cost and fair value of securities available for sale and held to maturity as of December 31, 2008 are as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Government agencies	$ 28,732	$ 358	$ (21)	$ 29,069
Mortgage backed securities	93,619	803	(66)	94,356
State, county and municipal	64,600	478	(2,184)	62,894
Corporate & other bonds	7,418	19	(188)	7,249
Other securities	323	111	(10)	424
Total securities available for sale	$ 194,692	$ 1,769	$ (2,469)	$ 193,992

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held to Maturity				
U.S. Treasury issue and other U.S. Government agencies	$ 5,997	$ 37	$	$ 6,034
Mortgage backed securities	79,595	62		79,657
State, county and municipal	9,273	1		9,274
Total securities held to maturity	$ 94,865	$ 100	$	$ 94,965

As of December 31, 2007, securities of $58.5 million consisted solely of U. S. Treasuries held in trust, and were recorded at amortized cost.

In estimating other than temporary impairment 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. As of December 31, 2008 and December 31, 2007, there were no investments held that had other than temporary impairment losses.

Presented below is a summary of securities available for sale with unrealized losses segregated at December 31, 2008:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(Dollars in thousands)			
Securities available for sale						
U.S. Treasury issue and other U.S. Government agencies	$ 1,583	$ (21)	$	$	$ 1,583	$ (21)
State, county and municipal	33,005	(2,184)			33,005	(2,184)
Corporate & other bonds	4,475	(187)			4,475	(187)
Mortgage backed securities	2,812	(66)			2,812	(66)
Other securities	186	(10)			186	(10)

Total	$ 42,061	$ (2,468)	$	$	$ 42,061	$ (2,468)

There were no unrealized losses on securities held to maturity as of December 31, 2008. In addition, there were no unrealized losses reported for U.S. Treasuries held in trust as of December 31, 2007.

COMMUNITY BANKERS TRUST CORPORATION

Notes to Consolidated Financial Statements

The unrealized losses in the investment portfolio as of December 31, 2008 are generally a result of market fluctuations that occur daily. The unrealized losses are from 97 securities that are all of investment grade, backed by insurance, U.S. government agency guarantees, or the full faith and credit of local municipalities throughout the United States. The Company has the ability and intent to hold these securities to maturity or until a recovery of value. 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.

The amortized cost and fair value of securities as of December 31, 2008, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without any penalties.

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	$	$	$ 22,803	$ 22,823
Due after one year through five years	17,834	17,891	70,887	71,640
Due after five years through ten years	68,397	68,403	78,280	78,552
Due after ten years	8,634	8,672	22,399	20,553
	94,865	94,966	194,369	193,568
Other securities			323	424
Total securities	$ 94,865	$ 94,966	$ 194,692	$ 193,992

Proceeds from sales, principal repayments, calls and maturities of securities available for sale during 2008:

	Amount (Dollars in thousands)
Proceeds from sales	$ 110
Proceeds from call, maturities and paydowns	68,452
Total proceeds	$ 68,562
Gross realized gains	
Gross realized losses	
Net realized gain	$

Securities with amortized costs of $18.927 million at December 31, 2008 were pledged to secure public deposits and for other purposes required or permitted by law. On December 31, 2008 and 2007, there were no securities issued, other than U.S. government and agencies, that comprised more than 10% of the consolidated shareholders equity.

Note 3. Loans

The loan portfolio consisted of various loan types as follows (dollars in thousands):

	December 31, 2008
Mortgage loans on real estate:	
Residential 1-4 family	$ 129,607
Commercial	158,062
Construction	139,515
Second Mortgages	15,599
Multifamily	9,370
Agriculture	5,143
Total real estate loans	457,296
Commercial Loans	45,320
Consumer installment loans	14,457
All other loans	7,005
Gross loans	524,078
Less: unearned income	(780)
Loans, net of unearned income	$ 523,298

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Notes to Consolidated Financial Statements

The Company had an approximate $5.154 million in nonperforming assets at December 31, 2008. These nonperforming assets consisted of 84 credits and one piece of OREO property. Interest forfeited on non-accrual loans for the year ended December 31, 2008 was $251,000.

At December 31, 2008, the Company s allowance for credit losses is comprised of the following: (i) any specific valuation allowances calculated in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan (SFAS 114),* (ii) general valuation allowances calculated in accordance with SFAS 5 based on economic conditions and other qualitative risk factors, and (iii) historical valuation allowances calculated using historical loan loss experience of the former banks. Management identified loans subject to impairment in accordance with SFAS 114.

The following is a summary of information for impaired and non-accrual loans as of December 31, 2008 (dollars in thousands):

	Amount
Impaired loans without a valuation allowance	$ 13,301
Impaired loans with a valuation allowance	12,915
Total impaired loans	$ 26,216
Valuation allowance related to impaired loans	$ 3,115
Total non-accrual loans	$ 4,534
Total loans ninety days or more past due and still accruing	$ 397
Average investment in impaired loans	$ 8,240
Interest income recognized on impaired loans	$ 768
Interest income recognized on a cash basis on impaired loans	$ 768

Analysis of the loan valuation allowance is as follows:

	Year Ended December 31, 2008
Balance, beginning of year	$
Allowance from acquired banks	5,305
Loans charged-off	(980)
Recoveries	42
Provision for loan losses	2,572
Balance, end of year	$ 6,939

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Notes to Consolidated Financial Statements

Note 4. Premises and Equipment

A summary of the bank premises and equipment at December 31, 2008 follows: (dollars in thousands):

Land	$ 5,914
Land improvements and buildings	13,900
Leasehold improvements	53
Furniture and equipment	2,223
Construction in progress	2,661
Total	24,751
Less accumulated depreciation and amortization	(640)
Bank premises and equipment, net	$ 24,111

Depreciation expense for the year ended December 31, 2008 amounted to $640,000.

Note 5. Mergers and Acquisitions

In relation to the mergers with TFC and BOE on May 31, 2008, which is further described in Note 1, the Company followed the acquisition method of accounting as outlined in SFAS 141, Business Combinations. Under SFAS 141, the Company is required to implement purchase accounting rules, where the acquirer recognizes and measures the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Management relied on external analysis by appraisers in determining the fair value of the assets acquired and liabilities assumed. Based on that appraisal, the following table provides the calculation and allocation of the purchase price used in the financial statements:

	BOE	**TFC**
	(Dollars in thousands)	
Value of shares issues ($7.42 per share)	$ 51,624	$ 48,563
Value of stock options issued	997	1,207
Merger related costs	1,928	2,068
Purchase price	54,549	51,838
Book value of net assets acquired	30,096	29,052
Excess of purchase over book value of net assets	$ 24,453	$ 22,786
Allocation of excess purchase price:		
Core deposit intangible	$ 9,643	$ 5,309
Fair value adjustments:		
Loans	656	1,423
Investment securities	2	
Bank premises	2,684	675
Time deposit	(992)	(1,954)

Deferred taxes	(4,738)	(2,653)
Goodwill	17,198	19,986
	$ 24,453	$ 22,786
Fair value of assets acquired		
Cash and cash equivalents	$ 5,784	$ 4,232
Investment securities	57,021	11,285
Loans	234,715	243,303
Bank premises and equipment	13,296	8,770
Bank owned life insurance	6,158	
Core deposit intangibles	9,643	5,309
Goodwill	17,198	19,986
Fair value of assets acquired	$ 343,815	$ 292,885
Fair value of liabilities assumed		
Deposits	$ 257,374	$ 234,088
FHLB advances	17,900	
Trust preferred capital notes	4,124	
Other	9,207	6,160
Fair value of liabilities assumed	$ 288,605	$ 240,248
Net assets acquired, at fair value	$ 55,210	$ 52,637

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The merger transaction was accounted for under the purchase method of accounting and is intended to qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code. The merger resulted in $37.2 million of estimated goodwill and $15.0 million of core deposit intangible assets. The estimated goodwill is subject to possible adjustments during the one year period from the date of the merger. The core deposit intangible asset was based on an independent valuation and will be amortized over the estimated life of the core deposits ranging from 2.6 to nine years. There were no funds borrowed by the Company to finance these mergers.

During 2008, management discovered that there was an error in the fair value of stock options issued by the Company in settlement of the TFC and BOE stock options outstanding as of the respective merger dates. When correcting this valuation error, the adjustment was inadvertently recorded twice. The result was an understatement of Goodwill and Deferred Taxes Liabilities of approximately $2.9 million and $1.5 million, respectively. An adjustment has been made to correct this error.

The Company analyzed the effect of canceling certain contracts between Bank and their vendors in order to produce efficiencies from the merger. Costs of canceling the contracts were material and changed the amount of goodwill associated with the merger.

The Company s consolidated financial statements include the results of operations of the Bank only from the date of acquisitions. Pro forma condensed consolidated income statements for the years ended December 31, 2008, and 2007 are shown as if the merger occurred at the beginning of each year as follows:

Pro forma information	**2008**	**2007**
	(Dollars in thousands, except per share data)	
Interest income	$ 38,221	$ 38,480
Interest expense	(15,622)	(15,371)
Net interest income	22,599	23,109
Provision for loan losses	(4,120)	(1,692)
Other income	3,063	3,068
Other expenses	(25,740)	(19,962)
Income tax expense	(40)	1,903
Discontinued operations		(77)
Net income	$ (4,238)	$ 6,349
Earnings per share	$ (0.19)	$ 0.28

On November 21, 2008, the Bank acquired certain assets and assumed all deposit liabilities relating to four former branch offices of TCB. The transaction was consummated pursuant to a Purchase and Assumption Agreement, dated November 21, 2008, by and among the Federal Deposit Insurance Corporation (FDIC), as Receiver for The Community Bank, the Bank and the FDIC.

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Management evaluated the applicability of Statement of Financial Accounting Standards (SFAS) No. 141 *Business Combinations* , as well as EITF 98-3 *Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business* in determining the accounting for this transaction. This guidance outlines that for a transferred set of activities and assets to be a business, it must contain all the inputs and processes necessary for it to continue to conduct normal operations after the transferred set is separated from the transferor, which includes the ability to sustain a revenue stream by providing its outputs to customers. Based upon an assessment of the transaction, management determined that there were significant limitations on the resources transferred and, therefore, concluded that the net assets acquired did not meet the definition of a Business as defined by these authoritative standards. Accordingly, the transaction was accounted for as an asset purchase.

Pursuant to the terms of the Purchase and Assumption Agreement, the Bank assumed approximately $619.0 million in deposits, approximately $233.9 million of which were deemed to be core deposits, and paid the FDIC a premium of 1.36% on the core deposits amounting to approximately $3.2 million. All deposits insured prior to the closing of the transaction maintained their current insurance coverage.

The Company also acquired assets amounting to approximately $87.5 million as follows (dollars in thousands):

Cash and cash equivalents	**$ 54,439**
Investment securities	**31,304**
Loans and accrued interest	**1,593**
Other assets	**135**
Total assets	**$ 87,471**

The loans acquired were those fully secured by deposit accounts. the Bank had not purchased any additional loans as of December 31, 2008.

The Bank had 60 days to evaluate and, at its sole option, purchase any of the remaining TCB loans. As a result, the Bank purchased 175 loans totaling approximately $21 million on January 9, 2009. Also, the Bank had 90 days to evaluate and, at its sole option, purchase the premises and equipment. The Bank agreed to purchase all four former banking premises of TCB for $6.4 million on February 19, 2009.

The former branch offices of TCB opened on November 24, 2008 under the name Essex Bank, a division of the Bank.

Note 6. Goodwill and Other Intangibles

The Company follows SFAS 142, *Goodwill and Other Intangible Assets*, which prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. Provisions within SFAS 142 discontinue any amortization of goodwill and intangible assets with indefinite lives, and require at least an annual impairment review or more often if certain impairment conditions exist. With the TFC and BOE mergers consummated May 31, 2008, there were significant amounts of goodwill and other intangible assets recorded, and no impairments were experienced in the period reported.

Core deposit intangible assets are amortized over the period of expected benefit, ranging from 2.6 to 9 years. Due to the mergers with TFC and BOE on May 31, 2008, the Company recorded approximately $15.0 million in core deposit intangible assets and $34.3 million in goodwill. Additionally, BOE assumed all deposits of The Community Bank, Loganville, GA on November 21, 2008, which were purchased for a premium of approximately $3.2 million.

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Goodwill and other intangible assets are presented in the following table:

	December 31, 2008		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(Dollars in thousands)		
Goodwill	$ 37,184	$	$ 37,184
Core deposit intangibles	18,132	969	17,163

Note 7. Fair Value Measurements

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale, trading securities and derivatives, if present, are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

Under SFAS 157, *Fair Value Measurement*, 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.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities recorded 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. 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 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

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Impaired Loans

The Company does not record unimpaired loans held for investment at fair value each reporting period. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. 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 SFAS 114, *Accounting by Creditors for Impairment of a Loan*. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, and liquidation 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 exceed the recorded investments in such loans. In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. The Bank frequently obtains appraisals prepared by external professional appraisers for classified loans greater than $250,000 when the most recent appraisal is greater than 12 months old. The appraisal, based on the date of preparation, becomes only a part of the determination of the amount of any loan write-off, with current market conditions and the collateral s location being other determinants. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2.

The Bank 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 Bank personnel. Internally prepared estimates generally result from current market data and actual sales data related to the Bank s collateral or where the collateral is located. When management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3. In instances where an appraisal received subsequent to an internally prepared estimate reflects a higher collateral value, management does not revise the carrying amount.

Reviews of classified loans are performed by management on a quarterly basis. At December 31, 2008, substantially all of the impaired loans were evaluated based on the fair value of the collateral.

Foreclosed Assets

Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. 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 as a nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

Assets and Liabilities recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis.

