

Community Bankers Trust Corp
Form 10-Q
November 16, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
Form 10-Q**

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

For the quarterly period ended September 30, 2009

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

*(State or other jurisdiction of
incorporation of organization)*

20-2652949

*(I.R.S. Employer
Identification No.)*

4235 Innslake Drive, Suite 200

Glen Allen, Virginia

(Address of principal executive offices)

23060

(Zip Code)

(804) 934-9999

(Registrant's telephone number, including area code)

not applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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. (Check one):

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

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At October 1, 2009, there were 21,468,455 shares of the Company's common stock outstanding.

COMMUNITY BANKERS TRUST CORPORATION
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PART I FINANCIAL INFORMATION**Item 1. Financial Statements**

COMMUNITY BANKERS TRUST CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AT SEPTEMBER 30, 2009 AND DECEMBER 31, 2008
(dollars in thousands)

	September 30, 2009 (Unaudited)	December 31, 2008 (Audited) (Restated)
Assets		
Cash and due from banks	\$ 13,464	\$ 10,864
Interest bearing bank deposits	10,534	107,376
Federal funds sold	5,300	10,193
 Total cash and cash equivalents	 29,298	 128,433
Securities available for sale, at fair value	171,184	193,992
Securities held to maturity, fair value of \$124,865 and \$94,965, respectively	121,023	94,865
Equity securities, restricted, at cost	8,355	3,612
 Total securities	 300,562	 292,469
 Loans held for resale		 200
Loans covered by FDIC shared-loss agreement (Note 8)	245,077	
Total loans excluding covered loans	569,452	523,298
Allowance for loan losses	(16,211)	(6,939)
 Net loans	 798,318	 516,359
Bank premises and equipment	37,328	24,111
Bank owned life insurance	6,475	6,300
Core deposit intangibles, net	17,645	17,163
Goodwill (Note 5)	13,152	37,184
Other real estate owned	1,175	223
Other real estate owned , covered by FDIC shared-loss agreement(Note 8)	16,823	
FDIC receivable for expenses incurred (Note 8)	3,560	
Other assets	14,802	7,325
 Total assets	 \$1,239,138	 \$ 1,029,767
 Liabilities		
Deposits:		
Noninterest bearing	\$ 64,338	\$ 59,699

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Interest bearing	963,191	746,649
Total deposits	1,027,529	806,348
Federal funds purchased	31	
Federal Home Loan Bank advances	37,000	37,900
Trust preferred capital notes	4,124	4,124
Other liabilities	23,854	16,992
Total liabilities	\$1,092,538	\$ 865,364

Stockholders Equity

Preferred stock (5,000,000 shares authorized, \$0.01 par value) 17,680 shares issued and outstanding	17,680	17,680
Discount on preferred stock	(896)	(1,031)
Warrants on preferred stock	1,037	1,037
Common stock (50,000,000 shares authorized, \$0.01 par value) 21,468,455 shares issued and outstanding	215	215
Retired warrants on common stock	(2,111)	
Additional paid in capital	146,110	146,076
Retained (deficit) earnings	(17,552)	1,691
Accumulated other comprehensive income (loss)	2,117	(1,265)
Total stockholders equity	\$ 146,600	\$ 164,403
Total liabilities and stockholders equity	\$1,239,138	\$ 1,029,767

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(dollars and shares in thousands, except per share data)
(unaudited)

	For the three months ended		For the nine months ended		BOE Predecessor For the five months ended	TFC Predecessor For the five months ended
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	May 31, 2008 (Note 1)	May 31, 2008 (Note 1)
Interest and dividend income						
Interest and fees on loans	\$ 8,820	\$ 8,497	\$ 26,236	\$ 11,201	\$ 6,737	\$ 6,849
Interest and fees on FDIC covered loans	3,741		10,658			
Interest on federal funds sold	10	22	36	68	18	26
Interest on deposits in other banks	60	83	262	83	3	
Interest and dividends on securities						
Taxable	2,081	539	7,580	1,226	465	236
Nontaxable	896	333	2,473	443	555	
 Total interest income	 15,608	 9,474	 47,245	 13,021	 7,778	 7,111
Interest expense						
Interest on deposits	6,026	2,908	18,443	3,935	3,265	3,295
Interest on federal funds purchased	2	101	6	114	21	23
Interest on other borrowed funds	338	277	1,071	357	458	
 Total interest expense	 6,366	 3,286	 19,520	 4,406	 3,744	 3,318
 Net interest income	 9,242	 6,188	 27,725	 8,615	 4,033	 3,793
 Provision for loan losses	 5,231	 1,100	 11,271	 1,334	 200	 1,348
	4,011	5,088	16,454	7,281	3,833	2,445

