

MVB FINANCIAL CORP
Form 10-Q
August 14, 2013
Table of Contents

**United States
Securities and Exchange Commission**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from to .

Commission File number 000-50567

MVB Financial Corp.

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

(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, West Virginia 26554-2777

(Address of principal executive offices)

304-363-4800

(Registrant's telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

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

As of August 13, 2013, the number of shares outstanding of the issuer's only class of common stock was 3,506,842.

Table of Contents

MVB Financial Corp.

Part I. Financial Information

Item 1. Financial Statements

The unaudited interim consolidated financial statements of MVB Financial Corp. (MVB or the Company and subsidiaries (Subsidiaries) including MVB Bank, Inc. (the Bank) listed below are included on pages 3-26 of this report.

Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012

Consolidated Statements of Income for the Six Months and Three Months ended June 30, 2013 and 2012

Consolidated Statements of Comprehensive Income for the Six Months and Three Months ended June 30, 2013 and 2012

Consolidated Statements of Cash Flows for the Six Months ended June 30, 2013 and 2012

Notes to Consolidated Financial Statements

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

Management's Discussion and Analysis of Financial Condition and Results of Operations are included on pages 27-41 of this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Item 4. Controls and Procedures

Part II. Other Information

Item 1. Legal Proceedings

Item 1A. Risk Factors

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

Item 3. Defaults Upon Senior Securities

Item 4. Mine Safety Disclosures

Item 5. Other Information

Item 6. Exhibits

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

MVB Financial Corp. and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands, except Share and Per Share Data)

	June 30 2013 (Unaudited)	December 31 2012 (Note 1)
Assets		
Cash and due from banks	\$ 27,444	\$ 21,637
Interest bearing balances	3,305	3,703
Certificates of deposits in other banks	9,427	9,427
Investment securities:		
Securities held-to-maturity, at cost	47,328	35,370
Securities available-for-sale, at fair value	83,550	79,502
Loans:	474,854	446,443
Less: Allowance for loan losses	(4,828)	(4,076)
Net loans	470,026	442,367
Loans held for sale	76,696	85,529
Bank premises, furniture and equipment, net	13,777	11,354
Bank owned life insurance	15,826	10,524
Accrued interest receivable and other assets	16,978	9,734
Goodwill	17,622	17,622
Total assets	\$ 781,979	\$ 726,769
Liabilities		
Deposits		
Non-interest bearing	\$ 55,403	\$ 54,620
Interest bearing	475,935	431,899
Total deposits	531,338	486,519
Accrued interest, taxes and other liabilities	8,175	6,726
Repurchase agreements	82,956	70,234
Federal Home Loan Bank and other borrowings	72,863	91,617
Subordinated debt	4,124	4,124
Total liabilities	699,456	659,220
Stockholders equity		
Preferred stock, \$1,000 par value, 8,500 shares authorized and issued	8,500	8,500
Common stock, \$1 par value, 10,000,000 and 4,000,000 authorized, 3,505,093 and 2,932,901 issued	3,505	2,933
Additional paid-in capital	61,912	48,750
Treasury stock, 51,077 and 51,077 shares, respectively	(1,084)	(1,084)
Retained earnings	12,178	9,945

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Accumulated other comprehensive (loss)		(2,488)		(1,495)
Total stockholders equity		82,523		67,549
Total liabilities and stockholders equity	\$	781,979	\$	726,769

See accompanying notes to unaudited financial statements.

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Table of Contents

MVB Financial Corp. and Subsidiaries

Consolidated Statements of Income

(Unaudited) (Dollars in Thousands except Share and Per Share Data)

	Six Months Ended June 30		Three Months Ended June 30	
	2013	2012	2013	2012
Interest income				
Interest and fees on loans	\$ 9,835	\$ 9,223	\$ 4,927	\$ 4,635
Interest on deposits with other banks	97	109	52	51
Interest on investment securities taxable	554	833	275	407
Interest on tax exempt loans and securities	971	625	489	318
Total interest income	11,457	10,790	5,743	5,411
Interest expense				
Deposits	1,856	1,919	949	954
Repurchase agreements	271	243	148	129
FHLB and other borrowings	215	238	88	122
Subordinated debt	39	44	19	22
Total interest expense	2,381	2,444	1,204	1,227
Net interest income	9,076	8,346	4,539	4,184
Provision for loan losses	1,667	1,350	667	675
Net interest income after provision for loan losses	7,409	6,996	3,872	3,509
Other income				
Service charges on deposit accounts	306	339	169	178
Income on bank owned life insurance	224	156	132	78
Visa debit card income	262	225	139	114
Income on loans held for sale	12,762	1,068	6,784	638
Capitalized servicing retained income	656		318	
Other operating income	1,403	446	757	258
Gain on sale of securities	82	73	81	7
Gain on derivative	699		703	
Total other income	16,394	2,307	9,083	1,273
Other expense				
Salary and employee benefits	13,657	4,119	7,437	2,163
Occupancy expense	910	413	480	209
Equipment expense	575	333	247	177
Data processing	451	217	246	129
Mortgage processing	1,185		678	
Visa debit card expense	213	185	111	94
Advertising	569	349	333	182
Legal and accounting fees	385	184	183	68
Printing, stationery and supplies	250	91	162	57
Consulting fees	225	224	105	111
FDIC insurance	274	81	135	54
Other taxes	110	90	47	46
Other operating expenses	1,584	728	819	386
Total other expense	20,388	7,014	10,983	3,676
Income before income taxes	3,415	2,289	1,972	1,106

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Income tax expense		743		611		488		289
Net income	\$	2,672	\$	1,678	\$	1,484	\$	817
Preferred dividends		43		94		22		21
Net income available to common shareholders	\$	2,629	\$	1,584	\$	1,462	\$	796
Basic net income per share after preferred dividends	\$	0.83	\$	0.73	\$	0.43	\$	0.34
Diluted net income per share after preferred dividends	\$	0.81	\$	0.71	\$	0.42	\$	0.33
Basic weighted average shares outstanding		3,185,456		2,184,950		3,442,509		2,183,210
Diluted weighted average shares outstanding		3,270,222		2,235,007		3,527,274		2,236,267

See accompanying notes to unaudited financial statements.

Table of Contents

MVB Financial Corp. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Unaudited)(Dollars in thousands)

	Six Months Ended June 30		Three Months Ended June 30	
	2013	2012	2013	2012
Net Income	\$ 2,672	\$ 1,678	\$ 1,484	\$ 817
Other comprehensive (loss) income, net of tax:				
Securities available for sale not other than temporarily impaired:				
Unrealized holding (losses) gains during the year	(1,737)	217	(1,701)	407
Income tax effect	695	(87)	681	(163)
Reclassification adjustment for gain recognized in income	82	73	81	7
Income tax effect	(33)	(29)	(33)	(3)
Other comprehensive (loss) income	(993)	174	(972)	248
Comprehensive income	\$ 1,679	\$ 1,852	\$ 512	\$ 1,065

See accompanying notes to unaudited financial statements.