	December 31, 2008			
	Total	**Level 1**	**Level 2**	**Level 3**
Securities available for sale	$ 193,992	$ 424	$ 193,568	$
Loans held for	$ 200	$	$ 200	$
Total assets at fair value	$ 194,192	$ 424	$ 193,768	$
Total liabilities at fair value	$	$	$	$

The Company had no Level 3 assets measured at fair value on a recurring basis at December 31, 2008.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The table below presents the recorded amount of assets and liabilities measured at fair value on a nonrecurring basis.

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	December 31, 2008			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Loans impaired loans, net	$ 9,800	$	$ 8,814	$ 986
Other real estate owned (OREO)	223		223	
Total assets at fair value	$ 10,023	$	$ 9,037	$ 986
Total liabilities at fair value	$	$	$	$

Note 8. Deposits

Balance by deposit type	December 31, 2008 (Dollars in thousands)
NOW	$ 76,575
MMDA	55,200
Savings	34,688
Time deposits less than $100,000	303,424
Time deposits greater than $100,000	276,762
Total interest-bearing deposits	$ 746,649

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2008 was $276.8 million.

The scheduled maturities of time deposits at December 31, 2008 (dollars in thousands) are as follows:

2009	$ 452,601
2010	78,293
2011	29,963
2012	9,907
2013	9,290
Thereafter	132
Total	$ 580,186

Note 9. 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, 2008, follows (dollars in thousands):

	2008
Deferred tax assets:	
Allowance for loan losses	$ 2,309
Deferred compensation	590
Non-accrual loan interest	59
Accrued pension	569
FAS 158 adjustment pension	413
Stock based compensation	70
Net operating loss carryforward	2,945
Alternative minimum tax credit	108
Unrealized loss on available for sale securities	238
Other	65
	$ 7,366
Deferred tax liabilities:	
Depreciation	296
Purchase accounting adjustment	7,468
Other	75
	$ 7,839
Net deferred tax liability	$ 473

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The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions in accordance with FIN 48. The Company has analyzed the valuation allowances for Deferred Tax Assets and the fact that no allowance is required. All years from 2005 through 2008 are subject to audit by taxing authorities. As of December 31, 2008 the Company had $8.661 million of net operating losses which expire in 2021 through 2024.

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

	2008	For the Nine Months Ended December 31, 2007
Current tax provision	$ 243	$ 576
Deferred tax (benefit)	(110)	
	$ 133	$ 576

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

	2008	2007
Statutory federal income tax rate	34.0%	34.0%
(Reduction) in taxes resulting from:		
Municipal interest	(21.0)	
Bank owned life insurance income	(4.1)	
Other, net	0.9	0.3
	9.8%	34.3%

Note 10. Borrowings

The Company uses borrowings in conjunction with deposits to fund lending and investing activities. Borrowings include funding of a short-term and long-term nature. Short-term funding includes overnight borrowings from correspondent banks and securities sold under an agreement to repurchase. Long-term borrowings are obtained through the Federal Home Loan Bank (FHLB) of Atlanta. At December 31, 2008, there were no short-term borrowings. The following information is provided for long-term borrowings balances, rates, and maturities with the FHLB (dollars in thousands):

	December 31, 2008
Federal Home Loan Bank Advances	$ 37,900
Maximum month-end outstanding balance	$ 37,900
Average outstanding balance during the year	$ 15,861
Average interest rate during the year	4.63%
Average interest rate at end of year	3.14%

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	Fixed Rate	Adjustable Rate	Total
2009	$	$ 900	$ 900
2010			
2011			
2012	22,000		22,000
2013	10,000		10,000
Thereafter	5,000		5,000
Total	$ 37,000	$ 900	$ 37,900

The Company has unsecured lines of credit with correspondent banks available for overnight borrowing totaling approximately $45,500,000.

Note 11. Employee Benefit Plans

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

The following table provides a reconciliation of the changes in the plan s benefit obligations and fair value of assets for the period from merger date to ended December 31, 2008. (dollars in thousands):

	2008
Change in Benefit Obligation	
Benefit obligation, assumed in merger	$ 5,166
Service cost	271
Interest cost	225
Actuarial loss	(158)
Benefits paid	(65)
Benefit obligation, ending	$ 5,439
Change in Plan Assets	
Fair value of plan assets, assumed in merger	$ 3,493
Actual return on plan assets	(878)
Employer contributions	
Benefits paid	(65)
Fair value of plan assets, ending	$ 2,550
Funded Status	$ (2,889)
Amounts Recognized in the Balance Sheet	
Other assets	$
Other liabilities	2,889

Amounts Recognized in Accumulated Other Comprehensive Income

Net loss	$ 1,216
Prior service cost	5
Net obligation at transition	(5)
Deferred tax	(413)
Total amount recognized	$ 803

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The accumulated benefit obligation for the defined benefit pension plan was $3.658 million at December 31, 2008.

The following table provides the components of net periodic benefit cost for the plan for the year ended December 31, 2008 (dollars in thousands):

	2008
Components of Net Periodic Benefit Cost	
Service cost	$ 218
Interest cost	180
Expected return on plan assets	(187)
Amortization of prior service cost	2
Amortization of net obligation at transition	(2)
Recognized net actuarial loss	10
Net periodic benefit cost	$ 221
Total recognized in net periodic benefit cost and accumulated other comprehensive (loss)	$ 1,024

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:

	2008
Discount rate	6.00%
Expected return on plan	8.50%
Rate of compensation	4.00%

Long-Term Rate of Return

The plan sponsor selects the expected long-term rate of return on assets assumption in consultation with their 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 at December 31, 2008, by asset category are as follows:

	2008
Asset Category	
Mutual funds fixed income	32%
Mutual funds equity	63%
Cash and equivalents	5%
Total	100%

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The trust fund is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 40% fixed income and 60% 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.

The Company did not to contribute to its pension plan in 2008.

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

2009	$ 88
2010	125
2011	159
2012	158
2013	175
2014-2018	1,354

401(k) Plan

The Company adopted the 401(k) Plans that previously existed with both TFC and BOE prior to the merger. Under the BOE 401(k) Plan, employees have a contributory 401(k) profit sharing plan which covers substantially all employees. The employee may contribute up to 100% of compensation, subject to statutory limitations. The Company matches 50% of employee contributions up to 4% of compensation. The plan also provides for an additional discretionary contribution to be made by the Company as determined each year. Any employees that started with the Company after the merger, and meet the service requirements, would be included in the BOE 401(k) Plan.

Under the TFC 401(k) Plan, employees have a contributory 401(k) profit share plan which covers substantially all employees. 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 plan also provides for additional discretionary contributions to be made by the Company as determined each year. The amounts charged to expense under these plans for the year ended December 31, 2008 was $201,000.

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 $144,000 for the year ended December 31, 2008. These contracts are funded by life insurance policies.

Note 12. Stock Option Plans and Warrants

Prior to the mergers, both TFC and BOE maintained stock option plans as incentives for certain officers and directors. During 2007, TFC replaced its stock option plan with an equity compensation plan that issued restricted stock awards. Under the terms of these plans, all options and awards were fully vested and exercisable, and any unrecognized compensation expenses were accelerated. Due to the mergers on May 31, 2008, these plans were terminated by the Company, replacement options were granted by the Company to former employees of at TFC and BOE exchange rates of 1.42 and 5.7278, respectively.

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A summary of the options is shown in the following table:

	TFC 2008	BOE 2008
Options issued in connection with bank acquisition	332,351	161,426
Options outstanding at December 31	332,351	161,426
Options exercisable at December 31	332,351	161,426
Weighted average exercise price	$ 6.83	$ 4.13
Weighted average remaining contracted life at December 31	51 months	57 months

Options were valued at $1,488 million using the Black-Shoals model at the time of acquisition of TFC and BOE by the Company. Options were part of the acquisition and were not expensed by the Company. Assumptions were for a discount rate of 4.06% and 25% volatility with a remaining term of 4.83 years for TFC options and 5.25 years for BOE options.

The intrinsic values of options outstanding and exercisable at December 31, 2008 were $24,000. No options have been exercised since the merger. Currently, the Company does not have any stock-based compensation plan that is issuing new instruments. However, the Company s Compensation Committee and Board of Directors are considering various types of stock-based compensation plans to be presented to shareholders at its 2009 annual meeting.

On June 8, 2006, the Company sold 7,500,000 units (Units) in the Offering. Each Unit consists of one share of the Company s common stock, $0.01 par value, and one Redeemable Common Stock Purchase Warrant (Warrant). Each Warrant will entitle the holder to purchase one share of common stock from the Company at an exercise price of $5.00 commencing on the completion of a Business Combination and expiring five years from the date of the Offering. The Warrants will be redeemable by the Company at a price of $0.01 per Warrant upon 30 days notice after the Warrants become exercisable, only in the event that the last sale price of the common stock is at least $11.50 per share for any 20 trading days within a 30 trading day period ending on the third business day prior to the date on which notice of the redemption is given.

In addition, the Company sold an option to purchase an aggregate of up to 525,000 units for $100, to I-Bankers Securities, Inc., Maxim Group LLC and Legend Merchant Group, Inc. or their designees, the representatives of the underwriters (the Underwriters). The units issuable upon exercise of this option are identical to those offered in the Initial Public Offering, except that each of the warrants underlying this option entitles the holder to purchase one share of common stock at a price of $7.50. This option is exercisable at $10.00 per unit commencing on the later of the consummation of a Business Combination or one year from the date of the Offering. This option expires June 4, 2011. In lieu of the payment of the exercise price, this option may be converted into units on a net-share settlement or cashless exercise basis to the extent that the market value of the units at the time of conversion exceeds the exercise price of this option. This option may only be exercised or converted by the option holder and cannot be redeemed by the Company for cash.

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Note 13. Earnings Per Share

The following shows the weighted average number of shares used in computing earnings per share and the effect on the weighted average number of shares of diluted potential stock. Potential dilutive common stock had no effect on income available to common stockholders.

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
	(Dollars and shares in thousands, except per share data)		
For the Twelve Months ended December 31, 2008			
Basic EPS	$ 1,223	16,430	$ 0.07
Effect of dilutive options and warrants		1,088	
Diluted EPS	$ 1,223	17,518	$ 0.07
For the Nine Months ended December 31, 2007			
Basic EPS	$ 1,105	9,375	$ 0.12
Effect of dilutive warrants		2,432	(0.03)
Diluted EPS	$ 1,105	11,807	$ 0.09

No options were excluded from the computation for the years ended December 31, 2008 and 2007.

Note 14. 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. All such loans are made on substantially the same terms as those prevailing at the time for comparable loans to unrelated persons.

With the merger of the entities on May 31, 2008, a new Corporate directorate and Executive officer staff was named for Community Bankers Trust Corporation. Various directors and executive officers had loans outstanding with their respective Bank s prior to the merger. The table below depicts both direct and indirect loans assumed by the new entity as well as advances and repayments subsequent to May 31, 2008 (dollars in thousands).

	2008
Balance, assumed at merger	$ 3,042
Principal additions	1,855
Repayments and reclassifications	(219)
Balance, end of year	$ 4,678

Indirect loans assumed at the merger equaled $1.118 million of the amount stated above, and $1.116 million of the balance at year-end 2008.

Note 15. Commitments and Contingent Liabilities

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying consolidated financial statements. The Bank does not anticipate losses as a result of these transactions. See Note 18 with respect to financial instruments with off-balance-sheet risk.

The following table presents the Company s contractual obligations and scheduled payment amounts due at the various intervals over the next five years and beyond as of December 31, 2008 (dollars in thousands):

	Total	Less than 1 year	1-3 Years	4-5 Years	More than 5 Years
Trust preferred debt	$ 4,124	$	$	$	$ 4,124
Federal Home Loan Bank Debt	37,900	900		32,000	5,000
Operating leases	7,476	499	914	779	5,284
Total contractual obligations	$ 49,500	$ 1,399	$ 914	$ 32,779	$ 14,408

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Note 16. Dividend Limitations on Affiliate Bank

Transfers of funds from the banking subsidiary to the parent corporation in the form of loans, advances and cash dividends are restricted by federal and state regulatory authorities. As of December 31, 2008, the aggregate amount of unrestricted funds, which could be transferred from the banking subsidiary to the parent corporation, without prior regulatory approval, totaled $50.575 million (22.92% of net assets).

Note 17. Concentration of Credit Risk

At December 31, 2008, the Bank s loan portfolio consisted of commercial, real estate and consumer (installment) loans. Real estate secured loans represented the largest concentration at 87.26% of traditional loan portfolio (BOE and TFC). Subsequent to December 31, 2008, loans have been added to the portfolio from the transactions in Georgia and most notably in Maryland.

The Bank maintains a portion of its cash balances with several financial institutions located in its market area. Accounts at each institution are secured by the Federal Deposit Insurance Corporation up to $250,000. Uninsured balances were approximately $5.108 million at December 31, 2008.

Note 18. Financial Instruments With Off-Balance Sheet Risk

The Bank 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 Bank has in particular classes of financial instruments.

The Bank 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 Bank 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 Bank s exposure to off-balance sheet risk as of December 31, 2008:

	Amount (Dollars in thousands)
Commitments with off-balance sheet risk:	
Commitments to extend credit	$ 106,378
Standby letters of credit	12,356
Total commitments with off-balance sheet risk	$ 118,734

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 Bank evaluates each customer s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank 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.

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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 Bank is committed.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2008, that the Company and Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2008, the most recent notification from the Federal Reserve Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank s category.

The Company s and the Bank s actual capital amounts and ratios as of December 31, 2008 in the table.