**Net interest income
after provision for
loan losses****Noninterest income**

Service charges on deposit accounts	674	516	1,863	696	464	278
Gain on SFSB transaction			21,260			
Gain on securities transactions, net	612		905		6	
Loss on sale of other real estate	(187)		(166)		(92)	
Other	175	238	844	357	480	142
Total noninterest income	1,274	754	24,706	1,053	858	420

Noninterest expense

Salaries and employee benefits	4,840	2,375	14,294	2,949	2,494	3,687
Occupancy expenses	752	346	1,886	458	216	318
Equipment expenses	436	292	1,198	400	286	228
Legal fees	217	151	772	266	306	106
Professional fees	184	133	1,340	133	258	1,029
FDIC assessment	436	60	1,310	76	11	64
Data processing fees	743	285	2,217	389	394	1,995
Amortization of intangibles	565	406	1,675	554		
Impairment of goodwill			24,032		52	
Other operating expenses	1,770	608	5,407	1,366	872	793
Total noninterest expense	9,943	4,656	54,131	6,591	4,889	8,220

(Loss) income before income taxes	(4,658)	1,186	(12,971)	1,743	(198)	(5,355)
Income tax (benefit) expense	(1,908)	234	2,964	392	151	(244)
Net (loss) income	\$ (2,750)	\$ 952	\$ (15,935)	\$ 1,351	\$ (349)	\$ (5,111)
Dividends accrued on preferred stock	223		661			
	46		135			

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Accretion of discount
on preferred stock

Net (loss) income
available to common
stockholders

\$ (3,019)	\$	952	\$ (16,731)	\$	1,351	\$	(349)	\$	(5,111)
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Net (loss) income per
share basic

\$ (0.14)	\$	0.04	\$ (0.78)	\$	0.09	\$	(0.29)	\$	(1.11)
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Net (loss) income per
share diluted

\$ (0.14)	\$	0.04	\$ (0.78)	\$	0.08	\$	(0.29)	\$	(1.11)
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Weighted average
number of shares
outstanding

basic	21,468	21,469	21,468	14,750	1,214	4,596
diluted	21,468	21,486	21,468	16,197	1,219	4,596

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	For the nine months ended		BOE Predecessor For the five months ended	TFC Predecessor For the five months ended
	September 30, 2009	September 30, 2008	May 31, 2008 (Note 1)	May 31, 2008 (Note 1)
Operating activities:				
Net (loss) income	\$ (15,935)	\$ 1,351	\$ (349)	\$ (5,111)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and intangibles amortization	3,130	750	335	335
Provision for loan losses	11,271	1,334	200	1,348
Amortization of security premiums and accretion of discounts, net	1,411	54	36	1
Change in loans held for sale	200	721	(209)	
Net gain on SFSB transaction	(21,260)			
Impairment of goodwill	24,032		52	
Stock-based compensation expense				179
Net gain on sale of securities	(905)		(6)	
Net loss on sale of OREO	166		92	
Net loss/(gain) on sale of loans	13	(15)	(90)	
Loss on write down of LLC membership			88	
Cash acquired in acquisitions	35,662	10,016		
Changes in assets and liabilities:				
(Increase)/decrease in other assets	(636)	(3,108)	93	(76)
Increase/(decrease) in accrued expenses and other liabilities	439	(3,190)	828	2,854
 Net cash provided by (used in) operating activities	 37,588	 7,913	 1,070	 (470)
Investing activities:				
Proceeds from securities	145,148	65,131	2,320	12,605
Purchase of securities	(129,390)	(23,489)	(3,844)	(7,200)
Net increase in loans	(14,723)	(28,641)	(11,834)	(37,357)
Purchase of premises and equipment, net	(9,421)	(989)	(459)	(259)