Table of Contents

MVB Financial Corp. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited) (Dollars in thousands)

	Six Months Ended	
	June 30 2013	June 30 2012
Operating activities		
Net income	\$ 2,672	\$ 1,678
Adjustments to reconcile net income to net cash provided by operating		
Provision for loan losses	1,667	1,350
Deferred income tax (benefit) expense	(87)	44
Depreciation	417	260
Stock based compensation	77	79
Loans originated for sale	(374,920)	(50,067)
Proceeds of loans sold	383,753	54,567
(Gain) on sale of loans held for resale	(10,454)	(1,119)
Loss on sale of other real estate owned		2
(Gain) on sale of investment securities	(82)	(73)
(Gain) on derivatives	(699)	0
Amortization, net of accretion	621	539
Decrease in interest receivable and other assets	4,634	276
Increase (decrease) in accrued interest, taxes, and other liabilities	1,449	(802)
Net cash provided by operating activities	9,048	6,734
Investing activities		
(Increase) in loans made to customers	(29,326)	(51,182)
Purchases of premises and equipment	(2,840)	(306)
Decrease (increase) in deposits with FHLB and Fed, net	398	(8,519)
Maturities of certificates of deposit in other banks		491
Purchases of investment securities available-for-sale	(17,769)	(27,244)
Proceeds from sales, maturities and calls of securities available-for-sale	11,644	31,604
Proceeds from sale of other real estate owned	24	30
Purchases of investment securities held-to-maturity	(12,074)	(2,938)
Adjustment of branch acquisition	(157)	
Purchase of bank owned life insurance	(5,302)	
Net cash (used in) investing activities	(55,402)	(58,064)
Financing activities		
Net increase in deposits	44,819	67,195
Net increase (decrease) in repurchase agreements	12,722	(13,515)
Proceeds from Federal Home Loan Bank borrowings	302,495	56,495
Principal payments on Federal Home Loan Bank borrowings	(321,249)	(56,610)
Net proceeds of stock offering	13,658	266
Cash dividend	(241)	(153)
Dividends on preferred stock	(43)	(94)
Net cash provided by financing activities	52,161	53,584
Increase in cash and cash equivalents	5,807	2,254
Cash and cash equivalents - beginning of period	21,637	9,763
Cash and cash equivalents - end of period	\$ 27,444	\$ 12,017
Cash payments for:		
Interest on deposits, repurchase agreements and borrowings	\$ 2,387	\$ 2,412
Income taxes	\$ 776	\$ 527

See accompanying notes to unaudited financial statements.

Table of Contents

MVB Financial Corp. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Basis of Presentation

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for annual year-end financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, have been included and are of a normal, recurring nature. The balance sheet as of December 31, 2012 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles. Operating results for the six and three months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The accounting and reporting policies of MVB Financial Corp. (MVB) and its subsidiaries (Subsidiaries), including MVB Bank, Inc. (the Bank), the Bank's subsidiary Potomac Mortgage Group, Inc. (PMG which, following July 15, 2013, is doing business under the registered trade name MVB Mortgage), and MVB Insurance, LLC, conform to accounting principles generally accepted in the United States and practices in the banking industry. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates, such as the allowance for loan losses, are based upon known facts and circumstances. Estimates are revised by management in the period such facts and circumstances change. Actual results could differ from those estimates. All significant inter-company accounts and transactions have been eliminated in consolidation.

The consolidated balance sheet as of December 31, 2012 has been extracted from audited financial statements included in the Company's 2012 filing on Form 10-K and the amended filing on Form 10-K/A. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in MVB's December 31, 2012, Form 10-K and subsequent amended Form 10-K/A filed with the Securities and Exchange Commission.

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

Note 2 - Loans

The following table summarizes the primary segments of the allowance for loan losses (ALL), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of June 30, 2013. Activity in the allowance is presented for the periods indicated (in thousands):

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

	Commercial	Residential	Home Equity	Installment	Credit Card	Total
ALL balance 3/31/12	\$ 2,246	\$ 396	\$ 246	\$ 273	\$ 12	\$ 3,173
Charge-offs	(372)		(9)	(1)		(382)
Recoveries	2		1	11		14
Provision	677	23	3	(36)	8	675
ALL balance 6/30/12	\$ 2,553	\$ 419	\$ 241	\$ 247	\$ 20	\$ 3,480

	Commercial	Residential	Home Equity	Installment	Credit Card	Total
ALL balance 12/31/11	\$ 2,164	\$ 366	\$ 249	\$ 255	\$ 11	\$ 3,045
Charge-offs	(916)		(9)	(6)		(931)
Recoveries	2		2	12		16
Provision	1,303	53	(1)	(14)	9	1,350
ALL balance 6/30/12	\$ 2,553	\$ 419	\$ 241	\$ 247	\$ 20	\$ 3,480
Individually evaluated for impairment	\$ 683	\$ 16	\$	\$ 24	\$	\$ 723
Collectively evaluated for impairment	\$ 1,870	\$ 403	\$ 241	\$ 223	\$ 20	\$ 2,757

Table of Contents

	Commercial	Residential	Home Equity	Installment	Credit Card	Total
ALL balance 3/31/13	\$ 3,645	\$ 490	\$ 271	\$ 216	\$ 17	\$ 4,639
Charge-offs	(472)				(11)	(483)
Recoveries	3		1	1		5
Provision	564		79	14	10	667
ALL balance 6/30/13	\$ 3,740	\$ 490	\$ 351	\$ 231	\$ 16	\$ 4,828

	Commercial	Residential	Home Equity	Installment	Credit Card	Total
ALL balance 12/31/12	\$ 3,107	\$ 514	\$ 242	\$ 200	\$ 13	\$ 4,076
Charge-offs	(972)	(2)			(11)	(985)
Recoveries	25	36	8	1		70
Provision	1,580	(58)	101	30	14	1,667
ALL balance 6/30/13	\$ 3,740	\$ 490	\$ 351	\$ 231	\$ 16	\$ 4,828
Individually evaluated for impairment	\$ 1,094	\$ 195	\$	\$ 12	\$	\$ 1,301
Collectively evaluated for impairment	\$ 2,646	\$ 295	\$ 351	\$ 219	\$ 16	\$ 3,527

The ALL is based on estimates, and actual losses will vary from current estimates. Company and Bank management believe 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

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

	Commercial	Residential	Home Equity	Installment	Credit Cards	Total
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

The following table summarizes the primary segments of the Company loan portfolio as of June 30, 2013 (in thousands):

	Commercial	Residential	Home Equity	Installment	Credit Cards	Total
June 30, 2013						
Total Loans	\$ 333,687	\$ 100,918	\$ 21,547	\$ 18,083	\$ 619	\$ 474,854
Individually evaluated for impairment	\$ 4,063	\$ 472	\$	\$ 20	\$	\$ 4,555
Collectively evaluated for impairment	\$ 329,624	\$ 100,446	\$ 21,547	\$ 18,063	\$ 619	\$ 470,299

Of the \$4,555 in impaired loans presented above, only \$1,175 were non-performing loans as of June 30, 2013. The remaining \$3,380 represents troubled debt restructured loans that are performing under modified terms.

Table of Contents

Bank 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 Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by Bank management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Bank 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 Bank 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 (in thousands):

Dec 31, 2012	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance Recorded Investment	Total Impaired Loans	
	Recorded Investment	Related Allowance		Recorded Investment	Unpaid Principal Balance
Commercial	\$ 3,074	\$ 683	\$	\$ 3,074	\$ 3,074
Residential	43	16		43	43
Home Equity					
Installment	1	24		1	1
Credit Card					
Total impaired loans	\$ 3,118	\$ 723	\$	\$ 3,118	\$ 3,118

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 June 30, 2013 (in thousands):

June 30, 2013	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance Recorded Investment	Total Impaired Loans	
	Recorded Investment	Related Allowance		Recorded Investment	Unpaid Principal Balance
Commercial	\$ 3,945	\$ 1,094	\$ 118	\$ 4,063	\$ 6,058
Residential	282	195	190	472	472
Home Equity					

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Installment		20		12		20		20
Credit Card								
Total impaired loans	\$	4,247	\$	1,301	\$	308	\$	4,555
								6,550

Table of Contents

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

	Six Months June 30			Three Months June 30		
	2013	2012	2013	2012	2013	2012
Average investment in impaired loans	\$ 4,867	\$ 3,799	\$ 4,508	\$ 3,573		
Interest income recognized on an accrual basis on impaired loans	\$ 67	\$ 81	\$ 4	\$ 71		

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

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

The following table represents the classes of the Company 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, 2012 and June 30, 2013 (in thousands):

Dec. 31, 2012	Pass	Special Mention	Substandard	Doubtful	Total
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

June 30, 2013	Pass	Special Mention	Substandard	Doubtful	Total
---------------	------	--------------------	-------------	----------	-------

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Commercial	\$	321,763	\$	6,311	\$	4,913	\$	700	\$	333,687
Residential		97,723		2,722		430		43		100,918
Home Equity		21,239		308						21,547
Installment		17,596		467		19		1		18,083
Credit Card		607		12						619
Total	\$	458,928	\$	9,820	\$	5,362	\$	744	\$	474,854

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Table of Contents

Bank 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, 2012 and June 30, 2013 (in thousands):

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due	Total Past Due	Non- Accrual	Total Loans
Dec. 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	\$ 439,700	\$ 2,770	\$ 519	\$ 329	\$ 3,618	\$ 3,125	\$ 446,443

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due	Total Past Due	Non- Accrual	Total Loans
June 30, 2013							
Commercial	\$ 327,467	\$ 1,664	\$ 3,472	\$ 142	\$ 5,278	\$ 942	\$ 333,687
Residential	100,189	75	393	29	497	232	100,918
Home Equity	21,519		28		28		21,547
Installment	17,937	119	26		145	1	18,083
Credit Card	590	11	6	12	29		619
Total	\$ 467,702	\$ 1,869	\$ 3,925	\$ 183	\$ 5,977	\$ 1,175	\$ 474,854

The ALL is maintained to absorb losses from the loan portfolio. The ALL is based on the Bank management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

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

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

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

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

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.