	Actual		Required for Capital Adequacy Purposes		Required in Order to be Well Capitalized Under PCA	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Total Capital to risk weighted assets						
CBTC consolidated	$ 125,523	20.00%	$ 48,609	8.00%	NA	NA
Bank of Essex	62,517	10.30%	48,535	8.00%	$ 60,669	10.00%
Tier 1 Capital to risk weighted assets						
CBTC consolidated	114,965	18.92%	24,305	4.00%	NA	NA
Bank of Essex	55,959	9.22%	24,267	4.00%	36,401	6.00%
Tier 1 Capital to average adjusted assets						
CBTC consolidated	114,965	12.54%	36,675	4.00%	NA	NA
Bank of Essex	55,959	6.12%	36,594	4.00%	45,742	5.00%

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On February 11, 2009 the Company invested $50 million in the Bank which will result in an increase in the Banks regulatory Capital.

Note 20. Fair Value of Financial Instruments and Interest Rate Risk

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Short-Term Investments

For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities

For securities held for investment purposes, fair values are based on quoted market prices or dealer quotes.

Restricted Securities

The carrying value of restricted securities approximates their fair value based on the redemption provisions of the respective entity.

Loans Receivable

For certain homogeneous categories of loans, such as some residential mortgages, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposit Liabilities

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

Long-Term Borrowings

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

COMMUNITY BANKERS TRUST CORPORATION

Notes to Consolidated Financial Statements

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Off-Balance Sheet Financial Instruments

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

The fair value of stand-by letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

At December 31, 2008, the fair values of loan commitments and stand-by letters of credit were deemed to be immaterial.

The carrying amounts and estimated fair values of the Company s financial instruments are as follows (dollars in thousands):

	2008	
	Carrying Amount	**Fair Value**
Financial assets:		
Cash and cash equivalents	$ 128,433	$ 128,433
Securities available for sale	193,992	193,992
Securities held to maturity	94,865	94,966
Loans held for sale	200	200
Net loans	516,359	497,930
Accrued interest receivable	4,014	4,014
Financial liabilities:		
Deposits	806,348	813,374
Borrowings	42,024	46,819
Accrued interest payable	4,325	4,325

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

Note 21. Trust Preferred Capital Notes

On December 12, 2003, BOE Statutory Trust I, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable capital securities. On December 12, 2003, $4.124 million of trust preferred securities were issued through a direct placement. The securities have a LIBOR-indexed floating rate of interest. Since May 31, 2008 through December 31, 2008, the weighted-average interest rate was 6.33%. 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.

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COMMUNITY BANKERS TRUST CORPORATION

Notes to Consolidated Financial Statements

The trust preferred notes may be included in Tier 1 capital for regulatory capital adequacy determination purposes up to 25% of Tier 1 capital after its inclusion. The portion of the trust preferred not considered as Tier 1 capital may be included in Tier 2 capital. At December 31, 2008, all trust preferred notes were included in Tier 1 capital.

The obligations of the Company with respect to the issuance of the Capital Securities constitute a full and unconditional guarantee by the Company of the Trust s obligations with respect to the Capital Securities.

Subject to certain exceptions and limitations, the Company may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related Capital Securities.

Note 22. Lease Commitments

The following table represents a summary of non-cancelable operating leases for bank premises that have initial or remaining terms in excess of one year as of December 31, 2008 are as follows (dollars in thousands):

	December 31, 2008	
2009	$	499
2010		510
2011		404
2012		385
2013		394
Thereafter		5,284
Total of future payments	$	7,476

The table above incorporates a lease for a future branch location in Midlothian, Virginia. This lease was executed in November of 2008 and will commence once the branch opens for business, which is expected in April 2009, subject to regulatory approval. The total anticipated lease payments for this lease aggregate $5.479 million.

Note 23. Other Noninterest Expense

Other noninterest expense totals are presented in the following tables. Components of these expenses exceeding 1% of the aggregate of total net interest income and total noninterest income for any of the past two years is stated separately (dollars in thousands):

	December 31, 2008		December 31, 2007	
Professional services	$	226	$	
Marketing & advertising expense		308		
Bank franchise tax		416		
Telephone and internet line		193		
Stationery, printing & supplies		222		
Travel and entertainment		205		
FDIC/OCC expense		239		
Software and maintenance support		221		
Directors fees		365		
Other expenses		1,190		263

Total other operating expenses	$	3,585	$	263

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COMMUNITY BANKERS TRUST CORPORATION

Notes to Consolidated Financial Statements

Note 24. Parent Corporation Only Financial Statements

COMMUNITY BANKERS TRUST CORPORATION

PARENT COMPANY ONLY BALANCE SHEET

AS OF DECEMBER 31, 2008

		December 31, 2008 (Dollars in thousands)
ASSETS		
Cash	$	58,328
Equity securities, restricted, at cost		424
Other assets		1,250
Investments in subsidiaries		108,521
Total assets	$	168,523
LIABILITIES		
Other liabilities	$	138
Balances due to subsidiary bank		575
Balances due to non-bank subsidiary		4,124
Total liabilities		4,837
STOCKHOLDERS EQUITY		
Preferred stock (5,000,000 shares authorized)		17,680
Warrants on preferred stock		1,037
Discount on preferred stock		(1,031)
Common stock (50,000,000 shares authorized $0.01 par value) 21,468,455 issued and outstanding at December 31, 2008		215
Additional paid in capital		145,359
Retained earnings		1,691
Accumulated other comprehensive loss		(1,265)
Total stockholders equity	$	163,686
Total liabilities and stockholders equity	$	168,523

COMMUNITY BANKERS TRUST CORPORATION

PARENT COMPANY ONLY STATEMENT OF INCOME

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2008

		December 31, 2008 (Dollars in thousands)
Income:		
Interest and dividend income	$	556
Total income		556
Expenses		
Interest expense		71
Furniture and equipment expenses		6
Bank franchise taxes		159
Professional and legal expenses		434
Other operating expenses		517
Total expenses		1,187
Equity in income of subsidiaries		1,987
Net income before income taxes		1,356
Income tax expense		133
Net income	$	1,223

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COMMUNITY BANKERS TRUST CORPORATION

Notes to Consolidated Financial Statements

COMMUNITY BANKERS TRUST CORPORATION

PARENT COMPANY ONLY STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2008

	2008 (Dollars in thousands)
Operating activities:	
Net income	$ 1,223
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	5
Net amortization of preferred warrants	6
Increase in other assets	(5,695)
Decrease in other liabilities, net	(620)
Net cash and cash equivalents used in operating activities	(5,081)
Investing activities:	
Purchases of investment securities	(242)
Maturity of securities held in trust	58,453
Net cash and cash equivalents provided by investing activities	58,211
Financing activities:	
Issuance of preferred stock	17,680
Cash dividends paid	(1,755)
Cash paid to redeem shares related to asserted appraisal rights and retire warrants	(46)
Cash paid to shareholders for converted shares	(10,843)
Net cash and cash equivalents provided by financing activities	5,036
Increase in cash and cash equivalents	58,166
Cash and cash equivalents at beginning of the period	162
Cash and cash equivalents at end of the period	$ 58,328

Note 25. Subsequent Events

On Friday, January 30, 2009, Community Bankers Trust Corporation announced that the Bank entered into a purchase and assumption agreement with the Federal Deposit Insurance Corporation (FDIC), as receiver for SFSB, providing for the assumption by BOE, effective 6:00 p.m. on Friday, January 30, 2009, of all deposit liabilities and the purchase of certain assets of SFSB. BOE assumed approximately $312 million in deposits, all of which are deemed to be core deposits. BOE received a discount on these deposits of $45 million. BOE purchased approximately $348 million in loans and other assets, and will be providing loan servicing to SFSB s existing loan customers. BOE has entered into a loss share arrangement with the FDIC with respect to the assets purchased. All deposits have been fully assumed and all deposits maintain their current insurance coverage.

The Company filed a Form 8-K on February 4, 2009 disclosing this transaction. In a letter to the SEC dated March 13, 2009, the Company proposed that it would provide financial information and disclosures in an amended Form 8-K.

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COMMUNITY BANKERS TRUST CORPORATION

Notes to Consolidated Financial Statements

Note 26. Preferred Stock

On December 19, 2008, under the Department of the Treasury s TARP Capital Purchase Program, the Company issued to the U.S. Treasury 17,680 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (Series A Preferred Stock), and a 10-year warrant to purchase up to 780,000 shares of common stock at an exercise price of $3.40 per share. Cumulative dividends on the Series A Preferred Stock are payable at 5% per annum through December 19, 2013, and at a rate of 9% per annum thereafter. The warrant is exercisable at any time until December 19, 2018, and the number of shares of common stock underlying the warrant and the exercise price are subject to adjustment for certain dilutive events. If, on or prior to December 31, 2009, the Company receives aggregate gross cash proceeds of at least $17,680,000 from sales of Tier 1 qualifying perpetual preferred stock or common stock, the number of shares of common stock issuable upon exercise will be reduced by one-half of the original number of shares of common stock.

The Company received proceeds of $17.68 million for the Series A Preferred Stock and the Warrant. The Company allocated the proceeds based on a relative fair value basis between the Series A Preferred Stock and the Warrant, recording $16.64 million and $1.04 million, respectively. Fair value of the preferred stock was estimated based on a discounted cash flow model using an estimated life of 50 years and a discount rate of 12%. Fair value of the stock warrant was estimated using a Black-Scholes model assuming stock price volatility of 27.5%, a dividend yield of 0.5%, a risk-free rate of 1.35% and an expected life of five years. The $16.64 million of Series A Preferred Stock is net of a discount of $1.04 million. The discount will be accreted to the $17.68 million redemption price over a five year period. The accretion of the discount and dividends on the preferred stock reduce retained earnings.

Each share of Series A Preferred Stock issued and outstanding has no par value, has a liquidation preference of $1,000 and is redeemable at the Company s option, subject to approval of the Federal Reserve, at a redemption price equal to $1,000 plus accrued and unpaid dividends, provided that through December 18, 2011, the Series A Preferred Stock is redeemable only in an amount up to the aggregate net cash proceeds received from sales of Tier 1 qualifying perpetual preferred stock or common stock, and only once such sales have resulted in aggregate gross proceeds of at least approximately $4.4 million.

The Series A Preferred Stock has a preference over the Company s common stock upon liquidation. Dividends on the preferred stock, if declared, are payable quarterly in arrears. The Company s ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, its common stock is subject to certain restrictions in the event that the Company fails to pay or set aside full dividends on the preferred stock for the latest completed dividend period. In addition, pursuant to the U.S. Treasury s TARP Capital Purchase Program, until at the earliest of December 19, 2011 or the redemption of all of the Series A Preferred Stock to third parties, the Company must obtain the consent of the U.S. Treasury to raise the Company s common stock dividend or to repurchase any shares of common stock or other preferred stock, with certain exceptions.

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TRANSCOMMUNITY FINANCIAL CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

TransCommunity Financial Corporation

Glen Allen, Virginia

We have audited the consolidated statements of financial condition of TransCommunity Financial Corporation and subsidiary (the Company) as of May 31, 2008 and December 31, 2007, and the related consolidated statements of operations, changes in stockholders equity and cash flows for the five-month period ended May 31, 2008 and year ended December 31, 2007. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TransCommunty Financial Corporation and subsidiary at May 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for the five-month period ended May 31, 2008 and year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, on September 5, 2007, the Company entered into an agreement to merge with Community Bankers Acquisition Corp. This merger was effective at the close of business on May 31, 2008. These consolidated financial statements do not contain any fair value or other adjustments related to this merger.

/s/ ELLIOTT DAVIS, LLC

Galax, Virginia

April 22, 2010

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TRANSCOMMUNITY FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

MAY 31, 2008 AND DECEMBER 31, 2007

(dollars in thousands)

	May 31 2008	December 31 2007
Assets		
Cash and due from banks	$ 4,232	$ 2,204
Federal funds sold		2,107
Total cash and cash equivalents	4,232	4,311
Securities available for sale, at fair value	11,285	10,243
Securities held to maturity, fair value of $6,393 at December 31, 2007		6,400
Total securities	11,285	16,643
Loans	241,880	205,480
Allowance for loan losses	(3,426)	(3,036)
Net loans	238,454	202,444
Bank premises and equipment	8,129	8,205
Other real estate owned	180	180
Deferred tax asset	4,751	3,312
Other assets	3,022	3,176
Total assets	$ 270,053	$ 238,271
Liabilities		
Deposits:		
Noninterest bearing	$ 25,677	$ 20,390
Interest bearing	206,457	183,208
Total deposits	232,134	203,598
Federal funds purchased	5,218	
Accrued interest payable	805	682
Other liabilities	3,509	758
Total liabilities	241,666	205,038
Stockholders Equity		
Preferred stock (15,000,000 shares authorized $.01 par value)		
Common stock (25,000,000 shares authorized $.01 par value) 4,586,741 shares issued and outstanding at May 31, 2008, and December 31, 2007, respectively	46	46
Additional paid in capital	40,104	39,926
Retained earnings (deficit)	(11,817)	(6,764)
Accumulated other comprehensive income	54	25
Total stockholders equity	28,387	33,233
Total liabilities and stockholders equity	$ 270,053	$ 238,271

See accompanying notes to consolidated financial statements.

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TRANSCOMMUNITY FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE FIVE MONTHS ENDED MAY 31, 2008 AND THE YEAR ENDED DECEMBER 31, 2007

(dollars in thousands)

	May 31, 2008	December 31, 2007
Interest and Dividend Income		
Interest and fees on loans	$ 6,849	$ 15,795
Interest on federal funds sold	26	570
Interest and dividends on securities	236	778
Total Interest and Dividend Income	7,111	17,143
Interest expense		
Interest on deposits	3,295	6,628
Interest federal funds purchased	23	38
Interest on other borrowed funds		10
Total Interest expense	3,318	6,676
Net interest income	3,793	10,467
Provision for loan losses	1,348	1,686
Net interest income after provision for loan losses	2,445	8,781
Noninterest income		
Service charges on bank accounts	342	1,110
Fees, commissions including nonbanking activities	72	
Other Misc	15	
Total Noninterest income	429	1,110
Noninterest expenses		
Salaries and employee benefits	3,708	5,433
Occupancy expenses	318	723
Equipment expenses	295	699
Other	3,908	3,788
Total Noninterest expenses	8,229	10,643
Loss before taxes and other adjustments	(5,355)	(752)
Income tax benefit	1,454	3,325
Net income (loss) from continuing operations	(3,901)	2,573
Net loss from discontinued operations		(77)
Net income (loss)	$ (3,901)	$ 2,496

Net (loss) income per share from continuing operations (basic and diluted)	$ (0.85)	$ 0.56
Net (loss) income per share (basic and diluted)	$ (0.85)	$ 0.54
Weighted average number of shares outstanding	4,586,741	4,586,741

See accompanying notes to consolidated financial statements.

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TRANSCOMMUNITY FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FIVE MONTHS ENDED MAY 31, 2008 AND THE YEAR ENDED DECEMBER 31, 2007

(dollars in thousands)

	Shares of Common Stock	Common Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2006	4,582	$ 46	$ 39,809	$ (9,262)	$ (40)	$ 30,553
Net income				2,496		2,496
Unrealized gain on securities available for sale, net of taxes of $13					65	65
Total comprehensive gain						2,561
Common stock issued	5		38			38
Deferred compensation expense			79			79
Dissolution of Subsidiary				2		2
Balance, December 31, 2007	4,587	$ 46	$ 39,926	$ (6,764)	$ 25	$ 33,233
Net loss				(3,901)		(3,901)
Unrealized gain on securities available for sale, net of taxes of $14					29	29
Total comprehensive loss						(3,872)
Stock compensation			178			178
Special dividends paid				(1,152)		(1,152)
Balance, May 31, 2008	4,587	$ 46	$ 40,104	$ (11,817)	$ 54	$ 28,387

See accompanying notes to consolidated financial statements.

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TRANSCOMMUNITY FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE FIVE MONTHS ENDED MAY 31, 2008 AND YEAR ENDED DECEMBER 31, 2007

(dollars in thousands)

	2008	2007
Operating activities:		
Net income (loss) from continuing operations	$ (3,901)	$ 2,573
Net loss from discontinued operations		(77)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for loan losses	1,348	1,686
Amortization of security premiums and accretion of discounts, net	(13)	(13)
Depreciation	240	557
Stock-based compensation expense	178	79
(Gain) loss on disposition of property		(4)
(Increase) decrease in other assets	154	(890)
Increase in interest payable	123	142
Addition to (recognition of) net deferred tax asset	(1,439)	(3,325)
Increase in accrued expenses and other liabilities	2,751	406
Net cash provided by (used in) operating activities	(559)	1,134
Investing activities:		
Purchase of securities held to maturity		(6,000)
Purchase of securities available for sale	(7,205)	(22,922)
Proceeds from maturities of securities held to maturity	6,400	21,025
Proceeds from maturities of securities available for sale	6,205	26,363
Purchase of Federal Reserve Bank stock		(42)
Net increase in loans	(37,358)	(54,976)
Proceeds from sale of premise and equipment		6
Purchase of premises and equipment, net	(164)	(2,015)
Net cash used in investing activities	(32,122)	(38,561)
Financing activities:		
Net change in federal funds purchased	5,218	(1,517)
Net proceeds from stock options exercised		38
Dividends paid	(1,152)	
Net other borrowings repayments		(500)
Net increase (decrease) in noninterest bearing and interest bearing demand deposits	(615)	3,858
Net increase (decrease) in savings deposits	(392)	696
Net increase in time deposits	29,543	34,072
Net cash provided by financing activities	32,602	36,647
Net decrease in cash and cash equivalents	(79)	(780)
Cash and cash equivalents:		
Beginning of the period	$ 4,311	$ 5,091
End of the period	$ 4,232	$ 4,311

Supplemental disclosures of cash flow information:		
Interest paid	$ 3,195	$ 6,535

See accompanying notes to consolidated financial statements.

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TRANSCOMMUNITY FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

TransCommunity Financial Corporation (TFC) was a bank holding company whose principal activity was the formation, ownership and operation of independently-managed community banks. TFC s first subsidiary, the Bank of Powhatan, N.A. (Bank of Powhatan), was organized as a national banking association in 1999, and commenced operations on March 20, 2000. TFC s second subsidiary, Bank of Goochland, N.A. (Bank of Goochland), was organized and incorporated during 2002, and commenced operations on November 25, 2002. On April 19, 2004, TFC established its third independent community bank in the central Virginia area, the Bank of Louisa, N.A. (Bank of Louisa), TFC initially established the Bank of Louisa in July 2003 as a branch of Bank of Powhatan. The assets and liabilities of this branch office were transferred to Bank of Louisa contemporaneously with the receipt by that bank of its independent national banking charter in April 2004. On December 11, 2006, TFC commenced the operations of the Bank of Rockbridge, its fourth subsidiary bank (Bank of Rockbridge together with Bank of Powhatan, Bank of Goochland, and Bank of Louisa, the banks .)

Effective June 30, 2007, the TFC consolidated the charters of its banks to create TransCommunity Bank, N.A. This new bank is subject to regulation by the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. The bank branches operate under their market names and provide general banking services to individuals, small- and medium-sized businesses and the professional communities of Powhatan, Goochland, Rockbridge, and Louisa Counties of Virginia and surrounding areas. TFC is subject to regulation by the Board of Governors of the Federal Reserve System.

On January 1, 2001, the Bank of Powhatan purchased Main Street Mortgage and Investment Corporation (Main Street) which became a wholly-owned subsidiary of the bank. Main Street originated commercial and residential real estate loans for investors throughout the state. However, in November of 2006, the Board of Directors voted to discontinue the operations of Main Street.

On September 5, 2007, TFC entered into an Agreement and Plan of Merger (the Merger Agreement) with Community Bankers Acquisition Corp. (CBAC). Effective at the close of business May 31, 2008, CBAC consummated the merger between the CBAC and TFC pursuant to the terms of the Merger Agreement. In connection with the Merger Agreement, TFC became a wholly-owned subsidiary of CBAC. The material terms of the Merger Agreement and certain financial and other information about CBAC and TFC are contained in the CBAC s registration statement on Form S-4 (SEC File No. 333-148675) originally filed January 15, 2008, as amended, the definitive joint proxy statement/prospectus thereto, filed March 31, 2008 (hereinafter referred to as the TFC Merger Proxy), TFC s annual report on Form 10-K for the year ended December 31, 2007, filed March 31, 2008 (SEC File No. 000-33355), and TFC s quarterly report on Form 10-Q for the quarter ended March 31, 2008, filed May 15, 2008 (SEC File No. 000-33355).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of financial presentation

The accounting and reporting policies of TFC and its subsidiaries conform to accounting principles generally accepted in the United States of America (US GAAP) and predominant practices within the banking industry. The consolidated financial statements include the accounts of TFC and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The principal estimate that is particularly susceptible to significant change in the near term relates to the allowance for loan losses. The evaluation of the adequacy of the allowance for loan losses includes an analysis of the individual loans and overall risk characteristics and size of the different loan portfolios, and takes into consideration current economic and market conditions, the capability of specific borrowers to pay specific loan obligations, and current loan collateral values.

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TRANSCOMMUNITY FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral. Actual losses on specific loans, which also are encompassed in the analysis, may vary from estimated losses.

Principles of consolidation

The consolidated financial statements include the accounts of TFC, which is a bank holding company that owns all of the outstanding common stock of its banking subsidiary, Bank of Powhatan, Bank of Goochland, Bank of Louisa, Bank of Rockbridge, and Main Street Mortgage and Investment Corporation, Inc., a wholly-owned subsidiary of Bank of Powhatan. All significant inter-company balances and transactions have been eliminated.

Cash and cash equivalents

Cash and cash equivalents are defined as the sum of cash on hand, non interest-bearing amounts due from banks and federal funds sold. Generally, federal funds are sold for a one day period.

The Bank is required to maintain average cash balances on hand or with the Federal Reserve Bank. TFC met this requirement and held a reserve balance of $71,000 at May 31, 2008 and December 31, 2007.

Investment securities

TFC accounts for its investment securities in accordance with SFAS No.115, *Accounting for Certain Investments in Debt and Equity Securities*. Investment securities that TFC has the ability and intent to hold to maturity are classified as held-to-maturity and are stated at cost, adjusted for premium amortization and discount accretion. Securities which are held for indefinite periods of time which management intends to use as part of its

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TRANSCOMMUNITY FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

asset/liability management strategy, or that may be sold in response to changes in interest rates, changes in prepayment risk, increased capital requirements or other similar factors, are classified as available-for-sale and are carried at fair market value. Net unrealized gains and losses for such securities, net of income tax effect, are charged/credited directly to accumulated other comprehensive income (loss), a component of shareholders equity. Securities transactions are accounted for on a trade date basis. Gains or losses on disposition of investment securities are based on the net proceeds and the adjusted carrying amount of the securities sold using the specific identification method.

As of May 31, 2008 and December 31, 2007, TFC did not have any foreign investment securities or securities designated as trading account investments.

SFAS No.133, *Accounting for Derivative Instruments and Hedging Activity*, established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No.133 was amended by SFAS No.138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. TFC s adoption of SFAS No.133, as amended, did not have a material impact on its financial condition or results of operations. TFC did not have any derivatives at May 31, 2008 or December 31, 2007 or during the periods then ended.

TFC adopted EITF 03-1, *The Meaning of Other than Temporary Impairment and Its Application to Certain Investments*, as of December 31, 2003. EITF 03-1 includes certain required quantitative and qualitative disclosures for investment securities accounted for under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, that are impaired at the balance sheet date, but an other-than-temporary impairment has not been recognized. In November 2005, the FASB issued Staff Position FSP No. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. This FSP provides guidance on determining when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The FSP also provides accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. TFC adopted FSP No. FAS 115-1 and FAS 124-1 as of December 31, 2005. The disclosures required under EITF 03-1 and FSP No. FAS 115-1 and FAS 124-1 are included in these consolidated financial statements.

Loans and allowance for loan losses

Loans that management has the intent and the ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal net of unearned discount, unamortized loan fees and loan origination costs and an allowance for loan losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of principal is unlikely. The allowance for loan losses is maintained at a level that management considers adequate to provide for credit losses inherent in the loan portfolios at the reporting date. The level of the allowance is based on management s evaluation of risk of loss in the loan portfolios after consideration of prevailing and anticipated economic conditions, including estimates and appraisals, among other items, known or anticipated at each reporting date. On a periodic basis during the year, management makes credit reviews of the loan portfolios designed to identify any changes in the loans since initial booking impacting their quality rating. This review is designed to identify potential changes that may need to be made to the loan loss reserve.

Interest income on loans is credited to operations based upon the principal amount outstanding. The net amounts of origination fees, origination costs and commitment fees are deferred and recognized over the lives of the related loans and leases as adjustments of yield. When management believes there is sufficient doubt as to the ultimate collectability of interest on any loan, the accrual of applicable interest is discontinued. A loan is generally classified as non-accrual when principal and interest have consistently been in default for a period of 90 days or more or because of deterioration in the financial condition of the borrower, and payment in full of principal or interest is not expected. Loans past due 90 days or more and still accruing interest are loans that are generally well-secured and expected to be restored to a current status in the near future or are in the process of collection. In all cases, loans are placed on non-accrual or are charged off at an earlier date if collection of principal or interest is considered doubtful.

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All interest accrued but not collected for loans that are placed on non-accrual 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. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

TFC follows SFAS No.114, *Accounting by Creditors for Impairment of a Loan*, as amended by SFAS No.118, *Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures*. This standard requires that certain impaired loans be measured based on the present value of expected future cash flows discounted at the loan s effective interest rates, except that as a practical expedient, a creditor may measure impairment based on a loan s observable market price, or the fair value of the collateral if the loan is collateral dependent. Regardless of the measurement method, a creditor must measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed primarily on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the term of the lease or estimated useful life, whichever is shorter.

TFC follows SFAS No.144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No.144 retained the existing requirements to recognize and measure the impairment of long-lived assets to be held and used or to be disposed of by sale. SFAS No.144 also changed the requirements relating to reporting the effects of a disposal or discontinuation of a segment of a business.

Transfers of Financial Assets

TFC follows SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of SFAS No. 125* (Statement 140). Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from TFC, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) TFC does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Goodwill and intangible assets

SFAS No. 141, *Business Combinations,* requires that the purchase method of accounting be used for all business combinations. For purchase acquisitions, TFC is required to record assets acquired, including identifiable intangible assets, and liabilities assumed at their fair value, which in many instances involves estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analysis or other valuation techniques. SFAS No. 142, *Goodwill and Other Intangible Assets,* prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of SFAS No. 142 discontinue the amortization of goodwill and intangible assets with indefinite lives but require at least an annual impairment review, and more frequently if certain impairment indicators are in evidence. TFC adopted SFAS 147, *Acquisitions of Certain Financial Institutions,* on January 1, 2002 and determined that core deposit intangibles will continue to be amortized over the estimated useful life.

Income taxes

TFC accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates that expect to be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities. The principal types of accounts resulting in differences

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between assets and liabilities for financial statement and tax return purposes are the allowance for loan losses, interest income on non-accrual loans, depreciation and amortization, difference between book and tax basis of assets acquired and net operating loss carryforwards. TFC and its subsidiaries file a consolidated federal income tax return.

In 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an Interpretation of SFAS No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in an enterprise s tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, TFC adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have any impact on TFC s consolidated financial position.

TFC monitors changes in tax statutes and regulations to determine if significant changes will occur over the next 12 months. No material changes have been projected; however, management believes changes will occur at the expiration of statutes of limitations and accrual of interest. As TFC is not currently under examination, changes from settlements can not be projected. If this position would change it is unlikely to have a material impact on income tax expense during the next 12 months.

Deferred tax asset

TFC has a deferred tax asset of approximately $4.8 million and $3.3 million as of May 31, 2008 and December 31, 2007, respectively. Prior period net operating losses of approximately $2.5 million are a significant portion of the asset. Management has assessed TFC s ability to recognize these losses and has concluded that it is more likely than not that TFC will be able to fully utilize them within the statutory allowed timeframe therefore, a valuation allowance was not deemed necessary. This assessment considered factors such as budgeted earnings for 2008 and beyond and the cost savings under the consolidation of the subsidiary banks in 2007.

Other real estate owned

Other real estate owned is recorded at lower of cost or market value less costs of disposal. When property is acquired, the excess, if any, of the loan balance over fair market value is charged to the allowance for loan losses. Periodically thereafter, the asset is reviewed for subsequent declines in the estimated fair market value. Subsequent declines, if any, holding costs and gains, and losses on subsequent sale are included in the consolidated statements of operations. TFC had other real estate owned of approximately $180,000 as of May 31, 2008 and December 31, 2007.

Marketing costs

TFC expenses marketing costs as incurred. Marketing expenses for the five months ended May 31, 2008 and the year ended December 31, 2007 were approximately $37,000 and $219,000 respectively.

Earnings per share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if stock options or other contracts to issue common stock were exercised and converted into common stock. Stock options for 234,050 and 275,175 shares of common stock were not considered in computing diluted earnings per share for May 31, 2008 and December 31, 2007, respectively, because they were anti-dilutive. Shares were anti-dilutive since the exercise price exceeded the current market price.

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Stock-based compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*, that addresses the accounting for share-based payment transactions in which an enterprise exchanges its equity instruments for goods and services. The Statement eliminates the ability to account for share-based compensation transactions using Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and requires instead that such transactions be accounted for using a fair-value-based method. SFAS No. 123R required implementation by the beginning of the first fiscal year that begins after June 15, 2005. On January 1, 2006, TFC implemented SFAS No. 123R using the modified prospective transition method. See Note 11 for more information about TFC s stock-based compensation programs.

Comprehensive income (loss)

TFC follows the disclosure provisions of SFAS No.130, *Reporting Comprehensive Income*. SFAS No. 130 requires the reporting of comprehensive income which includes net income (loss) as well as certain other items that result in a change to shareholders equity during the period.

New Accounting Pronouncements

In September 2006, the FASB released SFAS No. 157, *Fair Value Measurement*, which provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The standard also responds to investors requests for more information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect that fair value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective for financial statements issued for financial years beginning after November 15, 2007. However, in February 2008, the FASB decided to defer the effective date for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value on a non-recurring basis. The provisions of the Statement will generally be applied on a prospective basis as of the effective date. For certain securities and financial instruments, the provisions are to be applied retrospectively as a cumulative effect adjustment to the opening balance of retained earnings. TFC does not have any instruments for which retrospective application is required. TFC does not expect implementation of any changes required by SFAS 157 to have a material effect on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This standard permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This Statement is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. Early adoption was permitted as of the beginning of the fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS 157 *Fair Value Measurement*. TFC adopted SFAS 159 effective January 1, 2008, and has elected not to measure any of its current eligible financial assets or liabilities at fair value upon adoption, but may elect to do so with future eligible financial assets or liabilities.

In December 2007, the FASB issued SFAS 141(R), *Business Combinations,* which is a revision of SFAS 141, *Business Combinations*. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination: recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and discloses information to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement is effective for fiscal years beginning after December 15, 2008, and is to be applied prospectively. TFC is evaluating the potential result SFAS 141(R) will have on it consolidated financial statements.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS 160 amends Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements,* to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be clearly reported as equity in the consolidated financial statements. Additionally,

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SFAS 160 requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest are to be clearly identified and presented on the face of the consolidated statement of income. The provisions of this Statement are effective for fiscal years beginning on or after December 15, 2008, and earlier application is prohibited. SFAS will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. As a result, this Statement does not apply to TFC.

NOTE 2 INVESTMENT SECURITIES

The amortized cost and estimated fair value of securities are as follows (dollars in thousands):

As of May 31, 2008

Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
US Treasury issue and other US Government agencies	$ 11,204	$ 92	$ (11)	$ 11,285

As of December 31, 2007

Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
US Treasury issue and other US Government agencies	$ 10,205	$ 48	$ (10)	$ 10,243

Securities Held to Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
US Treasury issue and other US Government agencies	$ 6,400	$	$ (7)	$ 6,393

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At May 31, 2008 and December 31, 2007, gross unrealized losses totaled approximately $11,000 and $17,000, respectively. Securities in an unrealized loss position were as follows (dollars in thousands):

As of May 31, 2008

	Less than 12 months		12 months or More		Total	
Securities Available for Sale	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
US Treasury issue and other US Government agencies	$ 5,204	$ (11)	$	$	$ 5,204	$ (11)

As of December 31, 2007

	Less than 12 months		12 months or More		Total	
Securities Available for Sale	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
US Treasury issue and other US Government agencies	$ 4,194	$ (10)	$	$	$ 4,194	$ (10)

	Less than 12 months		12 months or More		Total	
Securities Held to Maturity	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
US Treasury issue and other US Government agencies	$ 2,893	$ (7)	$	$	$ 2,893	$ (7)

The 2008 unrealized loss is the aggregate of two U.S. Agency notes. The 2007 unrealized loss is the aggregate of eight U.S. Agency notes. The unrealized loss positions in both years were primarily related to interest rate movements as there is minimal credit risk exposure in these investments. All securities are investment grade or better. No impairment loss has been recognized on these securities due to management having both the intent and the ability to hold these securities until maturity or call dates.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (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 TFC to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The amortized cost, fair value, and weighted average yield of investment securities at May 31, 2008, by contractual maturity, are shown in the following schedule (dollars in thousands).

	Amortized Cost	**Fair Value**	**Weighted Average Yield**
Due in one year or less	$ 2,000	$ 2,011	4.915%
Due after one year through five years	9,204	9,274	4.020%

	$ 11,204	$ 11,285	4.180%

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The carrying amount (which approximates fair value) of securities pledged to secure public deposits amounted to $8.8 million and $12.2 million at May 31, 2008 and December 31, 2007, respectively.

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Notes to Consolidated Financial Statements

The Bank is required to hold stock in the Federal Reserve Bank. The investment in Federal Reserve Bank stock is recorded at cost of approximately $873,000 as of May 31, 2008 and December 31, 2007. TFC also held stock in Virginia Bankers Association Title Insurance Company amounting to approximately $65,000 as of May 31, 2008 and December 31, 2007. These stock components are classified as Other Assets in the Consolidated Balance Sheet.

There were no securities sold during the periods reported.

NOTE 3 LOANS

Loans receivable outstanding, by type, at May 31, 2008 and December 31, 2007 are summarized as follows (dollars in thousands):

	May 31, 2008	December 31, 2007
Mortgage Loans on Real Estate		
Residential 1-4 Family	$ 35,697	$ 38,849
Commercial	47,792	62,026
Construction	94,608	41,201
Multifamily	2,605	2,111
Agriculture	1,431	1,450
Total Real Estate Loans	182,133	145,637
Commercial loans	44,339	49,683
Consumer and installment loans	15,552	10,413
All other loans	338	35
Gross Loans	242,362	205,768
Less: unearned income	(482)	(288)
Loans, net of unearned income	$ 241,880	$ 205,480

The following is a summary of information pertaining to impaired and non-accrual loans (dollars in thousands):

	May 31, 2008	December 31, 2007
Impaired loans without a valuation allowance	$ 381	$ 379
Impaired loans with a valuation allowance	2,927	1,576
Total Impaired Loans	$ 3,308	$ 1,955
Valuation allowance related to impaired loans	$ 549	$ 484
Total Non-Accrual Loans	$ 3,734	$ 1,955
Total loans 90 days past due and still accruing	$	$

	5 Months Ended May 31, 2008	Year Ended December 31, 2007
Average balance of impaired loans	$ 2,632	$ 1,952
Interest income recognized on impaired loans	$ 46	$ 87
Interest income recognized on a cash basis on impaired loans	$ 47	$ 87

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The Bank had approximately $4.0 million in nonperforming assets at May 31, 2008. These nonperforming assets consisted of 34 non-accrual loans and 2 OREO properties. Interest forfeited on non-accrual loans for the five months ended May 31, 2008 was approximately $41,000.

At May 31, 2008, TFC s allowance for credit losses is comprised of the following: (i) any specific valuation allowances calculated in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan (SFAS 114),* (ii) general valuation allowances calculated in accordance with SFAS 5 based on economic conditions and other qualitative risk factors, and (iii) historical valuation allowances calculated using historical loan loss experience. Management identified loans subject to impairment in accordance with SFAS 114.

A summary of the changes in the allowance for the loan losses is shown in the following schedule (dollars in thousands):

	5 Months Ended May 31, 2008	Year Ended December 31, 2007
Balance, beginning of period	$ 3,036	$ 2,065
Loans charged off:		
Commercial	(836)	(205)
Real Estate	(122)	(443)
Other		(69)
Total loans charged off	(958)	(717)
Recoveries:		
Real Estate		2
Total recoveries		2
Net charge offs	(958)	(715)
Provision for loan losses	1,348	1,686
Balance, end of period	$ 3,426	$ 3,036

TFC has entered into transactions with certain directors, executive officers, significant stockholders, and their affiliates. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

The aggregate amount of loans to such related parties at December 31, 2007 was approximately $525,000. This balance had not materially changed at May 31, 2008.

NOTE 4 PREMISES AND EQUIPMENT

Premises and equipment at May 31, 2008 and December 31, 2007 is summarized as follows:

	May 31, 2008	December 31, 2007
Land	$ 1,906	$ 1,818

Land improvements and buildings	5,918	4,631
Leasehold improvements	58	58
Furniture and Equipment	3,055	2,927
Construction in progress	37	1,405
Total	10,974	10,839
Less: Accumulated Depreciation and Amortization	(2,845)	(2,634)
Bank premises and equipment, net	$ 8,129	$ 8,205

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The depreciation expense on premises and equipment for the five months ended May 31, 2008 and the year ended December 31, 2007 was approximately $240,000 and $557,000, respectively.

Construction in progress at December 31, 2007 consisted primarily of construction for the Bank of Goochland branch that relocated to 1949 Sandy Hook Road, Goochland, VA from its prior leased facility effective January 22, 2008. At the time the branch was occupied, the balance in construction in progress was reclassified into Land Improvements and Building.

NOTE 5 DEPOSITS

Deposits, by product type, at May 31, 2008 and December 31, 2007 were as follows (dollars in thousands):

	May 31, 2008	December 31, 2007
NOW	$ 15,575	$ 21,186
MMDA	20,291	20,586
Savings	9,782	10,174
Time deposits less than $100,000	81,338	74,097
Time deposits greater than $100,000	79,471	57,169
Total interest-bearing deposits	$ 206,457	$ 183,212
Total non-interest bearing	$ 25,677	$ 20,386
Total Deposits	$ 232,134	$ 203,598

The following table provides the average balance and average rate paid for interest bearing deposits, by product type (dollars thousands):

	Five Months Ended May 31, 2008		Year Ended December 31, 2007	
	Average Balance	Average Rate	Average Balance	Average Rate
NOW	$ 19,688	1.28%	$ 20,228	1.42%
MMDA	19,638	2.85%	16,981	2.58%
Savings	9,980	1.38%	10,097	1.54%
Time deposits less than $100,000	77,990	4.83%	63,639	4.98%
Time deposits greater than $100,000	64,635	4.94%	50,072	5.16%
Total interest-bearing deposits	$ 191,931	4.12%	$ 161,017	4.12%

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As of May 31, 2008, the time remaining until maturity of time deposits $100,000 and greater is as follows (dollars in thousands):

	CD s	Other	Total
Within 3 months	$ 17,871	$ 1,128	$ 18,999
3 - 6 months	7,580	935	8,515
6 - 12 months	21,366	481	21,847
Over 12 months	26,750	3,360	30,110
	$ 73,567	$ 5,904	$ 79,471

NOTE 6 BORROWINGS

TFC uses borrowings in conjunction with deposits to fund lending and investing activities. At May 31, 2008, there were no long-term borrowings. Short-term funding includes overnight borrowings from correspondent banks. The following information is provided for short term borrowings balances, rates, and maturities (dollars in thousands):

	May 31, 2008	December 31, 2007
Fed Funds Purchased	$ 5,218	$
Maximum month end outstanding balance	$ 7,400	$ 1,952
Average outstanding balance during the period	$ 2,171	$ 645
Average interest rate during the period	2.56%	5.90%
Average interest rate at end of period	2.34%	N/A

NOTE 7 DIVIDENDS

A principal source of funds for TFC in future years is anticipated to be dividends paid by the bank. Dividends paid by the bank are limited by banking regulations. Approval of the Comptroller of the Currency is required if the dividends declared by a national bank, in any year, exceed the sum of (1) net income for the current year and (2) income, net of dividends, for the preceding two years.

In January of 2007, the Bank of Powhatan and the Bank of Goochland each paid TFC a $300,000 dividend out of their respective retained earnings.

On May 30, 2008, TFC paid a one-time special dividend of $0.25 per share of TFC s common stock to shareholders of record as of May 8, 2008. The payment of the special dividend was authorized by TFC s board of directors on April 28, 2008, and was contingent on the satisfaction of all of the conditions to the closing of the Merger with CBAC.

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NOTE 8 INCOME TAXES

The components of the deferred tax assets and liabilities at May 31, 2008 and December 31, 2007 are as follows (dollars in thousands):

	May 31 2008	December 31 2007
Deferred tax assets		
Allowance for loan loss	$ 1,003	$ 952
Stock compensation award	70	119
Deferred compensation	434	
Goodwill	65	65
Net operating loss carryforwards	3,307	2,397
Alternative minimum tax credit	18	21
Other	30	37
Total deferred tax assets	4,927	3,591
Deferred tax liabilities:		
Unrealized loss on investment securities	28	13
Depreciation	148	173
Other		93
Total deferred tax liabilities	176	279
Net deferred tax asset	$ 4,751	$ 3,312

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

	May 31, 2008	December 31, 2007
Current (benefit) expense	$	$ 1
Deferred benefit	(1,454)	(3,326)
Net income tax benefit	$ (1,454)	$ (3,325)

During 2008, management concluded that it is more likely than not that TFC will be able to fully utilize its net operating losses within the statutory allowed timeframe therefore, a valuation allowance was not deemed necessary.

The following table summarizes the differences between the actual income tax expense and the amounts computed using the federal statutory tax rates for the periods ended May 31, 2008 and the year ended December 31, 2007 (dollars in thousands):

	May 31, 2008	December 31, 2007
Income tax expense (benefit) at the applicable federal tax rate	$ (1,820)	$ (256)
Change in valuation allowance for deferred taxes		(3,387)
True up of deferred tax asset		251
Nondeductible expense / transaction costs	322	(18)
Other	44	85
Income tax benefit	$ (1,454)	$ (3,325)

TFC had analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions in accordance with FIN 48.

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NOTE 9 CONCENTRATION OF CREDIT RISK

Most of the loans are made to customers in the banks trade areas. Accordingly, the ultimate collectability of the banks loan portfolio is susceptible to changes in local economic conditions. The types of loans made are described in Note 3. Collateral required is determined on an individual basis depending on the nature of the loan and the financial condition of the borrower. TFC has a concentration of loans secured by real estate. At May 31, 2008 and December 31, 2007, real estate loans represented 75.2% and 70.8% of the loans in the consolidated portfolio, respectively. Real estate lending by the banks generally consists of commercial real estate loans, construction and development loans, and residential and home equity loans.

TFC maintains deposits at other high credit quality commercial banks that may, at times, exceed federally insured limits.

NOTE 10 SELECTED FINANCIAL DATA FOR DISCONTINUED OPERATIONS

On January 1, 2001, the Bank of Powhatan purchased Main Street Mortgage and Investment Corporation (Main Street) which became a wholly-owned subsidiary of the bank. Main Street originated commercial and residential real estate loans for investors throughout the state. In November of 2006, the Board of Directors voted to discontinue the operations of Main Street.

The following provides details of the loss from discontinued operations for Main Street for the year ended December 31, 2007 (dollars in thousands).

Noninterest Income	$ 2
Occupancy expenses	(45)
Equipment costs	(4)
Other operating expenses	(30)
Loss from discontinued operations	$ (77)

NOTE 11 STOCK-BASED COMPENSATION

2001 Stock Option Plan

Under TFC s Stock Option Plan (the Plan), TFC may grant options to its directors, officers and employees for up to 330,000 of common stock. Annual grants of stock options are limited to 10,000 shares for each employee and 7,500 shares for each director. Both incentive stock options and non-qualified stock options may be granted under the plan. Effective January 1, 2006, TFC adopted SFAS No. 123(R), *Share-Based Payment,* which requires that compensation cost relating to share-based payment transactions be recognized in the financial statements with measurement based upon the fair value of the equity or liability instruments issued.

The Plan was adopted by the Board of Directors of the Bank of Powhatan on May 8, 2001. This Plan was adopted by TFC effective August 15, 2001 in connection with the Reorganization whereby the Bank of Powhatan became a subsidiary of TFC. The purpose of the Plan is to reward employees and directors for services rendered and investment risks undertaken to date and to promote the success of TFC and its subsidiaries by providing incentives to employees and directors that will promote the alignment of their personal financial interest with the long-term financial success of TFC, its subsidiaries and with growth in shareholder value. The exercise price may not be less than 100% of the fair market value of the shares on the grant date. Unless the Stock Option Committee determines otherwise, one-third of a grant becomes vested and exercisable on each of the first three anniversaries of the initial grant date. Each grant becomes fully vested and exercisable in the event of a change in control of TFC. All options are subject to exercise or forfeiture if TFC s capital falls below its minimum requirements as determined by its primary regulator, and TFC s primary regulator so directs. The Plan will expire on May 7, 2011, unless terminated sooner by the Board of Directors.

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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 five months ended May 31, 2008 and the year ended December 31, 2007.

Expected volatility	20.0%
Expected dividend	
Expected term (years)	10.00
Risk free rate	4.04%

The expected volatility is based on historical volatility of comparable peer banks. The risk free interest rates for periods within the contractual life of the awards are based on the U. S. Treasury yield curve at the time of the grant. The expected life is based on the historical exercise experience. The dividend yield assumption is based on TFC s history and expectation of dividend payouts.

A summary of the options outstanding at May 31, 2008 and December 31, 2007 is shown in the following table:

	2008		**2007**	
	Number of Shares	**Weighted Average Exercise Price**	**Number of Shares**	**Weighted Average Exercise Price**
Outstanding at beginning of the period	275,175	$ 9.74	246,725	$ 9.95
Granted			56,000	8.53
Forfeited	(41,125)	10.00	(8,000)	8.50
Exercised			(5,000)	7.65
Expired			(14,550)	9.47
Outstanding at end of the period	234,050	$ 9.70	275,175	$ 9.74
Options exercisable at end of period	234,050	$ 9.70	233,175	$ 9.97
Weighted-average fair value per option of options granted during the year	N/A		$ 1.84	
Weighted-average remaining contracted life for outstanding and exercisable shares at May 31, 2008 and December 31, 2007.	55 months		52 months	

There was no total intrinsic value of the options outstanding and exercisable as of May 31, 2008 and December 31, 2007. As of December 31, 2007, the unrecognized compensation expense related to nonvested options was $45,000. Total cash received from exercised options during for the five months ended May 31, 2008, and the year ended December 31,2007, was $0 and $38,000, respectively.

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Notes to Consolidated Financial Statements

The following table summarizes nonvested options outstanding at May 31, 2008 and December 31, 2007:

	2008		2007	
	Number of Shares	Weighted Average Grant-Date Fair Value	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1	42,000	$ 1.30	5,367	$ 1.30
Granted			56,000	1.84
Less: Vested	42,000	1.30	11,367	1.30
Forfeited			8,000	1.76
Nonvested at May 31, 2008 and December 31, 2007		$	42,000	$ 1.76

2007 Equity Compensation Plan

On May 29, 2007, the shareholders of TFC approved the TransCommunity Financial Corporation 2007 Equity Compensation Plan (the 2007 Plan). The 2007 Plan authorizes the Compensation Committee of TFC s Board of Directors to grant one or more of the following awards to directors, officers, key employees, consultants and advisors to TFC and its subsidiary who are designated by the Compensation Committee: options, stock appreciation rights, stock awards, performance share awards, incentive awards, and stock units. The Compensation Committee will administer the 2007 Plan.

TFC is authorized to issue under the 2007 Plan up to 250,000 shares of its common stock. Generally, if an award is forfeited, expires or terminates, the shares allocated to that award under the 2007 Plan may be reallocated to new awards under the 2007 Plan. Shares surrendered pursuant to the exercise of a stock option or other award or in satisfaction of tax withholding requirements under the 2007 Plan may also be reallocated to other awards. The 2007 Plan provides that if there is a stock split, stock dividend or other event that affects TFC s capitalization, appropriate adjustments will be made in the number of shares that may be issued under the 2007 Plan and in the number of shares and price of all outstanding grants and awards made before such event.

The 2007 Plan also provides that no award may be granted more than 10 years after the earlier of the date that it is approved by TFC s shareholders or the date it is adopted by TFC s Board of Directors, which was February 28, 2007.

The Board of Directors may amend or terminate the 2007 Plan at any time, provided that no such amendment will be made without shareholder approval if (i) the amendment would increase the aggregate number of shares of Common Stock that may be issued under the 2007 Plan (other than as permitted under the 2007 Plan), (ii) the amendment changes the class of individuals eligible to become participants or (iii) such approval is required under any applicable law, rule or regulation.

On July 25, 2007, agreements with market presidents and corporate senior officers were executed for restricted stock awards totaling 22,375 shares of common stock at a per share price of $7.75 under the 2007 Equity Compensation Plan. The agreements grant fifty percent of the restricted stock on a three year vesting schedule as follows:

Date	Percentage
March 1, 2008	20%
March 1, 2009	20%
March 1, 2010	60%

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Notes to Consolidated Financial Statements

The remaining one-half of the restricted stock would have been issued March 1, 2010 if corporate pre-tax income for 2009 equals or exceeds $3.0 million. Compensation costs associated with service-based awards were recognized over the period of the service term. Compensation costs associated with the performance-based awards would have been recognized once it is probable that the performance target is achievable. TFC will record costs related to the performance-based awards, and none of the performance award was accrued through December 31, 2007.

Stock-based compensation expense of approximately $178,000 and $79,000 was recorded for the five months ended May 31, 2008 and the year ended December 31, 2007, respectively.

Pursuant to the terms of the 2001 Stock Option Plan and the 2007 Equity Compensation Plan, all options and awards were fully vested upon the change of control which occurred on May 31, 2008.

NOTE 12 REGULATORY MATTERS

TFC is subject to various regulatory capital requirements administered by the federal banking agencies. If TFC, or its subsidiary bank, fails to meet minimum capital requirements, its primary regulators can initiate certain mandatory and discretionary actions. If such actions are undertaken, they could have a direct material effect on TFC s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, TFC s subsidiary bank must meet specific capital guidelines that involve quantitative measures of the bank s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures are established by bank regulations to ensure capital adequacy. The Bank is required to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). At May 31, 2008 and December 31, 2007, management believes that TFC met all capital adequacy requirements to which they are subject.

TFC assesses its compliance with regulatory capital requirements on quarterly basis. The actual and required capital amounts and ratios as of March 31, 2008 (the last quarter for which the calculation was made) and December 31, 2007 were as follows:

	March 31 2008	**December 31 2007**
	(in thousands)	
Tier 1 Leverage Capital Ratio		
Amount	32,737	29,896
Actual Ratio	13.36%	13.61%
Minimum Capital Requirement	4.00%	4.00%
Tier 1 Risk-Based Capital Ratio		
Amount	32,737	29,896
Actual Ratio	13.64%	13.95%
Minimum Capital Requirement	4.00%	4.00%
Total Risk-Based Capital Ratio		
Amount	35,736	32,574
Actual Ratio	14.89%	15.20%
Minimum Capital Requirement	8.00%	8.00%

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Notes to Consolidated Financial Statements

NOTE 13 FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107 (SFAS 107), *Disclosures About the Fair Value of Financial Statements*, defines the fair value of a financial instrument as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. As the majority of TFC s financial instruments lack an available trading market, significant estimates, assumptions and present value calculations are required to determine estimated fair value.

Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also, management is concerned that there may not be reasonable comparability between TFC and other financial institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

TFC has determined estimated fair values using the best available data and an estimation methodology suitable for each category of financial instruments. The estimation methodology used, the estimated fair values, and the recorded carrying value of financial instruments at May 31, 2008 and December 31, 2007 are as follows (dollars in thousands):

	May 31, 2008		December 31, 2007	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
Financial assets:				
Cash and due from banks	$ 4,232	$ 4,232	$ 2,204	$ 2,204
Federal funds sold			2,107	2,107
Investment securities	11,285	11,285	16,636	16,643
Loans, net	239,877	238,454	200,902	202,444
Accrued interest receivable	1,427	1,427	1,357	1,357
Financial liabilities:				
Demand deposits:				
Noninterest bearing	$ 25,677	$ 25,677	$ 20,390	$ 20,390
Interest bearing	41,772	35,866	41,768	41,768
Savings deposits	10,174	9,782	10,174	10,174
Time deposits	162,763	160,809	131,739	131,266
Federal funds purchased	5,218	5,218		
Accrued interest payable	805	805	682	682

The estimated fair values of cash and due from banks and federal funds sold are the stated values. The estimated fair values of investment securities are based on quoted market prices if available or on the quoted market prices of comparable instruments if quoted market prices are not available. The gross loan portfolio and time deposits are valued using a present value discounted cash flow method where market prices are not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk. All other financial instruments have fair values that approximate the carrying value.

The fair value of commitments to extend credit and standby letters of credit are considered immaterial.

SFAS 157 is an extension of SFAS 107 and further defines the fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements.

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Notes to Consolidated Financial Statements

Expanded disclosures required by SFAS 157 include the establishment of three input levels in considering how fair value is applied.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. In TFC s banking environment, an example may be the difference between interest rates in effect at the contractual date as compared with those for similar financial assets and liabilities that are in effect at the measurement date, or TFC s year end.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the reporting entity s own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity s own data.

Assets and Liabilities recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis (dollars in thousands):

May 31, 2008	**Total**	**Level 1**	**Level 2**	**Level 3**
Investment securities available for sale				
U.S. Treasury issue and U.S.				
Government Agencies	$ 11,285	$	$ 11,285	$
Total assets at fair value	$ 11,285	$	$ 11,285	$
Total liabilities at fair value	$	$	$	$

TFC had no level 1 or level 3 assets or other liabilities measured at fair value on a recurring basis at May 31, 2008.

Assets and Liabilities measured at Fair Value on a Nonrecurring Basis

TFC may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. Generally Accepted Accounting Principals. These include assets which are measured at the lower of cost or market that were recognized at fair value fair value below cost at the end of the period. The table below presents the recorded amount of assets and liabilities measured at fair value on a nonrecurring basis (dollars in thousands):

May 31, 2008	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Loans impaired, net	$ 2,927	$	$ 2,927	$

Other real estate owned (OREO)	187		187	
Total assets at fair value	$ 3,114	$	$ 3,114	$
Total liabilities at fair value	$	$	$	$

TFC had no level 1 or level 3 assets or other liabilities measured at fair value on a nonrecurring basis at May 31, 2008.

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Notes to Consolidated Financial Statements

NOTE 14 FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the bank has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The bank s exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The bank uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amounts represent credit risk were as follows (dollars in thousands):

	May 31 2008	December 31 2007
Commitments to extend credit	$ 50, 521	$ 46,860
Standby letters of credit	$ 4,288	$ 3,615

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 bank evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the bank upon extension of credit, is based on management s credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The bank s policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

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Notes to Consolidated Financial Statements

NOTE 15 COMMITMENTS AND CONTINGENT LIABILITIES

TFC leases banking facilities and other office space under operating leases that expire at various dates through 2014 and that contain certain renewal options. Pursuant to the terms of non-cancelable lease agreements in effect at May 31, 2008, pertaining to premises, future minimum rent commitments under various operating leases are as follows:

	(dollars in thousands)
2008	$ 247
2009	434
2010	402
2011	292
2012	273
Thereafter	596
	$ 2,244

NOTE 16 OTHER OPERATING EXPENSES

	Five Months Ended May 31, 2008	Year Ended December 31, 2007
	(dollars in thousands)	
Merger and acquisition costs	$ 1,029	$
Data processing fees	1,917	843
Legal and accounting fees	260	788
Consulting fees		557
OCC and FDIC assessment	95	163
Directors fees	73	114
Supplies	139	368
Franchise taxes	81	161
Marketing	37	219
Other	277	575
Total	$ 3,908	$ 3,788

The 2008 merger and acquisition costs were incurred as a result of the merger with CBAC, and include costs for legal, investment banking and other professional services associated with the merger transaction. Approximately $1.7 million of the 2008 Data Processing expenses include the discontinuation of a contract with TFC s external data processing provider.

NOTE 17 DEFINED CONTRIBUTION PENSION PLAN

TFC has a defined contribution pension plan in the form of a 401(k) plan (the 401(k) Plan) covering substantially all of its employees. Under the 401(k) Plan, employees can contribute pretax salary dollars subject to Internal Revenue Service ceilings. TFC matches up to 4% of salaries contributed by their employees and additionally contributes 5% of compensation regardless of what the employee contributes. Total expenses for the 401(k) Plan for the five months ended May 31, 2008 and the year ended December 31, 2007 were approximately $154,000 and $337,000, respectively.

NOTE 18 PARENT ONLY FINANCIAL STATEMENTS

TransCommunity Financial Corporation conducts no other business other than owning the stock of TransCommunity Bank. Accordingly, the only significant asset of the Holding Company is its investment in the Bank and there are no liabilities.

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TRANSCOMMUNITY FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

NOTE 19 SUBSEQUENT EVENTS

At the close of business on May 31, 2008, TFC merged with CBAC. The financial statements have been adjusted for all material subsequent events that have occurred since that day, as well as, additional information related to events that existed at that date.

BOE FINANCIAL SERVICES OF VIRGINIA, INC.

AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

BOE Financial Services of Virginia, Inc.

Tappahannock, Virginia

We have audited the consolidated balance sheet of BOE Financial Services of Virginia, Inc. and subsidiary (the Company) as of May 31, 2008 and the related consolidated statements of operations, stockholders equity and cash flows for the five-month period ended May 31, 2008. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BOE Financial Services of Virginia, Inc. and subsidiary at May 31, 2008 and the results of their operations and their cash flows for the five-month period ended May 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, on September 5, 2007, the Company entered into an agreement to merge with Community Bankers Acquisition Corp. This merger was effective at the close of business on May 31, 2008. These consolidated financial statements do not contain any fair value or other adjustments related to this merger.

/s/ ELLIOTT DAVIS, LLC

Galax, Virginia

April 22, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

BOE Financial Services of Virginia, Inc.

Tappahannock, Virginia

We have audited the accompanying consolidated balance sheet of BOE Financial Services of Virginia, Inc. and subsidiaries as of December 31, 2007, and the related consolidated statements of income, stockholders equity and cash flows for the year ended December 31, 2007. These financial statements are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BOE Financial Services of Virginia, Inc. and subsidiaries as of December 31, 2007, and the results of their operations and their cash flows for the year ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management s assertion about the effectiveness of BOE Financial Services of Virginia, Inc. and subsidiaries internal control over financial reporting as of December 31, 2007 included in the accompanying *Management s Annual Report on Internal Control Over Financial Reporting* and, accordingly, we do not express an opinion thereon.

Winchester, Virginia

March 17, 2008

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BOE FINANCIAL SERVICES OF VIRGINIA, INC.

AND SUBSIDIARIES

Consolidated Balance Sheets

May 31, 2008 and December 31, 2007

(dollars in thousands)

	May 31, 2008	December 31, 2007
Assets		
Cash and due from banks	$ 5,784	$ 4,100
Securities available for sale, at fair value	54,019	52,543
Securities held to maturity (fair value approximates $3,015 and $3,010 at May 31, 2008 and December 31, 2007, respectively)	3,000	3,000
Equity securities, restricted, at cost	1,879	1,761
Loans held for sale	706	497
Loans, net of allowance for loan losses of $2,729 in 2008 and $2,595 in 2007	230,624	218,954
Bank premises and equipment, net	10,811	10,663
Accrued interest receivable	1,624	1,514
Intangible assets, net	346	398
Other assets	9,010	9,001
Total assets	$ 317,803	$ 302,431
Liabilities and Stockholders Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 27,113	$ 26,220
Interest-bearing	229,269	218,373
Total deposits	$ 256,382	$ 244,593
Federal funds purchased	5,117	3,152
Federal Home Loan Bank advances	17,900	17,000
Trust preferred capital notes	4,124	4,124
Accrued interest payable	850	1,007
Other liabilities	3,749	2,445
Total liabilities	$ 288,122	$ 272,321
Commitments and Contingent Liabilities		
Stockholders Equity		
Preferred stock, $5 par value, authorized 100,000 shares; no shares issued and outstanding	$	$
Common stock, $5 par value, authorized 10,000,000 shares; issued and outstanding 1,214,673 and 1,212,294 shares	6,073	6,062
Additional paid-in capital	5,622	5,577
Retained earnings	17,950	18,872
Accumulated other comprehensive income (loss), net	36	(401)

Total stockholders equity	$ 29,681	$ 30,110
Total liabilities and stockholders equity	$ 317,803	$ 302,431

See Notes to Consolidated Financial Statements.

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BOE FINANCIAL SERVICES OF VIRGINIA, INC.

AND SUBSIDIARIES

Consolidated Statements of Operations

Five Months Ended May 31, 2008 and Year Ended December 31, 2007

(dollars in thousands)

	May 31 2008	December 31 2007
Interest and Dividend Income		
Interest and fees on loans	$ 6,737	$ 16,202
Interest on federal funds sold	18	73
Interest and dividends on securities:		
Taxable	465	1,085
Non Taxable	555	1,334
Total interest and dividend income	$ 7,775	$ 18,694
Interest Expense		
Interest on deposits	$ 3,266	$ 7,586
Interest on borrowings	479	1,109
Total interest expense	$ 3,745	$ 8,695
Net interest income	$ 4,030	$ 9,999
Provision for Loan Losses	200	6
Net interest income after provision for loan losses	$ 3,830	$ 9,993
Noninterest Income		
Service charge income	$ 464	$ 1,110
Other	390	848
Total noninterest income	$ 854	$ 1,958
Noninterest Expenses		
Salaries and benefits	$ 2,493	$ 4,777
Occupancy expenses	216	517
Equipment expenses	286	514
Data processing	394	608
Professional Fees	631	
Amortization of intangibles	52	126
Other operating expenses	810	2,221
Total noninterest expenses	$ 4,882	$ 8,763
Net income (loss) before income taxes	$ (198)	$ 3,188
Income tax benefit (expense)	$ 10	$ (580)
Net income (loss)	$ (188)	$ 2,608
Earnings per share, basic	$ (0.15)	$ 2.16
Earnings per share, diluted	$ (0.15)	$ 2.15

See Notes to Consolidated Financial Statements.

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BOE FINANCIAL SERVICES OF VIRGINIA, INC.

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Consolidated Statements of Stockholders Equity

Five Months Ended May 31, 2008 and Year Ended December 31, 2007

(dollars in thousands, except per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Total
Balance, December 31, 2006	$ 6,041	$ 5,477	$ 17,256	$ (727)		$ 28,047
Comprehensive income:						
Net income 2007			2,608		$ 2,608	2,608
Other comprehensive income, net of tax:						
Unrealized gain on securities available for sale, net of deferred taxes of $68					132	
Add reclassification adjustment, net of taxes of $ 13					24	
Minimum pension liability adjustment, net of deferred taxes of $88					170	
Total Other comprehensive income, net of tax				326	$ 326	326
Total comprehensive income					$ 2,934	
Cash dividends, $0.82 per share			(992)			(992)
Issuance of common stock under dividend reinvestment plan	19	92				111
Exercise of stock options	2	8				10
Balance, December 31, 2007	$ 6,062	$ 5,577	$ 18,872	$ (401)		$ 30,110

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BOE FINANCIAL SERVICES OF VIRGINIA, INC.

AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity

(Continued)

Five Months Ended May 31, 2008 and Year Ended December 31, 2007

(dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Total
Balance, December 31, 2007 (brought forward)	$ 6,062	$ 5,577	$ 18,872	$ (401)		$ 30,110
Comprehensive income:						
Net loss Five months ended May 31, 2008			(188)		$ (188)	(188)
Other comprehensive income, net of tax:						
Unrealized gain on securities available for sale, net of deferred taxes of $214					417	
Add reclassification adjustment					(3)	
Minimum pension liability adjustment, net of deferred taxes of $15					23	
Total Other comprehensive income, net of tax				437	$ 437	437
Total comprehensive income					$ 249	
Effect of changing pension plan measurement date			(62)			(62)
Cumulative effect of change in accounting principal			(137)			(137)
Cash dividends, $0.44 per share			(535)			(535)
Issuance of common stock under dividend reinvestment plan and exercise of stock options	11	45				56
Balance, May 31, 2008	$ 6,073	$ 5,622	$ 17,950	$ 36		$ 29,681

See Notes to Consolidated Financial Statements.

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BOE FINANCIAL SERVICES OF VIRGINIA, INC.

AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Five Months Ended May 31, 2008 and Year Ended December 31, 2007

(dollars in thousands)

	May 31, 2008	December 31, 2007
Cash Flows from Operating Activities		
Net (loss) income	$ (188)	$ 2,608
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and intangible amortization	335	676
Net increase in loans available for sale	(119)	(459)
Provision for loan losses	200	6
(Gains) losses on sale of securities	(6)	37
Losses on disposal of premises and equipment	92	5
Gains on sale of loans	(90)	(37)
Deferred income tax (benefit)	(196)	(173)
Amortization of security premiums and accretion of discounts	36	125
Increase in accrued interest receivable and other assets	(73)	(636)
Increase in accrued expenses and other liabilities	897	574
Net cash provided by operating activities	$ 888	$ 2,726
Cash Flows from Investing Activities		
Proceeds from sales, principal repayments, calls and maturities of securities available for sale	$ 2,364	$ 21,638
Purchase of restricted equity securities	(118)	(208)
Purchase of securities available for sale	(3,232)	(18,143)
Net (increase) in loans to customers	(11,870)	(24,469)
Purchase of bank-owned life insurance		
Purchases of premises and equipment	(523)	(765)
Proceeds from disposal of premises and equipment		
Net cash used in investing activities	$ (13,379)	$ (21,947)
Cash Flows from Financing Activities		
Net increase in deposits	$ 11,789	$ 13,728
Increase (decrease) in federal funds purchased	1,965	(55)
Increase in Federal Home Loan Bank advances	900	5,000
Dividends paid	(535)	(992)
Net proceeds from issuance of common stock	56	120
Net cash provided by financing activities	$ 14,175	$ 17,801
Net increase (decrease) in cash and cash equivalents	$ 1,684	$ (1,420)
Cash and Cash Equivalents		
Beginning of year	4,100	5,520
End of year	$ 5,784	$ 4,100

Supplemental Disclosure of Cash Flow Information				
Cash paid during year:				
Interest	$	3,902	$	8,539
Income taxes	$	127	$	900
Noncash Investing and Financing Activities				
Unrealized gain (loss) on securities available for sale	$	631	$	237
Pension liability adjustment	$	252	$	258

See Notes to Consolidated Financial Statements.

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BOE FINANCIAL SERVICES OF VIRGINIA, INC.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1. Nature of Banking Activities and Significant Accounting Policies

BOE Financial Services of Virginia, Inc. (BOE) is a bank holding company, which owns all of the stock of the Bank and BOE Statutory Trust I (the Trust), its sole subsidiaries. The Bank provides commercial, residential and consumer loans, and a variety of deposit products to its customers in the Northern Neck and Richmond regions of Virginia.

Essex Services, Inc. is a wholly-owned subsidiary of the Bank and was formed to sell title insurance to the Bank s mortgage loan customers. Essex Services, Inc. also offers insurance and investment products through affiliations with two limited liability companies.