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Net cash (used in) provided by investing activities	(8,386)	12,012	(13,817)	(32,211)
Financing activities:				
Net increase/(decrease) in noninterest bearing and interest bearing deposits	(85,816)	(5,693)	11,789	28,536
Net increase/(decrease) in federal funds purchased	31	(1,095)	1,965	5,218
Issuance of common stock			44	
Cash paid to shareholders for converted shares		(10,843)		
Cash paid to reduce FHLB borrowings	(37,900)	20,000	900	
Cash paid to redeem shares related to asserted appraisal rights and retire warrants	(2,077)	(11)		
Cash dividends paid	(2,575)	(861)	(267)	(1,152)
Net cash (used in) provided by financing activities	(128,337)	1,497	14,431	32,602
Net (decrease) increase in cash and cash equivalents	(99,135)	21,422	1,684	(79)
Cash and cash equivalents:				
Beginning of the period	128,433	162	4,100	4,311
End of the period	\$ 29,298	\$ 21,584	\$ 5,784	\$ 4,232
Supplemental disclosures of cash flow information:				
Interest paid	\$ 20,686	\$ 4,689	\$ 3,902	\$ 3,195
Income taxes paid	296		293	
Transfers of OREO property	952	224		
Transactions related to acquisition				
Increase in assets and liabilities:				
Loans, net	278,507	471,864		
Other real estate owned	17,820			
Securities	7,416	71,123		
Fixed assets, net	37			
Other assets	10,899	83,769		
Deposits	306,997	491,462		
Borrowings	37,525	32,359		
Other liabilities	1,756	8,861		

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

General

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. Bank of Essex changed its name to Essex Bank on April 20, 2009.

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.

The consolidated statements presented include accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts have been eliminated. In the opinion of management, the accompanying financial statements contain all adjustments necessary to fairly present the financial position of the Company at each of September 30, 2009 and December 31, 2008. The statements should be read in conjunction with the Company's consolidated financial statements and the accompanying notes to consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. In the opinion of management, all adjustments (consisting of normal accruals) were made that are necessary to present fairly the financial position of the Company at September 30, 2009, and the results of its operations and its cash flows for the three and nine months ended September 30, 2009 and 2008.

The statements and related notes have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) are not presented pursuant to such rules and regulations, because the periods reported are not comparable.

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 historical statements of operations for the five months ended May 31, 2008 and statements of cash flows of each of TFC and BOE for the five months ended May 31, 2008 have been presented.

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The Company is in the process of amending its Annual Report on Form 10-K for the year ended December 31, 2008 and its Quarterly Report on Form 10-Q for each of the periods ended March 31, 2009 and June 30, 2009 to include the financial statements of its predecessors.

2. ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to GAAP and to the general practices within the banking industry. The interim financial statements have not been audited; however, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the consolidated financial statements have been included. Operating results for the three and nine month period ended September 30, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

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

The Company's financial statements are prepared in accordance with 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. In preparing the financial statements, the Company has evaluated events and transactions occurring subsequent to the financial statement date through the filing date of November 16, 2009 for potential recognition or disclosure.

3. RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative GAAP applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the Securities and Exchange Commission under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure. The adoption of FASB ASC had no impact on the Company's consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157) (ASC 820 *Fair Value Measurements and Disclosures*). 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. The Company adopted SFAS 157 on January 1, 2008. The FASB approved a one-year deferral for the implementation of the Statement for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Company adopted the provisions of SFAS 157 for nonfinancial assets and liabilities as of January 1, 2009 without a material impact on the consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* (SFAS 141(R)) (ASC 805 *Business Combinations*). The Standard significantly changed 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 adopted the provisions of SFAS 141(R) with respect to the SFSB acquisition.

In April 2009, the FASB issued FASB Staff Position (FSP) on Statement No. 141(R)-1 (FSP FAS 141(R)-1), *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (ASC 805 *Business Combinations*). FSP FAS 141(R)-1 amends and clarifies SFAS 141(R) to address application

issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The FSP is effective for assets and liabilities arising from contingencies in business combinations for which the

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acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted the provisions of SFAS 141(R) with respect to the SFSB acquisition.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (ASC 820 *Fair Value Measurements and Disclosures*). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. The FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, and shall be applied prospectively. Earlier adoption is permitted for periods ending after March 15, 2009. The Company does not expect the adoption of FSP FAS 157-4 to have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (ASC 825 *Financial Instruments and ASC 270 Interim Reporting*). FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. In addition, the FSP amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. The FSP is effective for interim periods ending after June 15, 2009, with earlier adoption permitted for periods ending after March 15, 2009. The Company does not expect the adoption of FSP FAS 107-1 and APB 28-1 to have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (ASC 320 *Investments Debt and Equity Securities*). FSP FAS 115-2 and FAS 124-2 amends other-than-temporary impairment guidance for debt securities to make guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. The FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 and FAS 124-2 are effective for interim and annual periods ending after June 15, 2009, with earlier adoption permitted for periods ending after March 15, 2009. The Company does not expect the adoption of FSP FAS 115-2 and FAS 124-2 to have a material impact on its consolidated financial statements.

