

MVB FINANCIAL CORP
Form 10-Q
November 14, 2014
Table of Contents

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____ .

Commission File number 000-50567

MVB Financial Corp.

(Exact name of registrant as specified in its charter)

West Virginia 20-0034461
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

301 Virginia Avenue

Fairmont, West Virginia 26554-2777

(Address of principal executive offices)

304-363-4800

(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 has (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 (232.405 of this chapter) 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

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

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

As of November 13, 2014, the number of shares outstanding of the issuer's only class of common stock was 8,083,439.

Table of Contents

MVB Financial Corp.

Part Financial Information

I.

Item Financial Statements

1.

The unaudited interim consolidated financial statements of MVB Financial Corp. (“the Company” or “MVB”) and subsidiaries (“Subsidiaries”) including MVB Bank, Inc. (the “Bank” or “MVB Bank”) and its wholly-owned subsidiary Potomac Mortgage Group, Inc., which does business as MVB Mortgage (“MVB Mortgage”) and MVB Insurance, LLC (“MVB Insurance”) listed below are included on pages 3-31 of this report.

Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013

Consolidated Statements of Income for the Nine Months and Three Months ended September 30, 2014 and 2013

Consolidated Statements of Comprehensive Income for the Nine Months and Three Months ended September 30, 2014 and 2013

Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2014 and 2013

Notes to Consolidated Financial Statements

Item Management’s Discussion and Analysis of Financial Condition and Results of Operations

2.

Management’s Discussion and Analysis of Financial Condition and Results of Operations are included on pages 32-46 of this report.

Item Quantitative and Qualitative Disclosures About Market Risk.

3.

Item Controls and Procedures

4.

Part Other Information

II.

Item Legal Proceedings

1.

Item Risk Factors

1A.

Item Unregistered Sales of Equity Securities and Use of Proceeds.

2.

Defaults Upon Senior Securities

Item

3.

Item Mine Safety Disclosures

4.

Item Other Information

5.

Item Exhibits

6.

2

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

MVB Financial Corp. and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands except per share data)

	September 30, 2014 (Unaudited)	December 31, 2013 (Note 1)
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 15,240	\$ 28,907
Interest bearing balances	47,269	10,936
Total cash and cash equivalents	62,509	39,843
Certificates of deposits in other banks	9,427	9,427
Investment securities:		
Securities available-for-sale	71,392	106,411
Securities held-to-maturity (fair value of \$56,328 for 2014 and \$54,118 for 2013)	55,633	56,670
Loans held for sale	50,616	89,186
Loans:	762,926	622,305
Less: Allowance for loan losses	(6,364)	(4,935)
Net loans	756,562	617,370
Bank premises, furniture and equipment	24,006	16,919
Bank owned life insurance	21,515	16,062
Accrued interest receivable and other assets	17,375	17,393
Goodwill	17,779	17,779
Total assets	\$ 1,086,814	\$ 987,060
Liabilities		
Deposits		
Non-interest bearing	\$ 64,529	\$ 63,336
Interest bearing	781,792	632,475
Total deposits	846,321	695,811
Accrued interest, taxes and other liabilities	6,953	6,878
Repurchase agreements	33,894	81,578
FHLB and other borrowings	55,465	104,647
Subordinated debt	33,524	4,124
Total liabilities	976,157	893,038

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Stockholders' equity		
Preferred stock, par value \$1,000; 20,783 and 20,000 shares authorized and 9,283 and 8,500 shares issued in 2014 and 2013, respectively	16,334	8,500
Common stock, par value \$1, 10,000,000 shares authorized; 8,083,439 and 7,705,894 shares issued; and 8,032,362 and 7,654,817 shares outstanding in 2014 and 2013, respectively	8,083	7,706
Additional paid-in capital	74,209	68,518
Retained earnings	15,503	13,343
Accumulated other comprehensive loss	(2,388)	(2,961)
Treasury stock, 51,077 shares, at cost	(1,084)	(1,084)
Total stockholders' equity	110,657	94,022
Total liabilities and stockholders' equity	\$ 1,086,814	\$ 987,060

See accompanying notes to unaudited financial statements.

Table of Contents

MVB Financial Corp. and Subsidiaries

Consolidated Statements of Income

(Unaudited) (Dollars in thousands except per share data)

	Nine months ended September 30,		Three months ended September 30,	
	2014	2013	2014	2013
Interest income				
Interest and fees on loans	\$ 22,840	\$ 16,438	\$ 7,970	\$ 5,540
Interest on deposits with other banks	150	151	53	54
Interest on investment securities – taxable	1,022	917	253	363
Interest on tax exempt loans and securities	2,138	1,560	627	589
Total interest income	26,150	19,066	8,903	6,546
Interest expense				
Deposits	4,104	2,921	1,325	1,065
Repurchase agreements	262	402	29	131
FHLB and other borrowings	841	697	282	206
Subordinated debt	589	59	544	20
Total interest expense	5,796	4,079	2,180	1,422
Net interest income	20,354	14,987	6,723	5,124
Provision for loan losses	2,192	1,993	784	326
Net interest income after provision for loan losses	18,162	12,994	5,939	4,798
Noninterest income				
Service charges on deposit accounts	500	489	183	183
Income on bank owned life insurance	424	342	169	118
Visa debit card income	501	410	176	148
Gain on loans held for sale	14,048	17,718	5,272	5,360
Capitalized servicing retained income	156	749	(85)	93
Insurance income	2,553	781	846	570
Gain on sale of securities	396	82	271	-
Gain on sale of subsidiary	-	626	-	626
Gain (loss) on derivatives	548	423	(391)	(276)
Other operating income	1,181	1,621	485	812
Total noninterest income	20,307	23,241	6,926	7,634
Noninterest expense				
Salary and employee benefits	22,327	20,872	7,598	7,215
Occupancy expense	1,994	1,358	714	448
Equipment depreciation and maintenance	1,153	916	418	341
Data processing	1,199	730	434	279

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Mortgage processing	1,711	1,908	596	723
Visa debit card expense	417	345	140	132
Advertising	1,000	1,109	373	540
Legal and accounting fees	715	755	351	370
Printing, stationery and supplies	333	387	102	137
Consulting fees	587	421	197	196
FDIC insurance	542	364	203	90
Travel	443	391	121	179
Other operating expenses	2,828	2,414	978	932
Total noninterest expense	35,249	31,970	12,225	11,582
Income before income taxes	3,220	4,265	640	850
Income tax expense	556	836	103	93
Net income	\$ 2,664	\$ 3,429	\$ 537	\$ 757
Preferred dividends	187	64	144	21
Net income available to common shareholders	\$ 2,477	\$ 3,365	\$ 393	\$ 736
Earnings per share – basic	\$ 0.31	\$ 0.51	\$ 0.05	\$ 0.11
Earnings per share – diluted	\$ 0.31	\$ 0.50	\$ 0.05	\$ 0.10
Weighted average shares outstanding - basic	7,863,820	6,552,176	8,032,362	6,908,792
Weighted average shares outstanding - diluted	8,077,895	6,784,200	8,246,437	7,140,816

See accompanying notes to unaudited financial statements.

Table of Contents

MVB Financial Corp. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Unaudited)(Dollars in thousands)

	Nine months ended September 30,		Three months ended September 30,	
	2014	2013	2014	2013
Net Income	\$ 2,664	\$ 3,429	\$ 537	\$ 757
Other comprehensive income (loss):				
Unrealized holding gains (losses) during the year	1,855	(2,258)	209	(685)
Income tax effect	(742)	903	(83)	274
Reclassification adjustment for gain recognized in income	(396)	(82)	(271)	—
Income tax effect	159	33	108	—
Change in defined benefit pension plan	(505)	—	(190)	—
Income tax effect	202	—	76	—
Other comprehensive income (loss)	573	(1,404)	(151)	(411)
Comprehensive income	\$ 3,237	\$ 2,025	\$ 386	\$ 346

See accompanying notes to unaudited financial statements.

Table of Contents

MVB Financial Corp. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited) (Dollars in thousands)

	Nine months ended	
	September 30, 2014	September 30, 2013
Operating activities		
Net income	\$ 2,664	\$ 3,429
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization and accretion of investments	628	806
Net amortization of deferred loan cost	166	84
Provision for loan losses	2,192	1,993
Depreciation and amortization	898	661
Stock based compensation	222	126
Loans originated for sale	(596,844)	(777,016)
Proceeds of loans sold	649,462	833,608
Gain on sale of subsidiary	—	(626)
Gain on sale of loans held for resale	(14,048)	(17,718)
Gain on sale of investment securities	(396)	(82)
Income on bank owned life insurance	(424)	(342)
Deferred taxes	(1,016)	(41)
Other, net	(1,405)	(3,697)
Net cash provided by operating activities	42,099	41,185
Investing activities		
Purchases of investment securities available-for-sale	(24,268)	(47,807)
Purchases of investment securities held-to-maturity	(250)	(20,042)
Maturities/paydowns of investment securities held-to-maturity	1,000	-
Maturities/paydowns of investment securities available-for-sale	6,533	10,984
Sales of investment securities available-for-sale	54,268	3,637
Purchases of premises and equipment	(7,985)	(4,264)
Net increase in loans	(141,548)	(77,168)
Purchases of restricted bank stock	(8,080)	(6,496)
Redemptions of restricted bank stock	9,602	4,756
Proceeds from sale of other real estate owned	76	—
Purchase of bank owned life insurance	(5,000)	(5,078)
Net cash used in investing activities	(115,652)	(141,478)
Financing activities		
Net increase in deposits	150,510	133,491
Net (decrease) increase in repurchase agreements	(47,684)	15,913
Net change in short-term FHLB borrowings	(48,062)	(36,494)
Principal payments on FHLB borrowings	(1,120)	(2,877)
Proceeds from subordinated debt	29,400	—
Proceeds from stock offering	5,617	13,355

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Preferred stock issuance	7,834	—
Dividend reinvestment plan proceeds	180	310
Common stock options exercised	48	42
Cash dividends paid on common stock	(317)	(241)
Cash dividends paid on preferred stock	(187)	(64)
Net cash provided by financing activities	96,219	123,435
Increase in cash and cash equivalents	22,666	23,142
Cash and cash equivalents at beginning of period	39,843	25,340
Cash and cash equivalents at end of period	\$ 62,509	\$ 48,482
Supplemental disclosure of cash flow information		
Loans transferred to other real estate owned	\$ 346	\$ 472
Cash payments for:		
Interest on deposits, repurchase agreements and borrowings	\$ 6,444	3,691
Income taxes	\$ 1,600	776

See accompanying notes to unaudited financial statements.

Table of Contents

MVB Financial Corp. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 – Basis of Presentation

These consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with instructions to Form 10 Q. Accordingly, they do not include all the information and footnotes required by GAAP for annual year-end financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, have been included and are of a normal, recurring nature. The consolidated balance sheet as of December 31, 2013 has been derived from audited financial statements included in the Company’s 2013 filing on Form 10-K. Operating results for the nine and three months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

The accounting and reporting policies of MVB Financial Corp. (“the Company” or “MVB”) and its subsidiaries (“Subsidiaries”), including MVB Bank, Inc. (the “Bank”), the Bank’s subsidiary Potomac Mortgage Group, Inc., which does business as MVB Mortgage (“MVB Mortgage”) and MVB Insurance, LLC, conform to accounting principles generally accepted in the United States and practices in the banking industry. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates, such as the allowance for loan losses, are based upon known facts and circumstances. Estimates are revised by management in the period such facts and circumstances change. Actual results could differ from those estimates. All significant inter-company accounts and transactions have been eliminated in consolidation.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in MVB’s December 31, 2013, Form 10-K filed with the Securities and Exchange Commission.

In certain instances, amounts reported in prior periods’ consolidated financial statements have been reclassified to conform to the current presentation. Specifically, a portion of the prior periods’ interest income and interest expense was classified as gain on loans held for sale and has been reclassified in the current presentation. In addition, all share amounts have been revised to reflect the two for one stock split effected as a stock dividend as disclosed in Note 12.

Information is presented in these notes with dollars expressed in thousands, unless otherwise noted or specified.

Note 2 – Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of

7

Table of Contents

residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-04 is not expected to have a material impact on MVB Financials Corp's Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09 – Revenue from Contracts with Customers, which will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principal of this ASU is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This ASU will be effective for us in our first quarter of 2018. Early adoption is not permitted. The ASU allows for either full retrospective or modified retrospective adoption. We are evaluating the transition method that will be elected and the potential effects of the adoption of this ASU on our financial statements.

In June 2014, the FASB issued an update to the accounting standards related to stock compensation and accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The amendments clarify the proper method of accounting for share-based payments when the terms of an award provide that a performance target could as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized be achieved after the requisite service period. This update requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Management is currently evaluating the impact of adoption on the consolidated financial statements, but does not believe that adoption will have a material impact.