Table of Contents

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

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

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

The following table presents details related to loans identified as Troubled Debt Restructurings (TDRs) for the periods indicated (in thousands):

(Unaudited, dollars in thousands)	Number of Contracts	New TDRs (1)		For the Three Months Ended				
		For the Six Months Ended June 30, 2013	For the Three Months Ended June 30, 2013	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	\$ 352	\$ 352			\$		\$
Land and construction	1	1,337	1,343					
Other								
Total commercial real estate	2	1,689	1,695					
Commercial and industrial	2	119	119	2		119		119
Residential real estate								
Home equity								
Consumer	3	8	8					
Total	7	\$ 1,816	\$ 1,822	2		\$ 119		\$ 119

(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.

Table of Contents**Note 3 - Borrowed Funds**

The Bank is a party to repurchase agreements with certain customers. As of June 30, 2013 and December 31, 2012, the Bank had repurchase agreements of \$82.9 million and \$70.2 million.

The Bank is a member of the Federal Home Loan Bank (FHLB) of Pittsburgh, Pennsylvania. Borrowings from the FHLB are secured by stock in the FHLB of Pittsburgh, qualifying first mortgage loans, mortgage-backed securities and certain investment securities. The remaining maximum borrowing capacity with the FHLB at June 30, 2013 was approximately \$166.0 million.

Borrowings from the FHLB were as follows:

(dollars in thousands)	Jun 30 2013	Dec 31 2012
Fixed interest rate note, originating April 1999, due April 2014, interest of 5.41% is payable monthly.	\$ 1,000	\$ 1,000
Fixed interest rate note, originating January 2005, due January 2020, interest of 5.14% is payable in monthly installments of \$11.		763
Fixed interest rate note, originating April 2002, due May 2017, interest of 5.90% is payable monthly.	606	615
Fixed interest rate note, originating July 2006, due July 2016, interest of 4.50% is payable in monthly installments of \$8.	1,237	1,258
Fixed interest rate note, originating October 2006, due October 2021, interest of 5.20% is payable in monthly installments of \$6.	1,035	1,047
Fixed interest rate note, originating February 2007, due February 2022, interest of 5.22% is payable in monthly installments of \$5.	870	879
Fixed interest rate note, originating April 2007, due April 2022, interest of 5.18% is payable in monthly installments of \$6.	984	995
Floating interest rate note, originating March 2003, due December 2011, interest of 0.25% payable monthly.	66,167	23,065
Fixed interest rate note, originating December 2007, due December 2017, interest of 5.25% is payable in monthly installments of \$7.	964	978
Fixed interest rate note originating March 2008, due March 2013, interest of 2.37% payable quarterly.		2,000
	\$ 72,863	\$ 32,600

Table of Contents

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

The Trust Preferred Securities and the Debentures mature in 30 years and are redeemable by the Company after five years. 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 June 30, 2013 and 2012 and interest expense of \$39 and \$44 for the periods ended June 30, 2013 and 2012.

Bank subsidiary PMG had borrowings of \$59.0 million at December 31, 2012, which were comprised of three floating rate lines of credit with other banks. The three floating rate lines have since been paid off and PMG now utilizes FHLB borrowings.

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

(dollars in thousands)

Year	Amount
2013	\$ 77
2014	1,161
2015	169
2016	1,246
2017	1,470
Thereafter	72,864
	\$ 76,987

Table of Contents

Note 4 Net Income Per Common Share

The Company determines basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by dividing net income by the weighted average number of shares outstanding increased by the number of shares that would be issued assuming the exercise of stock options. At June 30, 2013 and 2012, stock options to purchase 195,640 and 172,880 shares at an average price of \$16.01 and \$15.63, respectively, were outstanding. For the six months ended June 30, 2013 and 2012, the dilutive effect of stock options was 84,766 and 50,057 shares, respectively.

Note 5 Recent Accounting Pronouncements

In April 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-07, *Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting*. The amendments in this Update are being issued to clarify when an entity should apply the liquidation basis of accounting. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. The amendments require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Liquidation is imminent when the likelihood is remote that the entity will return from liquidation and either (a) a plan for liquidation is approved by the person or persons with the authority to make such a plan effective and the likelihood is remote that the execution of the plan will be blocked by other parties or (b) a plan for liquidation is being imposed by other forces (for example, involuntary bankruptcy). If a plan for liquidation was specified in the entity's governing documents from the entity's inception (for example, limited-life entities), the entity should apply the liquidation basis of accounting only if the approved plan for liquidation differs from the plan for liquidation that was specified at the entity's inception. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. Entities should apply the requirements prospectively from the day that liquidation becomes imminent. Early adoption is permitted. Entities that use the liquidation basis of accounting as of the effective date in accordance with other Topics (for example, terminating employee benefit plans) are not required to apply the amendments. Instead, those entities should continue to apply the guidance in those other Topics until they have completed liquidation. This ASU is not expected to have a significant impact on the Company's financial statements.

In June 2013, the FASB issued ASU 2013-08, *Financial Services - Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*. The amendments in this Update affect the scope, measurement, and disclosure requirements for investment companies under U.S. GAAP. The amendments do all of the following: 1. Change the approach to the investment company assessment in Topic 946, clarify the characteristics of an investment company, and provide comprehensive guidance for assessing whether an entity is an investment Company. 2. Require an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting. 3. Require the following additional disclosures: (a) the fact that the entity is an investment company and is applying the guidance in Topic 946, (b) information about changes, if any, in an entity's status as an investment company, and (c) information about financial support provided or contractually required to be provided by an investment company to any of its investees. The amendments in this Update are effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. This ASU is not expected to have a significant impact on the Company's financial statements..

In July 2013, the FASB ASU 2013-09, *Fair Value Measurement (Topic 820): Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04*. The amendments in this Update apply to certain quantitative disclosure requirements for an employee benefit plan, other than those plans that are subject to the Securities and Exchange Commission's filing requirements (hereafter nonpublic employee benefit plan), that holds investments in its plan sponsor's own nonpublic entity equity securities, including equity securities of its plan sponsor's nonpublic affiliated entities and that are within the scope of the

Table of Contents

disclosure requirements contained in FASB Accounting Standards Update No. 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 defer indefinitely the effective date of certain required disclosures in Update 2011-04 (Topic 820) of quantitative information about the significant unobservable inputs used in Level 3 fair value measurements for investments held by a nonpublic employee benefit plan in its plan sponsor's own nonpublic entity equity securities, including equity securities of its plan sponsor's nonpublic affiliated entities. The amendments in this Update do not defer the effective date for those certain quantitative disclosures for other nonpublic entity equity securities held in the nonpublic employee benefit plan or any qualitative disclosures. The deferral in this amendment is effective upon issuance for financial statements that have not been issued. This ASU did not have a significant impact on the Company's financial statements.

In July 2013, the FASB issued ASU 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*. The amendments in this Update permit the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. This ASU is not expected to have a significant impact on the Company's financial statements.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This Update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

Note 6 Fair Value of 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.

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Table of Contents

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 June 30, 2013 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. 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			
	Level I	Level II	Level III	Total
Assets:				
U.S. Government Agency Securities	\$	\$	22,192	\$ 22,192
U.S. Sponsored Mortgage backed securities			56,376	56,376
Other Securities			934	934
Loans held for sale			85,529	85,529
Derivative on loans held for sale			1,261	1,261
Other Real Estate Owned				207
Impaired Loans				3,118

(In Thousands)	June 30, 2013			
	Level I	Level II	Level III	Total
Assets:				
U.S. Government Agency Securities	\$	\$	35,086	\$ 35,086
U.S. Sponsored Mortgage backed securities			47,530	47,530
Other Securities			934	934
Loans held for sale			76,696	76,696
Derivative on loans held for sale			2,912	2,912
Other Real Estate Owned				183
Impaired loans				1,091

The following table s present 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			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
December 31, 2012:				
Impaired loans	\$ 3,118	Appraisal of collateral (1)	Appraisal adjustments (2) Liquidation expenses (2)	0% to -50.0% (-25.2%) -1.5% to 8.0% (-5.5%)
Other real estate owned and repossessed assets	\$ 207	Appraisal of collateral (1),(3)		
June 30, 2013:				
Impaired loans	\$ 1,091	Appraisal of collateral (1)	Appraisal adjustments (2) Liquidation expenses (2)	0% to -50.0% (-25.2%) -1.5% to 8.0% (-5.5%)

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Other real estate owned and repossessed assets	\$	183	Appraisal of collateral (1),(3)
--	----	-----	------------------------------------

Table of Contents

- (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.

Table of Contents

The following summarizes the methods and significant assumptions used by the Company, the Bank, and as appropriate, other Subsidiaries, in estimating its fair value disclosures for financial instruments. **Short-term financial instruments:** The carrying values of short-term financial instruments including cash and due from banks, interest bearing balances, and certificates of deposit in other banks approximate the fair value of these instruments.

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

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

Certificates of deposits: The estimated fair values of certificates of deposits held by Bank at other banks.

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.

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.

Derivative on loans held for sale: Estimated fair values of the derivative on loans held for sale approximate their carrying values.

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 significant, and therefore, the estimated fair values and carrying values are not shown.

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

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.

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

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Table of Contents

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	Fair Value Measurements at December 31, 2012		
			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	13,130	13,554	13,554		
Certificates of deposits	9,427	9,427	9,427		
Securities available-for-sale	79,502	80,138		80,138	
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		
	\$ 704,601	\$ 717,224	\$ 56,920	\$ 203,146	\$ 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

(Dollars in thousands)	Carrying Value	Estimated Fair Value	Fair Value Measurements at June 30, 2013		
			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	\$ 27,444	\$ 27,444	\$ 27,444	\$	\$
Interest bearing balances	3,305	3,305	3,305		
Certificates of deposits	9,427	9,427	9,427		
Securities available-for-sale	83,550	83,550		83,550	
Securities held-to-maturity	47,328	48,014		48,014	
Loans	474,854	484,826			484,826
Loans held for sale	76,696	76,696		76,696	
Derivative on loans held for sale	2,912	2,912		2,912	
Bank owned life insurance	15,826	15,826	15,826		
Accrued interest receivable	2,199	2,199	2,199		
	\$ 743,261	\$ 754,199	\$ 58,201	\$ 211,172	\$ 484,826

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Financial liabilities:

Deposits	\$	531,338	\$	537,706	401,531	136,175
Repurchase agreements		82,956		82,956	82,956	
FHLB and other Borrowings		72,863		82,262		82,262
Accrued interest payable		323		323	323	
Subordinated debt		4,124		4,124	4,124	
	\$	691,604	\$	707,371	\$	488,934
					\$	218,437

Table of Contents

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 or the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's or the Bank'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 7 Investments

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

	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 June 30, 2013, including gross unrealized gains and losses, are summarized (with dollars in thousands) as follows:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Approximate Fair Value
Municipal securities	\$ 47,328	\$ 445	\$ (1,844)	\$ 45,929
	\$ 47,328	\$ 445	\$ (1,844)	\$ 45,929

Table of Contents

Amortized cost and approximate fair values of investment securities available-for-sale at December 31, 2012 are summarized (with dollars in thousands) as follows:

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

Amortized cost and approximate fair values of investment securities available-for-sale at June 30, 2013 are summarized (with dollars in thousands) as follows:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Approximate Fair Value
U. S. Agency securities	\$ 36,064	\$ 66	\$ (1,044)	\$ 35,086
Mortgage-backed securities	47,806	147	(423)	47,530
Other securities	934			934
	\$ 84,804	\$ 213	\$ (1,467)	\$ 83,550

The following tables summarize amortized cost and approximate fair values of securities (with dollars in thousands) by maturity:

	June 30, 2013			
	Held to Maturity		Available for sale	
	Amortized Cost	Approximate Fair Value	Amortized Cost	Approximate Fair Value
Within one year	\$ 758	\$ 777	\$	\$
After one year, but within five	2,213	2,249	10,425	10,291
After five years, but within ten	10,477	10,546	34,009	33,156
After ten Years	33,880	32,357	40,370	40,103
Total	\$ 47,328	\$ 45,929	\$ 84,804	\$ 83,550

The Company's investment portfolio includes securities that are in an unrealized loss position as of June 30, 2013, the details of which are included in the following table. Although these securities, if sold at June 30, 2013 would result in a pretax loss of \$3,311, 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 June 30, 2013, 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.

Table of Contents

The following table discloses investments in an unrealized loss position: (with dollars in thousands)

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)	\$	\$
Mortgage-backed securities(11)	28,688	(169)		
Municipal securities(28)	11,216	(140)		
	\$ 49,580	\$ (315)	\$	\$

Table of Contents

At June 30, 2013, total temporary impairment (with dollars in thousands) totaled \$3,311.

Description and number of positions	Less than 12 months		12 months or more	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Agencies(11)	\$ 30,506	\$ (1,044)	\$	\$
Mortgage-backed securities(10)	26,156	(423)		
Municipal securities(72)	25,393	(1,844)		
	\$ 82,055	\$ (3,311)	\$	\$

Note 8 Stock Offering

In late December 2012 the Company began a confidential offering to accredited investors that resulted in the issuance of 1,132,527 shares of common stock totaling \$27.2 million in additional capital. This offering was completed during March of 2013.

Note 9 Comprehensive Income

The following table presents the components of accumulated OCI for the periods indicated (in thousands):

Details about AOCI Components	Amount Reclassified from AOCI for Six Months Ended June 30	Amount Reclassified from AOCI for Three Months Ended June 30	Affected line item in the Statement where net income is presented
Available for-sale securities			
Unrealized holding gains	\$ 82	\$ 81	Non-interest income
Impairment expense			Non-interest income
	82	81	Total before tax
	33	33	Income tax expense
	49	48	Net of tax
Total reclassifications	\$ 49	\$ 48	Net of tax

Table of Contents

Item 1: These items are included in the computation of net periodic pension cost. See Note 10, Pension Plan, for additional information.

(Dollars in thousands)	Unrealized gains/(losses) on available-for- sale securities	Defined benefit pension plan items	Total
Beginning balance	\$ 240	\$ (1,735)	\$ (1,495)
Other comprehensive (loss) before reclassification	(1,042)		(1,042)
Amounts reclassified from AOCI	49		49
Net current period OCI	(993)		(993)
Ending balance	\$ (753)	\$ (1,735)	\$ (2,488)

(Dollars in thousands)	June 30, 2013
Net unrealized gain on securities available-for-sale	\$ (753)
Net unrecognized pension cost	(1,735)
Total	\$ (2,488)

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.

Table of Contents

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

FORWARD-LOOKING INFORMATION

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

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

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

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

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

- increases in the levels of losses, customer bankruptcies, bank failures, claims, and assessments;
- changes in fiscal, monetary, regulatory, trade and tax policies and laws, and regulatory assessments and fees, including policies of the U.S. Department of Treasury, the Board of Governors of the Federal Reserve System, and the FDIC;
- the impact of executive compensation rules under the Dodd-Frank Act and banking regulations which may impact the ability of the Company, the Bank, and other American financial institutions to retain and recruit executives and other personnel necessary for their businesses and competitiveness;
- the impact of the Dodd-Frank Act and of new international standards known as Basel III, and rules and regulations thereunder, many of which have not yet been promulgated, on our required regulatory capital and liquidity levels, governmental assessments on us, the scope of business activities in which we may engage, the manner in which the Bank engages in such activities, the fees the Bank may charge for certain products and services, and other matters affected by the Dodd-Frank Act and these international standards;
- continuing consolidation in the financial services industry;
- new legal claims against the Company, including litigation, arbitration and proceedings brought by governmental or self-regulatory agencies, or changes in existing legal matters;
- success in gaining regulatory approvals, when required, on a timely basis;
- changes in consumer spending and savings habits;
- increased competitive challenges and expanding product and pricing pressures among financial institutions;

Table of Contents

- the ability of the Company and the Bank to develop new banking products, the cost of such development, the acceptance of such new products by the Company's and Bank's clientele and the impact of these new products on the Company's and Bank's profitability;
- inflation and deflation;
- technological changes and the Company's implementation of new technologies, including how the cost of implementation impacts the Company's profitability;
- the Company's ability to develop and maintain secure and reliable information technology systems;
- legislation or regulatory changes which adversely affect the Company's operations or business;
- the Company's ability to comply with applicable laws and regulations, and the cost of such compliance;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies; and
- costs of deposit insurance and changes with respect to FDIC insurance coverage levels.

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

SUMMARY OF RESULTS OF OPERATIONS

At June 30, 2013 and 2012 and for the Six and Three Months Ended June 30, 2013 and 2012:

	Six Months Ended June 30		Three Months Ended June 30	
	2013	2012	2013	2012
Net income to:				
Average assets	0.72%	.60%	0.79%	.57%
Average stockholders' equity	7.10%	6.97%	7.22%	6.71%
Net interest margin	3.04%	3.14%	3.00%	3.11%
Average stockholders' equity to average assets	10.20%	8.58%	10.92%	8.30%
Total loans to total deposits (end of period)	89.37%	92.65%	89.36%	92.65%
Allowance for loan losses to total loans (end of period)	1.02%	0.82%	1.02%	0.82%
Efficiency ratio	80.05%	65.84%	80.63%	67.36%
Capital ratios:				
Tier 1 capital ratio	13.18%	13.65%	13.18%	13.65%
Risk-based capital ratio	14.08%	14.55%	14.08%	14.55%
Leverage ratio	9.24%	9.34%	9.24%	9.34%

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Cash dividends as a percentage of net income		N/A		N/A		N/A		N/A
Per share data:								
Book value per share (end of period)	\$	21.19	\$	18.33	\$	21.19	\$	18.33
Market value per share (end of period)*	\$	28.25	\$	22.50	\$	28.25	\$	22.50
Basic earnings per share	\$	0.83	\$	0.73	\$	0.43	\$	0.34
Diluted earnings per share	\$	0.81	\$	0.71	\$	0.42	\$	0.33

* Market value per share is based on the Company's knowledge of certain arms-length transactions in the stock as the Company's common stock is not traded on any market. There may be other transactions involving either higher or lower prices of which the Company is unaware.

Table of Contents

Introduction

The Company was formed on January 1, 2004 as a bank holding company and effective December 2012 elected to become a financial holding company. The Company features multiple subsidiaries and affiliated businesses.

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, the Company 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 the Bank in these specific north-central West Virginia markets. In August of 2005, the Bank opened a full service office in neighboring Harrison County. During October of 2005, the Bank purchased a branch office in Jefferson County, situated in West Virginia's eastern panhandle. In 2006, the Company formed another second-tier holding company, MVB - East, Inc. to manage the banking operations of the Bank in the Jefferson and Berkeley county markets. During the third quarter of 2007, the Bank opened a full service office in the Martinsburg area of Berkeley County. In the second quarter of 2011, the Bank opened a banking facility in the Cheat Lake area of Monongalia County. The Bank opened its second Harrison County location, the downtown Clarksburg office in the historic Empire building during the fourth quarter of 2012.

During the fourth quarter of 2012, the Bank acquired Potomac Mortgage Group (PMG), which, effective July 15, 2013, began doing business as MVB Mortgage , a mortgage company in the northern Virginia area, and fifty percent (50%) interest in a mortgage services company, Lender Service Provider, LLC. This PMG acquisition gives the Company and the Bank the opportunity to make the mortgage banking operation a much more significant line of business to further diversify its net income stream. In the first quarter of 2013, the Bank opened its second Monongalia County location in the Sabraton area of Morgantown. In the second quarter of 2013, the Bank opened its second full service office in Berkeley county, at Edwin Miller Boulevard.

Currently, the Company operates nine Bank offices in West Virginia, which are located at: 301 Virginia Avenue in Fairmont, Marion County; 9789 Mall Loop (inside the Shop N Save Supermarket) in White Hall, Marion County.; 1000 Johnson Avenue in Bridgeport, Harrison County; 406 West Main St. in Clarksburg, Harrison County; 88 Somerset Boulevard in Charles Town, Jefferson County; 651 Foxcroft Avenue in Martinsburg, Berkeley County; 2400 Cranberry Square in Cheat Lake, Monongalia County; 10 Sterling Drive in Morgantown, Monongalia County; and 231 Aikens Center in Martinsburg, Berkeley County. At June 30, 2013, the Company had total assets of \$781.9 million, total loans of \$474.9 million, total deposits of \$531.3 million and total stockholders' equity of \$82.5 million.

In addition to PMG, the Company has a wholly-owned subsidiary, MVB Insurance, LLC (MVB Insurance). MVB Insurance was originally formed in 2000 and reinstated in 2005, as a Bank subsidiary. Effective June 1, 2013, MVB Insurance became a direct subsidiary of the Company. MVB Insurance offers select insurance products such as title insurance, individual insurance, commercial insurance, employee benefits insurance, and professional liability insurance. In addition to the second-tier holding companies, the Company has an additional subsidiary, Bank Compliance Solutions, Inc., formed in 2011, which to-date has not initiated business activities.

The Company's business activities are currently community banking and with the addition of PMG, mortgage banking. As a community banking entity, the Bank offers its customers a full range of products through various delivery channels. Such products and services include checking accounts, NOW accounts, money market and savings accounts, time certificates of deposit, commercial, installment, commercial real estate and residential real estate mortgage loans, debit cards, and safe deposit rental facilities. Services are provided through our walk-in offices, automated teller machines (ATMs), drive-in facilities, and internet and telephone banking. Additionally, the Bank offers non-deposit investment products through an association with a broker-dealer, and also offers correspondent lending services to assist other community banks in offering longer term fixed rate

Table of Contents

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.

Since the opening date of January 4, 1999, the Company, through the Bank, 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 the second quarter 2013, the Company continued to focus on growth in the Berkeley County, Harrison County, Jefferson County, Marion County and Monongalia County areas as the primary method for reaching performance goals. The Company and the Bank continuously review key performance indicators to measure success.

This discussion and analysis should be read in conjunction with the prior year-end audited financial statements and footnotes thereto included in the Company's filing on Form 10-K and the unaudited financial statements, ratios, statistics, and discussions contained elsewhere in this Form 10-Q. At June 30, 2013, the Company had 284 full-time equivalent employees, including those added through the acquisition of PMG. The Company's principal office is located at 301 Virginia Avenue, Fairmont, West Virginia 26554, and its telephone number is (304) 363-4800. The Company's Internet web site is www.mvbbanking.com.

Application of Critical Accounting Policies

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

The most significant accounting policies followed by the Company are presented in Note 1 to the audited consolidated financial statements included in the Company's 2012 Annual Report on Form 10-K and the later filed amended 2012 Annual Report on Form 10-K/A. 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.

Table of Contents

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 estimated future cash flows, estimated losses in pools of homogeneous loans based on historical loss experience of peer banks, estimated losses on specific commercial credits, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset in the consolidated balance sheet. Note 1 to the consolidated financial statements in MVB's 10-K describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in the Allowance for Loan Losses section of Management's Discussion and Analysis in this quarterly report on Form 10-Q.

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

Results of Operations

Overview of the Statement of Income

For the quarter ended June 30, 2013, the Company earned \$1,484 compared to \$817 in the second quarter of 2012. Net interest income increased by \$355, other income increased by \$7.8 million and other expenses increased by \$7.3 million. The increase in net interest income was driven mainly by the continued growth of the Company balance sheet, with \$60.3 million in average loan growth. Also contributing to the increase in net interest income was a decrease in interest expense of \$23, despite an increase in average interest bearing liabilities of \$137.8 million. This represented a decreased cost of funds of 29 basis points. The increase in other income was mainly the result of an increase in income on loans held for sale of \$6.1 million as a result of additional volume that the Company was able to produce through the acquisition of PMG. The increase in other operating expenses was principally the result of increased salaries expense of \$5.3 million, with the addition of the Clarksburg, Sabraton and Edwin Miller Bank offices as well as additions in the areas of human resources, information technology, and loan operations, the additional staff related to the acquisition of PMG and additional staff related to MVB Insurance, LLC, as well as increases for existing staff. Occupancy, Equipment and depreciation costs increased \$341, the result of the additions of the Clarksburg, Sabraton and Edwin Miller Bank offices, the acquisition of PMG, and additional leased office space in both the Cheat Lake Bank office, the Bank Operations Center and MVB Insurance, LLC. Data processing costs increased \$117 due to increased volume and increased useage of products available to save time and better automate processes. Mortgage processing costs increased \$678 due to the acquisition of PMG who uses a related entity to perform processing services related to mortgage loans. Legal and accounting fees increased \$115 as a result of the additional fees incurred by PMG as well as additional fees incurred by both the Company and the Bank. Other operating expenses increased by \$433, of which \$179 were related to expenses incurred by PMG and the remaining \$254 mainly the result of the following: increased other insurance expense of \$13, directors fees of \$48, forgeries expense of \$20, telephone expense of \$25, travel and entertainment of \$74, dues and memberships expense of \$17, publications expense of \$16, miscellaneous expense of \$18, credit reports expense of \$14, and title exams and appraisal expense of \$4.

Loan loss provisions of \$667 and \$675 were made for the quarters ended June 30, 2013 and 2012, respectively. The provision for loan losses, which is a product of management's formal quarterly analysis, is recorded in response to inherent risks in the loan portfolio. The Company charged off \$481 in loans during the second quarter of 2013 versus \$381 for the same time period in 2012. The allowance for loan losses to total loans increased from .82% at June 30, 2012 to 1.02% at June 30, 2013.

Non-interest income for the quarters ended June 30, 2013 and 2012 totaled \$9.1 million and \$1.3 million, respectively. The most significant portions of non-interest income are capitalized servicing retained income which totaled \$318 for the quarter ended June 30, 2013, a new income stream that began during the third quarter of 2012, income on loans held for sale, which totaled \$6.8 million for the quarter ended June 30, 2013,

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

an increase of \$6.1 million over the second quarter of 2012, the result of the increased volume from existing lenders as well as the addition of new lenders and increased volume from the acquisition of PMG, gain on derivative which totaled \$703 for the quarter ended June 30, 2013, a new income stream that began during the fourth quarter of

Table of Contents

2012 and other operating income which totaled \$757 for the quarter ended June 30, 2013, an increase of \$499 from the prior year, mainly the result of the following: increased title insurance income of \$338, inspection fee income of \$17, servicing income of \$101, wire transfer fee income of \$13, rental income of \$10 and wealth management income of \$8.

Non-interest expense for the quarters ended June 30, 2013 and 2012 totaled \$11.0 million and \$3.7 million, respectively. The most significant increases were as discussed above.

For the six months ended June 30, 2013 the Company earned \$2.7 million compared to \$1.7 million for the same time period in 2012. This \$1.0 million increase is mainly the result of balance sheet growth in the areas of loans and investments as discussed above, resulting in an increase in net interest income after provision for loan losses of \$413 as well as the addition of \$699 in derivative gains for the first six months of 2013. MVB's other income increased \$14.1 million, mainly the result of an increase in income on loans held for sale of \$11.7 million and total other expenses increased by \$13.4 million, mainly in the areas of salaries, other expense, advertising, occupancy, legal and accounting fees, mortgage processing and data processing. Loan loss provisions of \$1.7 million and \$1.4 million were made for the six months ended June 30, 2013 and 2012, respectively. This increase of \$300 was due to continued strong loan demand.

Non-interest income for the six months ended June 30, 2013 and 2012 totaled \$16.4 million and \$2.3 million, respectively. This \$14.1 million increase was primarily the result of the following: increased income on loans held for sale of \$11.7 million, capitalized servicing retained income of \$656, gain on derivative of \$699 and other income of \$957.

Non-interest expense for the six months ended June 30, 2012 and 2011 totaled \$20.4 million and \$7.0 million. The largest drivers of this \$13.4 million increase were in the areas of salaries, other expenses, advertising, occupancy, legal and accounting fees, mortgage processing and data processing.

Table of Contents

Interest Income and Expense

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

Net interest margin is calculated by dividing net interest income by average interest-earning assets. This ratio serves as a performance measurement of the net interest revenue stream generated by the Bank's balance sheet. The net interest margin for the quarters ended June 30, 2013 and 2012 was 3.00% and 3.11% respectively. The 11 basis point decline in the Bank's net interest margin for the quarter ended June 30, 2013 was the result of the decreased yield on the loan portfolio of 33 basis points. The continued low rate environment and increasing competition for quality credit continues to apply pressure upon the Bank's loan portfolio yield. The funding side of the bank helped offset the decreased asset yield as a result of the following: a 25 basis point reduction in the cost of funds, mainly in the CD portfolio, IRA portfolio and FHLB borrowing balances. While the Bank's yield on total loans declined by 33 basis points, the Bank was able to grow average loan balances by \$60.3 million, which enabled an increase in net interest income of \$355. An increase in the Bank's average non-interest bearing balances of \$7.2 million decreased the impact of non-interest bearing funds on the margin by 12 basis points.

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

Table of Contents**Average Balances and Interest Rates**

(Unaudited)(Dollars in thousands)

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
Assets						
Interest-bearing deposits in banks	\$ 7,997	\$ 9	0.47%	\$ 3,744	\$ 4	0.53%
Certificates of deposit in other banks	9,427	41	1.73	9,524	47	1.97
Investment securities	120,417	540	1.79	114,585	541	1.88
Loans:						
Commercial	302,725	3,455	4.57	244,888	3,001	4.90
Tax exempt	24,063	230	3.82	17,149	185	4.32
Real estate	121,601	1,254	4.13	131,236	1,437	4.37
Consumer	18,551	213	4.59	13,384	196	5.86
Total loans	466,940	5,153	4.41	406,657	4,819	4.74
Total earning assets	604,781	5,743	3.80	534,510	5,411	4.04
Loans held for sale	74,390			4,265		
Cash and due from banks	16,727			9,881		
Other assets	56,671			19,972		
Total assets	\$ 752,570			\$ 568,658		
Liabilities						
Deposits:						
Non-interest bearing demand NOW	\$ 254,578	\$ 530	0.83	\$ 180,925	\$ 421	0.93
Money market checking	22,348	17	0.30	33,552	42	0.50
Savings	29,226	46	0.63	22,866	33	0.58
IRAs	9,333	38	1.63	9,797	59	2.41
CDs	139,257	317	0.91	135,538	398	1.17
Repurchase agreements & FFS	81,404	144	0.71	69,236	129	0.75
FHLB and other borrowings	70,897	92	0.52	17,300	122	2.82
Subordinated debt	4,124	20	1.92	4,124	22	2.13
Total interest-bearing liabilities	611,167	1,204	0.79	473,338	1,227	1.04
Other liabilities	8,449			3,073		
Total liabilities	670,391			519,968		
Stockholders equity						
Preferred stock	8,500			8,500		
Common stock	3,494			2,237		
Paid-in capital	61,783			32,704		
Treasury stock	(1,084)			(1,084)		
Retained earnings	11,096			7,047		
Accumulated other comprehensive income	(1,610)			(714)		
Total stockholders equity	82,179			48,690		
	\$ 752,570			\$ 568,658		

Total liabilities and stockholders equity					
Net interest spread			3.01		3.00
Impact of non-interest bearing funds on margin			(0.01)		0.11
Net interest income-margin	\$	4,539	3.00%	\$	4,184 3.11%

Table of Contents**Average Balances and Interest Rates**

(Unaudited)(Dollars in thousands)

	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
Assets						
Interest-bearing deposits in banks	\$ 10,051	\$ 13	0.27%	\$ 3,536	\$ 5	0.34%
Certificates of deposit in other banks	9,427	83	1.76	9,705	104	2.14
Investment securities	117,351	1,064	1.81	114,064	1,087	1.90
Loans:						
Commercial	294,537	6,850	4.65	240,771	5,993	4.98
Tax exempt	23,397	465	3.98	17,188	371	4.32
Real estate	125,102	2,561	4.09	127,702	2,829	4.43
Consumer	18,075	420	4.65	13,338	401	6.01
Total loans	461,111	10,296	4.47	398,999	9,594	4.80
Total earning assets	597,940	11,457	3.83	526,304	10,790	4.10
Loans held for sale	70,449			4,774		
Cash and due from banks	16,639			10,377		
Other assets	52,327			19,940		
Total assets	\$ 737,354			\$ 561,395		
Liabilities						
Deposits:						
Non-interest bearing demand	\$ 52,866	\$	%	42,245	\$	%
NOW	249,901	1,034	0.83	180,516	846	0.94
Money market checking	22,662	34	0.30	33,561	85	0.51
Savings	28,576	87	0.61	22,034	63	0.57
IRAs	9,464	80	1.70	9,768	122	2.50
CDs	143,824	620	0.86	134,049	803	1.20
Repurchase agreements & FFS	75,469	271	0.72	67,746	243	0.72
FHLB and other borrowings	67,197	215	0.64	15,827	238	3.01
Subordinated debt	4,124	39	1.91	4,124	44	2.13
Total interest-bearing liabilities	601,217	2,381	0.79	467,625	2,444	1.04
Other liabilities	8,076			3,354		
Total liabilities	662,159			513,224		
Stockholders equity						
Preferred stock	8,500			8,500		
Common stock	3,233			2,236		
Paid-in capital	55,584			32,661		
Treasury Stock	(1,084)			(1,084)		
Retained earnings	10,534			6,635		
Accumulated other comprehensive income	(1,572)			(777)		

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Total stockholders equity		75,196		48,171
Total liabilities and stockholders equity	\$	737,354	\$	561,395
Net interest spread			3.04	3.06
Impact of non-interest bearing funds on margin			.00	.08
Net interest income-margin	\$	9,076	3.04%	\$ 8,346 3.14%

Table of Contents

Non-Interest Income

Income on loans held for sale generates the core of the Bank's non-interest income. Non-interest income totaled \$9.1 million in the second quarter of 2013 compared to \$1.3 million in the second quarter of 2012. This increase of \$7.8 million is mainly the result of an increase in income in loans held for sale of \$6.1 million, the addition of \$318 in capitalized servicing retained income, the addition of \$703 in gain on derivative and increased other operating income of \$499 as a result of increased title, servicing, inspection fee, wire transfer, rental and wealth management income.

Service charges on deposit accounts continue to be part of the core of the Bank's other income, and thus, the Company's other income and include mainly non-sufficient funds and returned check fees, allowable overdraft fees and service charges on commercial accounts. For the quarters ended June 30, 2013 and 2012, service charges totaled \$169 and \$178, respectively.

The Bank is continually searching for ways to increase non-interest income. Income from loans sold in the secondary market continues to be a major area of focus for the Bank and the Company, as well as servicing retained on mortgage loans sold into the secondary market.

Non-Interest Expense

For the second quarter of 2013, non-interest expense totaled \$11.0 million compared to \$3.7 million in the second quarter of 2012. The Company's efficiency ratio was 80.63% for the second quarter of 2013 compared to 67.36% for the second quarter of 2012. This ratio measures the efficiency of non-interest expenses incurred in relationship to net interest income plus non-interest income. The increased efficiency ratio is the result of other operating expense outpacing the growth in net interest income and other income.

Salaries and benefits totaled \$7.4 million for the quarter ended June 30, 2013 compared to \$2.2 million for the quarter ended June 30, 2012. This \$5.2 million increase in salaries and benefits is mainly the result of the addition of the Clarksburg, Sabraton and Edwin Miller Bank offices as well as additions in the areas of human resources, information technology, and loan operations, the additional staff related to the acquisition of PMG and additional hires within MVB Insurance, as well as increases for existing staff. The Company had 284 full-time equivalent personnel at June 30, 2013, as noted, compared to 130 full-time equivalent personnel as of June 30, 2012. Company and Bank management will continue to strive to find new ways of increasing efficiencies and leveraging its resources, while effectively optimizing customer service.

For the quarters ended June 30, 2013 and 2012, occupancy expense totaled \$480 and \$209, respectively. This \$271 increase is the result of the addition of the Clarksburg, Sabraton and Edwin Miller Bank offices as well as additional leased office space in the Cheat Lake Bank office, the Bank Operations Center, the addition of PMG and additional leased space for MVB Insurance. Data processing costs increased \$117 compared to the second quarter of 2012 due to increased volume and increased useage of products available to save time and better automate processes. Mortgage processing costs increased \$678 compared to the second quarter of 2012 due to the acquisition of PMG who uses a related entity to perform processing services related to mortgage loans. FDIC insurance totaled \$135 in the second quarter of 2013 compared to \$54 in the second quarter of 2012. This increase in FDIC insurance was due to the continued growth in deposits. Legal and accounting costs increased \$115 compared to the second quarter of 2012 as a result of the additional fees incurred by PMG as well as additional fees incurred by both the Company and the Bank.

Other operating expense totaled \$819 in the second quarter of 2013 compared to \$386 in the second quarter of 2012. The largest items relating to this increase were in the areas of other insurance expense, directors' fees, telephone, travel and entertainment, title exams and appraisal expense, forgeries, dues and memberships, publication and miscellaneous expense.

Table of Contents

Return on Average Assets and Average Equity

Returns on average assets (ROA) and average equity (ROE) were .79% and 7.22% for the second quarter of 2013 compared to .57% and 6.71% in the second quarter of 2012.

Overview of the Statement of Condition

The Company's interest-earning assets, interest-bearing liabilities, and stockholders' equity changed significantly during the second quarter of 2013 compared to 2012. The most significant areas of change between the quarters ended June 30, 2013 and June 30, 2012 were as follows: loans increased to an average balance of \$466.9 million from \$406.7 million, interest-bearing liabilities grew to an average balance of \$611.2 million from \$473.3 million and stockholders' equity grew by \$3.5 million to an average of \$82.2 million. These trends reflect the continued growth of the Company and its subsidiaries in the loan, deposit and capital areas.

Total assets at June 30, 2013 were \$782.0 million or an increase of \$55.2 million since December 31, 2012. The greatest areas of increase were \$28.4 million in loan growth, \$16.0 million in investment securities and \$7.2 million in other assets.

Table of Contents

Deposits totaled \$531.3 million at June 30, 2013 or an increase of \$44.8 million since December 31, 2012. \$33.3 million of this increase is the result of time deposits, \$17.9 million is the result of increased broker buster deposits and \$5.1 million is the result of increased savings and money market deposits.

Stockholders' equity has increased approximately \$15.0 million from December 31, 2012 due to earnings for the six months ended June 30, 2013 of \$2.7 million and through the issuance of 559,264 shares of common stock totaling \$13.4 million in additional capital.

Cash and Cash Equivalents

Cash and cash equivalents totaled \$27.4 million as of June 30, 2013 compared to \$21.6 million as of December 31, 2012.

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

Investment Securities

Investment securities totaled \$130.9 million as of June 30, 2013 and \$114.9 million as of December 31, 2012. Government sponsored agency securities comprise the majority of the portfolio.

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

Loans

The Bank's lending is primarily focused in the Marion, Harrison, Jefferson, Berkeley and Monongalia County areas of West Virginia with a secondary focus on the adjacent counties in West Virginia. The portfolio consists principally of commercial lending, retail lending, which includes single-family residential mortgages, and consumer lending.

Table of Contents

Loan Concentration

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

Allowance for Loan Losses

The Bank management continually monitors the loan portfolio through review of the monthly delinquency reports and through the Bank Loan Review Committee. The Bank Loan Review Committee is responsible for the determination of the adequacy of the allowance for loan losses. Their analysis involves both experience of the portfolio to date and the makeup of the overall portfolio. Specific loss estimates are derived for individual loans based on specific criteria such as current delinquency status, related deposit account activity, where applicable, local market rumors, which are generally based on some factual information, and changes in the local and national economy. While local market rumors are not measurable or perhaps not readily supportable, historically, this form of information can be an indication of a potential problem. The allowance for loan losses is further based upon the internal risk rating assigned to the various loan types within the portfolio.

Capital Resources

The Company considers a number of alternatives, including but not limited to deposits, short-term borrowings, and long-term borrowings when evaluating funding sources. Traditional deposits continue to be the most significant source of funds for the bank, reaching \$531.3 million at June 30, 2013.

Non-interest bearing deposits remain a core funding source for the Bank and, thus, the Company. At June 30, 2013, non-interest bearing deposits totaled \$55.4 million compared to \$54.6 million at December 31, 2012. The Company and Bank management intend to continue to focus on finding ways to increase the base of non-interest bearing funding sources of the Bank and other Company subsidiaries.

Interest-bearing deposits totaled \$476.0 million at June 30, 2013 compared to \$431.9 million at December 31, 2012. Average interest-bearing liabilities totaled \$611.2 million during the second quarter of 2013 compared to \$473.3 million for the second quarter of 2012. Average non-interest bearing demand deposits totaled \$50.8 million for the second quarter of 2013 compared to \$43.6 million for the second quarter of 2012. Management will continue to emphasize deposit gathering in 2013 by offering outstanding customer service and competitively priced products. The Company and Bank management will also concentrate on balancing deposit growth with adequate net interest margin to meet the Company's strategic goals.

Along with traditional deposits, the Bank has access to both repurchase agreements, which are corporate deposits secured by pledging securities from the investment portfolio, and Federal Home Loan Bank borrowings to fund its operations and investments. At June 30, 2013, repurchase agreements totaled \$83.0 million compared to \$70.2 million at December 31, 2012. In addition to the aforementioned funds alternatives, the

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Bank has access to more than \$166.0 million through additional advances from the Federal Home Loan Bank of Pittsburgh and the ability to readily sell jumbo certificates of deposits to other banks as well as brokered deposit markets.

Table of Contents

Liquidity

The Company recognizes the importance of liquidity in the day-to-day operations of the Bank, and believes it is critical to have a plan for addressing liquidity in times of crisis, as well as prudently managing levels to maximize earnings. The Bank has historically recognized the need for funding sources that go beyond the most important source which is retail deposit business. The Company and the Bank have created a funding program that identifies various wholesale funding sources that may be used whenever appropriate. These sources include the following: FHLB advances, brokered deposits, CDARS, repurchase agreements, internet CDs through Qwickrate, the Federal Reserve discount window, State of West Virginia CD auctions, and federal funds purchased through the Federal Reserve. Limits have been set as to how much MVB will utilize each identified source. The Bank currently is taking advantage of all of the above, with the exception of federal funds purchased and the discount window. This allows the Bank to lower funding costs slightly while documenting the availability of each.

Current Economic Conditions

The current economic climate in West Virginia, and, in particular, in the five counties in which the Company and the Bank focuses possess better economic climates than the general national climate. Unemployment in the United States was 7.3% in May 2013 and 7.9% in May 2012. The unemployment levels in the five counties MVB operates in were as follows: Berkeley County unemployment was 5.8% in May 2013, compared to 7.1% in May 2012. Harrison County's unemployment rate for May 2013 was 4.9% versus 6.4% in May 2012. Jefferson County's unemployment rate improved from 5.3% in May 2012 to 3.9% in May 2013 and Marion County's unemployment rate improved from 6.4% in May of 2012 to 5.3% in May of 2013. Monongalia County's unemployment rate improved from 5.0% in May of 2012 to 3.9% in May of 2013. The numbers from all five counties continue to be significantly better than the national numbers.

The Company and the Bank nonperforming loan information supports the fact that the West Virginia economy has not suffered as much as that of the nation as a whole. Nonperforming loans to total loans were 0.24% in June of 2013 versus 0.88% in June of 2012 and charge offs to total loans were 0.18% and 0.22% for each period respectively. The Company and the Bank continue to closely monitor economic and delinquency trends.

Capital/Stockholders Equity

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

In late December 2012 the Company began a confidential offering to accredited investors that resulted in the issuance of 1,132,527 shares of common stock totaling \$27.2 million in additional capital. This offering was completed during March of 2013.

At June 30, 2013, accumulated other comprehensive (loss) totaled \$(2,488) compared to \$(1,495) at December 31, 2012. This change is primarily the result in the decline of the market values of investment securities.

Treasury stock shares totaled 51,077 shares.

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

Bank regulators have established risk-based capital requirements designed to measure capital adequacy. Risk-based capital ratios reflect the relative risks of various assets banks hold in their portfolios. A weight category of 0% (lowest risk assets), 20%, 50%, or 100% (highest risk assets) is assigned to each asset on the balance sheet. Detailed information concerning MVB's risk-based capital ratios can be found in Note 14 of the Notes to the Consolidated Financial Statements of the Company's 2012 Form 10-K and

Table of Contents

amended 2012 Form 10-K/A. At June 30, 2013, the Company's and the Bank's risk-based capital ratios exceeded the minimum standards for a well capitalized financial institution.

Commitments

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

Loan commitments are made to accommodate the financial needs of the Bank's customers. The Bank uses the same underwriting standards in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties. The total amount of loan commitments outstanding at June 30, 2013 and December 31, 2012 was \$79.0 million and \$62.4 million, respectively.

Market Risk

There have been no material changes in market risks faced by the Company since December 31, 2012. For information regarding the Company's market risk, refer to the Company's Annual Report to Shareholders for the year ended December 31, 2012.

Effects of Inflation on Financial Statements

Substantially all of the Bank's assets relate to banking and are monetary in nature. Therefore, they are not impacted by inflation to the same degree as companies in capital-intensive industries in a replacement cost environment. During a period of rising prices, a net monetary asset position results in loss in purchasing power and conversely a net monetary liability position results in an increase in purchasing power. In the banking industry, typically monetary assets exceed monetary liabilities. Therefore as prices increase, financial institutions experience a decline in the purchasing power of their net assets.

Future Outlook

The Company's and the Bank's results of operations in the second quarter of 2013 are an improvement over the second quarter of 2012 mainly due to the improvement in net interest income and loans held for sale income, the result of the PMG acquisition as well as the addition of servicing income. The Company's emphasis in future periods will be to do those things that have made the bank successful thus far. The critical

challenge for the bank in the future is to attract core deposits to fund growth in the new markets through continued delivery of the most outstanding customer service with the highest quality products and technology.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

No response required.

Item 4. Controls and Procedures

The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer, along with the Company's Chief Financial Officer (the Principal Financial Officer), has evaluated the effectiveness as of June 30, 2013, of the design and operation of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, the Company's Chief Executive Officer, along with the Company's Principal Accounting Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2013.

Table of Contents

There have been no material changes in the Company's internal control over financial reporting during the second quarter of 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

Part II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

No response required.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed herewith.

Exhibit 31.1 Certificate of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certificate of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 Certificate of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 Certificate of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURES

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

August 14, 2013

MVB Financial Corp.

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

By: /s/ Eric L. Tichenor
Eric L. Tichenor
Chief Financial Officer