In April 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 111 (SAB 111). SAB 111 amends and replaces SAB Topic 5.M. in the SAB Series entitled *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities*. SAB 111 maintains the SEC Staff's previous views related to equity securities and amends Topic 5.M. to exclude debt securities from its scope. The Company does not expect the implementation of SAB 111 to have a material impact on its consolidated financial statements.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* (ASC 855 *Subsequent Events*). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for interim and annual periods ending after June 15, 2009. The Company does not expect the adoption of SFAS 165 to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, *Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140* (ASC 860 *Transfers and Servicing*). SFAS 166 provides guidance to improve the relevance, representational faithfulness, and comparability of the information that a report entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. SFAS 166 is effective for interim and annual periods ending after November 15, 2009. The Company does not expect the adoption of SFAS 166 to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)* (ASC 810 *Consolidation*). SFAS 167 improves financial reporting by enterprises involved with variable interest entities. SFAS 167 is effective for interim and annual periods ending after November 15, 2009. Early adoption is prohibited. The Company does not expect the adoption of SFAS 167 to have a material impact on its consolidated financial statements.

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In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – replacement of FASB Statement No. 162 (ASC 105 Generally Accepted Accounting Principles)*. SFAS 168 establishes the FASB Accounting Standards Codification which will become

the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. SFAS 168 is effective immediately. The Company does not expect the adoption of SFAS 168 to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued EITF Issue No. 09-1, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing* (ASC 470 Debt). EITF Issue No. 09-1 clarifies how an entity should account for an own-share lending arrangement that is entered into in contemplation of a convertible debt offering. EITF Issue No. 09-1 is effective for arrangements entered into on or after June 15, 2009. Early adoption is prohibited. The Company does not expect the adoption of EITF Issue No. 09-1 to have a material impact on its consolidated financial statements.

In June 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 112 (SAB 112). SAB 112 revises or rescinds portions of the interpretative guidance included in the codification of SABs in order to make the interpretive guidance consistent with current U.S. GAAP. The Company does not expect the adoption of SAB 112 to have a material impact on its consolidated financial statements.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05 (ASU 2009-05), *Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value*. ASU 2009-05 amends Subtopic 820-10, *Fair Value Measurements and Disclosures Overall*, and provides clarification for the fair value measurement of liabilities. ASU 2009-05 is effective for the first reporting period including interim period beginning after issuance. The Company does not expect the adoption of ASU 2009-05 to have a material impact on its consolidated financial statements.

In September 2009, the FASB issued Accounting Standards Update No. 2009-12 (ASU 2009-12), *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2009-12 provides guidance on estimating the fair value of alternative investments. ASU 2009-12 is effective for interim and annual periods ending after December 15, 2009. The Company does not expect the adoption of ASU 2009-12 to have a material impact on its consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update No. 2009-15 (ASU 2009-15), *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing*. ASU 2009-15 amends Subtopic 470-20 to expand accounting and reporting guidance for own-share lending arrangements issued in contemplation of convertible debt issuance. ASU 2009-15 is effective for fiscal years beginning on or after December 15, 2009 and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The Company does not expect the adoption of ASU 2009-15 to have a material impact on its consolidated financial statements.

4. MERGERS AND ACQUISITIONS

Business Combinations

On May 31, 2008, the Company acquired each of TFC and BOE. The transaction with TFC was valued at \$53.0 million. Total consideration paid to TFC shareholders consisted of 6,544,840 shares of the Company's common stock issued. The transaction resulted in total assets acquired at May 31, 2008 of \$268.8 million, including \$241.9 million of loans, and liabilities assumed were \$241.7 million, including \$232.1 million of deposits. The transaction with BOE was valued at \$53.9 million. Total consideration paid to BOE shareholders consisted of 6,957,405 shares of the Company's common stock issued. This transaction resulted in total assets acquired at May 31, 2008 of \$317.6 million, including \$233.3 million of loans, and liabilities assumed were \$288.0 million, including \$256.4 million of deposits. Due to the mergers with each of TFC and BOE, the Company recorded approximately \$37.2 million in goodwill and \$15.0 million in core deposit intangibles.