In August 2014, the FASB issued ASU No. 2014-14 – Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure, to address the diversity in practice regarding the classification and measurement of foreclosed loans which were part of a government-sponsored loan guarantee program (e.g. HUD, FHA, VA). The ASU outlines certain criteria that, if met, the loan (residential or commercial) should be derecognized and a separate other receivable should be recorded upon foreclosure at the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. This ASU will be effective for annual reporting periods beginning after December 15, 2014, including interim periods within that reporting period. Early adoption is permitted, provided the entity has adopted ASU 2014-04. The ASU should be adopted either prospectively or on a modified retrospective basis. Management is currently evaluating the impact of adoption on the consolidated financial statements, but does not believe that adoption will have a material

impact.

8

Table of Contents

In August 2014, the FASB issued ASU No. 2014-15 Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern, to reduce diversity in the timing and content of going concern disclosures. This ASU clarifies management’s responsibility to evaluate and provide related disclosures if there are any conditions or events, as a whole, that raise substantial doubt about the entity’s ability to continue as a going concern for one year after the date the financial statements are issued (or, if applicable, available to be issued). The amendments in this ASU are effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. Management is currently evaluating the impact of adoption on the consolidated financial statements, but does not believe that adoption will have a material impact.

Note 3 – Investments

Amortized cost and fair values of investment securities held-to-maturity at September 30, 2014, including gross unrealized gains and losses, are summarized as follows:

(in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Municipal securities	\$ 55,633	\$ 1,305	\$ (610)	\$ 56,328
Total investment securities held-to-maturity	\$ 55,633	\$ 1,305	\$ (610)	\$ 56,328

Amortized cost and fair values of investment securities held-to-maturity at December 31, 2013, including gross unrealized gains and losses, are summarized as follows:

(in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Municipal securities	\$ 56,670	\$ 367	\$ (2,919)	\$ 54,118
Total investment securities held-to-maturity	\$ 56,670	\$ 367	\$ (2,919)	\$ 54,118

Amortized cost and fair values of investment securities available-for-sale at September 30, 2014 are summarized as follows:

(in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U.S. Agency securities	\$ 44,809	\$ 27	\$ (790)	\$ 44,046
U.S. Sponsored Mortgage-backed securities	26,774	31	(489)	26,316
Total debt securities	71,583	58	(1,279)	70,362
Equity and other securities	810	220	—	1,030
Total investment securities available-for-sale	\$ 72,393	\$ 278	\$ (1,279)	\$ 71,392

Amortized cost and fair values of investment securities available-for-sale at December 31, 2013 are summarized as follows:

(in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U.S. Agency securities	\$ 60,744	\$ —	\$ (1,922)	\$ 58,822
U.S. Sponsored Mortgage-backed securities	47,317	118	(843)	46,592
Total debt securities	108,061	118	(2,765)	105,414
Equity and other securities	810	187	—	997
Total investment securities available-for-sale	\$ 108,871	\$ 305	\$ (2,765)	\$ 106,411

Table of Contents

The following tables summarize amortized cost and fair values of debt securities by maturity:

	September 30, 2014			
	Held to Maturity		Available for sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	\$ —	\$ —	\$ —	\$ —
After one year, but within five	2,422	2,475	27,064	26,863
After five years, but within ten	15,304	15,628	23,197	22,643
After ten years	37,907	38,225	21,322	20,856
Total	\$ 55,633	\$ 56,328	\$ 71,583	\$ 70,362

Investment securities with a carrying value of \$121,327 at September 30, 2014, were pledged to secure public funds, repurchase agreements and potential borrowings at the Federal Reserve discount window.

The Company's investment portfolio includes securities that are in an unrealized loss position as of September 30, 2014, the details of which are included in the following table. Although these securities, if sold at September 30, 2014 would result in a pretax loss of \$1,889, the Company has no intent to sell the applicable securities at such market values, and maintains the Company has the ability to hold these securities until all principal has been recovered. Declines in the market values of these securities can be traced to general market conditions which reflect the prospect for the economy as a whole. When determining other-than-temporary impairment on securities, the Company considers such factors as adverse conditions specifically related to a certain security or to specific conditions in an industry or geographic area, the time frame securities have been in an unrealized loss position, the Company's ability to hold the security for a period of time sufficient to allow for anticipated recovery in value, whether or not the security has been downgraded by a rating agency, and whether or not the financial condition of the security issuer has severely deteriorated. As of September 30, 2014, the Company considers all securities with unrealized loss positions to be temporarily impaired, and consequently, does not believe the Company will sustain any material realized losses as a result of the current temporary decline in market value.

The following table discloses investments in an unrealized loss position at September 30, 2014:

Description and number of positions (in thousands)	Less than 12 months		12 months or more	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Agency securities (11)	\$ 6,904	\$ (19)	\$ 28,374	\$ (771)

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

U.S. Sponsored Mortgage-backed securities (10)	3,809	(15)	16,089	(474)
Municipal securities (57)	3,352	(12)	20,323	(598)
	\$ 14,065	\$ (46)	\$ 64,786	\$ (1,843)

The following table discloses investments in an unrealized loss position at December 31, 2013:

Description and number of positions (in thousands)	Less than 12 months		12 months or more	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Agency securities (19)	\$ 58,822	\$ (1,922)	\$ —	\$ —
U.S. Sponsored Mortgage-backed securities (18)	14,969	(113)	19,781	(730)
Municipal securities (103)	35,502	(2,535)	4,471	(384)
	\$ 109,293	\$ (4,570)	\$ 24,252	\$ (1,114)

For the nine month period ended September 30, 2014 and 2013, the Company sold investments available-for-sale of \$54.3 million and \$3.7 million, respectively, resulting in net gains of \$396 and \$82.

Table of Contents

For the three month period ended September 30, 2014 and 2013, the Company sold investments available-for-sale of \$17.1 million and \$0, respectively, resulting in net gains of \$271 and \$0.

Note 4 – Loans and Allowance for Loan Losses

The following table summarizes the primary segments of the allowance for loan losses (“ALL”), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of September 30, 2014. Activity in the allowance is presented for the periods indicated (in thousands):

	Commercial	Residential	Home Equity	Installment	Credit Card	Total
ALL balance June 30, 2014	\$ 4,485	\$ 685	\$ 825	\$ 232	\$ 14	\$ 6,241
Charge-offs	(634)	(30)	—	—	(1)	(665)
Recoveries	2	—	2	—	—	4
Provision	634	224	(38)	(49)	13	784
ALL balance September 30, 2014	\$ 4,487	\$ 879	\$ 789	\$ 183	\$ 26	\$ 6,364

	Commercial	Residential	Home Equity	Installment	Credit Card	Total
ALL balance December 31, 2013	\$ 3,609	\$ 519	\$ 554	\$ 239	\$ 14	\$ 4,935
Charge-offs	(632)	(133)	—	(9)	(2)	(776)
Recoveries	7	—	3	3	—	13
Provision	1,503	493	232	(50)	14	2,192
ALL balance September 30, 2014	\$ 4,487	\$ 879	\$ 789	\$ 183	\$ 26	\$ 6,364
Individually evaluated for impairment	\$ 893	\$ 278	\$ 29	\$ 10	\$ -	\$ 1,210
Collectively evaluated for impairment	\$ 3,594	\$ 601	\$ 760	\$ 173	\$ 26	\$ 5,154

Home

Credit

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

	Commercial	Residential	Equity	Installment	Card	Total
ALL balance June 30, 2013	\$ 3,740	\$ 490	\$ 351	\$ 231	\$ 16	\$ 4,828
Charge-offs	(485)	(36)	—	—	—	(521)
Recoveries	30	24	1	—	—	55
Provision	135	57	96	38	—	326
ALL balance September 30, 2013	\$ 3,420	\$ 535	\$ 448	\$ 269	\$ 16	\$ 4,688

	Commercial	Residential	Home Equity	Installment	Credit Card	Total
ALL balance December 31, 2012	\$ 3,107	\$ 514	\$ 242	\$ 200	\$ 13	\$ 4,076
Charge-offs	(1,457)	(38)	—	—	(11)	(1,506)
Recoveries	55	60	9	1	—	125
Provision	1,715	(1)	197	68	14	1,993
ALL balance September 30, 2013	\$ 3,420	\$ 535	\$ 448	\$ 269	\$ 16	\$ 4,688
Individually evaluated for impairment	\$ 871	\$ 180	\$ -	\$ 11	\$ -	\$ 1,061
Collectively evaluated for impairment	\$ 2,549	\$ 355	\$ 448	\$ 258	\$ 16	\$ 3,627

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date.

Table of Contents

All loan origination fees and direct loan origination costs are deferred and recognized over the life of the loan. As of September 30, 2014 and 2013, net deferred fees and costs of \$1,402 and \$1,315, respectively, were included in the carryings value of loans.

During December 2013 the Bank purchased \$74.3 million in performing commercial real estate secured loans in the northern Virginia area. At the time of acquisition, none of these loans were considered impaired. They were acquired at a premium of roughly 1.024 or \$1.8 million, which is being amortized in accordance with ASC 310-20. These loans are collectively evaluated for impairment under ASC 450. Loans are monitored individually for payoff activity, and any necessary adjustments to the premium will be made accordingly.

The following table summarizes the primary segments of the Company loan portfolio as of September 30, 2014:

(in thousands)	Commercial	Residential	Home Equity	Installment	Credit Card	Total
Individually evaluated for impairment	\$ 5,764	\$ 837	\$ 29	\$ 16	\$ —	\$ 6,646
Collectively evaluated for impairment	543,327	151,331	43,576	17,318	728	756,280
Total Loans	\$ 549,091	\$ 152,168	\$ 43,605	\$ 17,334	\$ 728	\$ 762,926

The following table summarizes the primary segments of the Company loan portfolio as of September 30, 2013:

(in thousands)	Commercial	Residential	Home Equity	Installment	Credit Card	Total
Individually evaluated for impairment	\$ 3,539	\$ 264	\$ —	\$ 20	\$ —	\$ 3,823
Collectively evaluated for impairment	349,085	124,556	25,489	18,584	609	518,323
Total Loans	\$ 352,624	\$ 124,820	\$ 25,489	\$ 18,604	\$ 609	\$ 522,146

Table of Contents

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of September 30, 2014 and December 31, 2013 (in thousands):

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans Unpaid	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Principal Balance
September 30, 2014					
Commercial					
Commercial Real Estate	\$ 1,537	\$ 315	\$ 123	\$ 1,660	\$ 1,660
Acquisition & Development	1,972	578	2,132	4,104	4,704
Total Commercial	3,509	893	2,255	5,764	6,364
Residential	837	278	—	837	839
Home Equity	29	29	—	29	29
Consumer	15	10	1	16	17
Total impaired loans	\$ 4,390	\$ 1,210	\$ 2,256	\$ 6,646	\$ 7,249
December 31, 2013					
Commercial					
Commercial Real Estate	\$ 1,801	\$ 407	\$ 120	\$ 1,921	\$ 2,199
Acquisition & Development	4,333	836	—	4,333	4,055
Total Commercial	6,134	1,243	120	6,254	6,254
Residential	261	175	—	261	261
Home Equity	28	28	—	28	28
Consumer	25	12	68	93	93
Total impaired loans	\$ 6,448	\$ 1,458	\$ 188	\$ 6,636	\$ 6,636

The following tables present the average recorded investment in impaired loans and related interest income recognized for the periods indicated (in thousands):

Nine months ended September 30, 2014			Three months ended September 30, 2014		
Average Investment	Interest Income Recognized	Interest Income Recognized on	Average Investment	Interest Income Recognized	Interest Income Recognized

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

	in Impaired Loans	on Accrual Basis	Cash Basis	in Impaired Loans	on Accrual Basis	on Cash Basis
Commercial						
Commercial Real Estate	1,854	94	50	1,740	31	8
Acquisition & Development	4,635	119	92	4,583	2	4
Total Commercial	6,489	213	142	6,323	33	12
Residential	779	15	14	868	5	5
Home Equity	28	1	—	28	—	—
Consumer	25	1	1	16	—	-
Total	\$ 7,321	\$ 230	\$ 157	\$ 7,235	\$ 38	\$ 17

Table of Contents

	Nine months ended September 30, 2013			Three months ended September 30, 2013		
	Average Investment in Impaired Loans	Interest Income Recognized on Accrual Basis	Interest Income Recognized on Cash Basis	Average Investment in Impaired Loans	Interest Income Recognized on Accrual Basis	Interest Income Recognized on Cash Basis
Commercial						
Commercial Real Estate Acquisition & Development	\$ 1,864	\$ 29	\$ 23	\$ 1,956	\$ 16	\$ 10
Total Commercial	2,307	56	33	1,991	19	20
Residential	4,171	85	56	3,947	35	30
Consumer	374	5	6	237	2	2
Total	20	1	1	19	—	—
	\$ 4,565	\$ 91	\$ 63	\$ 4,203	\$ 37	\$ 32

Bank management uses a nine point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized, and are aggregated as "Pass" rated. The criticized rating categories utilized by Bank management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. The portion of any loan that represents a specific allocation of the allowance for loan losses is placed in the Doubtful category. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank's Chief Credit Officer is responsible for the timely and accurate risk rating of the loans in the portfolio at origination and on an ongoing basis. The Bank's Credit Department performs an annual review of all commercial relationships \$1,000 or greater. Confirmation of the appropriate risk grade is included in the review on an ongoing basis. The Bank has an experienced Credit Department that continually reviews and assesses loans within the portfolio. The Bank engages an external consultant to conduct loan reviews on at least an annual basis. Generally, the external consultant reviews larger commercial relationships or criticized relationships. The Bank's Credit Department compiles detailed reviews, including plans for resolution, on loans classified as Substandard on a quarterly basis. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

Table of Contents

The following table represents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system as of September 30, 2014 and December 31, 2013 (in thousands):

September 30, 2014	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Commercial Business	\$ 229,837	\$ 5,092	\$ 35	\$ —	\$ 234,964
Commercial Real Estate	258,740	2,866	2,541	—	264,147
Acquisition & Development	43,188	2,688	4,104	—	49,980
Total Commercial	531,765	10,646	6,680	—	549,091
Residential	148,957	2,373	838	—	152,168
Home Equity	43,351	225	29	—	43,605
Consumer	17,456	589	17	—	18,062
Total Loans	\$ 741,529	\$ 13,833	\$ 7,564	\$ —	\$ 762,926

December 31, 2013	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Commercial Business	\$ 196,608	\$ 5,830	\$ 26	\$ —	\$ 202,464
Commercial Real Estate	231,083	2,816	3,306	—	237,205
Acquisition & Development	9,783	2,920	5,016	—	17,719
Total Commercial	437,474	11,566	8,348	—	457,388
Residential	115,283	2,660	261	—	118,204
Home Equity	27,662	107	28	—	27,797
Consumer	18,188	635	93	—	18,916
Total Loans	\$ 598,607	\$ 14,968	\$ 8,730	\$ —	\$ 622,305

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due.

A loan that has deteriorated and is in a collection process could warrant non-accrual status. A thorough review is to be presented to the Chief Credit Officer and or the Mortgage Loan Committee ("MLC"), as required with respect to any loan which is in a collection process and to make a determination as to whether the loan should be placed on non-accrual status. The placement of loans on non-accrual status will be subject to applicable regulatory restrictions and guidelines. Generally, loans should be placed in non-accrual status when the loan approaches 90 days past due, when it becomes likely the borrower cannot or will not make scheduled principal or interest payments, when full

repayment of principal and interest is not expected, or when the loan displays potential loss characteristics. Normally, all accrued interest should be charged off when a loan is placed in non-accrual status. Any payments subsequently received should be applied to principal. To remove a loan from non-accrual status, all principal and interest due must be paid up to date and the bank is reasonably sure of future satisfactory payment performance. Usually, this requires a six-month recent history of payments due. Removal of a loan from non-accrual status will require the approval of the Chief Credit Officer and or MLC.

Table of Contents

The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of September 30, 2014 and December 31, 2013 (in thousands):

September 30, 2014	Current	30-59 Day	60-89 Days	90 Days +	Total	Total Loans	Non-	90+ Days
		Past Due	Past Due	Past Due	Past Due		Accrual	Still Accruing
Commercial Business	\$ 230,836	\$ 33	\$ 4,077	\$ 18	\$ 4,128	\$ 234,964	\$ —	\$ 18
Commercial Real Estate	253,515	403	9,999	230	10,632	264,147	123	107
Acquisition & Development	46,150	—	—	3,830	3,830	49,980	2,507	1,323
Total	530,501	436	14,076	4,078	18,590	549,091	2,630	1,448
Commercial Residential	150,750	165	814	439	1,418	152,168	235	397
Home Equity	43,577	28	—	—	28	43,605	—	—
Consumer	17,988	42	23	9	74	18,062	9	—
Total	\$ 742,816	\$ 671	\$ 14,913	\$ 4,526	\$ 20,110	\$ 762,926	\$ 2,874	\$ 1,845

December 31, 2013	Current	30-59 Days	60-89 Days	90 Days +	Total	Total Loans	Non-	90+ Days
		Past Due	Past Due	Past Due	Past Due		Accrual	Still Accruing
Commercial Business	\$ 202,275	\$ 139	\$ 24	\$ 26	\$ 189	\$ 202,464	\$ 26	\$ —
Commercial Real Estate	236,870	77	—	258	335	237,205	258	—
Acquisition & Development	17,719	—	—	—	—	17,719	—	—
Total	456,864	216	24	284	524	457,388	284	—
Commercial Residential	116,150	1,401	193	460	2,054	118,204	30	430
Home Equity	27,741	28	—	28	56	27,797	—	28
Consumer	18,747	92	—	77	169	18,916	76	1
Total	\$ 619,502	\$ 1,737	\$ 217	\$ 849	\$ 2,803	\$ 622,305	\$ 390	\$ 459

The ALL is maintained to absorb losses from the loan portfolio. The ALL is based on the Bank management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current

economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

The Bank's methodology for determining the ALL is based on the requirements of ASC Section 310-10-35 for loans individually evaluated for impairment (discussed above) and ASC Subtopic 450-20 for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the two components represents the Bank's ALL.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualified factors.

The segments described above, which are based on the Federal call code assigned to each loan, provide the starting point for the ALL analysis. Company and Bank management track the historical net charge-off activity at the call code level. A historical charge-off factor is calculated utilizing a defined number of consecutive historical quarters. All pools currently utilize a rolling 12 quarters.

"Pass" rated credits are segregated from "Criticized" credits for the application of qualitative factors. Loans in the criticized pools, which possess certain qualities or characteristics that may lead to collection and loss issues, are closely monitored by management and subject to additional qualitative factors.

Company and Bank management have identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: national and local economic trends and conditions; levels of and trends in delinquency rates and

Table of Contents

non-accrual loans; trends in volume and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry and/or geographic standpoint. The combination of historical charge-off and qualitative factors are then weighted for each risk grade. These weightings are determined internally based upon the likelihood of loss as a loan risk grading deteriorates.

Bank management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

Troubled Debt Restructurings

The restructuring of a loan is considered a troubled debt restructuring (“TDR”) if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. Troubled debt restructurings during 2014 and 2013 are set forth in the following table. No TDR’s have defaulted. At September 30, 2014 and December 31, 2013, the Bank had specific reserve allocations for TDR’s of \$1.9 million and \$1.4 million, respectively.

The following tables present details related to loans identified as TDR’s for the nine and three months ended September 30, 2014 and 2013 (in thousands):

	New TDRs (1) For the nine months ended September 30, 2014		For the three months ended September 30, 2014			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial						
Commercial Real						
Estate	1	\$ 496	\$ 375	—	—	—
Total Commercial	1	\$ 496	\$ 375	—	—	—
Residential real						
estate	1	389	385	—	—	—
Total	2	\$ 885	\$ 760	—	\$ —	\$ —

- (1) The pre-modification and post-modification balances represent the balances outstanding immediately before and after modification of the loan.

	New TDRs (1) For the Nine months ended September 30, 2013		For the Three months ended September 30, 2013			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial						
Commercial Real Estate	3	\$ 471	\$ 369	—	\$ -	\$ —
Acquisition and development	2	1,623	1,616	1	280	279
Total Commercial	5	2,094	1,985	1	280	279
Consumer	3	9	7	—	—	—
Total	8	\$ 2,103	\$ 1,992	1	\$ 280	\$ 279

- (1) The pre-modification and post-modification balances represent the balances outstanding immediately before and after modification of the loan.

Table of Contents

NOTE 5 - BORROWED FUNDS

Short-term Borrowings and Repurchase Agreements

Along with traditional deposits, the Bank has access to both overnight repurchase agreements and short-term borrowings from FHLB to fund its operations and investments. As of September 30, 2014 and December 31, 2013, the Bank had repurchase agreements of \$33.9 million and \$81.6 million, respectively. Short-term borrowings from FHLB totaled \$50.0 million at September 30, 2014, compared to \$98.0 million at December 31, 2013.

Information related to short-term borrowings and repurchase agreements is summarized below:

(Dollars in thousands)	September 30, 2014		December 31, 2013	
Balance at end of period	\$ 83,860		\$ 179,606	
Average balance during the three and twelve months ended	112,357		135,852	
Maximum month-end balance during the three and twelve months ended	136,934		179,606	
Weighted-average rate during the three and twelve months ended	0.27	%	0.52	%
Rate at end of period	0.38	%	0.43	%

Average balances in the table above were calculated using daily averages for the related accounts.

Term notes from the FHLB were as follows: (Dollars in thousands)	September 30, 2014		December 31, 2013
Fixed interest rate notes, originating between April 1999 and December 2007, due between April 2014 and April 2022, interest of between 4.50% and 5.90% payable monthly	\$ 4,654		\$ 5,759
Amortizing fixed interest rate note, originating February 2007, due February 2022, payable in monthly installments of \$5, including interest of 5.22%	845		860
	\$ 5,499		\$ 6,619

Subordinated Debt

In March 2007, the Company completed the private placement of \$4 million Floating Rate, Trust Preferred Securities through its MVB Financial Statutory Trust I subsidiary (the "Trust"). The Company established the trust for the sole purpose of issuing the Trust Preferred Securities pursuant to an Amended and Restated Declaration of Trust. The proceeds from the sale of the Trust Preferred Securities were loaned to the Company under subordinated Debentures (the "Debentures") issued to the Trust pursuant to an Indenture. The Debentures are the only asset of the Trust. The Trust Preferred Securities have been issued to a pooling vehicle that will use the distributions on the Trust Preferred Securities to securitize note obligations. The obligations of the Company with respect to the issuance of the trust preferred securities constitute a full and unconditional guarantee by the Company of the Trust's obligations with respect to the trust preferred securities to the extent set forth in the related guarantees. The securities issued by the Trust are includable for regulatory purposes as a component of the Company's Tier I capital.

The Trust Preferred Securities and the Debentures mature in 2037 and have been redeemable by the Company since 2012. Interest payments are due in March, June, September and December and are adjusted at the interest due dates at a rate of 1.62% over the three month LIBOR Rate.

Table of Contents

On June 30, 2014, MVB Financial Corp. (the “Company”) issued its Convertible Subordinated Promissory Notes Due 2024 (the “Notes”) to various investors in the aggregate principal amount of \$29,400,000. The Notes were issued in \$100,000 increments per Note subject to a minimum investment of \$1,000,000. The Notes expire 10 years after the initial issuance date of the Notes (the “Maturity Date”).

Interest on the Notes accrues on the unpaid principal amount of each Note (paid quarterly in arrears on January 1, April 1, July 1 and October 1 of each year) which rate shall be dependent upon the principal invested in the Notes and the holder’s ownership of common stock in the Company. For investments of less than \$3,000,000 in Notes, an ownership of Company common stock representing at least 30% of the principal of the Notes acquired, the interest rate on the Notes is 7% per annum. For investments of \$3,000,000 or greater in Notes and ownership of the Company’s common stock representing at least 30% of the principal of the Notes acquired, the interest rate on the Notes is 7.5% per annum. For investments of \$10,000,000 or greater, the interest rate on the Notes is 7% per annum, regardless of whether the holder owns or acquires MVB common stock. The principal on the Notes shall be paid in full at the Maturity Date. On the fifth anniversary of the issuance of the Notes, a holder may elect to continue to receive the stated fixed rate on the Notes or a floating rate determined by LIBOR plus 5% up to a maximum rate of 9%, adjusted quarterly.

The Notes are unsecured and subject to the terms and conditions of any senior debt and after consultation with the Board of Governors of the Federal Reserve System, the Company may, after the Notes have been outstanding for five years, and without premium or penalty, prepay all or a portion of the unpaid principal amount of any Note together with the unpaid interest accrued on such portion of the principal amount of such Note. All such prepayments shall be made pro rata among the holders of all outstanding Notes.

At the election of a holder, any or all of the Notes may be converted into shares of common stock during the 30-day period after the first, second, third, fourth, and fifth anniversaries of the issuance of the Notes or upon a notice to prepay by the Company. The Notes will convert into common stock based on \$32 per share of the Company’s common stock. The conversion price will be subject to anti-dilution adjustments for certain events such as stock splits, reclassifications, non-cash distributions, extraordinary cash dividends, pro rata repurchases of common stock, and business combination transactions. The Company must give 20 days’ notice to the holders of the Company’s intent to prepay the Notes, so that holders may execute the conversion right set forth above if a holder so desires.

Repayment of the Notes is subordinated to the Company’s outstanding senior debt including (if any) without limitation, senior secured loans. No payment will be made by the Company, directly or indirectly, on the Notes, unless and until all of the senior debt then due has been paid in full. Notwithstanding the foregoing, so long as there exists no event of default under any senior debt, the Company would make, and a holder would receive and retain for the holder’s account, regularly scheduled payments of accrued interest and principal pursuant to the terms of the Notes.

The Company must obtain a consent of the holders of the Notes prior to issuing any new senior debt in excess of \$15,000,000 after the date of issuance of the Notes and prior to the Maturity Date.

An event of default will occur upon the Company's bankruptcy or any failure to pay interest, principal, or other amounts owing on the Notes when due. Upon the occurrence and during the continuance of an event of default (but subject to the subordination provisions of the Notes) the holders of a majority of the outstanding principal amount of the Notes may declare all or any portion of the outstanding principal amount of the Notes due and payable and demand immediate payment of such amount.

Table of Contents

The Notes are redeemable, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed on any interest payment date after a date five years from the original issue date.

The Company reflects subordinated debt in the amount of \$33.5 million and \$4.1 million as of September 30, 2014 and December 31, 2013 and interest expense of \$589 and \$59 for the nine months ended September 30, 2014 and 2013.

A summary of maturities of borrowings and subordinated debt over the next five years is as follows:

(dollars in thousands)

Year	Amount
2014	\$ 50,007
2015	169
2016	1,246
2017	1,470
2018	81
Thereafter	36,016
	\$ 88,989

Note 6 – Fair Value of Financial Instruments

The following summarizes the methods and significant assumptions used by the Company in estimating its fair value disclosures for financial instruments.

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

As required by accounting standards, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company classified investments in government securities as Level 2 instruments and valued them using the market approach. All measurements are made on a recurring basis, with the exception of derivative on loans held for sale, other real estate and impaired loans, which are measured on a non-recurring basis.

Table of Contents

The following tables present the assets reported on the consolidated statements of financial condition at their fair value on a recurring basis as of September 30, 2014 and December 31, 2013 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

(in thousands)	September 30, 2014			Total
	Level I	Level II	Level III	
Assets:				
U.S. Government Agency Securities	\$ —	\$ 44,046	\$ —	\$ 44,046
U.S. Sponsored Mortgage backed securities	—	26,316	—	26,316
Municipal securities	—	—	—	—
Equity and Other Securities	220	810		1,030

(in thousands)	December 31, 2013			Total
	Level I	Level II	Level III	
Assets:				
U.S. Government Agency Securities	\$ —	\$ 58,822	\$ —	\$ 58,822
U.S. Sponsored Mortgage backed securities	—	46,592	—	46,592
Equity and Other Securities	187	810	—	997

The Company may be required, from time to time, to measure certain financial assets, financial liabilities, non-financial assets and non-financial liabilities 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 value that were recognized at fair value below cost at the end of the period. Certain non-financial assets measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment. Non-financial assets measured at fair value on a non-recurring basis during 2014 and 2013 include certain foreclosed assets which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for possible loan losses and certain foreclosed assets which, subsequent to their initial recognition, were remeasured at fair value through a write-down included in other non-interest expense.

- Loans held for sale – Loans held for sale are carried at the lower of cost or market value. These loans currently consist of one-to-four-family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level II).

- Derivative on loans held for sale - Derivatives on loans held for sale are used to mitigate interest rate risk for residential mortgage loans held for sale and interest rate locks. These instruments are considered derivatives and are recorded at fair value, based on (i) committed sales prices from investors for commitments to sell mortgage loans or (ii) observable market data inputs for commitments to sell mortgage backed securities. The Company's mortgage banking hedge instruments are classified as Level II. For mortgage interest rate locks, the fair value is based on either (i) the price of the underlying loans obtained from an investor for loans that will be delivered on a best efforts basis or (ii) the observable price for individual loans traded in the secondary market for loans that will be delivered on a mandatory basis. All of the Company's mortgage interest rate locks are classified as Level III.

Table of Contents

- Impaired Loans - Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using one of several methods, including collateral 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. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. For a majority of impaired real estate related loans, the Company obtains a current external appraisal. Other valuation techniques are used as well, including internal valuations, comparable property analysis and contractual sales information.
- Other Real Estate owned – Other real estate owned, which is obtained through the Bank’s foreclosure process is valued utilizing the appraised collateral value. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At the time, the foreclosure is completed, the Company obtains a current external appraisal.

Assets measured at fair value on a nonrecurring basis as of September 30, 2014 and December 31, 2013 are included in the table below:

(in thousands)	September 30, 2014			Total
	Level I	Level II	Level III	
Assets:				
Derivative on loans held for sale	\$ —	\$ 1,014	\$ 1,805	\$ 2,819
Impaired loans	—	—	5,436	5,436
Other real estate owned	—	—	702	702

(in thousands)	December 31, 2013			Total
	Level I	Level II	Level III	
Assets:				
Derivative on loans held for sale	\$ —	\$ —	\$ 2,271	\$ 2,271
Impaired loans	—	—	5,178	5,178
Other real estate owned	—	—	375	375

The following tables present quantitative information about the Level 3 significant unobservable inputs for assets and liabilities measured at fair value on a nonrecurring basis at September 30, 2014 and December 31, 2013.

Quantitative Information about Level 3 Fair Value Measurements

(Dollars in thousands) September 30, 2014:	Valuation		Unobservable	Range
	Fair Value	Technique	Input	
Impaired loans	\$ 5,436	Appraisal of collateral (1)	Appraisal adjustments(2)	20% - 30%
			Liquidation expense (2)	5% - 10%
Other real estate owned	\$ 702	Appraisal of collateral (1)	Appraisal adjustments (2)	20% - 30%
			Liquidation expense (2)	5% - 10%
Derivative on loans held for sale	\$ 2,819	Market or Committed Sale Price	Expected Funding Percentage	77%

Table of Contents

Quantitative Information about Level 3 Fair Value Measurements

(Dollars in thousands) December 31, 2013:	Valuation		Unobservable	Range
	Fair Value	Technique	Input	
Impaired loans	\$ 5,178	Appraisal of collateral (1)	Appraisal adjustments (2) Liquidation expense (2)	20% - 30% 5% - 0%
Other real estate owned	\$ 375	Appraisal of collateral (1)	Appraisal adjustments (2) Liquidation expense (2)	20% - 30% 5% - 10%
Derivative on loans held for sale	\$ 2,271	Market or Committed Sale Price	Expected Funding Percentage	80%

-
- (1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not observable.
- (2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

The following summarizes the methods and significant assumptions used by the Company in estimating its fair value disclosures for financial instruments.

Cash and cash equivalents: The carrying amounts for cash and cash equivalents approximate fair value because they have original maturities of 90 days or less and do not present unanticipated credit concerns.

Certificates of deposits: The fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms of borrowers of similar credit quality. No prepayments of principal are assumed.

Securities: Fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Loans: The fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms of borrowers of similar credit quality. No prepayments of principal are assumed.

Loans held for sale: Loans held for sale are carried at the lower of cost or market value. These loans currently consist of one-to-four-family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level II).

Derivative on loans held for sale: Derivatives on loans held for sale are used to mitigate interest rate risk for residential mortgage loans held for sale and interest rate locks and manage expected funding percentages. These instruments are considered derivatives and are recorded at fair value, based on (i) committed sales prices from investors for commitments to sell mortgage loans or (ii) observable market data inputs for commitments to sell mortgage backed securities. The Company's mortgage banking hedge instruments are classified as Level II. For mortgage interest rate locks, the fair value is based on either (i) the price of the underlying loans obtained from an investor for loans that will be delivered on a best efforts basis or (ii) the observable price for individual loans traded in the secondary market for loans that will be delivered on a mandatory basis. All of the Company's mortgage interest rate locks are classified as Level III.

Table of Contents

Accrued interest receivable and payable and repurchase agreements: The carrying values of accrued interest receivable and payable approximate their fair values.

Deposits: The fair values of demand deposits (i.e., non-interest bearing checking, NOW and money market), savings accounts and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

FHLB and other borrowings: The fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms of borrowers of similar credit quality. No prepayments of principal are assumed.

Subordinated debt: The fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms of borrowers of similar credit quality. No prepayments of principal are assumed.

Off-balance sheet instruments: The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of agreements and the present credit standing of the counterparties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown.

Table of Contents

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

Fair Value Measurements at:

	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2014					
Financial assets:					
Cash and cash equivalents	\$ 62,509	\$ 62,509	\$ 62,509	\$ —	\$ —
Certificates of deposits with other banks	9,427	9,523	—	9,523	—
Securities available-for-sale	71,392	71,392	220	71,172	—
Securities held-to-maturity	55,633	56,328	—	56,328	—
Loans held for sale	50,616	50,616	—	50,616	—
Loans, net	756,562	764,194	—	—	764,194
Derivative on loans held for sale	2,819	2,819	—	1,014	1,805
Accrued interest receivable	2,808	2,808	—	2,808	—
Financial liabilities:					
Deposits	\$ 846,321	\$ 847,690	—	\$ 847,690	\$ —
Repurchase agreements	33,894	33,894	—	33,894	—
FHLB and other borrowings	55,465	55,490	—	55,490	—
Accrued interest payable	348	348	—	348	—
Subordinated debt	33,524	31,172	—	31,172	—
December 31, 2013					
Financial assets:					
Cash and cash equivalents	\$ 39,843	\$ 39,843	\$ 39,843	\$ —	\$ —
Certificates of deposits with other banks	9,427	9,616	—	9,616	—
Securities available-for-sale	106,411	106,411	187	106,224	—
Securities held-to-maturity	56,670	54,118	—	54,118	—
Loans held for sale	89,186	89,186	—	89,186	—
Loans, net	617,370	620,295	—	—	620,295
Derivative on loans held for sale	2,271	2,271	—	—	2,271
Accrued interest receivable	2,764	2,764	—	2,764	—

Financial liabilities:

Deposits	\$ 695,811	\$ 697,301	\$ —	\$ 697,301	\$ —
Repurchase agreements	81,578	81,578	—	81,578	—
FHLB and other borrowings	104,647	104,742	—	104,742	—
Accrued interest payable	327	327	—	327	—
Subordinated debt	4,124	4,124	—	4,124	—

Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing

Table of Contents

on-and-off balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

Note 7 – Stock Offerings

On June 30, 2014, the Company filed Certificates of Designations for its Convertible Noncumulative Perpetual Preferred Stock, Series B (“Class B Preferred”) and its Convertible Noncumulative Perpetual Preferred Stock, Series C (“Class C Preferred”). The Class B Preferred Certificate designated 400 shares of preferred stock as Class B Preferred shares. The Class B Preferred shares carry an annual dividend rate of 6% and are convertible into shares of Company common stock within thirty days after the first, second, third, fourth and fifth anniversaries of the original issue date, based on a common stock price of \$16 per share, as adjusted for future corporate activities. The Class B Preferred shares are redeemable by the Company on or after the fifth anniversary of the original issue date for Liquidation Amount, as defined therein, plus declared and unpaid dividends. Redemption is subject to any necessary regulatory approvals. In the event of liquidation of the Company, shares of Class B Preferred stock shall be junior to creditors of the Company and to the shares of Senior Noncumulative Perpetual Preferred Stock, Series A. Holders of Class B Preferred shares shall have no voting rights, except for authorization of senior shares of stock, amendment to the Class B Preferred shares, share exchanges, reclassifications or changes of control, or as required by law.

The Class C Preferred Certificate designated 383.4 shares of preferred stock as Class C Preferred shares. The Class C Preferred shares carry an annual dividend rate of 6.5% and are convertible into shares of Company common stock within thirty days after the first, second, third, fourth and fifth anniversaries of the original issue date, based on a common stock price of \$16 per share, as adjusted for future corporate activities. The Class C Preferred shares are redeemable by the Company on or after the fifth anniversary of the original issue date for Liquidation Amount, as defined therein, plus declared and unpaid dividends. Redemption is subject to any necessary regulatory approvals. In the event of liquidation of the Company, shares of Class C Preferred stock shall be junior to creditors of the Company and to the shares of Senior Noncumulative Perpetual Preferred Stock, Series A and the Class B Preferred shares. Holders of Class C Preferred shares shall have no voting rights, except for authorization of senior shares of stock, amendment to the Class C Preferred shares, share exchanges, reclassifications or changes of control, or as required by law.

The proceeds of these preferred stock offerings will be used to support continued growth of the Company and its Subsidiaries.

During 2013, the Company commenced a private offering under Rule 506 of Regulation D of its common stock to accredited investors. As of December 31, 2013, the Company had received subscriptions for 610,194 common stock shares totaling \$9.8 million in additional capital. During the nine month period ended September 30, 2014, the Company received additional subscriptions for 361,865 common stock shares totaling \$5.8 million in additional capital at September 30, 2014. The proceeds of this offering are also being used to support continued growth of the Company and its Subsidiaries.

During the first quarter of 2013, the Company completed a private offering to accredited investors which resulted in the issuance of 2,265,054 shares totaling \$27.1 million in additional capital. The proceeds of this offering were used to support the acquisition of Potomac Mortgage Group, Inc. (which now does business as MVB Mortgage) as well as the continued growth of the Company.

Table of Contents

On September 8, 2011 MVB received \$8.5 million in Small Business Lending Fund (SBLF) capital. MVB issued 8,500 shares of \$1,000 per share preferred stock with dividends payable in arrears on January 1, April 1, July 1 and October 1 each year. At December 31, 2013 and 2012, MVB's loan production qualified for the lowest dividend rate possible of 1%. MVB may continue to utilize the SBLF capital through March 8, 2016 at the 1% dividend rate. After that time, if the SBLF is not retired, the dividend rate increases to 9%.

Note 8 – Net Income Per Common Share

The Company determines basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by dividing net income by the weighted average number of shares outstanding increased by the number of shares that would be issued assuming the exercise of stock options. At September 30, 2014 and 2013, stock options to purchase 518,670 and 398,612 shares at an average price of \$9.22 and \$8.05, respectively, were outstanding. For the nine months ended September 30, 2014 and 2013, the dilutive effect of stock options was 214,075 and 232,024 shares, respectively.

Note 9 – Segment Reporting

During the fourth quarter of 2013, the Company identified three reportable segments: commercial and retail banking; mortgage banking; and insurance services. Revenue from commercial and retail banking activities consists primarily of interest earned on loans and investment securities and service charges on deposit accounts.

Revenue from the mortgage banking activities is comprised of interest earned on loans and fees received as a result of the mortgage origination process. The mortgage banking services are conducted by MVB Mortgage.

Table of Contents

Information about the reportable segments and reconciliation to the consolidated financial statements for the nine-month period and three-month periods ended September 30, 2014 is as follows:

(in thousands)	Commercial & Retail Banking	Mortgage Banking	Insurance	Intercompany Eliminations	Consolidated
Revenues:					
Interest income	\$ 23,728	\$ 2,184	\$ —	\$ 238	\$ 26,150
Gain on loans held for sale	884	13,362	—	(198)	14,048
Insurance income	—	—	2,553	—	2,553
Other income	6,904	765	—	(3,963)	3,706
Total operating income	31,516	16,311	2,553	(3,923)	46,457
Expenses:					
Interest expense	5,248	1,218	—	(670)	5,796
Salaries and employee benefits	9,644	10,105	2,578	—	22,327
Provision for loan losses	2,192	—	—	—	2,192
Other expense	11,335	4,225	615	(3,253)	12,922
Total operating expenses	28,419	15,548	3,193	(3,923)	43,237
Income (loss) before income taxes	3,097	763	(640)	—	3,220
Income tax expense (benefit)	490	305	(239)	—	556
Net income (loss)	2,607	458	(401)	—	2,664
Preferred stock dividends	187	—	—	—	187
Net income (loss) available to common shareholders	\$ 2,420	\$ 458	\$ (401)	\$ —	\$ 2,477
Capital expenditures for the nine-month period ended September 30, 2014					
Total assets as of September 30, 2014	\$ 1,186,006	\$ 82,648	\$ 2,804	\$ (184,644)	\$ 1,086,814
Total assets as of December 31, 2013	1,021,097	92,290	3,012	(129,339)	987,060
Goodwill as of September 30, 2014	897	16,882	-	-	17,779
Goodwill as of December 31, 2013	\$ 897	\$ 16,882	\$ -	\$ -	\$ 17,779

Table of Contents

(in thousands)	Commercial & Retail Banking	Mortgage Banking	Insurance	Intercompany Eliminations	Consolidated
Revenues:					
Interest income	\$ 8,015	\$ 776	\$ —	\$ 112	\$ 8,903
Gain on loans held for sale	134	5,223	—	(85)	5,272
Insurance income	—	—	846	—	846
Other income	1,938	(286)	—	(844)	808
Total operating income	10,087	5,713	846	(817)	15,829
Expenses:					
Interest expense	1,987	443	—	(250)	2,180
Salaries and employee benefits	3,282	3,473	843	—	7,598
Provision for loan losses	784	—	—	—	784
Other expense	3,342	1,630	222	(567)	4,627
Total operating expenses	9,395	5,546	1,065	(817)	15,189
Income (loss) before income taxes	692	167	(219)	—	640
Income tax expense (benefit)	115	67	(79)	—	103
Net income (loss)	577	100	(140)	—	537
Preferred stock dividends	144	—	—	—	144
Net income (loss) available to common shareholders	\$ 433	\$ 100	\$ (140)	\$ —	\$ 393
Capital expenditures for the three-month period ended					
September 30, 2014	\$ 2,943	\$ 71	\$ 9	\$ -	\$ 3,023
Total assets as of September 30, 2014	1,186,006	82,648	2,804	(184,644)	1,086,814
Total assets as of December 31, 2013	1,021,097	92,290	3,012	(129,339)	987,060
Goodwill as of September 30, 2014	897	16,882	-	-	17,779
Goodwill as of December 31, 2013	\$ 897	\$ 16,882	\$ -	\$ -	\$ 17,779

Commercial & Retail Banking

For the three months ended September 30, 2014, the Commercial & Retail Banking segment earned \$577 compared to \$823 in the second quarter of 2014. Net interest income decreased by \$183, noninterest income decreased by \$991, noninterest expense decreased by \$936 and loan loss provision decreased by \$105. The decrease in earnings is primarily attributable to a decrease in gain on loans held for sale income based on less volume of loans sold during the three months ended September 30, 2014.

Mortgage Banking

For the three months ended September 30, 2014, the Mortgage Banking segment earned \$100 compared to \$399 in the second quarter of 2014. Net interest income remained flat, noninterest income decreased by \$385 and noninterest expense increased by \$103. The \$299 earnings decrease is mainly due to the decrease in derivative income during the three months ended September 30, 2014.

Table of Contents

Insurance

For the three months ended September 30, 2014, the Insurance segment lost \$140 compared to \$253 in the second quarter of 2014. Noninterest income increased by \$97 and noninterest expense decreased by \$92. Income tax benefit for the third quarter decreased by \$79.

Note 10 – Pension Plan

The Company participates in a trustee pension plan known as the Allegheny Group Retirement Plan covering virtually all full-time employees. Benefits are based on years of service and the employee's compensation. Accruals under the Plan were frozen as of May 31, 2014. Freezing the plan resulted in a re-measurement of the pension obligations and plan assets as of the freeze date. The pension obligation was re-measured using the discount rate based on the Citigroup Above Median Pension Discount Curve in effect on May 31, 2014 of 4.46%.

The plan freeze lowered the pension cost in the second quarter of 2014 by approximately \$213. The freeze is expected to reduce pension cost in the second half of 2014 by approximately \$430.

Information pertaining to the activity in the Company's defined benefit plan, using the latest available actuarial valuations for the nine and three months ended September 30, 2014 and 2013 is as follows:

(in thousands)	For the nine months ended September 30, 2014	For the nine months ended September 30, 2013
Service cost	\$ 346	\$ 489
Interest cost	231	186
Expected Return on Plan Assets	(239)	(204)
Amortization of Net Actuarial Loss	103	140
Amortization of Prior Service Cost	—	1
Net Periodic Benefit Cost	\$ 441	\$ 612

Contributions Paid \$ 345 \$ 325

(in thousands)	For the three months ended September 30, 2014	For the three months ended September 30, 2013
Service cost	\$ -	\$ 163
Interest cost	76	62
Expected Return on Plan Assets	(81)	(68)
Amortization of Net Actuarial Loss	33	47
Amortization of Prior Service Cost	—	—
Net Periodic Benefit Cost	\$ 28	\$ 204
 Contributions Paid	 \$ 157	 \$ 155

Table of Contents

Note 11 – Mergers and Acquisitions

On July 29, 2014 the Company and its subsidiary, the Bank, had entered into an Purchase and Assumption Agreement (“Agreement”), which was subsequently amended (“Agreement Amendment”) with CFG Community Bank (“CFG Bank”) and its parent, Capital Funding Bancorp, Inc., and affiliates, Capital Finance, LLC and Capital Funding, LLC. The Agreement and the Agreement Amendment, which were subsequently terminated, following the quarter close on October 31, 2014, by a Mutual Termination Agreement (“Mutual Termination Agreement”) among the parties.

The Agreement and Agreement Amendment provided that the Bank, subject to regulatory approvals, would purchase certain assets and assume certain liabilities of CFG Bank and its subsidiaries for \$30 million in consideration, consisting of \$26 million in cash and \$4 million in shares of Company common stock, subject to certain adjustments; however, under the Mutual Termination Agreement, the Company, CFG Bank, Capital Funding Bancorp, Inc. and the other affiliates of CFG Bank have mutually agreed to terminate the Agreement and Agreement Amendment without any future obligation or liability between or among the parties under the Agreement or Agreement Amendment. The Bank and CFG Bank, as well as other CFG Bank affiliates, intend to continue a working relationship and may, from time to time, engage in loan transactions and, if applicable, servicing arrangements.

The following acquisition related costs are included in the consolidated statements of income for the periods indicated (in thousands):

	Nine months ended September 30, 2014	Three months ended September 30, 2014
Consulting	\$ 72	\$ 21
Advertising	4	—
Printing, stationery and supplies	9	1
Legal and accounting fees	97	76
Equipment depreciation and maintenance	15	9
Meals and Entertainment	11	3
Travel	75	10
Total	\$ 283	\$ 120

Note 12 – Stock Split

Common shares outstanding at December 31, 2013 and for the three and nine month periods ended September 30, 2013, have been adjusted for the effect of a two for one stock split effected as a stock dividend paid on February 11, 2014.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING INFORMATION

Statements in this Quarterly Report on Form 10-Q that are based on other than historical data are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations or forecasts of future events and include, among others:

- statements with respect to the beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operations and performance of MVB Financial Corp. (the "Company") and its subsidiaries (collectively "we," "our," or "us), including MVB Bank, Inc. (the "Bank");
- statements preceded by, followed by or that include the words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "projects," or similar expressions.

These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing the Company's or the Bank management's views as of any subsequent date. Forward-looking statements involve significant risks and uncertainties and actual results may differ materially from those presented, either expressed or implied, including, but not limited to, those presented in this Management's Discussion and Analysis section. Factors that might cause such differences include, but are not limited to:

- the ability of the Company, the Bank, MVB Mortgage, and MVB Insurance to successfully execute business plans, manage risks, and achieve objectives;
- changes in local, national and international political and economic conditions, including without limitation the political and economic effects of the recent economic crisis, delay of recovery from that crisis, economic conditions and fiscal imbalances in the United States and other countries, potential or actual downgrades in rating of sovereign debt issued by the United States and other countries, and other major developments, including wars, military actions, and terrorist attacks;
- changes in financial market conditions, either internationally, nationally or locally in areas in which the Company, the Bank, MVB Mortgage, and MVB Insurance conduct operations, including without limitation, reduced rates of business formation and growth, commercial and residential real estate development and real estate prices;
- fluctuations in markets for equity, fixed-income, commercial paper and other securities, including availability, market liquidity levels, and pricing; changes in interest rates, the quality and composition of the loan and securities

portfolios, demand for loan products, deposit flows and competition;

- the ability of the Company, the Bank, MVB Mortgage, and MVB Insurance to successfully conduct acquisitions and integrate acquired businesses;

- potential difficulties in expanding the businesses of the Company, the Bank, MVB Mortgage, and MVB Insurance in existing and new markets;

- increases in the levels of losses, customer bankruptcies, bank failures, claims, and assessments;

Table of Contents

- changes in fiscal, monetary, regulatory, trade and tax policies and laws, and regulatory assessments and fees, including policies of the U.S. Department of Treasury, the Board of Governors of the Federal Reserve Board System, and the FDIC;
- the impact of executive compensation rules under the Dodd-Frank Act and banking regulations which may impact the ability of the Company, the Bank, MVB Mortgage, MVB Insurance, and other American financial institutions to retain and recruit executives and other personnel necessary for their businesses and competitiveness;
- the impact of the Dodd-Frank Act and of new international standards known as Basel III, and rules and regulations thereunder, many of which have not yet been promulgated, on our required regulatory capital and liquidity levels, governmental assessments on us, the scope of business activities in which we may engage, the manner in which the Company, the Bank, MVB Mortgage, and MVB Insurance engage in such activities, the fees that the Bank, MVB Mortgage, and MVB Insurance may charge for certain products and services, and other matters affected by the Dodd-Frank Act and these international standards;
- continuing consolidation in the financial services industry; new legal claims against the Company, the Bank, MVB Mortgage, and MVB Insurance, including litigation, arbitration and proceedings brought by governmental or self-regulatory agencies, or changes in existing legal matters;
- success in gaining regulatory approvals, when required, including for proposed mergers or acquisitions;
- changes in consumer spending and savings habits;
- increased competitive challenges and expanding product and pricing pressures among financial institutions;
- inflation and deflation;
- technological changes and the implementation of new technologies by the Company, the Bank, MVB Mortgage, and MVB Insurance;
- the ability of the Company, the Bank, MVB Mortgage, and MVB Insurance to develop and maintain secure and reliable information technology systems;
- legislation or regulatory changes which adversely affect the operations or business of the Company, the Bank, MVB Mortgage, or MVB Insurance;
- the ability of the Company, the Bank, MVB Mortgage, and MVB Insurance to comply with applicable laws and regulations; changes in accounting policies or procedures as may be required by the Financial Accounting Standards

Board or regulatory agencies; and,

- costs of deposit insurance and changes with respect to FDIC insurance coverage levels.

33

Table of Contents

Except to the extent required by law, the Company specifically disclaims any obligation to update any factors or to publicly announce the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

SUMMARY OF RESULTS OF OPERATIONS

At September 30, 2014 and 2013 and for the Nine and Three Months Ended September 30, 2014 and 2013:

	Nine months ended September 30, 2014		2013		Three months ended September 30, 2014		2013	
Net income to:								
Average assets (annualized)	0.35	%	0.62	%	0.20	%	0.37	%
Average stockholders' equity (annualized)	3.50	%	6.80	%	1.95	%	3.70	%
Net interest margin	2.91	%	2.99	%	2.79	%	2.83	%
Average stockholders' equity to average assets	9.86	%	9.13	%	10.31	%	10.10	%
Total loans to total deposits (end of period)	90.15	%	84.22	%	90.15	%	84.22	%
Allowance for loan losses to total loans (end of period)	0.83	%	0.90	%	0.83	%	0.90	%
Efficiency ratio	86.69	%	83.63	%	89.57	%	90.78	%
Capital ratios:								
Tier 1 capital ratio	15.20	%	12.46	%	15.20	%	12.46	%
Risk-based capital ratio	16.09	%	13.28	%	16.09	%	13.28	%
Leverage ratio	11.12	%	8.65	%	11.12	%	8.65	%
Cash dividends on common stock as a percentage of net income	11.90	%	7.03	%	N/A		N/A	
Per share data:								
Book value per share (end of period)	\$ 11.65		\$ 10.66		\$ 11.65		\$ 10.66	
Basic earnings per share	\$ 0.31		\$ 0.51		\$ 0.05		\$ 0.11	
Diluted earnings per share	\$ 0.31		\$ 0.50		\$ 0.05		\$ 0.10	

Introduction

MVB Financial Corp. (“the Company”) was formed on January 1, 2004, as a bank holding company and, effective December 19, 2012, became a financial holding company. The Company features multiple subsidiaries and affiliated businesses, including MVB Bank, Inc. (the “Bank” or “MVB Bank”) and its wholly-owned subsidiary MVB Mortgage and MVB Insurance, LLC (“MVB Insurance”). On December 31, 2013, three Company subsidiaries, MVB-Central, Inc. (a second-tier level holding company), MVB-East, Inc. (a second tier holding company) and Bank Compliance

Solutions, Inc. (an inactive subsidiary) were merged into the Company.

The Bank was formed on October 30, 1997 and chartered under the laws of the State of West Virginia. The Bank commenced operations on January 4, 1999. In August of 2005, the Bank opened a full service office in neighboring Harrison County, West Virginia. During October of 2005, the Bank purchased a branch office in Jefferson County, West Virginia, situated in West Virginia's eastern panhandle. During the third quarter of 2007, the Bank opened a full service office in the Martinsburg area of Berkeley County, West Virginia. In the second quarter of 2011, the Bank opened a banking facility in the Cheat Lake area of Monongalia County, West Virginia. The Bank opened its second Harrison County, West Virginia location, the downtown Clarksburg office in the historic Empire Building during the fourth quarter of 2012.

Also during the fourth quarter of 2012, the Bank acquired Potomac Mortgage Group, Inc. ("PMG" which, following July 15, 2013, began doing business under the registered trade name "MVB Mortgage"), a

Table of Contents

mortgage company in the northern Virginia area, and fifty percent (50%) interest in a mortgage services company, Lender Service Provider, LLC (“LSP”). In the third quarter of 2013, this fifty percent (50%) interest in LSP was reduced to a twenty-five percent (25%) interest through a sale of a partial interest. This PMG acquisition provided the Company and the Bank the opportunity to make the mortgage banking operation a much more significant line of business to further diversify its net income stream. MVB Mortgage has eleven mortgage only offices, located in northern Virginia, within the Washington, District of Columbia / Baltimore, Maryland metropolitan area as well as North Carolina and South Carolina, and, in addition, has mortgage loan originators located at select Bank locations throughout West Virginia.

In the first quarter of 2013, the Bank opened its second Monongalia County location in the Sabraton area of Morgantown, West Virginia. In the second quarter of 2013, the Bank opened its second full service office in Berkeley County, West Virginia, at Edwin Miller Boulevard. In addition, the Bank opened a loan processing office at 184 Summers Street, Charleston, Kanawha County, West Virginia. During the first quarter of 2014, the Company continued to focus on growth in the Harrison, Berkeley, Jefferson and Monongalia County areas, as well as the Kanawha county area, as the primary method for reaching performance goals. In addition, the Bank opened a loan processing office in Reston, Fairfax County, Virginia. The Company continuously reviews key performance indicators to measure our success.

Currently, the Bank operates nine full-service banking branches in West Virginia, which are located at: 301 Virginia Avenue in Fairmont, Marion County; 9789 Mall Loop (inside the Shop N Save Supermarket) in White Hall, Marion County; 1000 Johnson Avenue in Bridgeport, Harrison County; 406 West Main St. in Clarksburg, Harrison County; 88 Somerset Boulevard in Charles Town, Jefferson County; 651 Foxcroft Avenue in Martinsburg, Berkeley County; 2400 Cranberry Square in Cheat Lake, Monongalia County; 10 Sterling Drive in Morgantown, Monongalia County; and 231 Aikens Center in Martinsburg, Berkeley County. In addition, the Bank operates a loan processing offices at 184 Summers Street, Charleston, Kanawha County, West Virginia and 1801 Reston Parkway, Suite 103, Reston, Fairfax County, Virginia. The Bank has received regulatory approval from the Federal Deposit Insurance Corporation (“FDIC”) and the West Virginia Division of Financial Institutions to construct a replacement location in the West Virginia High Technology Park in Fairmont, Marion County, West Virginia, for its current White Hall location. In addition, the Bank has completed construction of a new facility in Kanawha County, West Virginia.

In addition to MVB Mortgage, the Company has a wholly-owned subsidiary, MVB Insurance, LLC. MVB Insurance was originally formed in 2000 and reinstated in 2005, as a Bank subsidiary. Effective June 1, 2013, MVB Insurance became a direct subsidiary of the Company. MVB Insurance offers select insurance products such as title insurance, individual insurance, commercial insurance, employee benefits insurance, and professional liability insurance. MVB Insurance maintains its headquarters at 301 Virginia Avenue, Fairmont, West Virginia, and operates offices at: 48 Donley Street, Suite 703, Morgantown, West Virginia, 400 Washington Street E, Charleston, West Virginia,; and 355 Wharton Circle, Suite 123, Triadelphia, West Virginia.

The Company’s primary business activities, through its Subsidiaries, are currently community banking, mortgage banking, insurance services, and wealth management. As a community banking entity, the Bank offers its customers a full range of products through various delivery channels. Such products and services include checking accounts,

NOW accounts, money market and savings accounts, time certificates of deposit, commercial, installment, commercial real estate and residential real estate mortgage loans, debit cards, and safe deposit rental facilities. Services are provided through our walk-in offices, automated teller machines (“ATMs”), drive-in facilities, and internet and telephone banking. Additionally, the Bank offers non-deposit investment products through an association with a broker-dealer, and also offers correspondent lending services to assist other community banks in offering longer term fixed rate loan products that may be sold into

Table of Contents

the secondary market. Since the opening date of January 4, 1999, the Bank, has experienced significant growth in assets, loans, and deposits due to overwhelming community and customer support in the Marion County, West Virginia and Harrison County, West Virginia markets, expansion into West Virginia's eastern panhandle counties and, most recently, into Monongalia County, West Virginia. With the acquisition of PMG, mortgage banking is now a much more significant focus, which has opened up increased market opportunities in the Washington, District of Columbia / Baltimore, Maryland metropolitan region and added enough volume to better diversify the Company's earnings stream.

This discussion and analysis should be read in conjunction with the prior year-end audited financial statements and footnotes thereto included in the Company's filing on Form 10-K and the unaudited financial statements, ratios, statistics, and discussions contained elsewhere in this Form 10-Q. At September 30, 2014, the Company had 325 full-time equivalent employees. The Company's principal office is located at 301 Virginia Avenue, Fairmont, West Virginia 26554, and its telephone number is (304) 363-4800. The Company's Internet web site is www.mvbbanking.com.

Application of Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Application of certain accounting policies inherently requires a greater reliance on the use of estimates, assumptions and judgments and as such, the probability of actual results being materially different from reported estimates is increased. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal forecasting techniques.

The most significant accounting policies followed by the Company are presented in Note 1 to the audited consolidated financial statements included in the Company's 2013 Annual Report on Form 10-K. These policies, along with the disclosures presented in the other financial statement notes and in management's discussion and analysis of operations, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses to be the accounting area that requires the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

The allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of losses inherent in classifications of homogeneous loans based on historical loss experience of peer banks, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. Non-homogeneous loans are specifically evaluated due to the increased risks inherent in those loans.

Table of Contents

The loan portfolio also represents the largest asset type in the consolidated balance sheet. Note 1 to the consolidated financial statements in MVB's 10-K describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in the Allowance for Loan Losses section of Management's Discussion and Analysis in this quarterly report on Form 10-Q.

All dollars are expressed in thousands, unless as otherwise noted or specified.

Results of Operations

Overview of the Statement of Income

For the three months ended September 30, 2014, the Company earned \$537 compared to \$757 in the third quarter of 2013. Net interest income increased by \$1.6 million, noninterest income decreased by \$708 and noninterest expenses increased by \$643. The increase in net interest income was driven mainly by the continued growth of the Company balance sheet, with \$254.8 million in average loan growth and despite an increase in average interest bearing liabilities of \$210.0 million and an increase in interest expense of \$758. There was also an increase in cost of funds of 14 basis points due to the increase in interest expense from subordinated debt.

Loan loss provisions of \$784 and \$326 were made for the quarters ended September 30, 2014 and 2013, respectively. The increase in loan loss provision is attributable to loan growth and the increase in charged off loans. The provision for loan losses, which is a product of management's formal quarterly analysis, is recorded in response to inherent risks in the loan portfolio. The Company charged off \$665 in loans during the third quarter of 2014 versus \$523 for the same time period in 2013.

For the nine months ended September 30, 2014 the Company earned \$2.7 million compared to \$3.4 million for the same time period in 2013. Net interest income increased by \$5.4 million, noninterest income decreased by \$2.9 million and noninterest expenses increased by \$3.3 million. The increase in net interest income was driven mainly by the continued growth of the Company balance sheet, with \$241.5 million in average loan growth and despite an increase in average interest bearing liabilities of \$243.2 million and an increase in interest expense of \$1.7 million.

Loan loss provisions of \$2.2 million and \$2.0 million were made for the nine months ended September 30, 2014 and 2013, respectively. The provision for loan losses, which is a product of management's formal quarterly analysis, is recorded in response to inherent risks in the loan portfolio. The Company charged off \$776 in loans during the nine month period ended September 30, 2014 versus \$1.5 million for the same time period in 2013.

Due to the Bank's purchase of commercial loans in late 2013 that were marked to fair value at the time they were recorded on the balance sheet, the allowance for loan losses to total loans decreased from 0.90% at September 30, 2013 to 0.83% at September 30, 2014.

Interest Income and Expense

Net interest income is the amount by which interest income on earning assets exceeds interest expense on interest-bearing liabilities. Interest-earning assets include loans and investment securities. Interest-bearing liabilities include interest-bearing deposits and repurchase agreements, subordinated debt and Federal Home Loan Bank advances. Net interest income is a primary source of revenue for the bank. Changes in market

Table of Contents

interest rates, as well as changes in the mix and volume of interest-earning assets and interest-bearing liabilities impact net interest income. Net interest margin is calculated by dividing net interest income by average interest-earning assets. This ratio serves as a performance measurement of the net interest revenue stream generated by the Bank's balance sheet.

The net interest margin for the three months ended September 30, 2014 and 2013 was 2.79% and 2.83% respectively. The 4 basis point decline in the Bank's net interest margin for the quarter ended September 30, 2014 was the result of a 14 basis point increase in the cost of funds, which was offset by an 8 basis point increase in earning assets and a 2 basis point increase in non-interest bearing deposits. Interest expense related to the new subordinated debt that was issued on June 30, 2014 increased \$524. The new subordinated debt earned an average rate of approximately 7% during the three month period ended September 30, 2014. The continued low rate environment and increasing competition for quality credit continues to apply pressure upon the Bank's loan portfolio yield. The Bank was able to grow average loan balances by \$254.8 million, which enabled an increase in net interest income of \$1.6 million. This growth was in part due to a 56 basis point increase in yield on real estate loans and a \$36.1 million decrease in total investment securities which helped to aid loan growth. An increase in the Bank's average non-interest bearing balances of \$23.6 million increased the impact of non-interest bearing funds on the margin by 2 basis points.

The net interest margin for the nine months ended September 30, 2014 and 2013 was 2.91% and 2.99% respectively. The 8 basis point decline in the Bank's net interest margin for the nine months ended September 30, 2014 was the result of a 1 basis point increase in the cost of funds and a 6 basis point decrease in earning assets. Interest expense related to the new subordinated debt that was issued on June 30, 2014 increased \$530. The continued low rate environment and increasing competition for quality credit continues to apply pressure upon the Bank's loan portfolio yield. The Bank was able to grow average loan balances by \$241.5 million, which enabled an increase in net interest income of \$5.4 million despite a 24 basis point drop in yield on net loans.

Company and Bank management continuously monitor the effects of net interest margin on the performance of the Bank and, thus, the Company. Growth and mix of the balance sheet will continue to impact net interest margin in future periods.

Table of Contents

Average Balances and Interest Rates

(Unaudited)(Dollars in thousands)

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
Assets						
Interest-bearing deposits in banks	\$ 26,910	\$ 10	0.15 %	\$ 21,633	\$ 12	0.22 %
CD's with other banks	9,427	43	1.82	9,427	42	1.78
Investment securities:						
Taxable	75,814	253	1.33	98,281	363	1.48
Tax-exempt	55,874	430	3.08	52,151	368	2.82
Loans and loans held for sale:						
Commercial	511,893	5,341	4.17	316,909	3,655	4.61
Tax exempt	22,205	197	3.55	23,834	221	3.71
Real estate	250,594	2,437	3.89	187,897	1,670	3.56
Consumer	18,205	192	4.22	19,413	215	4.43
Allowance for loan losses	(6,644)			(5,090)		
Net loans	796,253	8,167	4.10	542,963	5,761	4.24
Total earning assets	964,278	8,903	3.69	724,455	6,546	3.61
Cash and due from banks	26,565			20,564		
Other assets	79,566			65,247		
Total assets	\$ 1,070,409			\$ 810,266		
Liabilities						
Deposits:						
NOW	\$ 425,339	\$ 704	0.66 %	\$ 327,397	\$ 595	0.73 %
Money market checking	39,703	51	0.51	23,900	17	0.28
Savings	36,875	29	0.31	31,105	50	0.64
IRAs	9,557	29	1.21	9,521	38	1.60
CDs	219,144	512	0.93	145,289	365	1.00
Repurchase agreements & federal funds sold	35,519	29	0.33	79,209	131	0.66
FHLB and other borrowings	81,019	282	1.39	50,117	206	1.64
Subordinated debt	33,468	544	6.50	4,124	20	1.94
Total interest-bearing liabilities	880,624	2,180	0.99	670,662	1,422	0.85
Non-interest bearing demand deposits	72,756			49,155		
Other liabilities	6,664			8,600		

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Total liabilities	960,044	728,417
Stockholders' equity		
Preferred stock	16,334	8,500
Common stock	8,083	3,506
Paid-in capital	74,176	60,908
Treasury stock	(1,084)	(1,084)
Retained earnings	15,096	12,069
Accumulated other comprehensive income	(2,240)	(2,050)
Total stockholders' equity	110,365	81,849
Total liabilities and stockholders' equity	\$ 1,070,409	\$ 810,266

Net interest spread		2.70			2.76
Net interest income-margin	\$ 6,723	2.79	%	\$ 5,124	2.83 %

Table of Contents

Average Balances and Interest Rates

(Unaudited)(Dollars in thousands)

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
Assets						
Interest-bearing deposits in banks	\$ 17,276	\$ 24	0.19 %	\$ 13,954	\$ 26	0.25 %
CD's with other banks	9,427	126	1.78	9,427	125	1.77
Investment securities:						
Taxable	92,961	1,022	1.47	86,796	917	1.41
Tax-exempt	56,305	1,250	2.96	41,704	874	2.79
Loans and loans held for sale:						
Commercial	476,965	15,527	4.34	302,077	10,506	4.64
Tax exempt	32,491	888	3.64	23,544	686	3.88
Real estate	235,059	6,733	3.82	177,258	5,297	3.98
Consumer	18,426	580	4.20	18,526	635	4.57
Allowance for loan losses	(5,970)			(4,737)		
Net loans	756,971	23,728	4.18	516,668	17,124	4.42
Total earning assets	932,940	26,150	3.74	668,549	19,066	3.80
Cash and due from banks	21,547			15,826		
Other assets	73,265			52,668		
Total assets	\$ 1,027,752			\$ 737,043		
Liabilities						
Deposits:						
NOW	\$ 385,012	\$ 2,378	0.82 %	\$ 276,017	\$ 1,630	0.79 %
Money market checking	33,914	112	0.44	23,079	52	0.30
Savings	37,805	97	0.34	29,428	137	0.62
IRAs	9,590	85	1.18	9,483	118	1.66
CDs	223,663	1,432	0.85	144,318	984	0.91
Repurchase agreements & federal funds sold	63,026	262	0.55	76,730	402	0.70
FHLB and other borrowings	87,635	841	1.28	48,420	697	1.92
Subordinated debt	14,120	589	5.56	4,124	59	1.91
Total interest-bearing liabilities	854,765	5,796	0.90	611,599	4,079	0.89
Non-interest bearing demand deposits	65,173			51,615		
Other liabilities	6,474			6,569		

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Total liabilities	926,412	669,783
Stockholders' equity		
Preferred stock	11,169	8,500
Common stock	7,917	3,325
Paid-in capital	71,661	46,918
Treasury stock	(1,088)	(1,084)
Retained earnings	14,289	11,053
Accumulated other comprehensive income	(2,608)	(1,452)
Total stockholders' equity	101,340	67,260
Total liabilities and stockholders' equity	\$ 1,027,752	\$ 737,043

Net interest spread		2.84		2.91
Net interest income-margin	\$ 20,354	2.91 %	\$ 14,987	2.99 %

Non-Interest Income

Gain on loans held for sale and insurance income generate the core of the Bank's noninterest income. Also, service charges on deposit accounts continue to be part of the core of the Bank's noninterest income and include mainly non-sufficient funds and returned check fees, allowable overdraft fees and service charges on commercial accounts.

Table of Contents

For the three months ended September 30, 2014, noninterest income totaled \$6.9 million compared to \$7.6 million for the same time period in 2013. The \$708 decrease in noninterest income was mainly the result of a decrease in gain on sale of subsidiary of \$626 which was a one-time event that occurred in 2013. Service charges totaled \$183 and \$183, for the three months ended September 30, 2014 and 2013, respectively.

For the nine months ended September 30, 2014, noninterest income totaled \$20.3 million compared to \$23.2 million for the same time period in 2013. The decrease in noninterest income was mainly the result of a decrease in gain on loans held for sale of \$3.7 million due to a decrease in loan production. Service charges totaled \$500 and \$489, for the nine months ended September 30, 2014 and 2013, respectively.

The Bank is continually searching for ways to increase non-interest income. Income from loans sold in the secondary market continues to be a major area of focus for the Bank and the Company, as well as insurance income and servicing retained income on mortgage loans sold into the secondary market. Insurance income increased significantly for both the three and nine month periods ended September 30, 2014 compared to the same time period in 2013. This significant increase was the result of MVB Insurance becoming a direct subsidiary of the Company on June 1, 2013, at which point the insurance company increased both staffing and the number of insurance products offered.

Non-Interest Expense

The Company had 325 full-time equivalent personnel at September 30, 2014, as noted, compared to 292 full-time equivalent personnel as of September 30, 2013. Company and Bank management will continue to strive to find new ways of increasing efficiencies and leveraging its resources, while effectively optimizing customer service.

Salaries and employee benefits, occupancy, mortgage processing and other operating expense generate the core of the Bank's noninterest expense. The Company's efficiency ratio was 89.57% for the third quarter of 2014 compared to 90.78% for the third quarter of 2013. This ratio measures the efficiency of noninterest expenses incurred in relationship to net interest income plus noninterest income. The decreased efficiency ratio is the result of net interest income and noninterest income slightly outpacing the growth in noninterest expense.

For the three months ended September 30, 2014, noninterest expense totaled \$12.2 million compared to \$11.6 million for the same time period in 2013. The \$643 increase in noninterest expense was mainly the result of the following: increased salaries expense of \$383, with the addition of the Edwin Miller Bank office and the northern Virginia commercial bank office, additional staffing related to organic growth and increases for existing staff; increased occupancy, equipment and depreciation costs of \$343, the result of the additions of the Edwin Miller Bank office and the northern Virginia commercial bank office and additional leased office space related to MVB Insurance, LLC; increased data processing costs of \$155 due to increased volume and increased useage of products available to save time and better automate processes; increased FDIC insurance expense of \$113 from deposit growth; decreased

mortgage processing costs of \$127 due to a reduction in loan volume; and decreased advertising costs of \$167 due to a greater emphasis on utilization of funds related to advertising.

For the nine months ended September 30, 2014, noninterest expense totaled \$35.2 million compared to \$32.0 million for the same time period in 2013. The \$3.3 million increase in noninterest expense was mainly the result of the following: increased salaries expense of \$1.5 million, with the addition of the Edwin Miller Bank office and the northern Virginia commercial bank office, additional staffing related to organic growth and increases for existing staff; increased occupancy, equipment and depreciation costs of \$873, the result of the

Table of Contents

additions of the Edwin Miller Bank office and the northern Virginia commercial bank office and additional leased office space related to MVB Insurance, LLC; increased data processing costs of \$469 due to increased volume and increased usage of products available to save time and better automate processes; increased consulting costs of \$166, the result of increased outside services utilized in relation to current MD&A activities and other projects as necessary; increased FDIC insurance expense of \$178 from deposit growth; increased other operating expenses of \$414, mainly the result of increases in training, meals & entertainment, filing & recording fees, other taxes and other insurance expense; and decreased mortgage processing costs of \$197 due to a reduction in loan volume;

Return on Average Assets and Average Equity (Annualized)

Returns on average assets (ROA) and average equity (ROE) annualized were .20% and 1.95% for the third quarter of 2014 compared to .37% and 3.70% in the third quarter of 2013. The .17% decrease in ROA is due to decreased earnings and a \$260.1 million increase in average assets for the third quarter of 2014 compared to the third quarter of 2013. The increase in average assets was primarily due to an increase in net loans due to continued loan growth. The 1.75% decrease in ROE is also due to decreased earnings and a \$28.5 million increase in average equity for the third quarter of 2014 compared to the third quarter of 2013. The increase in average equity was mainly due to the issuance of additional common and preferred stock.

Overview of the Statement of Condition

The Company's interest-earning assets, interest-bearing liabilities, and stockholders' equity changed significantly during the third quarter of 2014 compared to 2013. The most significant areas of change between the quarters ended September 30, 2014 and September 30, 2013 were as follows: net loans increased to an average balance of \$796.3 million from \$543.0 million, interest-bearing liabilities grew to an average balance of \$880.6 million from \$670.7 million and stockholders' equity grew by \$28.5 million to an average of \$110.4 million. These trends reflect the continued growth of the Company and its subsidiaries in the loan, deposit and capital areas.

Total assets at September 30, 2014 were \$1,087 million or an increase of \$99.8 million since December 31, 2013. The greatest area of increase was \$139.2 million in net loan growth.

Deposits totaled \$846.3 million at September 30, 2014 or an increase of \$150.5 million since December 31, 2013, mainly the result of an increase in broker buster deposits, public funds and other interest bearing deposits.

Stockholders' equity has increased approximately \$16.6 million from December 31, 2013 due to earnings for the nine months ended September 30, 2014 of \$2.7 million, through the issuance of 361,865 shares of common stock totaling

\$5.8 million in additional capital and through the issuance of 783 shares of preferred stock totaling \$7.8 million in additional capital.

Cash and Cash Equivalents

Cash and cash equivalents totaled \$62.5 million as of September 30, 2014 compared to \$39.8 million as of December 31, 2013. The majority of this increase is related to temporary public funds deposit fluctuations.

Total cash and cash equivalents fluctuate on a daily basis due to transactions in process and other liquidity and performance demands. Management believes the liquidity needs of the Company are satisfied by the current balance of cash and cash equivalents, readily available access to traditional and non-traditional

Table of Contents

funding sources, and the portions of the investment and loan portfolios that mature within one year. These sources of funds should enable the Company and the Bank to meet cash obligations as they come due.

Investment Securities

Investment securities totaled \$127.0 million as of September 30, 2014 and \$163.1 million as of December 31, 2013. The decrease in investment securities is due to the opportunity to sell certain securities at a gain and utilize the funds in higher yielding areas. The investment portfolio is fairly evenly balanced between government sponsored agency securities, mortgage-backed securities and municipal securities.

The Company and Bank management monitor the earnings performance and liquidity of the investment portfolio on a regular basis through Asset/Liability Committee meetings. The group also monitors net interest income, sets pricing guidelines, and manages interest rate risk for the bank. Through active balance sheet management and analysis of the investment securities portfolio, the bank maintains sufficient liquidity to satisfy depositor requirements and the various credit needs of its customers. The Company and Bank management believes the risk characteristics inherent in the investment portfolio are acceptable based on these parameters.

Loans

The Company's loan portfolio totaled \$762.9 million as of September 30, 2014 and \$622.3 million as of December 31, 2013. The Bank's lending is primarily focused in the Marion, Harrison, Jefferson, Berkeley, Kanawha, and Monongalia County areas of West Virginia with a secondary focus on the adjacent counties in West Virginia. The portfolio consists principally of commercial lending, retail lending, which includes single-family residential mortgages, and consumer lending. Northern Virginia is also a key area of focus for the Bank in the commercial and secondary market lending arena. The growth in loans is primarily attributable to organic growth within the Bank's primary lending areas and northern Virginia.

Loan Concentration

At September 30, 2014, commercial loans comprised the largest component of the loan portfolio. The majority of commercial loans that are not secured by real estate are lines of credit secured by accounts receivable and equipment and obligations of states and political subdivisions. While the loan concentration is in commercial loans, the commercial portfolio is comprised of loans to many different borrowers, in numerous different industries but primarily located in our market areas. The loan portfolio mix as of September 30, 2014 remains consistent with the mix as of December 31, 2013.

Allowance for Loan Losses

The allowance for loan losses was \$6.4 million or 0.83% of total loans at September 30, 2014 compared to \$4.9 million or 0.79% of total loans at December 31, 2013. The Bank management continually monitors the loan portfolio through review of the monthly delinquency reports and through the Bank Loan Review Committee. The Bank Loan Review Committee is responsible for the determination of the adequacy of the allowance for loan losses. Their analysis involves both experience of the portfolio to date and the makeup of the overall portfolio. Specific loss estimates are derived for individual loans based on specific criteria such as current delinquency status, related deposit account activity, where applicable, local market rumors, which are generally based on some factual information, and changes in the local and national economy. While local market rumors are not measurable or perhaps not readily supportable, historically, this form of information

Table of Contents

can be an indication of a potential problem. The allowance for loan losses is further based upon the internal risk rating assigned to the various loan types within the portfolio.

Capital Resources

The Company considers a number of alternatives, including but not limited to deposits, short-term borrowings, and long-term borrowings when evaluating funding sources. Traditional deposits continue to be the most significant source of funds for the bank, reaching \$846.3 million at September 30, 2014.

Non-interest bearing deposits remain a core funding source for the Bank and, thus, the Company. At September 30, 2014, non-interest bearing deposits totaled \$64.5 million compared to \$63.3 million at December 31, 2013. The Company and Bank management intend to continue to focus on finding ways to increase the base of non-interest bearing funding sources of the Bank and other Company subsidiaries.

Interest-bearing deposits totaled \$781.8 million at September 30 2014 compared to \$632.5 million at December 31, 2013. Average interest-bearing liabilities totaled \$880.6 million during the third quarter of 2014 compared to \$670.7 million for the third quarter of 2013. This change is due to the reclassification of \$46.8 million in public funds balances from repurchase agreements to deposit accounts. Average non-interest bearing demand deposits totaled \$72.8 million for the third quarter of 2014 compared to \$49.2 million for the third quarter of 2013. Management will continue to emphasize deposit gathering in 2014 by offering outstanding customer service and competitively priced products. The Company and Bank management will also concentrate on balancing deposit growth with adequate net interest margin to meet the Company's strategic goals.

Along with traditional deposits, the Bank has access to both repurchase agreements, which are corporate deposits secured by pledging securities from the investment portfolio, and Federal Home Loan Bank borrowings to fund its operations and investments. At September 30, 2014, repurchase agreements totaled \$33.9 million compared to \$81.6 million at December 31, 2013. In addition to the aforementioned funds alternatives, the Bank has access to more than \$206.7 million through additional advances from the Federal Home Loan Bank of Pittsburgh and the ability to readily sell jumbo certificates of deposits to other banks as well as brokered deposit markets.

Liquidity

The Company recognizes the importance of liquidity in the day-to-day operations of the Bank, and believes it is critical to have a plan for addressing liquidity in times of crisis, as well as prudently managing levels to maximize earnings. The Bank has historically recognized the need for funding sources that go beyond the most important source

which is retail deposit business. The Company and the Bank have created a funding program that identifies various wholesale funding sources that may be used whenever appropriate. These sources include the following: FHLB advances, brokered deposits, CDARS, repurchase agreements, internet CDs through Qwickrate, the Federal Reserve discount window, State of West Virginia CD auctions, and federal funds purchased through the Federal Reserve. Limits have been set as to how much MVB will utilize each identified source. The Bank currently is taking advantage of all of the above, with the exception of federal funds purchased and the discount window. This allows the Bank to lower funding costs slightly while documenting the availability of each.

Table of Contents

Current Economic Conditions

The current economic climate in West Virginia, and, in particular, in the six counties in which the Company and the Bank focuses possess better economic climates than the general national climate. Unemployment in the United States was 6.3% and 7.3% in August 2014 and 2013, respectively. The unemployment levels in the six West Virginia counties where MVB operates in were as follows for the periods indicated:

	August 2014		August 2013	
Berkeley County	6.3	%	5.8	%
Harrison County	5.3	%	5.0	%
Jefferson County	5.1	%	4.6	%
Marion County	6.0	%	5.6	%
Monongalia County	4.8	%	4.3	%
Kanawha County	6.0	%	5.4	%

The numbers from all six counties continue to be significantly better than the national numbers. The Company and the Bank nonperforming loan information supports the fact that the West Virginia economy has not suffered as much as that of the nation as a whole. Nonperforming loans to total loans were 0.62% in September of 2014 versus 0.16% in September of 2013 and charge offs to total loans were 0.10% and 0.29% for each period respectively. The Company and the Bank continue to closely monitor economic and delinquency trends.

Capital/Stockholders' Equity

The Company and the Bank have financed operations and growth over the years through the sale of equity. These equity sales have resulted in an effective source of capital.

During the first quarter of 2013 the Company completed a private offering to accredited investors under Regulation D of the Securities Act which resulted in the issuance of 2,265,054 shares totaling \$27.1 million in additional capital. The proceeds of this offering were used to support the acquisition of PMG as well as the continued growth of the Company.

During 2013, the Company commenced a private offering to accredited investors under Rule 506 of Regulation D. As of December 31, 2013, the Company had received subscriptions for 610,194 shares totaling \$9.8 million in additional

capital at December 31, 2013.

During the six month period ended June 30, 2014 the Company received additional subscriptions for 361,865 shares totaling \$5.8 million in additional capital. The proceeds of this offering are being used to support continued growth of the Company.

At September 30, 2014, accumulated other comprehensive loss totaled \$(2,388) compared to \$(2,961) at December 31, 2013. This change is primarily the result in the rise of the market values of investment securities.

Treasury stock shares totaled 51,077 shares.

The primary source of funds for dividends to be paid by the Company are dividends received by the Company from the Bank. Dividends paid by the Bank are subject to restrictions by banking regulations. The most restrictive provision requires regulatory approval if dividends declared in any year exceed that year's retained net profits, as defined, plus the retained net profits, as defined, of the two preceding years.

Table of Contents

Bank regulators have established “risk-based” capital requirements designed to measure capital adequacy. Risk-based capital ratios reflect the relative risks of various assets banks hold in their portfolios. A weight category of 0% (lowest risk assets), 20%, 50%, or 100% (highest risk assets) is assigned to each asset on the balance sheet. Detailed information concerning MVB’s risk-based capital ratios can be found in Note 14 of the Notes to the Consolidated Financial Statements of the Company’s 2013 Form 10-K. At September 30, 2014, the Company’s and the Bank’s risk-based capital ratios exceeded the minimum standards for a well capitalized financial institution.

Commitments

In the normal course of business, the Bank is party to financial instruments with off-balance sheet risk necessary to meet the financing needs of customers and to manage its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of these instruments express the extent of involvement the bank has in these financial instruments.

Loan commitments are made to accommodate the financial needs of the Bank’s customers. The Bank uses the same underwriting standards in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties. The total amount of loan commitments outstanding at September 30, 2014 and December 31, 2013 was \$156.8 million and \$92.3 million, respectively.

Market Risk

There have been no material changes in market risks faced by the Company since December 31, 2013. For information regarding the Company’s market risk, refer to the Company’s Annual Report to Shareholders for the year ended December 31, 2013.

Effects of Inflation on Financial Statements

Substantially all of the Bank’s assets relate to banking and are monetary in nature. Therefore, they are not impacted by inflation to the same degree as companies in capital-intensive industries in a replacement cost environment. During a period of rising prices, a net monetary asset position results in loss in purchasing power and conversely a net monetary

liability position results in an increase in purchasing power. In the banking industry, typically monetary assets exceed monetary liabilities. Therefore as prices increase, financial institutions experience a decline in the purchasing power of their net assets.

Future Outlook

The Company's and the Bank's results of operations in the third quarter of 2014 are slightly down compared to the third quarter of 2013 mainly due to an increase in noninterest expense and a decrease in other operating income, details of which are discussed above. The Company's emphasis in future periods will be to do those things that have made the bank successful thus far through the following: margin improvement; leveraging capital; organic portfolio loan growth; and operating efficiency. The critical challenge for the bank in the future is to attract core deposits to fund growth in the new markets through continued delivery of the most outstanding customer service with the highest quality products and technology.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

No response required.

Item 4. Controls and Procedures

The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer, along with the Company's Chief Financial Officer (the Principal Financial Officer), has evaluated the effectiveness as of September 30, 2014, of the design and operation of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, the Company's Chief Executive Officer, along with the Company's Principal Accounting Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2014.

There have been no material changes in the Company's internal control over financial reporting during the third quarter of 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

Part II. Other Information

Item 1. Legal Proceedings

From time to time in the ordinary course of business, the Company and its subsidiaries are subject to claims, asserted or unasserted, or named as a party to lawsuits or investigations. Litigation, in general, and intellectual property and securities litigation in particular, can be expensive and disruptive to normal business operations. Moreover, the results of legal proceedings cannot be predicted with any certainty and in the case of more complex legal proceedings, the results are difficult to predict at all. The Company is not aware of any asserted or unasserted legal proceedings or claims that the Company believes would have a material adverse effect on the Company's financial condition or results of the Company's operations.

Item 1A. Risk Factors

No response required.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the first quarter of 2014, the Company began a private offering under Regulation D of the Securities Act of 1933, as amended (the "Securities Act") of subordinated promissory notes and preferred stock. During the six month period ended June 30, 2014, the Company received net proceeds related to subscriptions for subordinated promissory notes totaling \$29.3 million. In addition, during the same period, the Company received subscriptions for seven hundred eighty-three preferred stock shares totaling \$7.8 million in additional capital. The proceeds of these subordinated debt and preferred stock offerings will be used to support continued growth of the Company and its Subsidiaries.

During 2013, the Company commenced a private offering under Rule 506 of Regulation D of its common stock to accredited investors. As of December 31, 2013, the Company had received subscriptions for 610,194 common stock shares totaling \$9.8 million in additional capital. During the six month period ended June 30, 2014, the Company received additional subscriptions for 361,865 common stock shares totaling \$5.8 million in additional capital at September 30, 2014. The proceeds of this offering are also being used to support continued growth of the Company and its Subsidiaries.

During the first quarter of 2013, the Company completed a private offering to accredited investors which resulted in the issuance of 2,265,054 shares totaling \$27.1 million in additional capital. The proceeds of this offering were used to support the acquisition of Potomac Mortgage Group, Inc. (which now does business as MVB Mortgage) as well as the continued growth of the Company.

On September 8, 2011 MVB received \$8.5 million in Small Business Lending Fund (SBLF) capital. MVB issued 8,500 shares of \$1,000 per share preferred stock with dividends payable in arrears on January 1, April 1, July 1 and October 1 each year. At December 31, 2013 and 2012, MVB's loan production qualified for the lowest dividend rate possible of 1%. MVB may continue to utilize the SBLF capital through March 8, 2016 at the 1% dividend rate. After that time, if the SBLF is not retired, the dividend rate increases to 9%.

Item 3. Defaults Upon Senior Securities

None.

Table of Contents

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed herewith.

Exhibit 3.1	Articles of Incorporation, as amended
Exhibit 31.1	Certificate of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certificate of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certificate of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certificate of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 14, 2014

MVB Financial Corp.

By: /s/ Larry F. Mazza
Larry F. Mazza
Chief Executive Officer & President

By: /s/ Bret S. Price
Bret S. Price
Senior Vice President & Chief Financial Officer