On December 14, 2007, BOE entered into an Agreement and Plan of Merger (the Merger Agreement) with Community Bankers Acquisition Corp. (CBAC). Effective at the close of business May 31, 2008, CBAC consummated the merger between the CBAC and BOE pursuant to the terms of the Merger Agreement. In connection with the Merger Agreement, the Bank, a wholly-owned subsidiary of BOE, became a wholly-owned subsidiary of CBAC. The material terms of the Merger Agreement and certain financial and other information about CBAC and BOE are contained in BOE s registration statement on Form S-4 (SEC File No. 333-149384) originally filed February 26, 2008, as amended, the definitive joint proxy statement/prospectus thereto, filed March 31, 2008 (hereinafter referred to as the BOE Merger Proxy), BOE s annual report on Form 10-K for the year ended December 31, 2007, filed March 31, 2008 (SEC File No. 000-31711), and BOE s quarterly report on Form 10-Q for the quarter ended March 31, 2008, filed May 15, 2008 (SEC File No. 000-31711).

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of BOE Financial Services of Virginia, Inc. and its wholly-owned subsidiary, Bank of Essex. All material intercompany balances and transactions have been eliminated in consolidation. FASB Interpretation No. 46(R) requires that BOE no longer eliminate through consolidation the equity investment in BOE Statutory Trust I, which approximated $124,000 at May 31, 2008 and December 31, 2007. The subordinated debt of the Trust is reflected as a liability of BOE.

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 BOE 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 recorded on the trade date and are determined using the specific identification method.

Restricted Securities

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

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Loans

The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by 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 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 non-accrual 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 non-accrual 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. 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

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

The allowance consists of specific, general and unallocated components. For loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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

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into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of the expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market 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 BOE.

BOE 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 ninety days. BOE protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby BOE 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, BOE 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.

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 5 to 20 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.

Intangibles

Intangible assets consist of core deposit premiums from a branch acquisition. Intangible assets are being amortized on a straight-line basis over 15 years.

Other Real Estate

Real estate acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at the lower of the loan balance or 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. BOE had no other real estate at May 31, 2008 and December 31, 2007.

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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.

BOE has a deferred tax asset of approximately $1.0 million and $903,000 as of May 31, 2008 and December 31, 2007, respectively. The tax effects of temporary differences that give rise to significant portions of the deferred tax asset include Loan Loss Allowances, Deferred Compensation, and Accrued Pension expenses. These are offset by deferred tax liabilities of which Depreciation expense makes up a significant portion.

BOE adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007 with no impact on the financial statements.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statements of operations.

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 earnings per share is computed in a manner similar to basic EPS, except for certain adjustments to the numerator and the denominator. Diluted EPS gives effect to all dilutive potential common shares that were outstanding during the period. Potential common shares that may be issued by BOE relate solely to outstanding stock options and are determined using the treasury stock method.

Stock-Based Compensation

At December 31, 2006, BOE had two stock-based compensation plans, which are described more fully in Note 9. Effective January 1, 2006, BOE adopted SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R requires the costs resulting from all share-based payments be recognized in the financial statements. Stock-based compensation is estimated at the date of grant using the Black-Scholes option valuation model for determining fair value. Prior to adopting SFAS 123R, BOE accounted for the plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost was reflected in net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

No stock-based compensation expense was recognized for the five months ended May 31, 2008 and the year ended December 31, 2007, as no stock options were granted or vested. Effective December 22, 2005, BOE accelerated the vesting of all unvested stock options under the stock-based compensation plans.

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Cash and Cash Equivalents

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

Advertising Costs

BOE follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense incurred for the five months ended May 31, 2008 and the year ended December 31, 2007 was approximately $85,000 and $273,000, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Reclassifications

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

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Note 2. Securities

The amortized cost and fair value of securities available for sale as of May 31, 2008 and December 31, 2007 are as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	May 31, 2008			
U.S. Treasury issue and other US government agencies	$ 749	$ 4	$	$ 753
Mortgage-backed securities	13,050	129	(40)	13,139
Obligations of state and political subdivisions	38,215	474	(69)	38,620
Corporate and other bonds	1,109	1	(9)	1,101
Other equity securities	81	329	(4)	406
Total	$ 53,204	$ 937	$ (122)	$ 54,019

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	December 31, 2007			
U.S. Treasury issue and other US government agencies	$ 499	$	$ (1)	$ 498
Mortgage-backed securities	13,669	55	(77)	13,647
Obligations of state and political subdivisions	37,410	207	(351)	37,266
Corporate and other bonds	701	3		704
Other equity securities	81	351	(4)	428
Total	$ 52,360	$ 616	$ (433)	$ 52,543

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The amortized cost and fair value of securities available for sale as of May 31, 2008, by contractual maturity are shown below (dollars in thousands). Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without any penalties.

	Amortized Cost	Fair Value	Weighted Average Yield
Due in one year or less	$ 4,146	$ 4,168	4.98%
Due after one year through five years	25,360	25,575	5.01
Due after five years through ten years	20,877	21,101	5.40
Due after ten years	2,740	2,769	3.66
Other equity securities	81	406	N/A
Total	$ 53,204	$ 54,019	

At May 31, 2008 and December 31, 2007, BOE owned one U.S. Government Agency bond in the held to maturity classification with a book value of $3,000,000. The market value of the bond was $3,015,000 and $3,009,900 at May 31, 2008 and December 31, 2007, respectively. The bond matures in 2024.

Proceeds from sales, principal repayments, calls and maturities of securities available for sale during the five months ended May 31, 2008 and December 31, 2007 were approximately $2.4 million and $21.6 million, respectively. Gross realized gains of approximately $6,000 and $51,000 and gross realized losses of $0 and approximately $88,000 were recognized on those sales for the five months ended May 31, 2008 and the year ended December 31, 2007, respectively. The tax provision applicable to these net realized gains amounted to approximately $5,000 and $13,000, respectively.

Securities with amortized costs of approximately $6.6 million were pledged to secure public deposits and for other purposes required or permitted by law at May 31, 2008 and December 31, 2007.

A summary of investments in an unrealized loss position at May 31, 2008 and December 31, 2007 follows (dollars in thousands):

	Duration of the Unrealized Loss			
	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
May 31, 2008				
U.S. Treasury issue and other government agencies	$	$	$	$
Mortgage-backed securities	3,620	(40)		
Obligations of state and political subdivisions	6,896	(69)		
Corporate and other bonds	600	(10)		
Other equity securities	14	(4)		
Total temporarily impaired securities	$ 11,130	$ (123)	$	$
December 31, 2007				

U.S. Treasury securities	$	759	$		$	498	$	(1)
U.S. Agency and mortgage-backed securities						5,730		(77)
Obligations of state and political subdivisions		8,134		(133)		13,479		(218)
Corporate securities		11		(4)				
Total temporarily impaired securities	$	8,904	$	(137)	$	19,707	$	(296)

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The unrealized losses in the investment portfolio as of May 31, 2008, are generally a result of market fluctuations that occur daily. The unrealized losses are from 41securities that are all of investment grade, backed by insurance, U.S. government agency guarantees, or the full faith and credit of local municipalities throughout the United States. BOE has the ability and intent to hold these securities to maturity or until a recovery of value. Market prices are affected by conditions beyond the control of BOE. Investment decisions are made by the management group of BOE and reflect the overall liquidity and strategic asset/liability objectives of BOE. Management analyzes the securities portfolio frequently and manages the portfolio to provide an overall positive impact to BOE s income statement and balance sheet.

Note 3. Loans

Major classifications of loans are summarized as follows:

	May 31, 2008	December 31, 2007
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$ 63,801	$ 59,451
Commercial	85,121	74,996
Construction	31,830	36,603
Second mortgages and equity lines of credit	16,964	15,240
Multifamily	924	922
Agriculture	3,697	3,413
Total real estate loans	202,337	190,625
Commercial loans	20,298	18,728
Consumer and installment loans	5,224	6,532
All other loans	5,694	5,842
Gross Loans	$ 233,553	$ 221,727
Less: Unearned income	(200)	(178)
Loans, net of unearned income	$ 233,353	$ 221,549

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The following table indicates the dollar amount of the allowance for loan losses, including charge offs and recoveries by loan type for the five months ended May 31, 2008 and the year ended December 31, 2007 (dollars in thousands):

	Five Months Ended May 31, 2008	Year Ended December 31, 2007
Balance, beginning of year	$ 2,595	$ 2,400
Loans charged off:		
Real estate		(23)
Commercial		(116)
Consumer and instalment loans	(91)	(117)
Total charge-offs	(91)	(256)
Recoveries:		
Real estate		407
Commercial	5	6
Consumer and instalment loans	20	32
Total Recoveries	25	445
Net (charge-offs) recoveries	(66)	189
Provision for loan losses	200	6
Balance, end of year	$ 2,729	$ 2,595

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The following is a summary of information pertaining to impaired loans (dollars in thousands):

	May 31, 2008	December 31, 2007
Impaired loans without a valuation allowance	$ 885	$
Impaired loans with a valuation allowance	1,721	2,030
Total impaired loans	$ 2,606	$ 2,030
Valuation allowance related to impaired loans	$ 628	$ 469
Non-accrual loans	$ 63	$ 96
Loans past due ninety days or more and still accruing	$ 334	$ 18
Average balance of impaired loans	$ 2,318	$ 2,563
Interest income recognized on impaired loans	$ 28	$ 199
Interest income recognized on a cash basis on impaired loans	$ 24	$ 184

BOE has not committed to lend additional funds to these debtors.

Note 4. Premises and Equipment

A summary of the cost and accumulated depreciation of bank premises and equipment at May 31, 2008 and December 31, 2007 (dollars in thousands):

	May 31, 2008	December 31, 2007
Land	$ 3,007	$ 2,831
Buildings	7,979	7,947
Furniture and fixtures	4,934	4,995
Construction in progress	479	323
	$ 16,399	$ 16,096
Accumulated depreciation	5,588	5,433
	$ 10,811	$ 10,663

Depreciation expense for the five months ended May 31, 2008 and the year ended December 31, 2007, amounted to approximately $283,000 and $550,000, respectively.

Commitments related to Construction in Progress at May 31, 2008 amounted to $2.9 million.

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Note 5. Deposits

Deposits by product type at May 31, 2008 and December 31, 2007 were as follows (dollars in thousands):

	May 31, 2008	December 31, 2007
NOW	$ 28,669	$ 28,403
MMDA	19,116	16,520
Savings	21,485	19,529
Time deposits less than $100,000	107,838	106,356
Time deposits $100,000 and greater	52,161	47,565
Total interest-bearing deposits	229,269	218,373
Total non-interest bearing	27,113	26,220
Total Deposits	$ 256,382	$ 244,593

The following table provides the average balance and average rate paid for interest bearing deposits, by product type (dollars thousands):

	Five Months Ended May 31, 2008		Year Ended December 31, 2007	
	Average Balance	Average Rate	Average Balance	Average Rate
NOW	$ 27,558	0.35%	$ 26,391	0.34%
MMDA	16,673	2.34%	16,195	2.71%
Savings	20,836	1.12%	20,408	1.22%
Time deposits less than $100,000	107,703	4.46%	101,983	4.64%
Time deposits greater than $100,000	52,093	4.45%	42,766	4.85%
Total interest-bearing deposits	$ 224,863	3.49%	$ 207,742	3.65%

The scheduled maturities of time deposits $100,000 and greater at May 31, 2008 are as follows (dollars in thousands):

	CD s	Other	Total
Within 3 months	$ 11,679	$ 927	$ 12,606
3 - 6 months	11,497	900	12,397
6 - 12 months	20,576	545	21,121
Over 12 months	5,502	535	6,037
	$ 49,254	$ 2,907	$ 52,161

At May 31, 2008 and December 31, 2007 overdraft demand deposits reclassified to loans totalled approximately $140,000 and $129,000, respectively.

Note 6. Income Taxes

BOE files income tax returns in the U.S. federal jurisdiction and the state of Virginia. With few exceptions, BOE is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2004.

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BOE adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007 with no impact on the financial statements.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities follows:

	May 31, 2008	December 31, 2007
Deferred tax assets:		
Allowance for loan losses	$ 707	$ 638
Deferred compensation	414	268
Accrued pension	480	394
	$ 1,601	$ 1,300
Deferred tax liabilities:		
Depreciation	$ 225	$ 245
Discount accretion on securities	17	13
Partnership losses	48	52
Unrealized gain on securities available for sale	305	62
Other	5	25
	$ 600	$ 397
Net deferred tax assets	$ 1,001	$ 903

Allocation of the income tax expense between current and deferred portions is as follows:

	May 31, 2008	December 31, 2007
Current tax provision	$ 276	$ 753
Deferred tax (benefit)	(286)	(173)
	$ (10)	$ 580

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

	May 31, 2008	December 31, 2007
Statutory Federal income tax rate	$ (67)	$ 1,084
(Reduction) in taxes resulting from:		
Municipal interest	(164)	(387)
Non-deductable transaction costs	234	
Other, net	(13)	(117)
Income tax expense (benefit)	$ (10)	$ 580

Note 7. Federal Home Loan Bank Advances and Lines of Credit

BOE uses borrowings in conjunction with deposits to fund lending and investing activities. Short-term funding includes overnight borrowings from correspondent banks. Long term borrowings are obtained through the FHLB of Atlanta.

BOE has unsecured lines of credit with correspondent banks available for overnight borrowing totalling approximately $16,500,000. The following is information regarding borrowings against these lines of credit (dollars in thousands):

	May 31, 2008	December 31, 2007
Fed Funds Purchased	$ 5,117	$ 3,152
Maximum month end outstanding balance	$ 5,117	$ 5,280
Average outstanding balance during the period	$ 1,499	$ 742
Average interest rate during the period	3.37%	5.90%
Average interest rate at end of period	2.74%	2.38%

The following is information regarding borrowings against these lines of credit (dollars in thousands):

		May 31, 2008	December 31, 2007
FHLB Advances			