Immediately following the mergers with TFC and BOE, the Company operated TransCommunity Bank and the Bank as separate banking subsidiaries. TransCommunity Bank's offices operated under the Bank of Goochland, Bank of Powhatan, Bank of Louisa and Bank of Rockbridge division names. Effective July 31, 2008, TransCommunity Bank was consolidated into the Bank under the Bank's state charter. As a result, the Company was a one-bank holding company at the September 30, 2008 reporting date.

Acquisition of Georgia Operations

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. 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.

Pursuant to the terms of the Purchase and Assumption Agreement, the Bank assumed approximately \$600 million in deposits, approximately \$250 million of which were deemed to be core deposits, and paid the FDIC a premium of 1.36% on all deposits, excluding brokered and internet deposits. All deposits have been fully assumed, and all deposits insured prior to the closing of the transaction maintain their current insurance coverage. Other than loans fully secured by deposit accounts, the Bank did not purchase any loans but is providing loan servicing to TCB's former loan customers. Pursuant to the terms of the Purchase and Assumption Agreement, the Bank had 60 days to evaluate and, at its sole option, purchase any of the remaining TCB loans. The Bank purchased 175 loans totaling \$21 million on January 9, 2009. In addition, the Bank agreed to purchase all four former banking premises of TCB for \$6.4 million on February 19, 2009.

Acquisition of Maryland Operations

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 transaction was consummated pursuant to a Purchase and Assumption Agreement, dated January 30, 2009, by and among the FDIC, as Receiver for SFSB, the Bank and the FDIC.

Pursuant to the terms of the Purchase and Assumption Agreement, the Bank assumed approximately \$303 million in deposits, all of which were deemed to be core deposits. The Bank bid a negative \$45 million for the assets acquired and liabilities assumed. The Bank acquired approximately \$348 million in loans and other assets and agreed to provide loan servicing to SFSB's existing loan customers. The Bank has entered into shared-loss agreements with the FDIC with respect to certain covered assets acquired. All deposits have been fully assumed, and all deposits maintain their current insurance coverage. As a result of the acquisition of SFSB's operations, the Company recorded a one-time pre-tax gain of \$21.3 million in the first quarter of 2009.

Under the shared-loss agreements, the FDIC will reimburse the Bank for 80% of losses arising from covered loan assets, on the first \$118 million of all losses on such covered loans, and for 95% of losses on covered loans thereafter. Under the shared-loss agreements, a loss on a covered loan is defined generally as a realized loss incurred through a permitted disposition, foreclosure, short-sale or restructuring of the covered asset. As described below, the reimbursements for losses on single family one-to-four residential mortgage loans are to be made monthly until the end of the month in which the 10th anniversary of the closing of the transaction occurs, and the reimbursements for losses on other loans are to be made quarterly until the end of the quarter in which the fifth anniversary of the closing of the transaction occurs. The shared-loss agreements provide for indemnification from the first dollar of losses without any threshold requirement. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction, January 30, 2009. New loans made after that date are not covered by the shared-loss agreements.

The Company determined the value of the intangible assets and the fair value of assets acquired and liabilities assumed that are used to calculate negative goodwill in the transaction. The values determined for the assets acquired and liabilities assumed may be amended within 12 months of the transaction if management has reason to believe that there has been a material change in the initial values recorded. See Note 8 for additional information related to certain assets covered under the FDIC shared-loss agreements.

5. GOODWILL AND INTANGIBLE ASSETS

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. Goodwill was assessed for potential impairment as of May 31, 2009, the anniversary date of the mergers.

Since the mergers in 2008, there has been further decline in economic conditions, which has significantly affected the banking sector and the Company's financial condition and results. The Company's average closing stock price during the second quarter of 2008 and 2009 was \$6.64 per share and \$3.67 per share, respectively, which represented

a 44.73% decline. On the last business day prior to May 31, 2009, the closing stock price was \$3.10 per share.

