



COMMUNITY BANKERS

B A N K

COMMUNITY BANKERS' BANK 2009 RESULTS

(UNAUDITED)

To: Shareholders and Clients

From: Bill McFaddin
President & CEO

Most bankers that I talk with agree: we are glad that 2009 is now “history.” The 140 bank failures, deteriorated asset quality, depressed earnings, and political and regulatory confusion did not make for a memorable year.

The economy and value-challenged CRE dealt Community Bankers' Bank (“CBB”) its fair share of wrath, but I want you to know that we are now well positioned to have a successful 2010. We begin 2010 as a well-capitalized institution with the highest leverage ratio (8.86%) we have had in recent times and more than adequate reserves to deal with problem CRE credits. Net interest income before the provision for loan losses exceeded the prior year by 2.5%. We have taken an aggressive approach with our ALLL and we provided \$2 million for the allowance in 2009. The 2009 provision was 70% more than in 2008. As described below, the higher provision expense, certain write-downs on OREO, and a write-off of a joint-venture investment resulted in the operating loss for the year.

We anticipate some improvement in our non-performing assets in 2010. In the past few weeks, we have received loss recoveries, settlement agreements, and other contracts in excess of \$1.2 million. We also have indications of additional recoveries and resolutions involving several non-performing loans, which would further reduce our exposure and free existing reserves.

Non-performing assets are concentrated in our CRE loan portfolio. Our investment portfolio is considered “plain vanilla” and we experienced no securities write-downs in 2009.

Key Financial Statistics

We are announcing a net loss of \$224,000 for the fourth quarter of 2009, compared to net income of \$36,000 for the same period of 2008. For the year, the loss was \$609,000, compared to net income of \$741,000 in 2008. Community Bankers' Bank and CBB Financial Corp. (“CBBFC”) report on a consolidated basis.

The loan loss provision for the fourth quarter of 2009 was \$300,000, compared to \$580,000 in the same period in 2008. CBB recorded a total loan loss provision of \$2,000,000 in 2009, compared to \$1,175,000 in 2008.

CBB recorded a pre-tax valuation write-down of \$265,000 on a foreclosed commercial real estate property during the fourth quarter of 2009, while write-downs on foreclosed properties totaled \$638,000 for 2009. There were no foreclosed property write-downs in 2008.

Also during the fourth quarter of 2009, CBB recorded the pre-tax loss of its \$355,000 ownership interest in a securities broker-dealer that ceased operations in December 2009.

Total assets at December 31, 2009 were \$152.8 million, compared to \$199.1 million at December 31, 2008. Total stockholders' equity was \$12.7 million at December 31, 2009, compared to \$12.9 million at December 31, 2008.

The average total assets during the fourth quarter of 2009 were \$156.6 million compared to \$218.1 million for the fourth quarter of 2008. During 2009 we reduced CBB's short-term assets (mostly balances held at the Federal Reserve) and short-term liabilities (mostly principal fed funds purchased) to improve earnings and capital ratios. During 2010, we intend to maintain total assets at approximately current levels.

As demonstrated in the following table, CBB continues to be well capitalized:

	December 31, <u>2009</u>	December 31, <u>2008</u>
Tier 1 Leverage Ratio	8.86%	5.82%
Tier 1 Risk-Based Capital Ratio	13.58%	11.11%
Total Risk-Based Capital Ratio	14.85%	12.37%

Assets Under Management

(Dollars in Thousands)	December 31, <u>2009</u>	December 31, <u>2008</u>
Total assets	\$ 152,794	\$ 199,120
Participation loans sold to other banks	116,821	104,855
Fed funds agency pool balances	87,362	155,864
Excess Balance Account balances	341,381	--
Public Funds CDs	<u>58,480</u>	<u>160,000</u>
Total assets under management	756,838	619,839
Safekeeping assets	<u>700,450</u>	<u>471,914</u>
Total assets under management and safekeeping assets	<u>\$ 1,457,288</u>	<u>\$ 1,091,753</u>

New Accounts and Shareholders

The year 2009 was our most successful since the bank's early years for opening new accounts. Thirty-three new relationships were opened, and 25 new cash letter clients were established. Eight banks became new shareholders and two banks purchased additional stock through our Legacy Shareholder

Program, which now has 23 participants. As of year-end 2009, 37% of community banks in the Fifth Federal Reserve District have accounts with CBB, and 90% of the banks in Virginia do business with us.

Nearly one-half of all client banks and over 75% of our cash letter clients have designated CBB as their EBA agent bank. The Federal Reserve started this service in 2009 due to our efforts working through the Bankers' Bank Council and lobbying directly with the Board of Governors staff and Governor Duke. It was our aim to offer community banks a service that would end or at least mitigate the abusive tactics of the regional correspondent banks when dealing with community banks agency fed funds programs. Participating banks are now taking advantage of this much-improved rate paid on their excess liquidity.

Shareholder Dividends

Earnings to shareholders through discounts, credits, and fed funds bonuses equaled \$163,543 for 2009. Although service fee discounts were higher for shareholders, the total earnings were less because of the lower interest rate environment (which affects earnings credits) and the high liquidity position of our clients that significantly reduced the volume of fed funds advances. Based on the lack of positive earnings for the year, the board of directors voted to forgo a cash dividend in 2009.

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Account maintenance/access fee discounts	\$ 46,416	\$ 36,378	\$ 30,583	\$ 29,063
Domestic and foreign wire service fee discounts	28,088	30,159	20,152	17,756
Public Funds CD program fee discounts	1,000	3,539	2,102	3,450
Consulting services discounts	6,410	3,777	8,980	11,000
Stock par value earnings credits	5,771	31,141	63,523	61,435
Federal funds purchase rate bonuses	53,300	33,016	55,592	55,980
Federal funds sold rate discounts	2,270	81,057	38,616	10,800
Legacy shareholder earnings credits	4,250	--	--	--
Legacy shareholder fed funds bonus	16,038	--	--	--
Cash dividends paid	<u>--</u>	<u>103,625</u>	<u>72,500</u>	<u>65,844</u>
Total dividends to shareholders	<u>\$ 163,543</u>	<u>\$ 322,692</u>	<u>\$ 292,048</u>	<u>\$ 255,328</u>

Looking Forward

Our 2010 budgeted provisions for the ALLL are measurably less than what was expensed in 2009. This combined with continued recovery efforts and resolutions will result in more than adequate reserves and a more normal profit level.

We continue to be active in loan participations and expect to continue assisting banks with their larger and more complex credits. Loan volume is understandable off from previous years' levels but we remain available to help banks make loans to qualified borrowers.

We have recently selected a new partner for our bond accounting and safekeeping services that will result in a more robust ALM tool for our clients. The availability of fixed income product and consultation for portfolio management will be significantly expanded. An announcement of this will come in a few weeks.

A new CD investment product for banks will be introduced in the second quarter of this year. It will provide an additional investment option for clients and enhance our funding diversity.

We are experiencing the most difficult of times in our memories for community banks and our industry. The banking business has probably been forever changed. However, as long as there is a viable community bank environment, there will be a role for a dedicated, bank owned correspondent that considers itself successful when its shareholder clients are successful. As regional banks shut down their correspondent divisions, your bankers' bank will be there to help you take advantage of opportunities that will certainly come when the economy begins to recover.

Thank you for your continued loyalty and support. We look forward to working with you in 2010 and beyond.

Regards,



Bill McFaddin
President & CEO

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