

MVB FINANCIAL CORP
Form 10-K
March 29, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

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

For the transition period from _____ To _____

Commission file Number 34603-9

MVB Financial Corp.

(Exact name of registrant as specified in its charter)

West Virginia
(State or other jurisdiction of incorporation or organization)

20-0034461
(I.R.S. Employer Identification No.)

301 Virginia Avenue, Fairmont, WV
(Address of principal executive offices)

26554
(Zip Code)

Registrant's telephone number (304) 363-4800

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

(Former name, former address and former fiscal year, if changed since last report)[None]

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

Title of each class	Name of each exchange on which registered
Common Stock, \$1.00 Par	None

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

Common Stock, \$1.00 Par
(Title of Class)

Preferred Stock \$1,000.00 Par
(Title of Class)

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) Act

Yes No .

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

Yes No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

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

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

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

Yes No .

Based upon the average selling price of sales known to the Registrant of the common shares of the Registrant during the period through June 30, 2012, the aggregate market value of the common shares of the Registrant held by non affiliates during that time was \$33,486,874. For this purpose certain executive officers and directors are considered affiliates.

Portions of the registrant's definitive proxy statement relating to the Annual Meeting to be held May 21, 2013, are incorporated by reference into Part III of this Annual Report on Form 10-K.

As of March 15, 2013, the Registrant had 2,932,901 shares of common stock outstanding with a par value of \$1.

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
<u>Item 1. Business</u>	4
<u>Item 1A. Risk Factors</u>	10
<u>Item 1B. Unresolved Staff Comments</u>	10
<u>Item 2. Properties</u>	10
<u>Item 3. Legal Proceedings</u>	10
<u>Item 4. Mine Safety Disclosures</u>	10
<u>PART II</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuers Purchases of Equity Securities</u>	11
<u>Item 6. Selected Financial Data</u>	12
<u>Item 7. Management's discussion and analysis of financial condition and results of operations</u>	12
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 8. Financial Statements and Supplementary Data</u>	33
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	68
<u>Item 9A. Controls and Procedures</u>	68
<u>Item 9B. Other Information</u>	69
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	70
<u>Item 11. Executive Compensation</u>	70
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	70
<u>Item 13. Certain Relationships and Related transactions, and Director Independence</u>	70

<u>Item 14. Principal Accountant Fees and Services</u>	70
--	----

PART IV

<u>Item 15. Exhibits and Financial Statement Schedules</u>	70
--	----

Table of Contents

PART I

ITEM 1. BUSINESS

MVB Financial Corp., or MVB, was formed on January 1, 2004 as a bank holding company and, effective December 19, 2012, became a financial holding company. MVB Bank, Inc., or 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. During the fourth quarter of 2004, MVB formed two second-tier holding companies MVB Marion, Inc. and MVB Harrison, Inc., which have since been merged to form MVB Central, Inc. to manage the banking operations of MVB, the sole bank subsidiary, in those markets. In August of 2005, MVB opened a full service office in neighboring Harrison County. During October of 2005 MVB purchased a branch office in Jefferson County, situated in West Virginia's eastern panhandle. In 2006 MVB formed another second-tier holding company, MVB East, Inc. to manage the banking operations of MVB in the Jefferson and Berkeley county markets. During the third quarter of 2007 MVB opened a full service office in the Martinsburg area of Berkeley County. In the second quarter of 2011 MVB opened a banking facility in the Morgantown area of Monongalia County. MVB opened its second Harrison County location, the downtown Clarksburg office in the historic Empire building during the fourth quarter of 2012. Also during the fourth quarter of 2012, MVB acquired Potomac Mortgage Group (PMG), a mortgage company in the northern Virginia area. This acquisition gives MVB the opportunity to make its mortgage banking operation a much more significant line of business to further diversify its net income stream.

MVB operates seven offices, two of which are located in Marion County, the main office located at 301 Virginia Avenue in Fairmont and a branch office at 9789 Mall Loop inside the Shop N Save Supermarket in White Hall, WV. The remaining offices are located at 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 and 2400 Cranberry Square in Morgantown, Monongalia County. At December 31, 2012, MVB had total assets of \$726.8 million, total loans of \$446.4 million, total deposits of \$486.5 million and total stockholders' equity of \$67.5 million.

MVB's business activities are currently community banking and with the addition of PMG, mortgage banking. As a community banking entity, MVB 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, MVB 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 the secondary market. With the acquisition of PMG, MVB now makes mortgage banking a much more significant focus, opening up increased market opportunities and adding enough volume to better diversify the Company's earnings stream.

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

At December 31, 2012, MVB had 221 full-time equivalent employees, including those added through the acquisition of PMG. MVB's principal office is located at 301 Virginia Avenue, Fairmont, West Virginia 26554, and its telephone number is (304) 363-4800. MVB's Internet web site is www.mvbbanking.com.

Since the opening date of January 4, 1999, MVB has experienced significant growth in assets, loans, and deposits due to overwhelming community and customer support in the Marion and Harrison county markets, expansion into West Virginia's eastern panhandle and most recently into Monongalia County.

During 2012, MVB continued to focus on growth in the Harrison, Berkeley, Jefferson and Monongalia County areas as the primary method for reaching performance goals. MVB continuously reviews key performance indicators to measure our success.

Table of Contents

Market Area

MVB's primary market areas are the Marion, Harrison, Jefferson, Berkeley and Monongalia Counties of West Virginia, as well as the northern Virginia area for the mortgage business. Its extended market is in the adjacent counties.

United States Census Bureau data indicates that the Fairmont and Marion County, West Virginia populations have had somewhat different trends from 1980 to 2010. The population of Fairmont has fluctuated from 23,863 in 1980; 20,210 in 1990; 19,097 in 2000 and 18,704 in 2010, or a net decline of 5,159 or 21.6%. Marion County increased its population from 1980 to 1990, 55,789 to 57,249, decreased to 56,598 in 2000 and decreased to 56,418 in 2010. These changes resulted in a net increase of 1.1%. The Marion County population includes that of Fairmont. The result is that over the last 30 years, there has not been any significant change in population. Harrison County's population decreased from 69,371 in 1990 to 68,652 in 2000, increased to 69,099 in 2010 while Bridgeport's population has increased from 7,306 in 2000 to 7,896 in 2010, indicating that while population change in Harrison County has been relatively flat, the Bridgeport area is growing. The population in Jefferson County has been on the rise in recent years, increasing from 42,190 in 2000 to 53,498 in 2010. During this period, Charles Town has seen an increase in population of 80.9% to 5,259 in 2010. Berkeley County's population has grown from 75,905 in 2000 to 104,169 in 2010, making it the second-most populous county in West Virginia. Martinsburg's population has increased 15.1% since 2000 to 17,227 in 2010. Monongalia County's population has increased from 81,866 in 2000 to 96,189 in 2010, an increase of 17.5%. Morgantown's population in 2010 was 29,660, an increase of 2,851 or 10.6% since 2000. Based upon this data, MVB's offices are in some of the most desirable locations in the state of West Virginia.

Unemployment in Marion County has improved compared to that of the State of West Virginia from November 1995 through December 2012. As of December 2012, the overall state rate was 7.4% compared to 6.5% for Marion County. During this same period of time, the Marion County Unemployment Rate has decreased from 8.9% to 6.5%, while the West Virginia rate decreased from 7.5% to 7.4%. At December 31, 2012, Harrison, Jefferson, Berkeley and Monongalia counties showed unemployment rates of 6.3%, 4.8%, 6.2% and 4.8%, respectively. Marion, Harrison, Jefferson, Berkeley and Monongalia County's rates are all better than the state average. The future direction of unemployment will probably be driven by what occurs economically on a national level.

MVB originates various types of loans, including commercial and commercial real estate loans, residential real estate loans, home equity lines of credit, real estate construction loans, and consumer loans (loans to individuals). In general, MVB retains most of its originated loans (exclusive of certain long-term, fixed rate residential mortgages that are sold). However, loans originated in excess of MVB's legal lending limit are participated to other banking institutions and the servicing of those loans is retained by MVB. MVB has no loans to foreign entities. MVB's lending market area is primarily concentrated in the Marion, Harrison, Berkeley, Jefferson and Monongalia Counties of West Virginia, as well as the northern Virginia area for mortgage lending.

Commercial Loans

At December 31, 2012, MVB had outstanding approximately \$299.6 million in commercial loans, including commercial, commercial real estate, financial and agricultural loans. These loans represented approximately 67.1% of the total aggregate loan portfolio as of that date.

Lending Practices. Commercial lending entails significant additional risks as compared with consumer lending (i.e., single-family residential mortgage lending, and installment lending). In addition, the payment experience on commercial loans typically depends on adequate cash flow of a business and thus may be subject, to a greater extent, to adverse conditions in the general economy or in a specific industry. Loan terms include amortization schedules commensurate with the purpose of each loan, the source of repayment and the risk involved. The primary analysis technique used in determining whether to grant a commercial loan is the review of a schedule of estimated cash flows to evaluate whether anticipated future cash flows will be adequate to service both interest and principal due. In addition, MVB reviews collateral to determine its value in relation to the loan in the event of a foreclosure.

Table of Contents

MVB evaluates all new commercial loans, and on an annual basis mortgage loans in excess of \$300,000, as well as customers that have total outstanding loans that aggregate more than \$750,000. If deterioration in credit worthiness has occurred, MVB takes effective and prompt action designed to assure repayment of the loan. Upon detection of the reduced ability of a borrower to meet original cash flow obligations, the loan is considered a classified loan and reviewed for possible downgrading or placement on non-accrual status.

Consumer Loans

At December 31, 2012, MVB had outstanding consumer loans in an aggregate amount of approximately \$16.8 million or approximately 3.8% of the aggregate total loan portfolio.

Lending Practices. Consumer loans generally involve more risk as to collectibility than mortgage loans because of the type and nature of the collateral and, in certain instances, the absence of collateral. As a result, consumer lending collections are dependent upon the borrower's continued financial stability, and thus are more likely to be adversely affected by employment loss, personal bankruptcy, or adverse economic conditions. Credit approval for consumer loans requires demonstration of sufficiency of income to repay principal and interest due, stability of employment, a positive credit record and sufficient collateral for secured loans. It is the policy of MVB to review its consumer loan portfolio monthly and to charge off loans that do not meet its standards and to adhere strictly to all laws and regulations governing consumer lending.

Real Estate Loans

At December 31, 2012, MVB had approximately \$130.0 million of residential real estate loans, home equity lines of credit, and construction mortgages outstanding, representing 29.1% of total loans outstanding.

Lending Practices. MVB generally requires that the residential real estate loan amount be no more than 80% of the purchase price or the appraised value of the real estate securing the loan, unless the borrower obtains private mortgage insurance for the percentage exceeding 80%. Occasionally, MVB may lend up to 100% of the appraised value of the real estate. Loans made in this lending category are generally one to ten year adjustable rate, fully amortizing to maturity mortgages. MVB also originates fixed rate real estate loans and generally sells these loans in the secondary market. Most real estate loans are secured by first mortgages with evidence of title in favor of MVB in the form of an attorney's opinion of the title or a title insurance policy. MVB also requires proof of hazard insurance with MVB named as the mortgagee and as the loss payee. Full appraisals are obtained from licensed appraisers for the majority of loans secured by real estate.

Home Equity Loans. Home equity lines of credit are generally made as second mortgages by MVB. The maximum amount of a home equity line of credit is generally limited to 80% of the appraised value of the property less the

balance of the first mortgage. MVB will lend up to 100% of the appraised value of the property at higher interest rates which are considered compatible with the additional risk assumed in these types of loans. The home equity lines of credit are written with 10 year terms, but are subject to review upon request for renewal.

Construction Loans. Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost (including interest) of construction. If the estimate of construction cost proves to be inaccurate, MVB may advance funds beyond the amount originally committed to permit completion of the project.

Table of Contents

Competition

MVB experiences significant competition in attracting depositors and borrowers. Competition in lending activities comes principally from other commercial banks, savings associations, insurance companies, governmental agencies, credit unions, brokerage firms and pension funds. The primary factors in competing for loans are interest rate and overall lending services. Competition for deposits comes from other commercial banks, savings associations, money market funds and credit unions as well as from insurance companies and brokerage firms. The primary factors in competing for deposits are interest rates paid on deposits, account liquidity, convenience of office location, and overall financial condition. MVB believes that its community approach provides flexibility, which enables the bank to offer an array of banking products and services.

MVB primarily focuses on the Marion, Harrison, Jefferson, Berkeley and Monongalia County markets in West Virginia and the northern Virginia area for its products and services. Management believes MVB has developed a niche and a level of expertise in serving this area.

MVB operates under a “needs-based” selling approach that management believes has proven successful in serving the financial needs of most customers. It is not MVB’s strategy to compete solely on the basis of interest rates. Management believes that a focus on customer relationships and service will promote our customers’ continued use of MVB’s financial products and services and will lead to enhanced revenue opportunities.

Supervision and Regulation

The following is a summary of certain statutes and regulations affecting MVB and its subsidiaries and is qualified in its entirety by reference to such statutes and regulations:

Financial Holding Company Regulation. MVB is a financial holding company under the Bank Holding Company Act of 1956, as amended, or BHCA, and is subject to the reporting requirements of, and examination and regulation by, the Federal Reserve Board. In general, the BHCA limits the business of bank holding companies to banking, managing or controlling banks and other activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. Under the BHCA, bank holding companies that qualify and elect to be financial holding companies, such as MVB, may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the Federal Reserve Board in consultation with the Office of the Comptroller of the Currency) or (ii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as solely determined by the Federal Reserve Board). MVB’s subsidiary bank, MVB Bank, Inc., is subject to restrictions imposed by the Federal Reserve Act on transactions with affiliates. MVB and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with extensions of credit and/or the provision of other property or services to a customer by MVB or its subsidiaries.

On July 30, 2002, the Senate and the House of Representatives of the United States (Congress) enacted the Sarbanes-Oxley Act of 2002, a law that addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. The New York Stock Exchange proposed corporate governance rules that were enacted by the Securities and Exchange Commission. The changes are intended to allow stockholders to more easily and efficiently monitor the performance of companies and directors and should not significantly impact MVB.

Effective August 29, 2002, as directed by Section 302(a) of Sarbanes-Oxley, MVB's chief executive officer and chief financial officer are each required to certify that MVB's Quarterly and Annual Reports do not contain any untrue statement of a material fact. The rules have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of MVB's internal controls; they have made certain disclosures to MVB's auditors and the audit committee of the Board of Directors about MVB's internal controls; and they have included information in MVB's Quarterly and Annual Reports about their evaluation and whether there have been significant changes in MVB's internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation.

Table of Contents

The Gramm-Leach-Bliley Act (also known as the Financial Services Modernization Act of 1999) permits bank holding companies to become financial holding companies. This allows them to affiliate with securities firms and insurance companies and to engage in other activities that are financial in nature. A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized, is well managed and has at least a satisfactory rating under the Community Reinvestment Act. No regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board.

The Financial Services Modernization Act defines “financial in nature” to include: securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Federal Reserve Board has determined to be closely related to banking. A bank also may engage, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development and real estate investment, through a financial subsidiary of the bank, if the bank is well capitalized, well managed and has at least a satisfactory Community Reinvestment Act rating.

Banking Subsidiary Regulation. MVB Bank, Inc. was chartered as a state bank and is regulated by the West Virginia Division of Banking and the Federal Deposit Insurance Corporation. The Bank provides FDIC insurance on its deposits and is a member of the Federal Home Loan Bank of Pittsburgh.

International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (USA Patriot Act)

The International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (the “Patriot Act”) was adopted in response to the September 11, 2001 terrorist attacks. The Patriot Act provides law enforcement with greater powers to investigate terrorism and prevent future terrorist acts. Among the broad-reaching provisions contained in the Patriot Act are several designed to deter terrorists’ ability to launder money in the United States and provide law enforcement with additional powers to investigate how terrorists and terrorist organizations are financed. The Patriot Act creates additional requirements for banks, which were already subject to similar regulations. The Patriot Act authorizes the Secretary of the Treasury to require financial institutions to take certain “special measures” when the Secretary suspects that certain transactions or accounts are related to money laundering. These special measures may be ordered when the Secretary suspects that a jurisdiction outside of the United States, a financial institution operating outside of the United States, a class of transactions involving a jurisdiction outside of the United States or certain types of accounts are of “primary money laundering concern.” The special measures include the following: (a) require financial institutions to keep records and report on the transactions or accounts at issue; (b) require financial institutions to obtain and retain information related to the beneficial ownership of any account opened or maintained by foreign persons; (c) require financial institutions to identify each customer who is permitted to use a payable-through or correspondent account and obtain certain information from each customer permitted to use the account; and (d) prohibit or impose conditions on the opening or maintaining of correspondent or payable-through accounts.

Table of Contents

Federal Deposit Insurance Corporation

The FDIC insures the deposits of the Bank which is subject to the applicable provisions of the Federal Deposit Insurance Act. The FDIC may terminate a bank's deposit insurance upon finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition enacted or imposed by the bank's regulatory agency.

Federal Home Loan Bank

The FHLB provides credit to its members in the form of advances. As a member of the FHLB of Pittsburgh, the Bank must maintain an investment in the capital stock of that FHLB in an amount equal to 0.35% of the calculated Member Asset Value (MAV) plus 4.60% of outstanding advances. The MAV is determined by taking line item values for various investment and loan classes and applying an FHLB haircut to each item.

Capital Requirements

Federal Reserve Board. The Federal Reserve Board has adopted risk-based capital guidelines for bank holding companies. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning assets and off-balance sheet items to broad risk categories. For further discussion regarding the Bank's risk-based capital requirements, see Note 14 of the Notes to the Financial Statements included in Item 8 of this Form 10-K.

West Virginia Division of Banking. State banks, such as MVB Bank, Inc. are subject to similar capital requirements adopted by the West Virginia Division of Banking.

Limits on Dividends

MVB's ability to obtain funds for the payment of dividends and for other cash requirements largely depends on the amount of dividends the Bank declares. However, the Federal Reserve Board expects MVB to serve as a source of strength to the Bank. The Federal Reserve Board may require MVB to retain capital for further investment in the Bank, rather than pay dividends to its shareholders. MVB Bank, Inc. may not pay dividends to MVB if, after paying those dividends, the Bank would fail to meet the required minimum levels under the risk-based capital guidelines and the minimum leverage ratio requirements. The Bank must have the approval from the West Virginia Division of Banking if a dividend in any year would cause the total dividends for that year to exceed the sum of the current year's net earnings as defined and the retained earnings for the preceding two years as defined, less required transfers to

surplus. These provisions could limit MVB's ability to pay dividends on its outstanding common shares.

Federal and State Consumer Laws

MVB Bank, Inc. is subject to regulatory oversight under various consumer protection and fair lending laws. These laws govern, among other things, truth-in-lending disclosure, equal credit opportunity, fair credit reporting and community reinvestment. Failure to abide by federal laws and regulations governing community reinvestment could limit the ability of a bank to open a new branch or engage in a merger transaction. Community reinvestment regulations evaluate how well and to what extent a bank lends and invests in its designated service area, with particular emphasis on low-to-moderate income communities and borrowers in such areas.

Monetary Policy and Economic Conditions

The business of financial institutions is affected not only by general economic conditions, but also by the policies of various governmental regulatory agencies, including the Federal Reserve Board. The Federal Reserve Board regulates money and credit conditions and interest rates to influence general economic conditions primarily through open market operations in U.S. government securities, changes in the discount rate on bank borrowings and changes in the reserve requirements against depository institutions' deposits. These policies and regulations significantly affect the overall growth and distribution of loans, investments and deposits, and the interest rates charged on loans, as well as the interest rates paid on deposit accounts.

Table of Contents

The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of financial institutions in the past and are expected to continue to have significant effects in the future. In view of the changing conditions in the economy and the money markets and the activities of monetary and fiscal authorities, MVB cannot predict future changes in interest rates, credit availability or deposit levels.

Effect of Environmental Regulation

MVB's primary exposure to environmental risk is through its lending activities. In cases when management believes environmental risk potentially exists, MVB mitigates its environmental risk exposures by requiring environmental site assessments at the time of loan origination to confirm collateral quality as to commercial real estate parcels posing higher than normal potential for environmental impact, as determined by reference to present and past uses of the subject property and adjacent sites. Environmental assessments are typically required prior to any foreclosure activity involving non-residential real estate collateral.

With regard to residential real estate lending, management reviews those loans with inherent environmental risk on an individual basis and makes decisions based on the dollar amount of the loan and the materiality of the specific credit.

MVB anticipates no material effect on anticipated capital expenditures, earnings or competitive position as a result of compliance with federal, state or local environmental protection laws or regulations.

ITEM 1A.RISK FACTORS

No response required.

ITEM 1B.UNRESOLVED STAFF COMMENTS

No response required.

ITEM 2.PROPERTIES

MVB Bank, Inc. owns its main office located at 301 Virginia Avenue in Fairmont, along with its offices at 1000 Johnson Avenue in Bridgeport, 88 Somerset Boulevard in Charles Town and 651 Foxcroft Avenue in Martinsburg. The Bank leases its office at 2500 Fairmont Avenue inside the Shop N Save supermarket in White Hall, in addition to the land at the Bridgeport location, the 2400 Cranberry Square office in Morgantown, the 406 West Main Street office in Clarksburg and the operations center space in Bridgeport.

Additional information concerning the property and equipment owned or leased by MVB and its subsidiaries is incorporated herein by reference from “Note 4, Bank Premises and Equipment” and “Note 16, Leases” of the Notes to the Financial Statements included in Item 8 of this Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

There are no pending legal proceedings to which MVB or its subsidiaries are a party or to which any of their property is subject.

ITEM 4. MINE SAFETY DISCLOSURES

No response required.

Table of ContentsPART IIITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUERS PURCHASES OF EQUITY SECURITIES

MVB's common shares are not traded on any national exchange.

The table presented below sets forth the estimated market value for the indicated periods based upon sales known to management with respect to MVB's common shares. The information set forth in the table is based on MVB's knowledge of certain arms-length transactions in the stock. In addition, dividends are subject to the restrictions described in Note 15 to the financial statements.

Quarterly Market and Dividend Information:

	2012		2011	
	Estimated		Estimated	
	Market		Market	
	Value		Value	
	Per	Dividend	Per	Dividend
	Share		Share	
Fourth Quarter	\$24.00	\$ 0.07	\$22.00	\$ 0.10
Third Quarter	24.00	0.00	20.00	0.00
Second Quarter	22.50	0.07	20.00	0.00
First Quarter	22.00	0.00	21.00	0.00

MVB had 1,104 stockholders of record at December 31, 2012. MVB began paying an annual dividend of \$.10 per share beginning in December 2008 through December 2011. Beginning in 2012 MVB began paying a semi-annual dividend of \$.07 per share in June and December. No dividends were paid prior to 2008.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under
---------------	---	--	--

	of outstanding options		equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	172,880	\$ 15.63	220,911
Equity compensation plans not approved by security holders	n/a	n/a	n/a
Total	172,880	\$ 15.63	220,911

During 2012 no stock options under MVB's equity compensation plan were exercised.

During 2012 the Company began a private placement offering of its common stock to accredited investors pursuant to Rule 506 of Regulation D under the Securities Act of 1933. As of December 31, 2012 the Company had received signed subscription agreements and payment for 573,263 shares totaling \$13.7 million in additional capital. The proceeds of the offering are being used to support the acquisition of PMG as well as continued growth and general operations of the Company. No underwriters were used or were purchasers in this offering. In January 2011 the Company issued 393,305 shares in a private placement to accredited investors pursuant to Rule 506 of Regulation D, with the proceeds of \$8,259,405 used for general corporate purposes. No underwriters were used or were purchasers in this offering. A 10% stock dividend declared December 21, 2010 with a record date of January 25, 2011, payable February 15, 2011 resulted in an additional 39,071 shares issued. In 2012, MVB implemented a dividend reinvestment plan (DRIP) which resulted in the additional issuance of 41,538 shares totaling \$973,000 in additional capital.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

No response required.

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

Forward-looking Statements:

The following discussion contains statements that refer to future expectations, contain projections of the results of operations or of financial condition, or state other information that is "forward-looking." "Forward-looking" statements are easily identified by the use of words such as "could," "anticipate," "estimate," "believe," and similar words that refer to a future outlook. There is always a degree of uncertainty associated with "forward-looking" statements. MVB's management believes that the expectations reflected in such statements are based upon reasonable assumptions and on the facts and circumstances existing at the time of these disclosures. Actual results could differ significantly from those anticipated.

Many factors could cause MVB's actual results to differ materially from the results contemplated by the forward-looking statements. Some factors, which could negatively affect the results, include:

- General economic conditions, either nationally or within MVB's market, could be less favorable than expected;
- Changes in market interest rates could affect interest margins and profitability;
- Competitive pressures could be greater than anticipated;
- Legal or accounting changes could affect MVB's results; and
- Adverse changes could occur in the securities and investments markets.

In Management's Discussion and Analysis we review and explain the general financial condition and the results of operations for MVB Financial Corp. and its subsidiaries. We have designed this discussion to assist you in understanding the significant changes in MVB's financial condition and results of operations. We have used accounting principles generally accepted in the United States to prepare the accompanying consolidated financial statements. We engaged S.R. Snodgrass, A.C. to audit the consolidated financial statements and their independent audit report is included herein.

Table of Contents

Introduction

The following discussion and analysis of the Consolidated Financial Statements of MVB is presented to provide insight into management's assessment of the financial results and operations of MVB. MVB Bank, Inc. is the sole operating subsidiary of MVB and all comments, unless otherwise noted, are related to the Bank. You should read this discussion and analysis in conjunction with the audited Consolidated Financial Statements and footnotes and the ratios and statistics contained elsewhere in this Form 10-K.

Application of Critical Accounting Policies

MVB's consolidated financial statements are prepared in accordance with U. S. generally accepted accounting principles 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. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. 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 Bank are presented in Note 1 to the consolidated financial statements. 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. The loan portfolio also represents the largest asset type in the consolidated balance sheet. Note 1 to the consolidated financial statements 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 this financial review.

See Note 2 to the consolidated financial statements for MVB's policy regarding the other than temporary impairment of investment securities.

Table of Contents

Recent Accounting Pronouncements and Developments

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company has provided the necessary disclosure in Note 17.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. The amendments in this Update improve the comparability, clarity, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. All entities that report items of comprehensive income, in any period presented, will be affected by the changes in this Update. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The amendments in this Update should be applied retrospectively, and early adoption is permitted. The Company has provided the necessary disclosure in the Statement of Comprehensive Income.

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-10, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—a Scope Clarification*. The amendments in this Update affect entities that cease to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. Under the amendments in this Update, when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt, the reporting entity should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse indebtedness. That is, even if the reporting entity ceases to have a controlling financial interest under Subtopic 810-10, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary's operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. The amendments in this Update should be applied on a prospective basis to deconsolidation events occurring after the effective date. Prior periods should not be adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

Table of Contents

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. The amendments in this Update affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. This ASU is not expected to have a significant impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company has provided the necessary disclosure in Statements of Comprehensive Income.

In July, 2012, the FASB issued ASU 2012-02, *Intangibles – Goodwill and Other (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. If, under the quantitative impairment test, the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment, results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (early adoption permitted). This ASU is not expected to have a significant impact on the Company's financial statements.

In October, 2012, the FASB issued ASU 2012-06, *Business Combinations (Topic 805) - Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*. ASU 2012-06 requires that when a reporting entity recognizes an indemnification asset (in accordance with Subtopic 805-20) as a result of a government assisted acquisition of a financial institution and subsequently a change in the cash flows expected to be collected on the indemnification asset occurs (as a result of a change in cash flows expected to be collected on the assets subject to indemnification), the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). ASU 2012-06 is effective for fiscal year and interim periods within those years, beginning on or after December 15, 2012. Early adoption is permitted. The amendments should be applied prospectively to any new indemnification assets acquired after the date of adoption and to indemnification assets

existing as of the date of adoption arising from a government-assisted acquisition of a financial institution. This ASU is not expected to have a significant impact on the Company's financial statements.

Table of Contents

In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 818-10-45 or subject to an enforceable master netting arrangement or similar agreement. An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of Update 2011-11. This ASU is not expected to have a significant impact on the Company's financial statements.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments in this Update require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. Early adoption is permitted. The Company is currently evaluating the impact that these disclosures will have on its financial statements.

Summary Financial Results

MVB earned \$4.2 million in 2012 compared to \$2.7 million in 2011, an increase of \$1.5 million. The earnings equated to a 2012 return on average assets of .71% and a return on average equity of 8.33%, compared to prior year results of .57% and 6.69%, respectively. Basic earnings per share were \$1.84 in 2012 compared to \$1.24 in 2011. Diluted earnings per share were \$1.79 in 2012 compared to \$1.21 in 2011. The most significant factors in the increase in 2012 profitability were a 3.2 million increase in net interest income, the result of an increase in net interest and fees on loans of \$2.7 million which was the product of loan growth of \$72.6 million in 2012 and an increase in interest on tax exempt loans and securities of \$568,000, the result of increased municipal lending and the addition of \$21.8 million in municipal securities. Other income increased \$4.1 million. This increase was mainly driven by a \$2.9 million increase in income on loans held for sale and an increase in other operating income of \$ 1.1 million, a result of \$640,000 in mortgage servicing income which the Company began in 2012, and mortgage underwriting and title income which increased by \$335,000 as a result of increased volume. Other operating expenses increased by \$4.1 million. The most significant item relating to this increase was increased salaries and benefits of \$2.5 million due to the addition of the Morgantown office for an entire year, additions to the information technology staff and operations center staff, human resource and accounting staff additions, an additional commercial lender and increases for existing staff. Other noteworthy areas of increase were as follows: consulting expense increased \$614,000, mostly the result of acquisition costs in the PMG deal; other operating expenses increased \$485,000 as a result of increased travel and entertainment of \$70,000, increased directors' fees of \$60,000, increased training expenses of \$56,000 and increased telephone expense of \$47,000; occupancy and equipment expense increased \$278,000, mainly the result of a full year of expenses at the Morgantown office and the operations center; data processing expense increased \$200,000 a direct result of continued growth and the upgrade of the Company's electronic banking system and advertising increased \$165,000 as a result of increasing exposure for MVB's core checking and savings products.

Table of Contents

MVB's yield on earning assets in 2012 was 4.01% compared to 4.28% in 2011. This decrease in yield is attributable to a 44 basis point decline in the yield on loans. Despite extensive competition, total loans increased to \$446.4 million at December 31, 2012, from \$373.8 million at December 31, 2011. The Bank's ability to originate quality loans is supported by a minimal delinquency rate.

Deposits increased \$96.0 million to \$486.5 million at December 31, 2012, from \$390.5 million at December 31, 2011, due to the following: \$45.1 million in growth from broker buster checking, \$27.8 million in CDARS balances, \$26.7 million in commercial checking and \$16.3 million in brokered certificates of deposit. MVB offers an uncomplicated product design accompanied by a simple fee structure that is attractive to customers. The overall cost of funds for the bank was 1.01% in 2012 compared to 1.25% in 2011. This cost of funds, combined with the earning asset yield, resulted in a net interest margin of 3.12% in 2012 compared to 3.17% in 2011.

The Bank maintained a high-quality, short-term investment portfolio during 2012 to provide liquidity in the balance sheet, to fund loan growth, for repurchase agreements and to provide security for state and municipal deposits. As a result of being able to utilize more municipal securities for pledging purposes, the bank was able to increase the municipal investment portfolio by \$21.8 million in 2012, which increased the portfolio yield and helped reduce the Company's tax liability.

Interest Income and Expense

Net interest income is the amount by which interest income on earning assets exceeds interest expense incurred on interest-bearing liabilities. Interest-earning assets include loans, investment securities and certificates of deposit in other banks. Interest-bearing liabilities include interest-bearing deposits and borrowed funds such as sweep accounts and repurchase agreements. Net interest income remains the primary source of revenue for MVB. Net interest income is also impacted by changes in market interest rates, as well as the mix of interest-earning assets and interest-bearing liabilities. Net interest income is also impacted favorably by increases in non-interest bearing demand deposits and equity.

Net interest margin is calculated by dividing net interest income by average interest-earning assets and serves as a measurement of the net revenue stream generated by MVB's balance sheet. As noted above, the net interest margin was 3.12% in 2012 compared to 3.17% in 2011. The net interest margin continues to face considerable pressure due to competitive pricing of loans and deposits in MVB's markets. During 2012, the Federal Reserve did not change rates and in fact committed to keep rates low through mid-2015. Management's estimate of the impact of future changes in market interest rates is shown in the section captioned "Interest Rate Risk."

Management continues to analyze methods to deploy MVB's assets into an earning asset mix which will result in a stronger net interest margin. Loan growth continues to be strong and management anticipates that loan activity will

remain strong in the near term future.

Table of Contents

During 2012, net interest income increased by \$3.2 million or 22.8% to \$17.3 million from \$14.1 million in 2011. This increase is largely due to the growth in average earning assets, primarily \$92.8 million in loans. Average total earning assets were \$554.5 million in 2012 compared to \$444.6 million in 2011. Average total loans grew to \$427.5 million in 2012 from \$334.7 million in 2011. Primarily as a result of this growth, total interest income increased by \$3.2 million, or 17.1%, to \$22.3 million in 2012 from \$19.0 million in 2011. Average interest-bearing liabilities, mainly deposits, likewise increased in 2012 by \$98.0 million. Average interest-bearing deposits grew to \$402.3 million in 2012 from \$314.7 million in 2011. Total interest expense increased by only \$30,000 despite the \$98.0 million in average interest bearing liabilities growth. This was the result of a 24 basis point decrease in interest cost from 2011 to 2012.

MVB's yield on earning assets changed during 2012 as follows: The loan portfolio yield decreased by 44 basis points while funding yields decreased by 24 basis points.

The cost of interest-bearing liabilities decreased to 1.01% in 2012 from 1.25% in 2011. This decrease is primarily the result of reduced cost of funds as follows: Certificates of deposit costs decreased 46 basis points, IRA costs decreased 46 basis points and NOW accounts costs decreased 41 basis points.

Table of Contents

Statistical Financial

Information Regarding MVB Financial Corp.

The following tables provide further information about MVB's interest income and expense:

Average Balances and Analysis of Net Interest Income:

	2012			2011		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
(Dollars in thousands)						
Interest-bearing deposits in banks	\$6,695	\$15	0.22%	\$11,511	\$29	0.25%
CDs with other banks	9,565	189	1.98	5,519	75	1.36
Investment securities	114,169	2,136	1.87	95,529	1,837	1.92
Loans						
Commercial	225,641	12,511	4.89	205,106	10,738	5.24
Tax exempt	18,980	809	4.26	14,739	621	4.21
Real estate	138,034	5,770	4.18	101,634	4,830	4.75
Consumer	14,812	824	5.56	13,268	878	6.62
Allowance for loan losses	(3,436)			(2,647)		
Net loans	424,031	19,914	4.70	332,050	17,067	5.14
Total earning assets	554,460	22,254	4.01	444,609	19,008	4.28
Cash and due from banks	11,163			7,946		
Other assets	24,101			21,179		
Total assets	\$589,724			\$473,734		
Liabilities						
Deposits:						
Non-interest bearing demand	\$46,748	\$—		\$39,031	\$—	
NOW	202,850	1,832	0.90	136,725	1,346	0.98
Money market checking	29,683	125	0.42	36,821	305	0.83
Savings	23,461	137	0.58	14,156	63	0.45
IRAs	9,771	232	2.37	9,960	282	2.83
CDs	136,571	1,540	1.13	117,005	1,856	1.59
Repurchase agreements and federal funds						
Sold	67,709	511	0.75	61,855	503	0.81
Federal Home Loan Bank borrowings	15,468	466	3.01	11,023	464	4.21
Long-term debt	4,124	87	2.11	4,124	81	1.96
Total interest-bearing liabilities	489,637	4,930	1.01	391,669	4,900	1.25
Other liabilities	3,315			2,655		
Total liabilities	539,700			433,355		
Stockholders' equity						
Preferred stock	8,500			2,538		
Common stock	2,243			2,234		

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

Paid-in capital	32,605		31,787	
Treasury stock	(1,083)		(1,035)	
Retained earnings	8,401		5,057	
Accumulated other comprehensive income	(642)		(202)	
Total stockholders' equity	50,024		40,379	
Total liabilities and stockholders' equity	\$589,724		\$473,734	
Net interest spread		3.00		3.03
Impact of non-interest bearing funds on margin		0.12		0.14
Net interest income-margin	\$17,324	3.12%	\$14,108	3.17%
19				

Table of ContentsRate Volume Calculation
2012 vs 2011

	Volume end-beg vol * beg rate	Rate end-beg rate * beg vol	Vol/Rate vol diff * rate diff	Sum
Earning Assets				
Loans				
Commercial	2,646	(700)	(173)	1,773
Tax exempt	179	7	2	188
Real estate	1,730	(582)	(208)	940
Consumer	102	(140)	(16)	(54)
Investment securities (1)	358	(50)	(10)	299
Interest-bearing deposits in banks	(12)	(3)	1	(14)
CDs with other banks	55	—	25	80
Total earning assets	5,058	(1,467)	(378)	3,212
Interest bearing liabilities				
NOW	651	(111)	(54)	486
Money market checking	(59)	(150)	29	(180)
Savings	41	20	13	74
IRAs	(5)	(46)	1	(50)
CDs	310	(537)	(90)	(316)
Repurchase agreements and federal funds				
Sold	48	(36)	(3)	8
Federal Home Loan Bank borrowings	187	(132)	(53)	2
Long-term debt	—	6	—	6
	1,173	(986)	(157)	30
	3,885	(482)	(221)	3,182

Rate Volume Calculation
2011 vs 2010

	Volume end-beg vol * beg rate	Rate end-beg rate * beg vol	Vol/Rate vol diff * rate diff	Sum
Earning Assets				
Loans				
Commercial	2,409	(147)	(42)	2,220
Tax exempt	74	(7)	(1)	66
Real estate	1,502	(484)	(182)	836
Consumer	(73)	(5)	0	(78)
Investment securities (1)	822	(444)	(218)	160
Interest-bearing deposits in banks	2	7	1	10
CDs with other banks	(479)	—	77	(401)
Total earning assets	4,257	(1,081)	(364)	2,813
Interest bearing liabilities				
NOW	593	(278)	(141)	174
Money market checking	44	(43)	(6)	(5)
Savings	8	25	19	52

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

IRAs	(27	)	(31	)	2	(55)	
CDs	(98	)	(642	)	24	(715)	
Repurchase agreements and federal funds								
Sold	189		(114	)	(46	)	29	
Federal Home Loan Bank borrowings	(189	)	221		(81	)	(49)
Long-term debt	—		(1	)	—		(1)
	521		(862	)	(228	)	(570)
	3,737		(218	)	(136	)	3,383	

Table of Contents

Provision for Loan Losses

MVB's provision for loan losses for 2012 and 2011 were approximately \$2.8 million and \$1.7 million, respectively. This increase principally relates to the increase in loans outstanding.

Determining the appropriate level of the Allowance for Loan Losses (ALL) requires considerable management judgment. In exercising this judgment, management considers numerous internal and external factors including, but not limited to, portfolio growth, national and local economic conditions, trends in the markets served and guidance from the Bank's primary regulators. Management seeks to maintain an ALL that is appropriate in the circumstances and that complies with applicable accounting and regulatory standards. Further discussion can be found later in this discussion under 'Allowance for Loan Losses.'

Non-Interest Income

Fees related to deposit accounts and cash management accounts and income on loans held for sale represent a significant portion of the Bank's primary non-interest income. The total of non-interest income for 2012 was \$7.7 million versus \$3.7 million in 2011.

The most significant increase in non-interest income from 2011 to 2012 was \$2.9 million in income on loans held for sale and \$1.1 million in other income, the details of which have been previously discussed.

The Bank is constantly searching for new non-interest income opportunities that enhance income and provide customer benefits.

Non-Interest Expense

Non-interest Expense was \$16.4 million in 2012 versus \$12.4 million in 2011. Approximately 56% and 54% of non-interest expense for 2012 and 2011, respectively, related to personnel costs. Personnel are the lifeblood of every service organization, which is why personnel cost, is such a significant part of the expenditure mix. Salaries and benefits increased by \$2.5 million in 2012, the result of the addition of the Morgantown office for a full year, information technology staff, operations center staff, human resources and accounting additions, mortgage and commercial lending additions and increases for existing staff.

Consulting expense increased by \$614,000 in 2012. This increase related mainly to the acquisition of PMG.

Advertising increased by \$165,000, the result of aggressive marketing of MVB's core deposit products.

Equipment and occupancy expense increased by \$278,000. This increase was mainly the result of the additions of the Morgantown office and the operations center for a full year.

Other operating expense increased by \$485,000. This increase was driven by increases in travel and entertainment of \$70,000, directors' fees of \$60,000, training of \$56,000 and telephone expense of \$47,000.

Table of Contents
2011 compared to 2010

Net interest income increased by \$3.3 million when comparing 2011 with 2010 results. This increase is largely due to growth in average earning assets, primarily loans, of \$79.8 million in 2011. Average interest-bearing liabilities, mainly deposits, increased by \$90.1 million in 2011. This increase was due mainly to a \$37.8 million increase in the broker buster checking account, \$22.6 million in additional public funds accounts and increases in CDARS and brokered balances of \$20.7 million along with an increase of \$14.8 million in the bank's core checking and savings product.

A large portion of non-interest income is comprised of fees related to deposit accounts and cash management accounts. Non-interest income was \$3.7 million in 2011 compared to \$2.5 million in 2010. This increase was due primarily to \$745,000 in gains on the sale of investment securities and \$323,000 in increased revenue on loans sold into the secondary market.

Non-interest expense reached \$12.3 million in 2011 compared to \$9.1 million in 2010. This increase was the result of the following: \$1.9 million increase in salaries and benefits, \$465,000 in increased legal expenses, \$197,000 in additional consulting, \$144,000 increased advertising expenses and increased occupancy expense of \$107,000.

Income Taxes

MVB incurred income tax expense of \$1.7 million in 2012 and \$1.0 million in 2011.

The effective tax rate was 28% in 2012 and 27% 2011.

Return on Assets

MVB's return on average assets was .71% in 2012, .57% in 2011 and .57% in 2010.

Return on Equity

MVB's return on average stockholders' equity ("ROE") was 8.33% in 2012, compared to 6.69% in 2011 and 7.98% in 2010. The increased return in 2012 is a direct result of improved earnings in 2012, driven by continued commercial loan growth and income from the sale of mortgage loans into the secondary market.

Overview of the Statement of Condition

The MVB balance sheet changed significantly from 2011 to 2012. Loans increased by \$72.6 million to \$446.4 million at December 31, 2012. Deposits increased by \$96.0 million, FHLB and other borrowings increased by \$81.8 million and stockholders' equity increased by \$19.8 million.

Cash and Cash Equivalents

MVB's cash and cash equivalents totaled \$21.6 million at December 31, 2012, compared to \$9.8 million at December 31, 2011. This increase was due to additional balances at Compass Bank and the Federal Reserve at year end, as well as balances held at PMG.

Management believes the current balance of cash and cash equivalents adequately serves MVB's liquidity and performance needs. Total cash and cash

Table of Contents

equivalents fluctuate on a daily basis due to transactions in process and other liquidity demands. Management believes the liquidity needs of MVB are satisfied by the current balance of cash and cash equivalents, readily available access to traditional and non-traditional funding sources, and the portions of the investment and loan portfolios that mature within one year. These sources of funds should enable MVB to meet cash obligations as they come due.

Investment Securities

Investment securities totaled \$114.9 million at December 31, 2012, compared to \$112.9 million at December 31, 2011.

MVB's investment securities are primarily classified as available-for-sale. Management believes the available-for-sale classification provides flexibility for MVB in terms of managing the portfolio for liquidity, yield enhancement and interest rate risk management opportunities. At December 31, 2012, the amortized cost of MVB's investment securities totaled \$114.5 million, resulting in unrealized gain in the investment portfolio of \$1.2 million. MVB currently classifies its entire municipal portfolio as held to maturity. The municipal portfolio was increased by \$21.8 million in 2012 as a result of acquiring the ability to utilize more municipals for pledging purposes.

Management monitors the earnings performance and liquidity of the investment portfolio on a regular basis through Asset and Liability Committee ("ALCO") meetings. The ALCO also monitors net interest income and manages interest rate risk for MVB. Through active balance sheet management and analysis of the investment securities portfolio, MVB maintains sufficient liquidity to satisfy depositor requirements and the various credit needs of its customers. Management believes the risk characteristics inherent in the investment portfolio are acceptable based on these parameters.

The Company evaluated its holding of Federal Home Loan Bank of Pittsburgh ("FHLB") stock for impairment and deemed the stock to not be impaired due to the expected recoverability of the par value, which equals the value reflected within the Company's financial statements. The decision was based on several items ranging from the estimated true economic losses embedded within the FHLB's mortgage portfolio to the FHLB's liquidity position and credit rating. The Company utilizes the impairment framework outlined in paragraph 8(i) of SOP 01-06 and paragraphs 12.21 – 12.25 of the AICPA Audit Guide for Depository and Lending Institutions to evaluate FHLB stock for impairment. The following factors were evaluated to determine the ultimate recoverability of the par value of the FHLB stock holding.

^a The significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted.

The suspension of stock redemptions and dividend payments will provide the FHLB with the means to build capital. This will reduce the likelihood that any owner of FHLB stock will ultimately incur a loss in the future. In addition, the FHLB's historical ability and commitment to holding investments until maturity is projected to reduce the unrealized loss within the mortgage portfolio from \$13.5 billion to an estimated embedded economic loss of less than \$1 billion, which will further enhance capital and the ultimate recoverability of the par value of stock.

Table of Contents

b. Commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB.

The Company is not aware of any significant/unusual commitments made by the FHLB that would impact future financial performance, dividend rates, or the ultimate recoverability of the stock holding at par value.

c. The impact of legislative and regulatory changes on the institutions and, accordingly, on the customer base of the FHLB.

The level of government support received by the FHLB ensures its ability to meet its obligations and therefore provide for the ultimate recoverability of the stock at par value. The level of government support includes access to the U.S. Government-Sponsored Enterprise Credit Facility as a liquidity backstop, which will allow the FHLB to continue serving its customer base. The Company believes that the level of government support provides further evidence as to the recoverability of the stock holding at par value.

d. The liquidity position of the FHLB.

The FHLB maintains contingency liquidity in accordance with Finance Agency and Board of Director policy in addition to access to the U.S. Government-Sponsored Enterprise Credit Facility. Contingency liquidity includes: marketable assets with a maturity of one year or less, self-liquidating assets with a maturity of one year or less, collateral generally accepted in the repurchase market, and lines of credit with financial institutions receiving no less than the second highest credit rating from a nationally recognized rating organization. The level of liquidity will ensure the FHLB continues to service its customers and serves as the base for the ultimate recoverability of the stock holding at par value.

Whether a decline is temporary or whether it affects the ultimate recoverability of the FHLB stock based on (a) the e. materiality of the carrying amount to the member institution and (b) whether an assessment of the institution's operational needs for the foreseeable future allow management to dispose of the stock.

The Company does not deem the holding of FHLB stock to be material in terms of financial performance or liquidity position. The Company does not rely on the payment of dividends from the FHLB as a source of income, but rather the Company considers the stock part of conducting business. While the FHLB is utilized as a source of funding, the Company has other avenues to obtain funding ranging from customer deposits, other financial institutions, CDARS deposits, brokered money and other wholesale sources. The Company's current liquidity plan does not contemplate any cash generated from the sale of its FHLB capital stock. The ability to reduce FHLB funding reliance through other sources illustrates that the importance of liquidating FHLB stock is not essential to the overall liquidity position of the Company.

Table of Contents

During 2012 the FHLB began redeeming excess capital stock held by MVB again. They also began paying dividends once again.

Loans

MVB's lending is primarily focused in Marion, Harrison, Berkeley, Jefferson and Monongalia County, 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. Loans totaled \$446.4 million as of December 31, 2012, compared to \$373.8 million at December 31, 2011.

During 2012, MVB experienced loan growth of \$72.6 million. The most significant portion of the growth came in the residential real estate and commercial and non-residential real estate area. Residential real estate loans grew \$8.5 million and commercial and non-residential real estate loans grew approximately \$60.7 million.

At December 31, 2012, commercial loans represented the largest portion of the portfolio approximating 67.1% of the total loan portfolio. Commercial loans totaled \$299.6 million at December 31, 2012, compared to \$238.5 million at December 31, 2011. Management will continue to focus on the enhancement and growth of the commercial loan portfolio while maintaining appropriate underwriting standards and risk/price balance.

Residential real estate loans to MVB's retail customers (including home equity lines of credit) account for the second largest portion of the loan portfolio, comprising 29.1% of MVB's total loan portfolio. Residential real estate loans totaled \$130.0 million at December 31, 2012, compared to \$121.5 million at December 31, 2011. Included in residential real estate loans are home equity credit lines totaling \$16.8 million at December 31, 2012, compared to \$15.9 million at December 31, 2011. Management believes the home equity loans are competitive products with an acceptable return on investment after risk considerations. Residential real estate lending continues to represent a primary focus of MVB's lending due to the lower risk factors associated with this type of loan and the opportunity to provide service to those in the Marion, Harrison, Berkeley, Jefferson and Monongalia County markets.

Consumer lending continues to be a part of MVB's core lending. At December 31, 2012, consumer loan balances totaled \$16.8 million compared to \$13.8 million at December 31, 2011. The majority of MVB's consumer loans are in the direct lending area. Management is pleased with the performance and quality of the consumer loan portfolio, which can be attributed to the many years of experience of its consumer lenders. This is another important product necessary to serve MVB's market areas.

Table of Contents

The following table provides additional information about MVB's loans:

Loan maturities at December 31, 2012:

(Dollars in Thousands)

	One Year or Less	One Thru Five Years	Due After Five Years	Total
Commercial and nonresidential real estate	\$ 57,231	\$ 93,787	\$ 148,621	\$299,639
Residential real estate	10,011	24,702	95,299	130,012
Consumer and other	5,609	8,581	2,602	16,792
Total	\$ 72,851	\$ 127,070	\$ 246,522	\$446,443

The preceding data has been compiled based upon the earlier of either contractual maturity or next repricing date.

Loan Portfolio Analysis:

(Dollars in Thousands)	2012	2011
Year-end balances:		
Commercial, financial and agricultural Real estate	299,639	238,504
Consumer	130,012	121,536
	16,792	13,782
Total	446,443	373,822

Loan Concentration

At December 31, 2012, commercial loans comprised the largest component of the loan portfolio. There are very few commercial loans that are not secured by real estate. Such non-real estate secured loans generally are lines of credit secured by accounts receivable. 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.

Allowance for Loan Losses

Management continually monitors the risk in the loan portfolio through review of the monthly delinquency reports and the Loan Review Committee. The Loan Review Committee is responsible for the determination of the adequacy of the allowance for loan losses. This 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 delinquent 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 has been a valuable indication of a potential problem.

Table of Contents

The result of the evaluation of the adequacy at each period presented herein indicated that the allowance for loan losses was considered adequate to absorb losses inherent in the loan portfolio.

At December 31, 2012 and 2011 MVB had impaired loans totaling \$3.1 million and \$2.8 million respectively. A portion of the Allowance for Loan Losses was allocated to cover any loss in these loans. Loans past due more than 30 days were \$3.6 million and \$5.2 million, respectively, at December 31, 2012 and 2011.

	December 31	
	2012	2011
Loans past due more than 30 days to gross loans	0.81%	1.37%
Loans past due more than 90 days to gross loans	0.07%	0.02%

MVB incurred net charge-offs of \$1.8 million in 2012 and \$1.2 million in 2011. MVB's provision for loan losses was \$2.8 million in 2012 and \$1.7 million in 2011. Net charge-offs represented .41% and .33% in 2012 and 2011, respectively, compared to average outstanding loans for the indicated period.

	2012	2011
Balance, January 1	\$3,045	\$2,478
Provision	2,800	1,723
Charge-offs	1,791	1,189
Recoveries	(22)	(33)
Less: Net charge-offs	1,769	1,156
Balance, December 31	\$4,076	\$3,045

The following table reflects the allocation of the allowance for loan losses as of December 31:

(Dollars in Thousands)	2012	2011
Allocation of allowance for loan losses at December 31:		
Commercial	\$3,107	\$2,164
Real estate	756	615
Consumer	213	266
Total	\$4,076	\$3,045

Percent of loans to total loans at December 31:

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

Commercial	67%	62%
Real estate	29	34
Consumer	4	4
Total	100 %	100 %

Non-performing assets consist of loans that are no longer accruing interest, loans that have been renegotiated to below market rates based upon financial difficulties of the borrower, and real estate acquired through foreclosure. When interest accruals are suspended, accrued interest income is reversed with current year accruals charged to earnings and prior year amounts generally charged off as a credit loss. When, in management's judgment, the borrower's ability to make periodic interest and principal payments resumes and collectability is no longer in doubt, the loan is returned to accrual status.

Table of Contents

Non-performing assets and past due loans:

(Dollars in Thousands)	2012	2011
Non-accrual loans		
Commercial	\$3,081	\$2,453
Real estate	43	76
Consumer	1	163
Total non-accrual loans	3,125	2,692
Renegotiated loans	—	518
Total non-performing loans	3,125	3,210
Other real estate, net	207	176
Total non-performing assets	\$3,332	\$3,386
Accruing loans past due 90 days or more	329	66
Non-performing loans as a % of total loans	0.75 %	0.91 %
Allowance for loan losses as a % of non-performing loans	122.33 %	89.93 %

Funding Sources

MVB 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 MVB, totaling \$486.5 million, or 75.0% of MVB's funding sources at December 31, 2012. This same information at December 31, 2011 reflected \$390.5 million in deposits representing 81.7% of such funding sources. Cash management accounts, which are available to large corporate customers, represented 10.8% and 16.3% of MVB's funding sources at December 31, 2012 and 2011, respectively. Borrowings represented the remainder of such funding sources.

Management continues to emphasize the development of additional non-interest-bearing deposits as a core funding source for MVB. At December 31, 2012, non-interest-bearing balances totaled \$54.6 million compared to \$38.6 million at December 31, 2011 or 11.2% and 9.9% of total deposits respectively.

Interest-bearing deposits totaled \$431.9 million at December 31, 2012, compared to \$351.9 million at December 31, 2011. On a percentage basis, interest bearing checking accounts compose the largest component of MVB's deposits. Average interest-bearing liabilities totaled \$489.6 million during 2012 compared to \$391.7 million during 2011. Average non-interest bearing liabilities totaled \$50.1 million during 2012 compared to \$41.7 million during 2011. Management will continue to emphasize deposit gathering in 2013 by offering outstanding customer service and

competitively priced products.

Maturities of Certificates of Deposit \$100,000 or more:

(Dollars in Thousands) 2012

Under 3 months	\$31,567
Over 3-6 months	19,981
Over 6 to 12 months	18,528
Over 12 months	16,796
Total	\$86,872

There are no other time deposits of \$100,000 or more.

28

Table of Contents

Federal Home Loan Bank and other borrowings and repurchase agreements:

(Dollars in Thousands)	2012	2011	
Ending balance	\$ 161,851	\$ 87,602	
Average balance	83,177	72,878	
Highest month-end balance	161,851	99,268	
Interest expense	977	967	
Weighted average interest rate:			
End of Year	1.09	%	1.08 %
During the Year	1.17	%	1.33 %

Along with traditional deposits, MVB has access to both overnight repurchase agreements and Federal Home Loan Bank and other borrowings to fund its operations and investments. MVB's repurchase agreements totaled \$70.2 million at December 31, 2012, compared to \$77.8 million in 2011. Federal Home Loan Bank and other borrowings totaled \$91.6 million at December 31, 2012, compared to \$9.8 million at year-end 2011. \$59.0 million of the increase in borrowings related to MVB's acquisition of PMG, Inc., which utilized the borrowings to fund their loan pipeline.

Capital/Stockholders' Equity

During the year ended December 31, 2012, stockholders' equity increased approximately \$19.8 million to \$67.5 million. This increase consists of MVB's net income for the year of \$4.2 million, along with a capital raise of \$13.7 million to accredited investors during December 2012. MVB paid dividends to common shareholders of \$307,000 in 2012 and \$218,000 in 2011.

At December 31, 2012, accumulated other comprehensive income (loss) totaled (\$1.5) million, an increase in the loss of \$753,000 from December 31, 2011. This principally represents net unrealized loss on available-for-sale securities, net of income taxes, and the adjustment to pension liability, net of income taxes, at December 31, 2012. Because the vast majority of all the investment securities in MVB's portfolio are classified as available-for-sale, both the investment and equity sections of MVB's balance sheet are more sensitive to the changing market values of investments than those institutions that classify more of their investment portfolio as "held to maturity". Interest rate fluctuations between year-end 2012 and 2011 resulted in the change in market value of the portfolio.

MVB has also complied with the standards of capital adequacy mandated by the banking industry. 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 Audited Financial Statements.

At December 31, 2012, MVB's risk-based capital ratios were above the minimum standards for a well-capitalized institution. MVB's risk-based capital ratio of 13.1% at December 31, 2012, is above the well-capitalized standard of 10%. MVB's Tier 1 capital ratio of 12.2% also exceeded the well-capitalized minimum of 6%. The leverage ratio at December 31, 2012, was 9.0% and was also above the well-capitalized standard of 5%. Management believes MVB's capital continues to provide a strong base for profitable growth.

Liquidity and Interest Rate Sensitivity

The objective of MVB's asset/liability management function is to maintain consistent growth in net interest income within its policy guidelines. This objective is accomplished through management of MVB's balance sheet liquidity and interest rate risk exposure based on changes in economic conditions, interest rate levels, and customer preferences.

Table of Contents

Interest Rate Risk

The most significant market risk resulting from MVB's normal course of business, extending loans and accepting deposits, is interest rate risk. Interest rate risk is the potential for economic loss due to future interest rate changes which can impact both the earnings stream as well as market values of financial assets and liabilities. MVB's Asset/Liability Committee (ALCO) is responsible for the overall review and management of the Bank's balance sheets related to the management of interest rate risk. The ALCO strives to keep MVB focused on the future, anticipating and exploring alternatives, rather than simply reacting to change after the fact.

To this end, the ALCO has established an interest risk management policy that sets the minimum requirements and guidelines for monitoring and controlling the level and amount of interest rate risk. The objective of the interest rate risk policy is to encourage management to adhere to sound fundamentals of banking while allowing sufficient flexibility to exercise the creativity and innovations necessary to meet the challenges of changing markets. The ultimate goal of these policies is to optimize net interest income within the constraints of prudent capital adequacy, liquidity, and safety.

The ALCO relies on different methods of assessing interest rate risk including simulating net interest income, monitoring the sensitivity of the net present market value of equity or economic value of equity, and monitoring the difference or gap between maturing or rate-sensitive assets and liabilities over various time periods. The ALCO places emphasis on simulation modeling as the most beneficial measurement of interest rate risk due to its dynamic measure. By employing a simulation process that measures the impact of potential changes in interest rates and balance sheet structures, and by establishing limits on changes in net income and net market value, the ALCO is better able to evaluate the possible risks associated with alternative strategies.

The simulation process starts with a base case simulation which represents projections of current balance sheet growth trends. Base case simulation results are prepared under a flat interest rate forecast and what is perceived to be the most likely alternative interest rate forecast. Comparisons showing the earnings variance from the flat rate forecast illustrate the risks associated with the current balance sheet strategy. If necessary, additional balance sheet strategies are developed and simulations prepared. The results from model simulations are reviewed for indications of whether current interest rate risk strategies are accomplishing their goal and, if not, what alternative strategies should be considered. The policy calls for periodic review by the ALCO of assumptions used in the modeling.

The ALCO believes that it is beneficial to monitor interest rate risk for both the short-and long-term. Therefore, to effectively evaluate results from model simulations, limits on changes in net interest income and the value of the balance sheet have been established. The ALCO has determined that the earnings at risk of the Bank shall not change more than 10 % from the base case for a 1% shift in interest rates, nor more than 15 % from the base case for a 2% shift in interest rates. MVB is in compliance with this policy as of December 31, 2012.

Table of Contents

The following table is provided to show the earnings at risk of MVB as of December 31, 2012.

(Dollars in Thousands)

Immediate Interest Rate Change (one year time frame) (in Basis Points)	Estimated Increase (Decrease) in Net Interest Income December 31, 2012	Amount	Percent
+200		\$19,094	-8.2%
+100		19,717	-5.2%
Base rate		20,804	
-100		20,863	0.3%
-200		\$20,157	3.1%

Liquidity

Maintenance of a sufficient level of liquidity is a primary objective of the ALCO. Liquidity, as defined by the ALCO, is the ability to meet anticipated operating cash needs, loan demand, and deposit withdrawals, without incurring a sustained negative impact on net interest income. It is MVB's policy to manage liquidity so that there is no need to make unplanned sales of assets or to borrow funds under emergency conditions.

The main source of liquidity for MVB comes through deposit growth. Liquidity is also provided from cash generated from investment maturities, principal payments from loans, and income from loans and investment securities. During the year ended December 31, 2012, cash provided by financing activities totaled \$124.1 million, while outflows from investing activity totaled \$101.6 million. When appropriate, MVB has the ability to take advantage of external sources of funds such as advances from the Federal Home Loan Bank (FHLB), national market certificate of deposit issuance programs, the Federal Reserve discount window, brokered deposits and CDARS. These external sources often provide attractive interest rates and flexible maturity dates that enable MVB to match funding with contractual maturity dates of assets. Securities in the investment portfolio are primarily classified as available-for-sale and can be utilized as an additional source of liquidity.

Off-Balance Sheet Commitments

MVB has entered into certain agreements that represent off-balance sheet arrangements that could have a significant impact on MVB's financial statements and could have a significant impact in future periods. Specifically, MVB has entered into agreements to extend credit or provide conditional payments pursuant to standby and commercial letters of credit. Further discussion of these agreements, including the amounts outstanding at December 31, 2012, is included in Note 7 to the financial statements.

Commitments to extend credit, including loan commitments, standby letters of credit, and commercial letters of credit do not necessarily represent future cash requirements, in that these commitments often expire without being drawn upon.

Fourth Quarter

MVB's fourth quarter net income was \$1.4 million in 2012 compared to \$727,000 in the fourth quarter of 2011. This equated to basic earnings per share, on a quarterly basis, of \$.59 in 2012 and \$.33 in 2011. Diluted earnings per share for the fourth quarter of 2012 and 2011 were \$.57 and \$.33, respectively. Net interest income increased during the fourth quarter and was \$4.6 million in the fourth quarter of 2012 compared to \$4.0 million in 2011. Non-interest income was \$3.4 million in the fourth quarter of 2012 compared to \$1.2 million in 2011. Non-interest expense increased to \$5.2 million for the fourth quarter of 2012 from \$3.7 million in 2011. Loan loss provision was \$675,000 for the fourth quarter of 2012, an increase of \$173,000 over the fourth quarter of 2011.

Table of Contents

Future Outlook

The Bank's net income in 2012 was better than in any prior year, despite the challenges of a continued poor economic climate. MVB believes it is well positioned in some of the finest markets in the state of West Virginia, and now with the acquisition of PMG, northern Virginia. We believe with continued customer acceptance in our markets and our commitment to customer service, we will continue to capture market share with our emphasis on the highest quality products and technology.

Future plans for the Bank involve the Bank taking advantage of both technology and personal customer contact. The Bank continues to expand delivery channels to better serve both retail and business banking customers. In addition to "top of the line" technology, the Bank is committed to providing individual and personal banking services. MVB will continue to search for quality banking locations as well as exploring alternative delivery systems.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

No response required.

Table of ContentsITEM 8.FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MVB Financial Corp. and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands, except number of shares)

December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and due from banks	\$21,637	\$9,763
Interest bearing balances with banks	3,703	278
Certificates of deposit with other banks	9,427	9,918
Investment Securities:		
Securities held-to-maturity, at cost	35,370	13,568
Securities available-for-sale, at approximate fair value	79,502	99,366
Loans:	446,443	373,822
Less: Allowance for loan losses	(4,076)	(3,045)
Net Loans	442,367	370,777
Loans held for sale	85,529	7,147
Bank premises, furniture and equipment	11,354	7,782
Bank owned life insurance	10,524	8,076
Accrued interest receivable and other assets	9,734	5,909
Goodwill	17,622	897
TOTAL ASSETS	\$726,769	\$533,481
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$54,620	\$38,632
Interest bearing	431,899	351,913
Total Deposits	486,519	390,545
Accrued interest, taxes, and other liabilities	6,726	3,478
Repurchase agreements	70,234	77,835
FHLB and other borrowings	91,617	9,767
Subordinated debt	4,124	4,124
Total Liabilities	659,220	485,749
STOCKHOLDERS' EQUITY		
Preferred stock, par value \$1,000; 8,500 and 8,500 shares authorized; 8,500 and 8,500 shares issued	8,500	8,500
Common stock, par value \$1; 4,000,000 shares authorized;		

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

2,932,901 and 2,234,767 shares issued respectively	2,933	2,235
Additional paid-in capital	48,750	32,603
Treasury Stock, 51,077 and 51,077 shares, respectively	(1,084)	(1,084)
Retained earnings	9,945	6,220
Accumulated other comprehensive loss	(1,495)	(742)
Total Stockholders' Equity	67,549	47,732
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$726,769	\$533,481

See Notes to Consolidated Financial Statement

Table of Contents

MVB Financial Corp. and Subsidiaries

Consolidated Statements of Income

(Dollars in thousands except Share and Per Share Data)

Years ended December 31, 2012 and 2011

	2012	2011
INTEREST INCOME		
Interest and fees on loans	\$19,105	\$16,446
Interest on deposits with other banks	204	103
Interest on investment securities - taxable	1,457	1,539
Interest on tax exempt loans and securities	1,488	920
Total interest income	22,254	19,008
INTEREST EXPENSE		
Interest on deposits	3,866	3,852
Interest on repurchase agreements	511	503
Interest on FHLB and other borrowings	466	464
Interest on subordinated debt	87	81
Total interest expense	4,930	4,900
NET INTEREST INCOME	17,324	14,108
Provision for loan losses	2,800	1,723
Net interest income after provision for loan losses	14,524	12,385
OTHER INCOME		
Service charges on deposit accounts	730	660
Income on bank owned life insurance	343	287
Visa debit card income	471	414
Income on loans held for sale	3,850	957
Gain on sale of securities	638	833
Gain on derivative	72	—
Other operating income	1,645	537
	7,749	3,688
OTHER EXPENSES		
Salaries and employee benefits	9,266	6,717
Occupancy expense	852	697
Equipment depreciation and maintenance	717	594
Data processing	612	412
Visa debit card expense	387	332
Advertising	647	482
Legal and accounting fees	396	632
Printing, stationery and supplies	200	172
Consulting fees	1,022	408
FDIC insurance	302	368
Other taxes	183	175
Other operating expenses	1,855	1,370

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

	16,439	12,359
Income before income taxes	5,834	3,714
Income tax expense	1,666	1,012
Net Income	\$4,168	\$2,702
Preferred dividends	136	44
Net Income available to common shareholders	\$4,032	\$2,658
Basic net income per share after preferred dividends	\$1.84	\$1.24
Diluted net income per share after preferred dividends	\$1.79	\$1.21
Basic weighted average shares outstanding	2,194,325	2,147,890
Diluted weighted average shares outstanding	2,254,617	2,194,410
See Notes to Consolidated Financial Statement		

Table of Contents

MVB Financial Corp. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Dollars in thousands)

Years ended December 31, 2012 and 2011

	December 31	
	2012	2011
Net Income	4,168	2,702
Other comprehensive income		
Securities available for sale not other than temporarily impaired:		
Unrealized holding gains/(losses) during the year	(996)	(737)
Income tax effect	398	295
Reclassification adjustment for gain recognized in income	638	833
Income tax effect	(255)	(333)
Minimum pension liability adjustment	(898)	(895)
Income tax effect	360	358
Other comprehensive income	(753)	(479)
Comprehensive income	3,415	2,223

See Notes to Consolidated Financial Statement

35

Table of Contents

MVB Financial Corp. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

(Dollars in thousands)

Years ended December 31, 2012 and 2011

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2010	\$—	\$ 1,802	\$ 25,593	\$ 4,643	\$ (263)	\$ (1,006)	\$ 30,769
Comprehensive income:							
Net Income				2,702			2,702
Other comprehensive income(loss)							
Net fair value adjustment on securities available for sale, less reclassification adjustment for realized gains net of tax effect of (\$38)					58		58
Minimum pension liability adjustment - net of tax effect of \$358					(537)		(537)
Total other comprehensive (loss)							(479)
Cash dividends paid (\$0.10 per share)				(218)			(218)
Dividends on preferred stock				(44)			(44)
Stock offering		394	6,112	(6)			6,500
Preferred stock issued	8,500			(37)			8,463
Stock based compensation			117				117
Stock dividend - 10% stock dividend		39	781	(820)			
Treasury stock acquired at cost						(78)	(78)
Balance, December 31, 2011	\$ 8,500	\$ 2,235	\$ 32,603	\$ 6,220	\$ (742)	\$ (1,084)	\$ 47,732
Comprehensive income:							
Net Income				4,168			4,168
Other comprehensive income/ (loss) income(loss)							
Net fair value adjustment on securities available for sale, less reclassification adjustment for realized gains - net of tax effect of \$143					(215)		(215)

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

Minimum pension liability adjustment - net of tax effect of \$360					(538)		(538)
Total other comprehensive (loss)							(753)
Cash dividends paid (\$0.14 per share)				(307)			(307)
Dividends on preferred stock				(136)			(136)
Stock offering in process	573	13,161					13,734
Dividend reinvestment plan proceeds	42	931					973
Stock based compensation		138					138
Stock issuance from acquisition	83	1,917					2,000
Treasury stock, acquired at cost						—	
Balance, December 31, 2012	\$ 8,500	\$ 2,933	48,750	9,945	\$(1,495)	\$(1,084)	\$ 67,549
See Notes to Consolidated Financial Statement							

Table of Contents

MVB Financial Corp. and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in thousands)

Years ended December 31, 2012 and 2011

	2012	2011
OPERATING ACTIVITIES		
Net Income	\$4,168	\$2,702
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,800	1,723
Deferred income tax (benefit)/expense	(144)	147
Depreciation	533	466
Stock based compensation	138	117
Loans originated for sale	(160,367)	(62,647)
Proceeds of loans sold	145,633	58,236
(Gain) on sale of loans held for sale	(3,415)	(897)
Loss on sale of other real estate owned	10	73
(Gain) on sale of investment securities	(638)	(833)
Amortization, net of accretion	1,240	886
(Gain) on derivatives	(72)	—
(Increase) in interest receivable and other assets	(1,911)	(1,489)
Increase in accrued interest, taxes, and other liabilities	1,384	775
NET CASH (USED IN) OPERATING ACTIVITIES	(10,641)	(741)
INVESTING ACTIVITIES		
(Increase) in loans made to customers	(74,390)	(80,934)
Purchases of premises and equipment	(3,859)	(669)
Purchases of investment securities available-for-sale	(61,207)	(249,771)
Purchases of investment securities held-to-maturity	(22,046)	(7,361)
(Increase)/decrease in deposits with FHLB and Fed, net	(3,425)	9,813
Purchases of certificates of deposit with other banks	—	(9,918)
Proceeds from maturity of certificates of deposit with other banks	491	17,734
Proceeds from sales, maturities and calls of securities available-for-sale	80,240	212,300
Proceeds from maturities and calls of securities held-to-maturity	115	1,225
Proceeds from sale of other real estate owned	215	373
Branch acquisition, net of cash acquired	(15,646)	—
Purchase of bank owned life insurance	(2,105)	(2,100)
NET CASH (USED IN) INVESTING ACTIVITIES	(101,617)	(109,308)
FINANCING ACTIVITIES		
Net increase in deposits	95,974	90,111
Net (decrease)/increase in repurchase agreements	(7,601)	30,212
Proceeds from FHLB and other borrowings	159,984	80,104
Principal payments on FHLB and other borrowings	(138,489)	(98,951)
Purchase of treasury stock	—	(78)
Net proceeds of stock offering	13,734	6,500

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

Cash dividend	(307)	(218)
Dividend reinvestment plan proceeds	973	—
Issuance of preferred stock	—	8,463
Dividends on preferred stock	(136)	(44)
NET CASH PROVIDED BY FINANCING ACTIVITIES	124,132	116,099
Increase in cash and cash equivalents	11,874	6,050
Cash and cash equivalents at beginning of period	9,763	3,713
Cash and cash equivalents at end of period	\$21,637	\$9,763
Supplemental disclosure of cash flow information		
Loans transferred to other real estate owned	\$284	\$284
Cash payments for:		
Interest on deposits, repurchase agreements and FHLB borrowings	\$4,922	\$4,958
Income taxes	\$1,184	\$1,101
Non-cash investing activity		
Issuance of stock in acquisition	\$2,000	\$—
See Notes to Consolidated Financial Statement		

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

MVB Financial Corp., "the Company", provides banking services to the domestic market with the primary market areas being the Marion, Harrison, Monongalia, Jefferson and Berkeley counties of West Virginia. To a large extent, the operations of the Company, such as loan portfolio management and deposit growth, are directly affected by the market area economies.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks with original maturities of ninety days or less.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of MVB Financial Corp. Inc., and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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 these estimates.

Investment Securities

Debt securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for amortization of premium and accretion of discounts computed by the interest method from purchase date to maturity. Other marketable securities are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on securities available-for-sale, net of the deferred income tax effect, are recognized as

direct increases or decreases in stockholders' equity. Cost of securities sold is recognized using the specific identification method.

Loans Held for Sale

Through Crescent Mortgage Company, Franklin American Mortgage and Freddie MAC, MVB Bank, Inc. has the ability to offer customers long-term fixed rate mortgage products without holding these instruments in the bank's loan portfolio. MVB values loans held for sale at fair value.

Derivative Financial Instruments

The Company enters into commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 30 to 120 days. The Company protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the Company commits to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan. As a result, the Company is not exposed to losses and will not realize significant gains related to its rate lock commitments due to changes in interest rates. The correlation between the rate lock commitments and the best efforts contracts is very high due to their similarity.

The market value of rate lock commitments and best efforts contracts is not readily ascertainable with precision because rate lock commitments and best efforts contracts are not actively traded in stand-alone-markets. The Company determines the fair value of rate lock commitments and best efforts contracts by measuring the change in the value of the underlying asset while taking into consideration the probability that the rate lock commitments will close. Because of the high correlation between rate lock commitments and best efforts contracts, no gain or loss occurs on the rate lock commitments.

The Company utilizes interest rate swaps to manage interest rate risk. Interest rate swaps are recognized on the balance sheet at fair value. On the date the derivative contract is entered into, the Company designates the derivatives as either a fair value hedge or a cash flow hedge according to current accounting guidance. The Company documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value hedges or cash flow hedges to specific assets or liabilities on the balance sheet. The Company also formally assesses both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

The Company has not designated any derivatives as fair value hedges as of December 31, 2011. For designated cash flow hedges, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal reduced by an allowance for loan losses. Loans are considered delinquent when scheduled principal or interest payments are 31 days past due. Interest income on loans is recognized on an accrual basis. The allowance for loan losses is maintained at a level deemed adequate to absorb probable losses inherent in the loan portfolio. The Company consistently applies a quarterly loan review process to continually evaluate loans for changes in credit risk. This process serves as the primary means by which the Company evaluates the adequacy of the allowance for loan losses, and is based upon periodic review of the collectability of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are impaired. The general component covers non-classified loans and is based upon historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based upon current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and shortages generally are not classified as impaired. Generally the Company considers impaired loans to include loans classified as non-accrual loans and loans past due for longer than 90 days.

Loan Origination Fees and Costs

Accounting standards require that loan origination and commitment fees and direct loan origination costs be deferred and the net amount amortized as an adjustment of the related loan's yield.

Troubled Debt Restructurings (TDRs)

A restructuring of debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The determination of whether a concession has been granted includes an evaluation of the debtor's ability to access funds at a market rate for debt with similar risk characteristics and among other things, the significance of the modification relative to unpaid principal or collateral value of the debt, and/or the significance of a delay in the timing of payments relative to the frequency of payments, original maturity date or the expected duration of the loan. The most common concessions granted generally include one or more modifications to the terms of the debt such as a reduction in the interest rate for the remaining life of the debt, an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or reduction of the unpaid principal or interest. All TDRs are considered impaired loans.

Mortgage Servicing Assets

Mortgage servicing assets (MSAs) are recorded when MVB sells mortgage loans and retains the servicing on those loans. On a monthly basis, MVB tracks the amount of mortgage loans that are sold with servicing retained. A valuation is done to determine the MSA's value, which is then recorded as an asset and amortized over the period of estimated net servicing revenues. Servicing loans for others generally consists of collecting mortgage payments from borrowers, maintaining escrow accounts, remitting payments to third party investors and when necessary, foreclosure processing. Serviced loans are not included in the Consolidated Balance Sheets. The amortization taken on the servicing asset for the year-ended December 31, 2012 was \$47. At December 31, 2012, MVB had total loans serviced for others of \$89,295.

Bank Premises, Furniture and Equipment

Bank premises, furniture and equipment are carried at cost less accumulated depreciation. The provision for depreciation is computed for financial reporting by the straight-line-method based on the estimated useful lives of assets, which range from 7 to 40 years on buildings and leasehold improvements and 3 to 10 years on furniture, fixtures and equipment.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MVB FINANCIAL CORP. AND SUBSIDIARIES

December 31, 2012

Intangible Assets

The excess of the cost of an acquired company over the fair value of the net assets and identified intangibles acquired is recorded as goodwill. The net carrying amount of intangible assets was \$17.6 million and \$917 at December 31, 2012 and 2011, respectively.

Other Investments

Federal Home Loan Bank (FHLB) stock is recorded at cost and considered to be restricted as the Company is required by the FHLB to hold this investment, and the only market for this stock is the issuing agency. FHLB stock totaled \$2,798 and \$1,973 at December 31, 2012 and 2011, respectively, and is included in accrued interest receivable and other assets in the accompanying Consolidated Balance Sheets.

Income Taxes

Deferred income taxes are reported for timing differences between items of income or expense reported in the financial statements and those reported for income tax purposes. The differences relate principally to accretion of discounts on investment securities, provision for loan losses, minimum pension liability, and differences between book and tax methods of depreciation.

Stock Based Compensation

The Company accounts for stock-based compensation in accordance with generally accepted accounting standards. Under these standards the Company is required to record compensation expense for all awards granted after the date of adoption and for any unvested options previously granted.

Foreclosed Assets Held for Resale

Foreclosed assets held for resale acquired in satisfaction of mortgage obligations and in foreclosure proceedings are recorded at the lower of cost or fair value less estimated selling costs at the time of foreclosure, with any valuation adjustments charged to the allowance for loan losses. Any gains or losses on sale are then recorded in other non-interest expense. At December 31, 2012 and 2011, the Company held other real estate of \$207 and \$176.

Net Operating Income Per Common Share

Diluted net income per common share includes any dilutive effects of stock options, and is computed by dividing net income by the average number of common shares outstanding during the period less the preferred stock dividend, adjusted for the dilutive effect of options under the Company's 2003 Stock Incentive Plan.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and minimum pension liability, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Bank-owned life insurance

Bank-owned life insurance ("BOLI") represents life insurance on the lives of certain Company employees who have provided positive consent allowing the Company to be the beneficiary of such policies. These policies are recorded at their cash surrender value, or the amount that can be realized upon surrender of the policy. Income from these policies is not subject to income taxes and is recorded as other income.

Advertising Costs

Advertising costs are expensed as incurred.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from the company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 financial statement presentation.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MVB FINANCIAL CORP. AND SUBSIDIARIES

December 31, 2012

NOTE 2. INVESTMENT SECURITIES

Amortized cost and approximate fair values of investment securities held-to-maturity at December 31, 2012, including gross unrealized gains and losses, are summarized as follows:

(Dollars in thousands)

	Amortized Cost	Unrealized Gain	Unrealized Loss	Approximate Fair Value
Municipal securities	35,370	988	(140)	36,218
	\$ 35,370	\$ 988	\$ (140)	\$ 36,218

Amortized cost and approximate fair values of investment securities held-to-maturity at December 31, 2011, including gross unrealized gains and losses, are summarized as follows:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Approximate Fair Value
Municipal securities	13,568	587	(11)	14,144
	\$ 13,568	\$ 587	\$ (11)	\$ 14,144

Amortized cost and approximate fair values of investment securities available-for-sale at December 31, 2012 are summarized as follows:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Approximate Fair Value
U. S. Agency securities	\$ 21,951	\$ 247	\$ (6)	\$ 22,192
U.S. Sponsored Mortgage-backed securities	56,217	328	(169)	56,376
Other securities	934	—	—	934
	\$ 79,102	\$ 575	\$ (175)	\$ 79,502

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

Amortized cost and approximate fair values of investment securities available-for-sale at December 31, 2011 are summarized as follows:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Approximate Fair Value
U. S. Agency securities	\$ 51,165	\$ 710	\$ (1)	\$ 51,874
U.S. Sponsored Mortgage-backed securities	47,319	198	(149)	47,368
Other securities	124	—	—	124
	\$ 98,608	\$ 908	\$ (150)	\$ 99,366

41

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

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

	December 31, 2012			
	Held to Maturity		Available for sale	
	Approximate		Approximate	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
Within one year	\$—	\$ —	\$—	\$ —
After one year, but within five	1,746	1,761	9,962	10,118
After five years, but within ten	9,311	9,757	23,886	24,069
After ten Years	24,313	24,700	45,254	45,315
Total	\$35,370	\$ 36,218	\$79,102	\$ 79,502

Investment securities with a carrying value of \$98,209 and \$94,866 at December 31, 2012 and 2011, respectively, 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 December 31, 2012, the details of which are included in the following table. Although these securities, if sold at December 31, 2012 would result in a pretax loss of \$315, 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 December 31, 2012, 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 December 31, 2011, total temporary impairment totaled \$161.

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

Description and number of positions	Less than 12 months		12 months or more	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Agencies (1)	\$ 4,999	\$ (1)	\$ —	\$ —
U.S. Sponsored Mortgage-backed securities (16)	31,073	(128)	3,124	(21)
Municipal securities (3)	936	(11)	—	—
	\$ 37,008	\$ (140)	\$ 3,124	\$ (21)

42

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

The following table discloses investments in an unrealized loss position:

At December 31, 2012, total temporary impairment totaled \$315.

Description and number of positions	Less than 12 months		12 months or more	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Agencies (3)	\$ 9,676	\$ (6)	\$ —	\$ —
U.S. Sponsored Mortgage-backed securities (11)	28,688	(169)	—	—
Municipal securities (28)	11,216	(140)	—	—
	\$ 49,580	\$ (315)	\$ —	\$ —

NOTE 3. LOANS

The components of loans in the balance sheet at December 31, were as follows:

(Dollars in thousands)

	2012	2011
Commercial and non-residential real estate	\$298,854	\$238,177
Residential real estate	130,012	121,536
Consumer and other	16,792	13,782
Net deferred fees and costs	785	327
	\$446,443	\$373,822

Changes in the allowance for loan losses were as follows for the years ended December 31:

(Dollars in thousands)

2012	2011
------	------

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

Balance at beginning of period	\$3,045	\$2,478
Losses charged to allowance	(1,791)	(1,189)
Recoveries credited to allowance	22	33
Provision for loan losses	2,800	1,723
Balance at end of period	\$4,076	\$3,045

The following table summarizes the primary segments of the loan portfolio as of December 31, 2012 and 2011 (in thousands):

	Commercial	Residential	Home Equity	Installment	Credit Cards	Total
December 31, 2011						
Total Loans	\$ 238,504	\$ 105,606	\$15,930	\$ 13,217	\$ 565	\$373,822
Individually evaluated for impairment	\$ 96,152	\$ 6,870	\$1,665	\$ 193	\$ 0	\$104,880
Collectively evaluated for impairment	\$ 142,352	\$ 98,736	\$14,265	\$ 13,024	\$ 565	\$268,942
December 31, 2012						
Total Loans	\$ 299,639	\$ 113,212	\$16,800	\$ 16,174	\$ 618	\$446,443
Individually evaluated for impairment	\$ 203,060	\$ 16,407	\$1,824	\$ 101	\$ 0	\$221,392
Collectively evaluated for impairment	\$ 96,579	\$ 96,805	\$14,976	\$ 16,073	\$ 618	\$225,051

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

Management evaluates individual loans in all of the commercial segments for possible impairment. Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Company also separately evaluates individual consumer and residential mortgage loans for impairment.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. The method is selected on a loan-by-loan basis, with management primarily utilizing the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis.

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 December 31, 2012 and 2011 (in thousands):

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
December 31, 2011					
Commercial	\$ 2,597	\$ 758	\$ 0	\$ 2,597	\$ 2,597
Residential	76	10	0	76	76
Home Equity	9	9	0	9	9
Installment	140	100	0	140	140
Credit Card	0	0	0	0	0
Total impaired loans	\$ 2,822	\$ 877	\$ 0	\$ 2,822	\$ 2,822

December 31, 2012

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

Commercial	\$ 3,074	\$ 684	\$ 0	\$ 3,074	\$ 3,074
Residential	43	35	0	43	43
Home Equity	0	0	0	0	0
Installment	1	1	0	1	1
Credit Card	0	0	0	0	0
Total impaired loans	\$ 3,118	\$ 720	\$ 0	\$ 3,118	\$ 3,118

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MVB FINANCIAL CORP. AND SUBSIDIARIES

December 31, 2012

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

	December	
	2012	2011
Average investment in impaired loans	\$2,970	\$2,091
Interest income recognized on an accrual basis on impaired loans	\$112	\$84

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 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 Credit Department performs an annual review of all commercial relationships \$750,000 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 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.

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 December 31, 2011 and 2012 (in thousands):

Special

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

	Pass	Mention	Substandard	Doubtful	Total
December 31, 2011					
Commercial	\$225,500	\$7,752	\$ 2,655	\$ 2,597	\$238,504
Residential	103,958	1,157	491	—	105,606
Home Equity	15,750	96	75	9	15,930
Installment	12,806	242	29	140	13,217
Credit Card	565	—	—	—	565
Total	\$358,579	\$9,247	\$ 3,250	\$ 2,746	\$373,822

December 31, 2012					
Commercial	\$286,472	\$8,646	\$ 1,770	\$ 2,751	\$299,639
Residential	110,663	2,260	289	—	113,212
Home Equity	16,540	260	—	—	16,800
Installment	15,806	354	13	1	16,174
Credit Card	589	29	—	—	618
Total	\$430,070	\$11,549	\$ 2,072	\$ 2,752	\$446,443

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MVB FINANCIAL CORP. AND SUBSIDIARIES

December 31, 2012

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. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2011 and 2012 (in thousands):

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days + Past Due	Total Past Due	Non- Accrual	Total Loans
December 31, 2011							
Commercial	\$232,765	\$ 448	\$ 2,836	\$ 2	\$ 3,286	\$ 2,453	\$238,504
Residential	103,875	1,593	—	62	1,655	76	105,606
Home Equity	15,846	—	84	—	84	—	15,930
Installment	12,888	138	26	2	166	163	13,217
Credit Card	565	—	—	—	—	—	565
Total	\$365,939	\$ 2,179	\$ 2,946	\$ 66	\$ 5,191	\$ 2,692	\$373,822
December 31, 2012							
Commercial	\$295,295	767	221	\$ 275	\$ 1,263	\$ 3,081	\$299,639
Residential	111,053	1,772	293	51	2,116	43	113,212
Home Equity	16,772	28	—	—	28	—	16,800
Installment	15,991	179	—	3	182	1	16,174
Credit Card	589	24	5	—	29	—	618
Total	\$288,634	\$ 2,770	\$ 519	\$ 329	\$ 3,618	\$ 3,125	\$446,443

An allowance for loan losses ("ALL") is maintained to absorb losses from the loan portfolio. The ALL is based on 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 classes described above, which are based on the Federal call code assigned to each loan, provide the starting point for the ALL analysis. Management tracks 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. Commercial, Mortgage and Consumer 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.

Management has 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 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.

Loans that are 90 days past due and still accruing are both adequately secured and in the process of collection.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

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.

Historically, management has utilized an internally developed spreadsheet to track and apply the various components of the allowance.

The following table summarizes the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2011 and 2012. Activity in the allowance is presented for the year ended December 31, 2012 (in thousands):

	Commercial	Residential	Home Equity	Installment	Credit Card	Total
ALL balance at December 31, 2010	\$ 1,517	\$ 460	\$ 207	\$ 274	\$ 20	\$ 2,478
Charge-offs	(522)	(349)	(177)	(105)	(6)	(1,189)
Recoveries	4	—	10	19	—	33
Provision	1,195	255	209	67	(3)	1,723
ALL balance at December 31, 2011	\$ 2,164	\$ 366	\$ 249	\$ 255	\$ 11	\$ 3,045
Individually evaluated for impairment	\$ 758	\$ 356	\$ 240	\$ 155	\$ 0	\$ 1,509
Collectively evaluated for impairment	\$ 1,406	\$ 10	\$ 9	\$ 100	\$ 11	\$ 1,536

	Commercial	Residential	Home Equity	Installment	Credit Card	Total
ALL balance at December 31, 2011	\$ 2,164	\$ 366	\$ 249	\$ 255	\$ 11	\$ 3,045
Charge-offs	(1,731)	—	(9)	(51)	—	(1,791)
Recoveries	5	—	5	12	—	22
Provision	2,669	148	(3)	(16)	2	2,800
ALL balance at December 31, 2012	\$ 3,107	\$ 514	\$ 242	\$ 200	\$ 13	\$ 4,076
Individually evaluated for impairment	\$ 373	\$ 432	\$ 215	\$ 198	\$ 0	\$ 1,218
Collectively evaluated for impairment	\$ 2,734	\$ 82	\$ 27	\$ 2	\$ 13	\$ 2,858

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MVB FINANCIAL CORP. AND SUBSIDIARIES

December 31, 2012

Troubled Debt Restructurings

The restructuring of a loan is considered a "troubled debt restructuring" 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 2012 and 2011 are set forth in the following table. No TDR's have defaulted.

The following table presents details related to loans identified as Troubled Debt Restructurings (TDRs) at December 31, 2012 and 2011.

(Unaudited, dollars in thousands)	New TDRs (1) December 31, 2012			December 31, 2011		
	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 real estate:	1	886	886	—	—	—
Land and construction	2	349	349	—	—	—
Other	—	—	—	1	103	103
Total commercial real estate	3	1,235	1,235	1 ¹	103	103
Commercial and industrial	—	—	—	—	—	—
Residential real estate	—	—	—	1	415	415
Home equity	—	—	—	—	—	—
Consumer	3	13	13	—	—	—
Total	6	1,248	1,248	2	518	518

⁽¹⁾ Excludes loans that were either paid off or charged-off by period end. The pre-modification balance represents the balance outstanding at the beginning of the period. The post-modification balance represents the outstanding balance at period end.

NOTE 4. BANK PREMISES, FURNITURE AND EQUIPMENT

Bank premises, furniture and equipment at December 31, were as follows:

(Dollars in thousands) 2012 2011

Bank Premises	\$10,533	\$7,647
Equipment, furniture and fixtures	5,054	3,445
	15,587	11,092
Allowance for depreciation	(4,233)	(3,310)
	\$11,354	\$7,782

NOTE 5. DEPOSITS

Deposits at December 31, were as follows:

(Dollars in thousands)

	2012	2011
Demand deposits of individuals, partnerships, and corporations		
Interest bearing	\$175,442	\$113,515
Non-interest bearing	51,821	37,744
Time and savings deposits of individuals, partnerships and corporations	206,263	184,993
Deposits of states and political subdivisions	50,036	53,237
Official checks	2,957	1,056
Total Domestic Deposits	\$486,519	\$390,545
Time deposits of over \$100 included above	\$86,872	\$65,316

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

Maturities of certificates of deposit at December 31, 2012 were as follows:

2013	\$ 120,299
2014	9,827
2015	8,157
2016	5,703
2017	3,864
Total	\$ 147,850

NOTE 6. BORROWED FUNDS

The Company is a party to repurchase agreements with certain customers. As of December 31, 2012 and 2011, the company held repurchase agreements of \$70,234 and \$77,835. Information related to repurchase agreements is summarized below:

(Dollars in thousands)	2012	2011
Balance at end of year	\$70,234	\$77,835
Average balance during the year	67,709	61,855
Maximum month-end balance	77,852	86,507
Weighted-average rate during the year	0.76 %	0.81 %
Rate at December 31	0.80 %	0.66 %

MVB Bank, Inc. (the Bank) is a member of the Federal Home Loan Bank ("FHLB") of Pittsburgh, Pennsylvania. The remaining maximum borrowing capacity with the FHLB at December 31, 2012 was approximately \$146,393. At December 31, 2012 and 2011 the Bank had borrowed \$32,600 and \$9,767.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

Borrowings from the FHLB as of December 31 were as follows:

(Dollars in thousands)

	2012	2011
Fixed interest rate note, originating April 1999, due April 2014, interest of 5.405% is payable monthly	\$1,000	\$1,000
Fixed interest rate note, originating January 2005, due January 2020, payable in monthly installments of \$11, including interest of 5.140%	763	851
Fixed interest rate note, originating April 2002, due May 2017, payable in monthly installments of \$4, including interest of 5.90%	615	631
Floating interest rate note, originating March 2003, interest payable monthly of 0.25%	23,065	—
Fixed interest rate note, originating July 2006, due July 2016, payable in monthly installments of \$8, including interest of 4.50%	1,258	1,301
Fixed interest rate note, originating October 2006, due October 2021, payable in monthly installments of \$6, including interest of 5.20%	1,047	1,068
Fixed interest rate note, originating April 2007, due April 2022, payable in monthly installments of \$6, including interest of 5.18%	995	1,015
Amortizing fixed interest rate note, originating February 2007, due February 2022, payable in monthly installments of \$5, including interest of 5.22%	879	896
Fixed interest rate note, originating December 2007, due December 2017, payable in monthly installments of \$7, including interest of 5.25%	978	1,005
Fixed interest rate note, originating March 2008, due March 2013, interest of 2.37% payable quarterly	2,000	2,000
	\$32,600	\$9,767

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 will be 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 securities issued by the Trust are includable for regulatory purposes as a component of the Company's Tier I capital.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

The Trust Preferred Securities and the Debentures mature in 2037 and are redeemable by the Company in 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. The Company reflects borrowed funds in the amount of \$4.1 million as of December 31, 2012 and 2011 and interest expense of \$87 and \$81 for the years ended December 31, 2012 and 2011.

Borrowings from the FHLB are secured by stock in the FHLB of Pittsburgh, qualifying first mortgage loans, mortgage-backed securities and certain investment securities.

PMG had borrowings of \$59.0 million at December 31, 2012, which were comprised of three lines. A floating rate line at BB&T which originated January 26, 2012, with a rate of 3.50% and a balance of \$18.8 million at December 31, 2012, a floating rate line with Comerica, originated February 27, 2012, with a rate of 3.50% and a balance of \$17.6 million at December 31, 2012 and a floating rate line with United Bank, originating September 15, 2011, with a rate of 3.00% and a balance of \$22.5 million.

A summary of maturities of these borrowings over the next five years is as follows:

Year	Amount
2013	\$61,261
2014	1,257
2015	271
2016	1,353
2017	1,582
Thereafter	30,017
	\$95,741

NOTE 7. COMMITMENTS AND CONTINGENT LIABILITIES

Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statements of financial condition.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

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

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

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

Total contractual amounts of the commitments as of December 31 were as follows:

(Dollars in thousands)

	2012	2011
Available on lines of credit	\$60,357	\$45,627
Stand-by letters of credit	458	346
Other loan commitments	1,616	1,423
	\$62,431	\$47,396

Concentration of Credit Risk

The Company grants a majority of its commercial, financial, agricultural, real estate and installment loans to customers throughout the Marion, Harrison, Monongalia, Jefferson and Berkeley County areas of West Virginia and adjacent counties. Collateral for loans is primarily residential and commercial real estate, personal property, and business equipment. The Company evaluates the credit worthiness of each of its customers on a case-by-case basis, and the amount of collateral it obtains is based upon management's credit evaluation.

Litigation

The subsidiary bank is involved in various legal actions arising in the ordinary course of business. In the opinion of management and counsel, the outcome of these matters will not have a significant adverse effect on the consolidated financial statements.

NOTE 8. INCOME TAXES

Accounting standards require that the Company use an asset and liability approach that requires the recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of other assets and liabilities.

The amount reflected as income taxes represents federal and state income taxes on financial statement income. Certain items of income and expense, primarily the provision for possible loan losses, allowance for losses on foreclosed assets held for resale, depreciation, and accretion of discounts on investment securities are reported in different

accounting periods for income tax purposes.

The provisions for income taxes for the years ended December 31, were as follows:

(Dollars in thousands)

Current:	2012	2011
Federal	\$1,479	\$658
State	331	207
	\$1,810	\$865
Deferred expense(benefit)		
Federal	\$(115)	\$112
State	(29)	35
	(144)	147
Income Tax expense	\$1,666	\$1,012

52

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

Following is a reconciliation of income taxes at federal statutory rates to recorded income taxes for the year ended December 31:

	2012		2011	
	Amount	%	Amount	%
Tax at Federal tax rate	\$1,984	34.0%	\$1,263	34.0%
Tax effect of:				
State income tax	146	2.5 %	93	2.5 %
Tax exempt earnings	(465)	-8.0 %	(345)	-9.3 %
Other	1	0.0 %	1	0.0 %
	\$1,666	28.5%	\$1,012	27.2%

Deferred tax assets and liabilities are the result of timing differences in recognition of revenue and expense for income tax and financial statement purposes.

Deferred income tax liabilities and (assets) were comprised of the following at December 31:

	2012	2011
Depreciation	\$477	\$482
Unrealized loss on securities available-for-sale	160	303
Pension	184	(9)
Gross deferred tax liabilities	821	776
Allowance for loan losses	(1,203)	(871)
Minimum pension liability	(1,157)	(798)
Gross deferred tax (assets)	(2,360)	(1,669)
Net deferred tax (asset)	\$(1,539)	\$(893)

No deferred income tax valuation allowance is provided since it is more likely than not that realization of the deferred income tax asset will occur in future years.

NOTE 9. RELATED PARTY TRANSACTIONS

The Company has granted loans to officers and directors of the Company and to their associates. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk of collectability. Set forth below is a summary of the related loan activity.

(Dollars in thousands)	Balance at Beginning of Year	Borrowings	Repayments	Balance at end of Year
December 31, 2012	\$ 13,300	\$ 12,978	\$ (2,707)	\$23,571
December 31, 2011	\$ 13,995	\$ 2,004	\$ (2,699)	\$13,300

The Company held related party deposits of \$11,483 and \$14,973 at December 31, 2012 and December 31, 2011, respectively.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

The Company held related party repurchase agreements of \$361 and \$1,313 at December 31, 2012 and December 31, 2011, respectively.

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. The Company's funding policy is to fund normal costs of the plan as accrued. Contributions are intended to provide not only for benefits attributed to service to date, but also for those benefits expected to be earned in the future. The Company participated in the pension plan beginning January 1, 1999. The Company has recognized estimated pension expense of \$502 and \$410 for the years ended December 31, 2012 and 2011.

Information pertaining to the activity in the Company's defined benefit plan, using the latest available actuarial valuations with a measurement date of December 31, 2012 and 2011 is as follows:

(Dollars in thousands)	2012	2011
Change in benefit obligation		
Benefit obligation at beginning of year	\$4,214	\$3,059
Service cost	424	356
Interest cost	210	166
Actuarial loss	998	669
Benefits paid	(48)	(36)
Benefit obligation at end of year	\$5,798	\$4,214
Change in plan assets:		
Fair value of plan assets at beginning of year	\$2,198	\$1,794
Actual return on plan assets	232	(113)
Employer contribution	984	553
Benefits paid	(48)	(36)
Fair value of plan assets at end of year	\$3,366	\$2,198
Funded status	\$(2,432)	\$(2,016)
Unrecognized net actuarial loss	2,890	1,990
Unrecognized prior service cost	2	4
Prepaid pension cost recognized	\$460	\$(22)
Accumulated benefit obligation	\$4,473	\$3,288

At December 31, 2012 and 2011, the weighted average assumptions used to determine the benefit obligation are as follows:

Discount rate	4.31 %	5.06 %
Rate of compensation increase	3.00 %	3.00 %

The components of net periodic pension cost are as follows:

Service cost	\$424	\$356
Interest cost	210	166
Expected return on plan assets	(251)	(180)
Amortization of prior service costs	2	2
Amortization of loss	117	66
Net periodic pension cost	\$502	\$410

54

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

At December 31, 2012 and 2011, the weighted average assumptions used to determine net periodic pension cost are as follows:

Discount rate	5.06%	5.50%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%

The Company's pension plan asset allocations at December 31, 2012 and 2011, as well as target allocations for 2013 are as follows:

Asset Category	2013 Target		12/31/2012		12/31/2011	
Equity securities	60	%	54	%	72	%
Balanced fund	30	%	25	%	24	%
Other	10	%	21	%	4	%
Total	100	%	100	%	100	%

The net transition obligation (asset), prior service cost (credit), and estimated net loss (gain) for the plan that are expected to be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are shown in the table below.

	2013	2012
Expected amortization of transition obligation (asset)	\$—	\$—
Expected amortization of prior service cost (credit)	2	2
Expected amortization of net loss (gain)	186	117

The fair value of MVB's pension plan assets at December 31, 2012 by asset class are as follows:

The following table sets forth by level, within the fair value hierarchy, as defined in Note 18 - Fair Value Measurements, the Plan's assets at fair value as of December 31, 2012.

Level I	Level II	Level III	Total
---------	----------	-----------	-------

Assets:

Cash and cash equivalents	\$ 707	\$ —	\$ —	\$ 707
Investment in equity securities	\$ 1,818	\$ —	\$ —	\$ 1,818
Investment in debt securities	\$ —	\$ 841	\$ —	\$ 841
Total assets at fair value	\$ 2,525	\$ 841	\$ —	\$ 3,366

Investment in government and debt securities and short-term investments are valued at the closing price reported on the active market on which the individual securities are traded. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Below we show the best estimate of the plan contribution for next fiscal year. We also show the benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

	Cash Flow
Contributions for the period of 01/01/13 through 12/31/13	\$409,563
Estimated future benefit payments reflecting expected future service	
1/1/2013 through 12/31/2013	\$ 145,222
1/1/2014 through 12/31/2014	\$ 150,428
1/1/2015 through 12/31/2015	\$ 164,048
1/1/2016 through 12/31/2016	\$ 204,050
1/1/2017 through 12/31/2017	\$ 210,551
1/1/2018 through 12/31/2022	\$ 1,401,378

NOTE 11. INTANGIBLE ASSETS

On October 7, 2005, the Company purchased a full service office in the Charles Town area of Jefferson County West Virginia. This office held assets of \$1.8 million and total deposits of \$17.1 million. As a result of this transaction, the Company recorded intangible assets. As of December 31, 2012 the Company has allocated \$12 to core deposit intangibles, which are being amortized using the double-declining balance method over 10 years. The original amount of the core deposit intangible was \$128, with \$116 amortized through December 31, 2012 and \$12 remaining to be amortized over the next three years. The remaining \$897 has been recorded as goodwill, and is evaluated for impairment on October 1st each year by the Company. In December 2012 the Company purchased Potomac Mortgage Group (PMG), a mortgage company in Northern Virginia. As a result of this transaction, MVB recorded \$16.7 million in goodwill. This goodwill will be evaluated for impairment on an annual basis each December.

NOTE 12. STOCK OFFERING

During 2012 the Company began a confidential offering to accredited investors. As of December 31, 2012 the Company had received signed offering memoranda and payment for 573,263 shares totaling \$13.7 million in additional capital at December 31, 2012. The proceeds of this offering are being used to support the acquisition of PMG as well as continued growth of the Company. During 2011 the Company issued 393,305 shares, concluding 2011 with outstanding shares of 2,234,767. A 10% stock dividend declared December 21, 2010 with a record date of January 25, 2011, payable February 15, 2011 resulted in an additional 39,071 shares. In 2012, MVB implemented a dividend reinvestment plan (DRIP) which resulted in the addition of 41,538 shares totaling \$973,000 in additional capital.

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, 2012 and 2011, MVB's loan production qualified for the lowest dividend rate possible of 1%. MVB may continue to utilize the SBLF capital for a period of four and one half years at the 1% dividend rate so long as loan growth continues to support the reduced rate.

NOTE 13. STOCK OPTIONS

The MVB Financial Corp. Incentive Stock Plan provides for the issuance of stock options to selected employees. Under the provisions of the plan, the option price per share shall not be less than the fair market value of the common stock on the date of the grant. All options granted prior to 2004 vest in 4 years, and expire 10 years from the date of grant. For options granted in 2004 and 2005 the vesting period has been accelerated to fully vest at December 31, 2005. These options also expire 10 years from the date of the grant. Options granted in 2006, 2007, 2010, 2011 and 2012 vest in 5 years and expire 10 years from the date of the grant, with the exception of 10,000 shares granted in 2010 that vest in 3 years and expire 10 years from the date of the grant.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

The following summarizes MVB's stock options as of December 31, and the changes for the year then ended:

	2012		2011	
	Number of Shares	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price
Outstanding at beginning of year	239,576	\$ 16.46	207,297	\$ 17.88
Granted	79,500	24.00	10,500	20.45
Adjust for 10% stock dividend	—	—	21,779	—
Exercised	—	—	—	—
Forfeited/expired	—	—	—	—
Outstanding at end of year	319,076	\$ 18.34	239,576	\$ 16.46
Exercisable at end of year	172,880	\$ 15.63	148,973	\$ 15.13
Weighted-average fair value of options granted during the year		\$ 1.88		\$ 3.67

The fair value for the options was estimated at the date of grant using a Black-Scholes option-pricing model with average risk-free interest rates of 1.67% and 3.29% for 2012 and 2011 and a weighted average expected life of the options of 7 years for both 2012 and 2011. The expected volatility of MVB's stock price used for 2012 options was 5.60%, while for the 2011 options it was 5.40%. The expected dividend yield used was .50% for both 2012 and 2011.

The following summarizes information concerning MVB's stock options outstanding at December 31, 2012:

Exercise Price	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 14.55	127,376	4.00	\$ 14.55	172,880	\$ 15.63
\$ 18.18	89,650	8.00	\$ 18.18		
\$ 20.45	22,550	8.00	\$ 20.45		

\$ 24.00 79,500 10.00 \$ 24.00

NOTE 14. REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets, as defined. As of December 31, 2012 and 2011, the Bank meets all capital adequacy requirements to which it is subject.

The most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. Both the Company's and the Bank's actual capital amounts and ratios are presented in the table below.

	ACTUAL		MINIMUM TO BE WELL CAPITALIZED		MINIMUM FOR CAPITAL ADEQUACY PURPOSES	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
(Dollars in thousands)						
As of December 31, 2012						
Total Capital (to risk-weighted assets)						
Consolidated	\$55,527	12.3 %	N/A	N/A	\$ 36,243	8.0 %
Subsidiary Bank	\$59,231	13.1 %	\$45,303	10.0%	\$ 36,243	8.0 %
Tier I Capital (to risk-weighted assets)						
Consolidated	\$51,451	11.4 %	N/A	N/A	\$ 18,121	4.0 %
Subsidiary Bank	\$55,155	12.2 %	\$27,182	6.0%	\$ 18,121	4.0 %
Tier I Capital (to average assets)						
Consolidated	\$51,451	8.4 %	N/A	N/A	\$ 25,323	4.0 %
Subsidiary Bank	\$55,155	9.0 %	\$31,630	5.0%	\$ 25,304	4.0 %
As of December 31, 2011						
Total Capital (to risk-weighted assets)						
Consolidated	\$50,603	14.8 %	N/A	N/A	\$ 27,421	8.0 %
Subsidiary Bank	\$54,291	15.8 %	\$34,276	10.0%	\$ 27,421	8.0 %
Tier I Capital (to risk-weighted assets)						
Consolidated	\$47,558	13.9 %	N/A	N/A	\$ 13,710	4.0 %

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

Subsidiary Bank	\$51,246	14.9 %	\$20,566	6.0%	\$ 13,710	4.0 %
Tier I Capital						
(to average assets)						
Consolidated	\$47,558	8.9 %	N/A	N/A	\$ 21,354	4.0 %
Subsidiary Bank	\$51,246	9.6 %	\$26,686	5.0%	\$ 21,349	4.0 %

NOTE 15. REGULATORY RESTRICTION ON DIVIDEND

The approval of the regulatory agencies is required if the total of all dividends declared by the Bank in any calendar year exceeds the Bank's net profits, as defined, for that year combined with its retained net profits for the preceding two calendar years.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

NOTE 16. LEASES

The Company leases land and building space for the operation of some banking offices. All such leases qualify as operating leases. Following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2012:

	(Dollars in thousands)
Years ended December 31:	
2013	\$ 390
2014	310
2015	322
2016	258
2017	142
Thereafter	471
Total minimum payments required:	\$ 1,893

Total lease expense for the years ended December 31, 2012 and 2011 was \$251 and \$156, respectively.

NOTE 17. 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.

Short-term financial instruments: The carrying values of short-term financial instruments including cash and due from banks, interest bearing balances - FHLB, and certificates of deposit in other banks approximate the fair value of these instruments.

Securities: Estimated 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 estimated 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: Estimated fair values of loans held for sale approximate their carrying values.

Bank Owned Life Insurance: Estimated fair values of bank owned life insurance approximate the cash surrender value of the policies.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

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

Repurchase agreements: The fair values of repurchase agreements approximate their carrying values.

Deposits: The estimated 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 of FHLB and other borrowings are based upon rates currently available for borrowings with similar terms and maturities.

Subordinated debt: The fair value of long-term debt approximates its fair value.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MVB FINANCIAL CORP. AND SUBSIDIARIES

December 31, 2012

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

(Dollars in thousands)	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)
Financial assets:					
Cash and due from banks	\$21,637	\$21,637	\$ 21,637	\$ —	
Interest bearing balances with banks	13,130	13,554	13,130	—	
CDs					
Securities available-for-sale	79,502	80,138	—	79,502	—
Securities held-to-maturity	35,370	36,218	—	36,218	
Loans	446,443	457,158	—	—	457,158
Loans held for sale	85,529	85,529	—	85,529	—
Derivative on loans held for sale	1,261	1,261		1,261	—
Bank owned life insurance	10,524	10,524	10,524		
Accrued interest receivable	1,778	1,778	1,778	—	
	\$695,174	\$707,797	\$ 47,069	\$ 202,510	\$ 457,158
Financial liabilities:					
Deposits	\$486,519	\$498,244	\$ 329,083	\$ —	\$ 169,161
Repurchase agreements	70,234	70,234	70,234	—	—
FHLB and other borrowings	91,617	94,487	—	—	94,487
Accrued interest payable	329	329	329	—	—
Subordinated debt	4,124	4,664	\$ 4,664	\$ —	\$ —
	\$652,823	\$667,958	\$ 404,310	\$ —	\$ 263,648

December 31, 2011
Estimated
Carrying Fair
Value Value
(Dollars in thousands)

Financial assets:	
Cash and due from banks	\$9,763 \$9,763
Interest bearing balances with banks	10,196 10,216
Securities available-for-sale	99,366 99,366
Securities held-to-maturity	13,568 14,144
Loans	373,822 388,027
Loans held for sale	7,147 7,147

Accrued interest receivable	1,582	1,582
	\$ 515,444	\$ 530,245
Financial liabilities:		
Deposits	\$ 390,545	\$ 400,894
Repurchase agreements	77,835	77,861
FHLB and other borrowings	9,767	11,027
Accrued interest payable	341	341
Subordinated debt	4,124	4,124
	\$ 482,612	\$ 494,247

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

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 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 18. FAIR VALUE MEASUREMENTS

Accounting standards require that the Company adopt fair value measurement for financial assets and financial liabilities. This enhanced guidance for using fair value to measure assets and liabilities applies whenever other standards require or permit assets or liabilities to be measured at fair value. This guidance does not expand the use of fair value in any new circumstances.

Accounting standards establish a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by these standards are as follows:

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.

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

The following tables present the assets and liabilities reported on the consolidated statements of financial condition at their fair value as of December 31, 2012 and 2011 by level within the fair value hierarchy. 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 other real estate and impaired loans, which are measured on a non-recurring basis.

(In Thousands)	December 31, 2012				December 31, 2011			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets:								
U.S. Government Agency Securities	22,192			22,192	51,874			51,874
U.S. Sponsored Mortgage backed Securities	56,376			56,376	47,368			47,368
Other Securities	934	—		934	124			124
Loans held for sale	85,529	—		85,529	7,147	—		7,147
Derivative on loans held for sale	1,261	—		1,261		—		—
Other Real Estate Owned	—	207		207	—	176		176
Impaired Loans	—	3,118		3,118	—	2,822		2,822
Total	166,292	3,325		169,617	106,513	2,998		109,511

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis and for which MVB has utilized Level 3 inputs to determine fair value:

(in thousands)	Quantitative Information about Level 3 Fair Value Measurements			Range Weighted Average
	Fair Value Estimate	Valuation Techniques	Unobservable Input	
December 31, 2012				0% to -50.0%
Impaired loans	3,118	Appraisal of collateral (1)	Appraisal adjustments (2) Liquidation expenses (2)	(-25.2%) -1.5% to 8.0% (-5.5%)
Other real estate owned and repossessed assets	207	Appraisal of collateral (1),(3)		

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable.

(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.

(3) Includes qualitative adjustments by management and estimated liquidation expenses.

NOTE 19. ACQUISITION OF PMG

On December 20, 2012, the Company acquired Potomac Mortgage Group, LLC (PMG), a mortgage loan company based in Northern Virginia. The acquisition significantly expands MVB's mortgage production capacity.

PMG operated four offices, with their main location in Fairfax, VA. Under terms of the agreement, the Company acquired PMG for a total purchase price of \$19 million, \$17 million in cash and \$2 million in MVB Financial Corp. stock. As a result of the acquisition, the Company issued 83,333 common shares, or 3.7% of the total shares outstanding, to the majority owner of PMG. PMG is now a wholly owned subsidiary of MVB Bank, Inc.

The acquired assets and liabilities were measured at estimated fair values. Fair values of loans held for sale were based upon the locked in sales price recorded on each individual loan in the portfolio. Other assets and liabilities were

insignificant to the transaction. Outstanding lines of credit were recorded at their book value. The transaction resulted in MVB recording \$16.7 million in goodwill, which will be measured for impairment each December 1.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

The following condensed statement reflects the values assigned to PMG's net assets and liabilities as of the acquisition date:

Total Purchase Price		\$ 19,000
Net Assets Acquired		
Cash	1,354	
Loans held for sale	60,233	
Other assets	2,907	
Lines of credit	(60,355)	
Other liabilities	(1,864)	
Fair value of net assets acquired	2,275	
Goodwill resulting from PMG acquisition	\$ 16,725	

The company recorded goodwill with the acquisition of PMG of \$16.7 million. Goodwill is not amortized, but is periodically evaluated for impairment. The Company did not recognize any impairment during the year ended December 31, 2012. The carrying amount of the goodwill at December 31, 2012 was \$16.7 million.

The following table presents financial information regarding PMG included in MVB's Consolidated Statements of Income from the date of acquisition through December 31, 2012 under the column "Actual from acquisition date through December 31, 2012". In addition the following table presents unaudited pro forma information as if the acquisition of PMG had occurred on January 1, 2011 under the "Pro forma" columns. The proforma information does not necessarily reflect the results of operations that would have occurred had the Company merged with PMG at the beginning of 2011.

	Actual from acquisition date through December 31, 2012	Proforma year ended December 31	
		2012	2011
Net interest income	\$ 3	\$ 17,324	\$ 14,396
Noninterest income	618	7,749	9,476
Net income	39	4,168	4,394
Pro forma earnings per share			
Basic		\$ 1.84	\$ 1.43
Diluted		1.79	1.41

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

NOTE 20. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

The investment of the Company in its second tier subsidiaries is presented on the equity method of accounting. Information relative to the parent company's balance sheets at December 31, 2012 and 2011, and the related statements of income and cash flows for each of those years are presented below

(Dollars in thousands, except share data)

<u>Balance Sheets</u>	December 31	
	2012	2011
<u>Assets</u>		
Cash	\$158	\$167
Investment in bank subsidiary, eliminated in consolidation	71,253	51,421
Other assets	302	293
Total assets	\$71,713	\$51,881
<u>Liabilities and shareholders' equity</u>		
<u>Liabilities</u>		
Other liabilities	\$40	\$25
Long-term debt	4,124	4,124
Total liabilities	4,164	4,149
<u>Stockholders' equity</u>		
Preferred stock, par value \$1,000; 8,500 and 8,500 shares authorized, 8,500 and 8,500 shares issued	\$8,500	\$8,500
Common stock, par value \$14,000,000 shares authorized; 2,932,901 and 2,234,767 shares issued respectively	2,933	2,235
Additional paid in capital	48,750	32,603
Treasury stock	(1,084)	(1,084)
Retained earnings	9,945	6,220
Accumulated other comprehensive income	(1,495)	(742)
Total stockholders' equity	67,549	47,732
Total liabilities and stockholders' equity	\$71,713	\$51,881

(Dollars in thousands)

<u>Statements of Income</u>	2012	2011
Income - dividends from bank subsidiary	\$531	\$473

Edgar Filing: MVB FINANCIAL CORP - Form 10-K

Expenses - operating	350	296
Income before income taxes and undistributed income	181	177
Income tax (benefit)	(133)	(112)
Income after tax (benefit)	314	289
Equity in undistributed income of bank subsidiary	3,854	2,413
Net income	\$4,168	\$2,702
Preferred dividends	136	44
Net income available to common shareholders'	\$4,032	\$2,658
Comprehensive income	\$3,415	\$2,223
65		

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MVB FINANCIAL CORP. AND SUBSIDIARIES

December 31, 2012

(Dollars in thousands)

<u>Statements of Cash Flows</u>	2012	2011
OPERATING ACTIVITIES		
Net income	\$4,168	\$2,702
Equity in undistributed income of bank subsidiary	(3,854)	(2,413)
Decrease/(increase) in other assets	(9)	92
Increase in other liabilities	15	21
Stock option expense	138	117
Net cash provided by operating activities	458	519
INVESTING ACTIVITIES		
Investment in subsidiary	(14,731)	(16,754)
Net cash (used in)/provided by investing activities	(14,731)	(16,754)
FINANCING ACTIVITIES		
Proceeds of stock offering	13,734	6,500
Proceeds from dividend reinvestment plan	973	—
Preferred stock issued	—	8,463
Cash dividend	(307)	(218)
Preferred stock dividend	(136)	(44)
Purchase of treasury stock	—	(78)
Net cash provided by financing activities	14,264	14,623
(Decrease)/increase in cash	(9)	(1,612)
Cash at beginning of period	167	1,779
Cash at end of period	\$158	\$167
Non-cash investing activity		
Issuance of stock in acquisition	\$2,000	—

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MVB FINANCIAL CORP. AND SUBSIDIARIES
December 31, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
MVB Financial Corp.

We have audited the accompanying consolidated balance sheets of MVB Financial Corp. and subsidiaries (the “Company”) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MVB Financial Corp. and subsidiaries as of December 31, 2012 and 2011, and the results of operations and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

March 15, 2013

S. R. Snodgrass, A.C. • 980 National Road. Wheeling, West Virginia 26003-6400 • Phone: (304) 233-5030 • Facsimile: (304) 233-3062

67

Table of Contents

ITEM 9.CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No response required

ITEM 9A.CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer, along with the Company's Chief Financial Officer (the Principal Financial Officer), has evaluated the effectiveness as of December 31, 2012, 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 President and Chief Executive Officer, along with the Company's Principal Accounting Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2012.

There have been no material changes in the Company's internal control over financial reporting during the fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency (as defined in Public Company Accounting Oversight Board Auditing Standard No. 2), or a combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by management or employees in the normal course of performing their assigned functions.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. Management's assessment did not identify any material weaknesses in the Company's internal control over financial reporting.

In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Because there were no material weaknesses discovered, management believes that, as of December 31, 2012, the Company's internal control over financial reporting was effective.

Table of Contents

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subjected to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Date: March 15, 2013 /s/ Larry F. Mazza
Larry F. Mazza
President & CEO

Date: March 15, 2013 /s/ Eric L. Tichenor
Eric L. Tichenor
Senior Vice President & CFO

ITEM 9B. OTHER INFORMATION

No response required.

Table of Contents

PART III

ITEM 10.DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers of MVB include those persons identified under "Management Nominees to the Board of MVB" on pages 2-5 of MVB's definitive Proxy Statement relating to MVB's Annual Meeting of Shareholders for 2013.

ITEM 11.EXECUTIVE COMPENSATION

See "Executive Compensation" on pages 9-11 of MVB's definitive Proxy Statement relating to MVB's Annual Meeting of Stockholders for 2013.

MVB has adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer and other executive officers and shall be deemed incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

See "Principal Holders of Voting Securities" on page 12 of MVB's definitive Proxy Statement relating to MVB's Annual Meeting of Shareholders for 2013 which section is expressly incorporated by reference.

ITEM 13.CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

MVB and the Bank have, and expect to continue to have, banking and other transactions in the ordinary course of business with its directors and officers and their affiliates, including members of their families or corporations, partnerships or other organizations in which officers or directors have a controlling interest, on substantially the same terms (including documentation, price, interest rates and collateral, repayment and amortization schedules and default provisions) as those prevailing at the time for comparable transactions with unrelated parties. All of these transactions were made on substantially the same terms (including interest rates, collateral and repayment terms on loans) as

comparable transactions with non-affiliated persons. MVB's management believes that these transactions did not involve more than the normal business risk of collection or include any unfavorable features.

Total loans outstanding from the Bank at December 31, 2012 to MVB and Bank officers and directors as a group and members of their immediate families and companies in which they had an ownership interest of 10% or more was \$23.6 million or 34.9% of total equity capital and 5.3% of total loans. These loans do not involve more than the normal risk of collectibility or present other unfavorable features.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

See "Ratification of Auditors" on page 16 of MVB's definitive Proxy Statement relating to MVB's Annual Meeting of Shareholders for 2013.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Exhibits filed with this Annual Report on Form 10-K are attached hereto. For a list of such exhibits, see "Exhibit Index" beginning at page 70. The Exhibit Index specifically identifies each management contract or compensatory plan required to be filed as an exhibit to this Form 10-K.

Table of Contents**EXHIBIT INDEX**

MVB Financial Corp. Annual Report on Form 10-K for Fiscal Year Ended December 31, 2012

Exhibit Number	Description	Exhibit Location
3.1	Articles of Incorporation	Form SB-2 Registration Statement, Registration No. 333-120931, filed December 1, 2004, and incorporated by reference herein
3.1-1	Articles of Incorporation - Amendment	Form SB-2 Registration Statement, Registration No. 333-120931, filed December 1, 2004, and incorporated by reference herein
3.2	Bylaws	Form SB-2 Registration Statement, Registration No. 333-120931, filed December 1, 2004, and incorporated by reference herein
10.1	MVB Financial Corp. 2003 Stock Incentive Plan	Form SB-2 Registration Statement, Registration No. 333-120931, filed December 1, 2004, and incorporated by reference herein
10.2	Master Lease Agreement with S-N-S Foods, Inc. for premises occupied by Middletown Mall Office	Form SB-2 Registration Statement, Registration No. 333-120931, filed December 1, 2004, and incorporated by reference herein
10.3	Sublease Agreement with S-N-S Foods, Inc. for premises occupied by Middletown Mall Office	Form SB-2 Registration Statement, Registration No. 333-120931, filed December 1, 2004, and incorporated by reference herein

71

Table of Contents

10.4	Lease Agreement with Essex Properties, LLC for land occupied by Bridgeport Branch	Form SB-2 Registration Statement, Registration No. 333-120931, filed December 1, 2004, and incorporated by reference herein
11	Statement Regarding Computation of Earnings per Share	Filed herewith
14	Code of Ethics	Filed herewith
21	Subsidiary of Registrant	Filed herewith
24	Power of Attorney	Filed herewith
31.1	Certificate of Principal Executive Officer pursuant to Section 302 of Sarbanes Oxley Act of 2002	Filed herewith
31.2	Certificate of Principal Financial Officer pursuant to Section 302 of Sarbanes Oxley Act of 2002	Filed herewith
32.1	Certificate of Principal Executive Officer & Principal Financial Officer pursuant to Section 906 of Sarbanes Oxley Act of 2002	Filed herewith
99.1	Report of S.R. Snodgrass, A.C., Independent Auditors	Found on Page 66 herein
99.2	Employment Agreement of H. Edward Dean, III	Form 8-K, filed December 3, 2012 and incorporated by reference herein.
99.3	Employment Agreement of Frederick E. Brooks	Form 8-K, filed December 3, 2012 and incorporated by reference herein.
99.4	Employment Agreement of Peter Cameron	Form 8-K, filed December 3, 2012 and incorporated by reference herein.
72		