The first step in identifying potential impairment involves comparing the current fair value of such goodwill to its recorded or carrying amount. If the carrying value exceeds such fair value, there is possible impairment. Next, a second step is performed to determine the amount of the impairment, if any. This step requires a comparison of the Company's book value to the fair value of its assets, liabilities, and intangibles. If the carrying amount of goodwill exceeds the fair value, an impairment charge must be recorded in an amount equal to the excess. Management retained a business valuation expert to assist in determining the level and extent to which goodwill was impaired. The Company determined that goodwill was impaired as of May 31, 2009, and a \$24.0 million impairment charge was recorded during the second quarter of 2009. Because the acquisitions were considered tax-free exchanges, the goodwill impairment charge cannot be deducted for tax purposes, and as such, an income tax benefit cannot be recorded. Due to this tax treatment, the goodwill impairment charge will be reflected as a permanent difference in the deferred tax calculation. Goodwill will be next assessed for potential impairment as of December 31, 2009.

Also, upon further evaluation of the original amount recorded for goodwill associated with the mergers with each of TFC and BOE, adjustments of \$2.9 million were made to goodwill as of December 31, 2008, which is reflected as a restated amount in the consolidated statement of financial condition and consolidated statement of changes in stockholders' equity of the consolidated financial statements in this report. The restated amount was primarily related to properly reflecting the fair value of the options acquired by the Company at the time of its mergers versus the face value of the options, which was originally recorded. This adjustment to goodwill has no effect on the Company's 2008 or 2009 net income.

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. Core deposit intangibles related to the Georgia and Maryland transactions equaled \$3.1 million and \$2.2 million, respectively, and will be amortized over approximately 9 years.

Goodwill and core deposit intangible assets are presented in the following table:

	Gross Value	Accumulated Amortization	Impairment	Net Carrying Value
	(dollars in thousands)			
December 31, 2008				
Goodwill (restated)	\$37,184			\$37,184
Core deposit intangibles	\$18,132	\$ 969		\$17,163
September 30, 2009				
Goodwill	\$37,184		\$24,032	\$13,152
Core deposit intangibles	\$20,290	\$2,645		\$17,645

6. 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 FASB ASC 820, *Fair Value Measurements and Disclosures*, 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. The Company only utilizes third party vendors to provide fair value data for purposes of recording amounts related to the fair value measurements of its securities available for sale portfolio. An AICPA Statement on Auditing Standard Number 70 (SAS 70) report is obtained from the third party vendor on an annual basis. The third party vendor also utilizes a reputable pricing company for security market data. The third party vendor has controls and edits in place for month-to-month market checks and zero pricing. The Company makes no adjustments to the pricing service data received for its securities available for sale.

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

Loans held for sale

Loans held for sale are recorded at the lower of cost or fair value each reporting period, and are comprised of residential mortgages. These loans are held for a short period of time with the intention of being sold on the secondary market. Therefore, the fair value is determined on rates currently offered using observable market information, which does not deviate materially from the cost value. If there are any adjustments to record the loan at the lower of cost or market value, it would be reflected in the consolidated statements of income. There were no loans held for sale at September 30, 2009.

Loans

Except for loans that the Company acquired in the SFSB transaction, 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. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, 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. At September 30, 2009, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with ASC 20, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. 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. 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 impaired loan as nonrecurring Level 3.

Other real estate owned

Other real estate owned (OREO), including foreclosed assets, are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, OREO is 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 OREO 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.

Goodwill

See Note 5 for a description of valuation methodologies for goodwill.

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.

	Total	September 30, 2009		Level 3
		Level 1	Level 2	
		(dollars in thousands)		
Investment securities available-for-sale:				
U.S. Treasury issue and US. government agencies	\$ 16,103	\$	\$ 16,103	\$
State, county, and municipal	\$ 94,034	\$	\$ 94,034	\$
Corporates and other bonds	\$ 2,834	\$	\$ 2,834	\$
Mortgage backed securities	\$ 56,857	\$	\$ 56,857	\$
Financial stocks	\$ 1,356	\$ 1,356	\$	\$
Total securities available-for-sale	\$ 171,184	\$ 1,356	\$ 169,828	\$
Loans held for sale	\$	\$	\$	\$
Total assets at fair value	\$ 171,184	\$ 1,356	\$ 169,828	\$
Total liabilities at fair value	\$	\$	\$	\$

The Company had no Level 3 assets measured at fair value on a recurring basis at September 30, 2009.

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 GAAP. These assets include assets that are measured at the lower of cost value or market value 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, excluding FDIC covered assets.

	Total	September 30, 2009		Level 3
		Level 1	Level 2	
		(dollars in thousands)		
Loans - impaired loans	\$ 123,460	\$	\$ 114,685	\$ 8,775
Other real estate owned (OREO)	\$ 1,175	\$	\$ 1,175	\$
Goodwill	\$ 13,152	\$	\$	\$ 13,152
Total assets at fair value	\$ 137,787	\$	\$ 115,860	\$ 21,927
Total liabilities at fair value	\$	\$	\$	\$

The Company had no Level 1 assets measured at fair value on a nonrecurring basis at September 30, 2009.

ASC 820, *Fair Value Measurements and Disclosures*, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The fair values and carrying values are as follows:

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(dollars in thousands)	September 30, 2009	
	Carrying Value	Fair Value
Financial assets:		
Cash and cash equivalents	\$ 29,298	\$ 29,315
Securities available for sale	171,184	171,184
Securities held to maturity	121,023	124,883
Equity securities	8,355	8,355
Loans held for sale		
Net loans excluding covered loans	553,241	546,242
FDIC loss share covered assets	265,460	265,460
Accrued interest receivable	5,401	5,401
Goodwill	13,152	13,152
Financial liabilities:		
Deposits	1,027,529	1,033,024
Borrowings	41,155	46,035

7. SECURITIES

Amortized costs and fair values of securities available for sale at September 30, 2009 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. Treasury issue and other U.S. Government agencies	\$ 15,589	\$ 514	\$	\$ 16,103
State, county and municipal Corporates and other bonds	90,976	3,275	(217)	94,034
Mortgage backed securities	2,761	73		2,834
Other securities	55,392	1,469	(4)	56,857
	1,293	165	(102)	1,356
Total securities available for sale	\$ 166,011	\$ 5,496	\$ (323)	\$ 171,184

The fair value and gross unrealized losses for securities available for sale, totaled by the length of time that individual securities have been in a continuous gross unrealized loss position, at September 30, 2009 were as follows:

(dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State, county and municipal	\$ 2,075	\$ (193)	\$ 2,204	\$ (24)	\$ 4,279	\$ (217)
Mortgage backed securities	710	(4)			710	(4)
Other securities	1,092	(96)	12	(6)	1,104	(102)
Total securities available for sale	\$ 3,877	\$ (293)	\$ 2,216	\$ (30)	\$ 6,093	\$ (323)

At September 30, 2009, there were \$2.2 million of securities available for sale that were in a continuous loss position for more than twelve months with unrealized losses of \$30,000 and consisted primarily of municipal obligations. Management continually monitors the fair value and credit quality of the Company's investment portfolio.

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Furthermore, a third party vendor prepares a report for other than temporarily impaired evaluations. Management reviews this report monthly, and there were no investments considered other than temporarily impaired at September 30, 2009.

Amortized costs and fair values of securities held to maturity at September 30, 2009 were as follows:

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(dollars in thousands)	Amortized Cost	Gross Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury issue and other U.S. Government agencies	\$ 748	\$	\$ (1)	\$ 747
State, county and municipal Corporates and other bonds	13,104	859		13,963
Mortgage backed securities	1,030	26		1,056
	106,141	3,078	(102)	109,117
Total securities held to maturity	\$ 121,023	\$ 3,963	\$ (103)	\$ 124,883

The fair value and gross unrealized losses for securities held to maturity, totaled by the length of time that individual securities have been in a continuous gross unrealized loss position, at September 30, 2009 were as follows:

(dollars in thousands)	Less than 12 months Unrealized		12 months or more Unrealized		Total Unrealized	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
U.S. Treasury issue and other U.S. Government agencies	\$ 748	\$ (1)	\$	\$	\$ 748	\$ (1)
Mortgage backed securities	10,501	(102)			10,501	(102)
Total securities held to maturity	\$ 11,249	\$ (103)	\$	\$	\$ 11,249	\$ (103)

Management continually monitors the fair value and credit quality of the Company's investment portfolio. At September 30, 2009, all impairments are considered temporary; there are no other than temporary impairments. The Company does not intend to sell the securities. It is not likely that the Company will be required to sell the security before recovery of its amortized cost. The Company expects to fully recover its amortized cost basis even if it does not intend to sell the impaired securities. At this time, the Company considers all impairments to be temporary since the unrealized losses are related to market risk and not credit risk. Issuers of the securities both held to maturity and available for sale are of suitable credit quality, and all of the securities are of investment grade.

The Company's investment in Federal Home Loan Bank (FHLB) stock totaled \$3.6 million at September 30, 2009. FHLB stock is restricted since it is not actively traded on an exchange, and is owned solely by the FHLB and its member institutions. The Company records FHLB stock on a cost basis. When evaluating FHLB stock for impairment, its value is based on recovery of the par value rather than by recognizing temporary decline in value. While the FHLB temporarily suspended dividend payments on its stock and repurchases of excess capital stock during 2009, it declared an annualized dividend rate of 0.41% for the third quarter of 2009, which is scheduled for payment in November 2009.

8. FDIC RELATED ASSETS

Under the shared-loss agreements, the FDIC will reimburse the Bank for 80% of losses arising from covered loan assets, on the first \$118 million of such covered loans, and for 95% of losses on covered loans thereafter. Under the shared-loss agreements, a loss on a covered loan is defined generally as a realized loss incurred through a permitted disposition, foreclosure, short-sale or restructuring of the covered asset. As described below, the reimbursements for losses on single family one-to-four residential mortgage loans are to be made monthly until the end of the month in which the 10th anniversary of the closing of the transaction occurs, and the reimbursements for losses on other loans are to be made quarterly until the end of the quarter in which the fifth anniversary of the closing of the transaction occurs. The shared-loss agreements provide for indemnification from the first dollar of losses without any threshold requirement. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined

by the FDIC at the date of the transaction, January 30, 2009. New loans made after that date are not covered by the shared-loss agreements.

Codification Subtopic 310-30 (originally issued as the American Institute of Certified Public Accountants (AICPA) Statement of Position 03-3 (SOP 03-3), *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*), was adopted for loan acquisitions, and applies to loans with evidence of deterioration of credit quality since origination, acquired by completion of a transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments

receivable. In our acquisition of SFSB, 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 will consider those loans for SOP 03-3 application. Those loans that were not considered impaired at the time of acquisition will not be considered for SOP 03-3. Since there are FDIC shared-loss agreements, the Bank recorded an FDIC receivable to the extent amounts will be reimbursed for losses incurred, and is included in the amount reported as Loans covered by FDIC shared-loss agreements. The carrying amount of FDIC covered assets at September 30, 2009, were as follows:

	SOP 03-3 Loans	Non SOP 03-3 Loans	Other	Total
Commercial related loans	\$ 12,716	\$ 10,496		\$ 23,212
Mortgage and other loans	10,421	129,559		139,980
Foreclosed real estate			\$ 16,823	16,823
FDIC receivable for covered assets			81,885	81,885
Estimated loss reimbursement from FDIC for expenses incurred			3,560	3,560
Total FDIC covered assets	\$23,137	\$ 140,055	\$102,268	\$265,460

As of the acquisition date, the preliminary estimates of the contractually required payments receivable for all SOP 03-3 loans acquired in the SFSB acquisition were \$84.7 million, the cash flows expected to be collected were \$32.9 million including interest, and the estimated fair value of the loans were approximately \$26.0 million. These amounts were determined based upon the estimated remaining life of the underlying loans, which include the effects of estimated prepayments. At September 30, 2009, a majority of these loans were valued based on the liquidation value of the underlying collateral. Interest income, through accretion of the difference between the carrying amount of the SOP 03-3 loans and the expected cash flows, is expected to be recognized on the remaining loans. There was no allowance for credit losses related to these SOP 03-3 loans at September 30, 2009. Certain amounts related to the SOP 03-3 loans and related indemnification amounts are preliminary estimates. The Company expects to finalize its analysis of these assets within 12 months of the acquisition date and, therefore, adjustments to the estimated amounts are likely.

See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Covered Assets under the FDIC Shared-Loss Agreements for a discussion of management's analysis and judgments in presenting the information above.

9. LOANS

The Company's loan portfolio, segregated by loans covered by the FDIC shared-loss agreement (Covered Loans) and loans not covered by this agreement (Non-covered Loans), at September 30, 2009 and December 31, 2008, was comprised of the following:

