

MVB FINANCIAL CORP  
Form 10-Q  
May 15, 2014  
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**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 March 31, 2014**

**OR**

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

**For the transition period from                    to                    .**

**Commission File number 000-50567**

# MVB Financial Corp.

(Exact name of registrant as specified in its charter)

**West Virginia**

(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

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

As of May 15, 2014, the number of shares outstanding of the issuer's only class of outstanding common stock was 8,025,409.

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MVB Financial Corp.

Part I. Financial Information

Item 1. Financial Statements

The unaudited interim consolidated financial statements of MVB Financial Corp. ( the Company or MVB ) and subsidiaries ( Subsidiaries ) including MVB Bank, Inc. (the Bank or MVB Bank ) and its wholly-owned subsidiary MVB Mortgage and MVB Insurance, LLC ( MVB Insurance ) listed below are included on pages 3-27 of this report.

Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013

Consolidated Statements of Income for the Three Months ended March 31, 2014 and 2013

Consolidated Statements of Comprehensive Income for the Three Months ended March 31, 2014 and 2013

Consolidated Statements of Cash Flows for the Three Months ended March 31, 2014 and 2013

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Management's Discussion and Analysis of Financial Condition and Results of Operations are included on pages 28-41 of this report.

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## Part I. Financial Information

**Item 1. Financial Statements**

MVB Financial Corp. and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands except per share data)

	<b>March 31 2014 (Unaudited)</b>	<b>December 31 2013 (Note 1)</b>
<b>Assets</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 17,294	\$ 28,907
Interest bearing balances	15,318	10,936
<b>Total cash and cash equivalents</b>	<b>32,612</b>	<b>39,843</b>
Certificates of deposits in other banks	9,427	9,427
Investment securities:		
Securities available-for-sale	104,592	106,411
Securities held-to-maturity (fair value of \$55,741 for 2014 and \$54,118 for 2013)	56,823	56,670
Loans held for sale	50,201	89,186
Loans:	675,558	622,305
Less: Allowance for loan losses	(5,451)	(4,935)
<b>Net loans</b>	<b>670,107</b>	<b>617,370</b>
Bank premises, furniture and equipment	18,926	16,919
Bank owned life insurance	16,219	16,062
Accrued interest receivable and other assets	20,739	17,393
Goodwill	17,779	17,779
<b>Total assets</b>	<b>\$ 997,425</b>	<b>\$ 987,060</b>
<b>Liabilities</b>		
Deposits		
Non-interest bearing	\$ 56,834	\$ 63,336
Interest bearing	697,806	632,475
<b>Total deposits</b>	<b>754,640</b>	<b>695,811</b>
Accrued interest, taxes and other liabilities	7,372	6,878
Repurchase agreements	71,498	81,578
FHLB and other borrowings	60,480	104,647
Subordinated debt	4,124	4,124
<b>Total liabilities</b>	<b>898,114</b>	<b>893,038</b>
<b>Stockholders equity</b>		
Preferred stock, par value \$1,000, 20,000 shares authorized and 8,500 shares issued	8,500	8,500
Common stock, par value \$1, 10,000,000 shares authorized; 7,946,818 and 7,705,894 shares issued; and 7,844,664 and 7,603,740 shares outstanding in 2014 and 2013, respectively	7,947	7,706
Additional paid-in capital	73,190	69,601
Retained earnings	14,480	13,343

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Accumulated other comprehensive loss	(2,639)	(2,961)
Treasury stock, 102,154 shares, at cost	(2,167)	(2,167)
<b>Total stockholders equity</b>	<b>99,311</b>	<b>94,022</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 997,425</b>	<b>\$ 987,060</b>

See accompanying notes to unaudited consolidated financial statements.

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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Income

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

	<b>Three Months Ended March 31</b>	
	<b>2014</b>	<b>2013</b>
<b>Interest income</b>		
Interest and fees on loans	\$ 7,039	\$ 5,370
Interest on deposits with other banks	46	45
Interest on investment securities taxable	411	279
Interest on tax exempt loans and securities	754	482
<b>Total interest income</b>	<b>8,250</b>	<b>6,176</b>
<b>Interest expense</b>		
Deposits	1,098	907
Repurchase agreements	126	123
FHLB and other borrowings	263	262
Subordinated debt	19	20
<b>Total interest expense</b>	<b>1,506</b>	<b>1,312</b>
<b>Net interest income</b>	<b>6,744</b>	<b>4,864</b>
Provision for loan losses	519	1,000
<b>Net interest income after provision for loan losses</b>	<b>6,225</b>	<b>3,864</b>
<b>Noninterest income</b>		
Service charges on deposit accounts	120	137
Gain on bank owned life insurance	128	92
Visa debit card income	152	123
Gain on loans held for sale	3,784	4,928
Capitalized servicing retained income	156	338
Insurance income	958	
Gain on sale of securities		1
Gain on derivative	335	877
Other operating income	374	488
<b>Total noninterest income</b>	<b>6,007</b>	<b>6,984</b>
<b>Noninterest expense</b>		
Salary and employee benefits	6,797	6,220
Occupancy expense	617	430
Equipment depreciation and maintenance	372	328
Data processing	380	205
Mortgage processing	546	507
Visa debit card expense	138	102
Advertising	280	236
Legal and accounting fees	220	202
Printing, stationery and supplies	115	88
Consulting fees	211	120
FDIC insurance	150	139
Travel	154	85
Other operating expenses	856	743
<b>Total noninterest expense</b>	<b>10,836</b>	<b>9,405</b>
Income before income taxes	1,396	1,443

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Income tax expense		238		255
<b>Net income</b>	\$	1,158	\$	1,188
Preferred dividends		21		21
Net income available to common shareholders	\$	1,137	\$	1,167
Earnings per share - basic	\$	0.15	\$	0.20
Earnings per share - diluted	\$	0.15	\$	0.19
Weighted average shares outstanding - basic		7,606,661		5,851,094
Weighted average shares outstanding - diluted		7,828,143		5,986,684

See accompanying notes to unaudited consolidated financial statements.



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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Unaudited)(Dollars in thousands)

	<b>Three Months Ended March 31</b>	
	<b>2014</b>	<b>2013</b>
Net Income	\$ 1,158	\$ 1,188
Other comprehensive income (loss):		
Unrealized holding gains (losses) during the year	537	(33)
Income tax effect	(215)	13
Reclassification adjustment for gain recognized in income		(1)
Income tax effect		
Other comprehensive income (loss)	322	(21)
Comprehensive income	\$ 1,480	\$ 1,167

See accompanying notes to unaudited consolidated financial statements.

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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited) (Dollars in thousands)

	Three Months Ended	
	March 31 2014	March 31 2013
<b>Operating activities</b>		
Net income	\$ 1,158	\$ 1,188
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization and accretion of investments	224	270
Net amortization of deferred loan (fees) cost	73	(16)
Provision for loan losses	519	1,000
Depreciation and amortization	289	194
Stock based compensation	58	36
Loans originated for sale	(148,480)	(239,958)
Proceeds of loans sold	191,249	257,189
Gain on sale of loans held for resale	(3,784)	(5,097)
Gain on sale of investment securities		(1)
Income on bank owned life insurance	(128)	(92)
Deferred taxes	(645)	(188)
Other, net	(4,632)	(4,019)
<b>Net cash provided by operating activities</b>	<b>35,901</b>	<b>10,506</b>
<b>Investing activities</b>		
Purchases of investment securities available-for-sale		(3,226)
Purchases of investment securities held-to-maturity	(250)	
Maturities/paydowns of investment securities available-for-sale	2,416	2,943
Sales of investment securities available-for-sale		2,045
Purchases of premises and equipment	(2,296)	(1,665)
Net increase in loans	(53,327)	(10,560)
Purchases of restricted bank stock	(2,773)	(1,762)
Redemptions of restricted bank stock	4,710	516
Proceeds from sale of other real estate owned	57	
<b>Net cash used in investing activities</b>	<b>(51,463)</b>	<b>(11,709)</b>
<b>Financing activities</b>		
Net increase in deposits	58,828	33,744
Net decrease in repurchase agreements	(10,080)	(473)
Net change in short-term FHLB borrowings	(44,128)	(16,394)
Principal payments on FHLB borrowings	(39)	(2,801)
Proceeds from stock offering	3,723	13,419
Common stock options exercised	48	
Cash dividends paid on preferred stock	(21)	(21)
<b>Net cash provided by financing activities</b>	<b>8,331</b>	<b>27,474</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(7,231)</b>	<b>26,271</b>
Cash and cash equivalents at beginning of period	39,843	25,340
<b>Cash and cash equivalents at end of period</b>	<b>\$ 32,612</b>	<b>\$ 51,611</b>
<b>Supplemental disclosure of cash flow information</b>		
Loans transferred to other real estate owned	\$	\$ 472

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Cash payments for:			
Interest	\$	1,539	\$ 1,222
Income taxes	\$	465	\$

See accompanying notes to unaudited consolidated financial statements.

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MVB Financial Corp. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

**Note 1 Basis of Presentation**

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

The accounting and reporting policies of MVB Financial Corp. ( the Company or MVB ) and its subsidiaries ( Subsidiaries ), including MVB Bank, Inc. (the Bank ), the Bank s subsidiary 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, 2013 has been extracted from audited financial statements included in the Company s 2013 filing on Form 10-K. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in MVB s December 31, 2013, Form 10-K filed with the Securities and Exchange Commission.

In certain instances, amounts reported in prior periods consolidated financial statements have been reclassified to conform to the current presentation. In addition, all share amounts have been revised to reflect the two for one stock split effected as a stock dividend as disclosed in Note 12.

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

**Note 2 Recent Accounting Pronouncements**

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In January 2014, the FASB issued ASU No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-04 is not expected to have a material impact on MVB Financials Corp's Consolidated Financial Statements.

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Amortized cost and fair values of investment securities held-to-maturity at March 31, 2014, including gross unrealized gains and losses, are summarized as follows:

(in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Municipal securities	\$ 56,823	\$ 691	\$ (1,773)	\$ 55,741
Total investment securities held to-maturity	\$ 56,823	\$ 691	\$ (1,773)	\$ 55,741

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

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

Amortized cost and fair values of investment securities available-for-sale at March 31, 2014 are summarized as follows:

(in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U.S. Agency securities	\$ 60,732	\$ 12	\$ (1,480)	\$ 59,264
U.S. Sponsored Mortgage-backed securities	44,785	165	(619)	44,331
Total debt securities	105,517	177	(2,099)	103,595
Equity and other securities	810	187		997
Total investment securities available-for-sale	\$ 106,327	\$ 364	\$ (2,099)	\$ 104,592

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

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



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

	March 31, 2014				
	Held to Maturity		Available for sale		
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	
Within one year	\$	\$	\$	\$	
After one year, but within five		1,696	1,736	34,457	34,066
After five years, but within ten		14,877	14,910	37,087	36,066
After ten years		40,250	39,095	33,973	33,463
Total	\$	56,823	\$ 55,741	\$ 105,517	\$ 103,595

Investment securities with a carrying value of \$154,958 at March 31, 2014, were pledged to secure public funds, repurchase agreements and potential borrowings at the Federal Reserve discount window.

The Company's investment portfolio includes securities that are in an unrealized loss position as of March 31, 2014, the details of which are included in the following table. Although these securities, if sold at March 31, 2014 would result in a pretax loss of \$3,872, 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 March 31, 2014, the Company considers all securities with unrealized loss positions to be temporarily impaired, and consequently, does not believe the Company will sustain any material realized losses as a result of the current temporary decline in market value.

The following table discloses investments in an unrealized loss position at March 31, 2014:

(in thousands)

Description and number of positions	Less than 12 months		12 months or more	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Agency securities (17)	\$ 51,599	\$ (1,480)	\$	\$
U.S. Sponsored Mortgage-backed securities (16)	11,095	(72)	18,799	(547)
Municipal securities (83)	24,021	(1,242)	7,544	(531)
	\$ 86,715	\$ (2,794)	\$ 26,343	\$ (1,078)



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

(in thousands)

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

There were no sales of investments available-for-sale during the three month period ended March 31, 2014. The Company sold investments available-for-sale of \$2.0 million for the three months ended March 31, 2013, resulting in a gross gain of \$1.

**Note 4 Loans and Allowance for Loan Losses**

The following table summarizes the primary segments of the allowance for loan losses ( ALL ), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of March 31, 2014. Activity in the allowance is presented for the periods indicated (in thousands):

	Commercial	Residential	Home Equity	Installment	Credit Card	Total
ALL balance December 31, 2013	\$ 3,609	\$ 519	\$ 554	\$ 239	\$ 14	\$ 4,935
Charge-offs				(9)		(9)
Recoveries	2		1	3		6
Provision	291	227			1	519
ALL balance March 31, 2014	\$ 3,902	\$ 746	\$ 555	\$ 233	\$ 15	\$ 5,451
Individually evaluated for impairment	\$ 1,358	\$ 302	\$ 29	\$ 8	\$ 2	\$ 1,699
Collectively evaluated for impairment	\$ 2,544	\$ 444	\$ 526	\$ 225	\$ 13	\$ 3,752

	Commercial	Residential	Home Equity	Installment	Credit Card	Total
ALL balance December 31, 2012	\$ 3,107	\$ 514	\$ 242	\$ 200	\$ 13	\$ 4,076
Charge-offs	(500)	(2)				(502)
Recoveries	22	36	7			65
Provision	1,016	(58)	22	16	4	1,000
ALL balance March 31, 2013	\$ 3,645	\$ 490	\$ 271	\$ 216	\$ 17	\$ 4,639
Individually evaluated for impairment	\$ 668	\$ 35	\$	\$ 1	\$	\$ 704
Collectively evaluated for impairment	\$ 2,977	\$ 455	\$ 271	\$ 215	\$ 17	\$ 3,935



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

All loan origination fees and direct loan origination costs are deferred and recognized over the life of the loan. As of March 31, 2014 and 2013, net deferred fees and costs of \$1,613 and \$974, respectively, were included in the carryings value of loans.

During late 2013, the Bank purchased \$74.3 million in commercial loans in the northern Virginia area, that were marked to fair value at the time they were recorded on the balance sheet.

The following table summarizes the primary segments of the Company loan portfolio as of March 31, 2014:

(in thousands)	Commercial	Residential	Home Equity	Installment	Credit Cards	Total
Individually evaluated for impairment	\$ 6,739	\$ 843	\$ 29	\$ 15	\$ 2	\$ 7,628
Collectively evaluated for impairment	481,282	137,278	31,194	17,517	659	667,930
Total Loans	\$ 488,021	\$ 138,121	\$ 31,223	\$ 17,532	\$ 661	\$ 675,558

The following table summarizes the primary segments of the Company loan portfolio as of March 31, 2013 (in thousands):

(in thousands)	Commercial	Residential	Home Equity	Installment	Credit Cards	Total
Individually evaluated for impairment	\$ 52,206	\$ 1,875	\$	\$ 34	\$	\$ 54,115
Collectively evaluated for impairment	262,727	103,033	18,926	17,200	581	402,467
Total Loans	\$ 314,933	\$ 104,908	\$ 18,926	\$ 17,234	\$ 581	\$ 456,582

Of the \$7,628 in impaired loans presented above, \$3,694 were non-performing loans as of March 31, 2014. The remaining \$3,934 represents troubled debt restructured loans that are performing under modified terms.

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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 March 31, 2014 and December 31, 2013 (in thousands):

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
<b>March 31, 2014</b>					
Commercial	\$ 6,619	\$ 1,358	\$ 120	\$ 6,739	\$ 6,739
Residential	843	302		843	843
Home Equity	29	29		29	29
Installment	15	8		15	15
Credit Cards	2	2		2	2
Total impaired loans	\$ 7,508	\$ 1,699	\$ 120	\$ 7,628	\$ 7,628
<b>December 31, 2013</b>					
Commercial	\$ 6,134	\$ 1,243	\$ 120	\$ 6,254	\$ 6,254
Residential	261	175		261	261
Home Equity	28	28		28	28
Installment	24	11	68	92	92
Credit Cards	1	1		1	1
Total impaired loans	\$ 6,448	\$ 1,458	\$ 188	\$ 6,636	\$ 6,636

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

	Three months ended	
	2014	March 31
		2013
Average investment in impaired loans:		
Commercial	\$ 6,414	\$ 4,575
Residential	584	413
Home Equity	28	
Installment	43	21
Credit Cards	1	
Total Average investment in impaired loans	\$ 7,070	\$ 5,009
Interest income recognized on an accrual basis on impaired loans	\$ 69	\$ 24
Interest income recognized on a cash basis on impaired loans	\$ 36	\$ 20

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

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank's Chief Credit Officer is responsible for the timely and accurate risk rating of the loans in the portfolio at origination and on an ongoing basis. The Bank's Credit Department performs an annual review of all commercial relationships \$1,000,000 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 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 March 31, 2014 and December 31, 2013 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
<b>March 31, 2014</b>					
Commercial	\$ 468,904	\$ 10,764	\$ 8,115	\$ 238	\$ 488,021
Residential	135,226	1,768	930	197	138,121
Home Equity	31,088	106	29		31,223

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Installment	16,892	625	15	17,532
Credit Cards	659		2	661
Total	\$ 652,769	\$ 13,263	\$ 9,091	\$ 435 \$ 675,558

**December 31, 2013**

Commercial	\$ 437,474	\$ 11,566	\$ 8,348	\$ 457,388
Residential	115,283	2,660	261	118,204
Home Equity	27,662	107	28	27,797
Installment	17,579	614	92	18,285
Credit Cards	628	2	1	631
Total	\$ 598,626	\$ 14,949	\$ 8,730	\$ 622,305

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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 March 31, 2014 and December 31, 2013 (in thousands):

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days + Past Due	Total Past Due	Total Loans	Non- Accrual	90+ Days Still Accruing
<b>March 31, 2014</b>								
Commercial	\$ 467,932	\$ 16,237	\$ 76	\$ 3,776	\$ 20,089	\$ 488,021	\$ 381	\$ 3,417
Residential	134,792	2,818		511	3,329	\$ 138,121	226	285
Home Equity	31,203	20			20	\$ 31,223		
Installment	17,413	85	34		119	\$ 17,532		
Credit Cards	659			2	2	\$ 661		2
Total	\$ 651,999	\$ 19,160	\$ 110	\$ 4,289	\$ 23,559	\$ 675,558	\$ 607	\$ 3,704
<b>December 31, 2013</b>								
Commercial	\$ 456,580	\$ 216	\$ 24	\$ 568	\$ 808	\$ 457,388	\$ 284	\$
Residential	116,121	1,401	193	489	2,083	\$ 118,204	29	431
Home Equity	27,741	28		28	56	\$ 27,797		28
Installment	18,043	90		152	242	\$ 18,285	76	
Credit Cards	628	2		1	3	\$ 631		1
Total	\$ 619,113	\$ 1,737	\$ 217	\$ 1,238	\$ 3,192	\$ 622,305	\$ 389	\$ 460

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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.

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

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



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## Troubled Debt Restructurings

The restructuring of a loan is considered a troubled debt restructuring if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. Troubled debt restructurings during 2014 and 2013 are set forth in the following table. No TDRs have defaulted.

At March 31, 2014 and December 31, 2013, the Bank had specific reserve allocations for TDRs of \$1.6 million and \$1.4 million, respectively.

The following table presents details related to loans identified as Troubled Debt Restructurings (TDRs) for the three months ended March 31, 2014 and March 31, 2013 (in thousands):

	For the Three Months Ended March 31, 2014			New TDRs (1)		For the Three Months Ended March 31, 2013		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment		
Commercial	1	\$ 496	\$ 496	2	\$ 1,695	\$ 1,695		
Residential real estate	1	389	389					
Consumer				3	8	8		
Total	2	\$ 885	\$ 885	5	\$ 1,703	\$ 1,703		

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

Table of Contents**NOTE 5 - BORROWED FUNDS**Short-term Borrowings and Repurchase Agreements

Along with traditional deposits, the Bank has access to both overnight repurchase agreements and short-term borrowings from FHLB to fund its operations and investments. As of March 31, 2014 and December 31, 2013, the Bank had repurchase agreements of \$71.5 million and \$81.6 million, respectively. Short-term borrowings from FHLB totaled \$53.9 million at March 31, 2014, compared to \$98.0 million at December 31, 2013.

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

(Dollars in thousands)	March 31, 2014	March 31, 2013
Balance at end of period	\$ 125,398	\$ 128,856
Average balance during the three months ended	135,779	90,514
Maximum month-end balance	160,737	128,856
Weighted-average rate during the three months ended	0.96%	0.70%
Rate at end of period	0.96%	1.31%

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

**Term notes from the FHLB were as follows:**

(Dollars in thousands)	March 31 2014	Dec 31 2013
Fixed interest rate notes, originating between April 1999 and December 2007, due between April 2014 and April 2022, interest of between 4.50% and 5.90% payable monthly	\$ 5,724	\$ 5,759
Amortizing fixed interest rate note, originating February 2007, due February 2022, payable in monthly installments of \$5, including interest of 5.22%	856	860
	\$ 6,580	\$ 6,619

Subordinated Debt

In March 2007, the Company completed the private placement of \$4 million Floating Rate, Trust Preferred Securities through its MVB Financial Statutory Trust I subsidiary (the "Trust"). The Company established the trust for the sole purpose of issuing the Trust Preferred Securities pursuant to an Amended and Restated Declaration of Trust. The proceeds from the sale of the Trust Preferred Securities were loaned to the Company under subordinated Debentures (the "Debentures") issued to the Trust pursuant to an Indenture. The Debentures



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are the only asset of the Trust. The Trust Preferred Securities have been issued to a pooling vehicle that will use the distributions on the Trust Preferred Securities to securitize note obligations. The obligations of the Company with respect to the issuance of the trust preferred securities constitute a full and unconditional guarantee by the Company of the Trust's obligations with respect to the trust preferred securities to the extent set forth in the related guarantees. The securities issued by the Trust are includable for regulatory purposes as a component of the Company's Tier I capital.

The Trust Preferred Securities and the Debentures mature in 2037 and have been redeemable by the Company since 2012. Interest payments are due in March, June, September and December and are adjusted at the interest due dates at a rate of 1.62% over the three month LIBOR Rate. The Company reflects borrowed funds in the amount of \$4.1 million as of March 31, 2014 and December 31, 2013 and interest expense of \$19 and \$20 for the 3 months ended March 31, 2014 and 2013.

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

(dollars in thousands)

<b>Year</b>	<b>Amount</b>
2014	\$ 55,021
2015	169
2016	1,246
2017	1,470
2018	81
Thereafter	6,617
	\$ 64,604

In addition to the Trust Preferred Securities and the Debentures, during the first quarter of 2014, the Company initiated and advanced a solicitation of subordinated promissory notes and preferred stock that is explained in greater detail in Note 7.

Table of Contents**Note 6 Fair Value of Financial Instruments**

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

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

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

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

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

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

(in thousands)	March 31, 2014			Total
	Level I	Level II	Level III	
Assets:				
U.S. Government Agency Securities	\$	\$ 59,264	\$	\$ 59,264
U.S. Sponsored Mortgage backed securities		44,331		44,331
Equity and Other Securities	187	810		997

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

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The Company may be required, from time to time, to measure certain financial assets, financial liabilities, non-financial assets and non-financial liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market value that were recognized at fair value below cost at the end of the period. Certain non-financial assets measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment. Non-financial assets measured at fair value on a non-recurring basis during 2014

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and 2013 include certain foreclosed assets which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for possible loan losses and certain foreclosed assets which, subsequent to their initial recognition, were remeasured at fair value through a write-down included in other non-interest expense.

- Loans held for sale** Loans held for sale are carried at the lower of cost or market value. These loans currently consist of one-to-four-family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level II).
- Derivative on loans held for sale** - Derivatives on loans held for sale are used to mitigate interest rate risk for residential mortgage loans held for sale and interest rate locks. These instruments are considered derivatives and are recorded at fair value, based on (i) committed sales prices from investors for commitments to sell mortgage loans or (ii) observable market data inputs for commitments to sell mortgage backed securities. The Company's mortgage banking hedge instruments are classified as Level II. For mortgage interest rate locks, the fair value is based on either (i) the price of the underlying loans obtained from an investor for loans that will be delivered on a best efforts basis or (ii) the observable price for individual loans traded in the secondary market for loans that will be delivered on a mandatory basis. All of the Company's mortgage interest rate locks are classified as Level II.
- Impaired Loans** - Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using one of several methods, including collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. For a majority of impaired real estate related loans, the Company obtains a current external appraisal. Other valuation techniques are used as well, including internal valuations, comparable property analysis and contractual sales information.
- Other Real Estate owned** Other real estate owned, which is obtained through the Bank's foreclosure process is valued utilizing the appraised collateral value. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At the time, the foreclosure is completed, the Company obtains a current external appraisal.

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

(in thousands)	March 31, 2014			Total
	Level I	Level II	Level III	
Assets:				
Loans held for sale	\$	\$ 50,201	\$	\$ 50,201
Derivative on loans held for sale		2,607		2,607
Impaired loans			5,929	5,929
Other real estate owned			375	375





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(in thousands)	December 31, 2013			
	Level I	Level II	Level III	Total
<b>Assets:</b>				
Loans held for sale	\$	\$ 89,186	\$	\$ 89,186
Derivative on loans held for sale		2,271		2,271
Impaired loans			5,178	5,178
Other real estate owned			375	375

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

(Dollars in thousands)	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Technique	Unobservable Input	Range
<b>March 31, 2014:</b>				
Impaired loans	\$ 5,929	Appraisal of collateral (1)	Appraisal adjustments (2) Liquidation expense (2)	20% - 30% 5% - 10%
Other real estate owned	\$ 375	Appraisal of collateral (1)	Appraisal adjustments (2) Liquidation expense (2)	20% - 30% 5% - 10%

(Dollars in thousands)	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Technique	Unobservable Input	Range
<b>December 31, 2013:</b>				
Impaired loans	\$ 5,178	Appraisal of collateral (1)	Appraisal adjustments (2) Liquidation expense (2)	20% - 30% 5% - 10%
Other real estate owned	\$ 375	Appraisal of collateral (1)	Appraisal adjustments (2) Liquidation expense (2)	20% - 30% 5% - 10%

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

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

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

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

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

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

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

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

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

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

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

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

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

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

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

**Fair Value Measurements at:**

	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>March 31, 2014</b>					
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 32,612	\$ 32,612	\$ 32,612	\$	
Certificates of deposits with other banks	9,427	10,013			10,013
Securities available-for-sale	104,592	104,592	187	104,405	
Securities held-to-maturity	56,823	55,741		55,741	
Loans held for sale	50,201	50,201		50,201	
Loans, net	670,107	675,767			675,767
Derivative on loans held for sale	2,607	2,607		2,607	
Accrued interest receivable	2,715	2,715		2,715	
<b>Financial liabilities:</b>					
Deposits	\$ 754,640	\$ 755,359		\$ 508,509	\$ 246,850
Repurchase agreements	71,498	71,498		71,498	
FHLB and other borrowings	60,480	60,520		53,900	6,620
Accrued interest payable	294	294		294	
Subordinated debt	4,124	4,124		4,124	
<b>December 31, 2013</b>					
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 39,843	\$ 39,843	\$ 39,843	\$	
Certificates of deposits with other banks	9,427	9,616			9,616
Securities available-for-sale	106,411	106,411	187	106,224	
Securities held-to-maturity	56,670	54,118		54,118	
Loans held for sale	89,186	89,186		89,186	
Loans, net	617,370	620,295			620,295
Derivative on loans held for sale	2,271	2,271		2,271	
Accrued interest receivable	2,764	2,764		2,764	
<b>Financial liabilities:</b>					
Deposits	\$ 695,811	\$ 697,301		\$ 454,658	\$ 242,643
Repurchase agreements	81,578	81,578		81,578	
FHLB and other borrowings	104,647	104,742		98,028	6,714
Accrued interest payable	327	327		327	
Subordinated debt	4,124	4,124		4,124	

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Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing on-and-off balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

**Note 7 Stock and Debt Offerings**

During the first quarter of 2014, the Company began a private offering under Regulation D of the Securities Act of 1933, as amended (the Securities Act ) of subordinated promissory notes and preferred stock. During the first quarter of 2014, the Company received subscriptions for subordinated promissory notes totaling \$12.4 million. In addition, during the same period, the Company received subscriptions for five-hundred preferred stock shares totaling \$500 in additional capital. As of March 31, 2014, the Company had not issued any notes on shares of preferred stock, and subscribers' funds have been placed in an escrow account. A single scheduled closing will occur in the second quarter of 2014 whereby the escrowed funds will be released. The proceeds of these subordinated debt and preferred stock offerings will be used in connection with the acquisition of CFG Community Bank and continued growth of the Company and its Subsidiaries.

During 2013, the Company commenced a private offering under Rule 506 of Regulation D of its common stock to accredited investors. As of December 31, 2013, the Company had received subscriptions for 610,194 common stock shares totaling \$9.8 million in additional capital. During the first quarter of 2014, the Company received additional subscriptions for 236,524 common stock shares totaling \$3.8 million in additional capital at March 31, 2014. The proceeds of this offering are also being used in connection with the acquisition of CFG Community Bank and to support continued growth of the Company and its Subsidiaries.

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

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

**Note 8 Net Income Per Common Share**

The Company determines basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by dividing net income by the weighted average number of shares outstanding increased by the number of shares that would be issued assuming the exercise of stock options. At March 31, 2014 and 2013, stock options to

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purchase 468,070 and 391,280 shares at an average price of \$8.84 and \$8.00, respectively, were outstanding. For the three months ended March 31, 2014 and 2013, the dilutive effect of stock options was 221,482 and 135,590 shares, respectively.

Table of Contents**Note 9 Segment Reporting**

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

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

Information about the reportable segments and reconciliation to the consolidated financial statements for the three-month period ended March 31, 2014 are as follows:

(in thousands)	Commercial & Retail Banking	Mortgage Banking	Insurance	Intercompany Eliminations	Consolidated
<b>Revenues:</b>					
Interest income	\$ 7,580	\$ 637	\$	\$ 33	\$ 8,250
Gain on loans held for sale	327	3,490		(33)	3,784
Insurance income			958		958
Other income	2,326	378		(1,439)	1,265
Total operating income	10,233	4,505	958	(1,439)	14,257
<b>Expenses:</b>					
Interest expense	1,339	344		(177)	1,506
Salaries and employee benefits	3,030	2,977	790		6,797
Provision for loan losses	519				519
Other expense	3,870	1,250	181	(1,262)	4,039
Total operating expenses	8,758	4,571	971	(1,439)	12,861
Income (loss) before income taxes	1,475	(66)	(13)		1,396
Income tax expense (benefit)	268	(25)	(5)		238
Net income (loss)	1,207	(41)	(8)		1,158
Preferred stock dividends	21				21
Net income (loss) available to common shareholders	\$ 1,186	\$ (41)	\$ (8)		\$ 1,137
<b>Capital expenditures for the three-month period ended March 31, 2014</b>					
	\$ 1,869	\$ 117	\$ 310	\$	\$ 2,296
Total assets as of March 31, 2014	1,050,763	86,407	4,059	(143,804)	997,425
Total assets as of December 31, 2013	1,021,097	92,290	3,012	(129,339)	987,060
Goodwill as of March 31, 2014	897	16,882			17,779
Goodwill as of December 31, 2013	897	16,882			17,779

Table of Contents**Note 10 Mergers and Acquisitions**

The Company and its subsidiary, MVB Bank, have entered into a Purchase and Assumption Agreement with CFG Community Bank ( CFG ) and its parent, Capital Funding Bancorp, Inc., pursuant to which, upon the terms and subject to the conditions set forth therein, the Bank will purchase certain assets and assume certain liabilities of CFG and its subsidiaries for \$30 million in consideration, consisting of \$26 million in cash and \$4 million in shares of MVB Financial common stock, subject to certain adjustments.

Consummation of this transaction is subject to certain customary closing conditions, including requisite regulatory approvals and material third-party consents, the absence of certain legal impediments to the consummation of the transaction and subject to certain exceptions, the accuracy of the representations and warranties and compliance with the covenants of each party.

The parties have made customary representations, warranties and covenants in the Agreement, including among others, covenants by CFG with respect to the conduct of its business during the interim period between the execution of the agreement and the closing of the transaction.

For the three months ended March 31, 2014, the following acquisition related costs are included in the consolidated statements of income as follow (in thousands):

Consulting	\$	51
Advertising		2
Printing, stationery and supplies		6
Legal and accounting fees		18
Equipment depreciation and maintenance		6
Travel		32
Total	\$	115

**Note 11 Stock Split**

Common shares outstanding at March 31, 2014 and 2013, respectively, have been adjusted for the effect of a two for one stock split effected as a stock dividend paid on February 11, 2014.



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

**FORWARD-LOOKING INFORMATION**

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

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

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

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

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- 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 Board System, and the FDIC;
- the impact of executive compensation rules under the Dodd-Frank Act and banking regulations which may impact the ability of the Company, the Bank, MVB Mortgage, MVB Insurance, and other American financial institutions to retain and recruit executives and other personnel necessary for their businesses and competitiveness;
- the impact of the Dodd-Frank Act and of new international standards known as Basel III, and rules and regulations thereunder, many of which have not yet been promulgated, on our required regulatory capital and liquidity levels, governmental assessments on us, the scope of business activities in which we may engage, the manner in which the Company, the Bank, MVB Mortgage, and MVB Insurance engage in such activities, the fees that the Bank, MVB Mortgage, and MVB Insurance may charge for certain products and services, and other matters affected by the Dodd-Frank Act and these international standards;
- continuing consolidation in the financial services industry; new legal claims against the Company, the Bank, MVB Mortgage, and MVB Insurance, including litigation, arbitration and proceedings brought by governmental or self-regulatory agencies, or changes in existing legal matters;
- success in gaining regulatory approvals, when required;

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- changes in consumer spending and savings habits;
- increased competitive challenges and expanding product and pricing pressures among financial institutions;
- inflation and deflation;
- technological changes and the implementation of new technologies by the Company, the Bank, MVB Mortgage, and MVB Insurance;
- the ability of the Company, the Bank, MVB Mortgage, and MVB Insurance to develop and maintain secure and reliable information technology systems;
- legislation or regulatory changes which adversely affect the operations or business of the Company, the Bank, MVB Mortgage, or MVB Insurance;
- the ability of the Company, the Bank, MVB Mortgage, and MVB Insurance to comply with applicable laws and regulations; changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies; and,
- costs of deposit insurance and changes with respect to FDIC insurance coverage levels.

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 March 31, 2014 and 2013 and for the Three Months Ended March 31, 2014 and 2013:

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2014</b>	<b>2013</b>
Net income to:		
Average assets	0.47%	0.65%
Average stockholders' equity	4.88%	6.93%
Net interest margin	3.05%	2.96%
Average stockholders' equity to average assets	9.69%	9.37%
Total loans to total deposits (end of period)	89.52%	87.76%
Allowance for loan losses to total loans (end of period)	0.81%	1.02%
Efficiency ratio	84.98%	79.38%
Capital ratios:		
Tier 1 capital ratio	11.81%	13.60%
Risk-based capital ratio	12.66%	14.51%
Leverage ratio	8.55%	9.52%

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Cash dividends as a percentage of net income		N/A		N/A
Per share data:				
Book value per share (end of period)	\$	11.43	\$	10.04
Basic earnings per share	\$	0.15	\$	0.20
Diluted earnings per share	\$	0.15	\$	0.19

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**Introduction**

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

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

Also during the fourth quarter of 2012, the Bank acquired Potomac Mortgage Group, Inc. ( PMG ) which, following July 15, 2013, began doing business under the registered trade name MVB Mortgage ), a mortgage company in the northern Virginia area, and fifty percent (50%) interest in a mortgage services company, Lender Service Provider, LLC ( LSP ). In the third quarter of 2013, this fifty percent (50%) interest in LSP was reduced to a twenty-five percent (25%) interest through a sale of a partial interest. This PMG acquisition provided the Company and the Bank the opportunity to make the mortgage banking operation a much more significant line of business to further diversify its net income stream. MVB Mortgage has four mortgage only offices, all located in northern Virginia, within the Washington, District of Columbia / Baltimore, Maryland metropolitan area, and, in addition, has mortgage loan originators located at select Bank locations.

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

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

In addition to MVB Mortgage, the Company has a wholly-owned subsidiary, MVB Insurance, LLC. MVB Insurance was originally formed in 2000 and reinstated in 2005, as a Bank subsidiary. Effective June 1, 2013, MVB Insurance became a direct subsidiary of the Company. MVB Insurance offers select insurance products



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such as title insurance, individual insurance, commercial insurance, employee benefits insurance, and professional liability insurance. MVB Insurance maintains its headquarters at 301 Virginia Avenue, Fairmont, West Virginia, and operates offices at: 48 Donley Street, Suite 703, Morgantown, West Virginia, 2400 Cranberry Square, Morgantown, West Virginia,; and 355 Wharton Circle, Suite 123, Triadelphia, West Virginia.

The Company's primary business activities, through its Subsidiaries, are currently community banking, mortgage banking, insurance services, and wealth management. As a community banking entity, the Bank offers its customers a full range of products through various delivery channels. Such products and services include checking accounts, NOW accounts, money market and savings accounts, time certificates of deposit, commercial, installment, commercial real estate and residential real estate mortgage loans, debit cards, and safe deposit rental facilities. Services are provided through our walk-in offices, automated teller machines ( ATMs ), drive-in facilities, and internet and telephone banking. Additionally, the Bank offers non-deposit investment products through an association with a broker-dealer, and also offers correspondent lending services to assist other community banks in offering longer term fixed rate loan products that may be sold into the secondary market. Since the opening date of January 4, 1999, the Bank, has experienced significant growth in assets, loans, and deposits due to overwhelming community and customer support in the Marion County, West Virginia and Harrison County, West Virginia markets, expansion into West Virginia's eastern panhandle counties and, most recently, into Monongalia County, West Virginia. With the acquisition of PMG, mortgage banking is now a much more significant focus, which has opened up increased market opportunities in the Washington, District of Columbia / Baltimore, Maryland metropolitan region and added enough volume to better diversify the Company's earnings stream.

The Company and the Bank entered into a purchase and assumption agreement, on October 23, 2013, to purchase certain assets and assume specific liabilities, subject to regulatory approvals, of CFG Community Bank ( CFG Bank ), a subsidiary of Capital Funding Bancorp, Inc., headquartered in Lutherville, Maryland. This pending transaction, which is, again, subject to regulatory approvals, would increase the presence of the Company and the Bank in the Washington, District of Columbia / Baltimore, Maryland metropolitan region through the addition of three new branches in: Annapolis, Maryland; Baltimore, Maryland; and Lutherville, Maryland. Further, the transaction would include an additional office, also in Lutherville, Maryland.

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 March 31, 2014, the Company had 300 full-time equivalent employees. The Company's principal office is located at 301 Virginia Avenue, Fairmont, West Virginia 26554, and its telephone number is (304) 363-4800. The Company's Internet web site is [www.mvbbanking.com](http://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





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valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal forecasting techniques.

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

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The allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of losses inherent in classifications of homogeneous loans based on historical loss experience of peer banks, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. Non-homogeneous loans are specifically evaluated due to the increased risks inherent in those loans. The loan portfolio also represents the largest asset type in the consolidated balance sheet. Note 1 to the consolidated financial statements 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 March 31, 2014, the Company earned \$1,158 compared to \$1,188 in the first quarter of 2013. Net interest income increased by \$1,880, noninterest income decreased by \$977 and noninterest expenses increased by \$1.4 million. The increase in net interest income was driven mainly by the continued growth of the Company balance sheet, with \$178.7 million in average loan growth and despite an increase in average interest bearing liabilities of \$216.3 million and an increase in interest expense of \$194. There was also a decrease in cost of funds of 13 basis points. The decrease in noninterest income was mainly the result of a decrease in gain on loans held for sale of \$1.1 million as a result of a decrease in loan production. The increase in noninterest expenses was principally the result of increased salaries expense of \$577, with the addition of the Sabraton and Edwin Miller Bank offices as well as additions in the areas of information technology staff, legal staff, operations center staff, human resources and accounting additions and additional staff related to MVB Insurance, LLC, as well as increases for existing staff. Occupancy costs increased \$187, the result of the additions of the Sabraton and Edwin Miller Bank offices and additional leased office space in both the Cheat Lake Bank office, the Bank Operations Center, MVB Insurance, LLC and MVB Financial Corp. Data processing costs increased \$175 due to the increased usage of products available to save time and better automate processes. Consulting fees increased \$91 as a result of increased costs related to a current acquisition as discussed in Note 11. Travel costs increased \$69 as a result of both the additional staff related to MVB Insurance, LLC, as well as the current acquisition as discussed in Note 11. Other operating expenses increased by \$113, mainly the result of the following: increased postage and freight expense of \$17, telephone expense of \$46, and insurance expense of \$43.

Loan loss provisions of \$519 and \$1.0 million were made for the quarters ended March 31, 2014 and 2013, respectively. The provision for loan losses, which is a product of management's formal quarterly analysis, is recorded in response to inherent risks in the loan portfolio. The Company charged off \$9 in loans during the first quarter of 2014 versus \$502 for the same time period in 2013. The reduced provision is the result of lesser charge-offs in the first quarter of 2014 versus the same time period in 2013. Due to the Bank's purchase of commercial loans in late 2013 that were marked to fair value at the time they were recorded on the balance sheet, the allowance for loan losses to total loans decreased from 1.02% at March 31, 2013 to 0.81% at March 31, 2014.

Noninterest income for the quarters ended March 31, 2014 and 2013 totaled \$6.0 million and \$7.0 million, respectively. The most significant portions of noninterest income are gain on loans held for sale, which totaled \$3.8 million for the quarter ended March 31, 2014, a decrease of \$1.1 million from the first quarter of 2013, the result of decreased mortgage loan volume; insurance income which totaled \$958 for the quarter ended March 31, 2014, a new income stream that began during the third quarter of 2013; capitalized servicing retained income which totaled \$156 for the quarter ended March 31, 2014, a decrease of \$182 over the first quarter of 2013, also the result of decreased mortgage loan volume;

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gain on derivative which totaled \$335 for the quarter ended March 31, 2014, a decrease of \$542 over the first quarter of 2013, also the result of decreased mortgage loan volume; and other operating income which totaled \$374 for the quarter ended March 31, 2014, a decrease

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of \$114 from the prior year, mainly the result of the following: inspection fees of \$30 and title insurance premiums of \$89.

Noninterest expense for the quarters ended March 31, 2014 and 2013 totaled \$10.8 million and \$9.4 million, respectively. The most significant increases were as discussed above.

**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 March 31, 2014 and 2013 was 3.05% and 2.96% respectively. The 9 basis point increase in the Bank's net interest margin for the quarter ended March 31, 2014 was the result of a 13 basis point reduction in the cost of funds. 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 also helped in increasing asset yield as a result of a 4 basis point reduction in the cost of funds. The Bank was able to grow average loan balances by \$178.7 million, which enabled an increase in net interest income of \$1.9 million.

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 Analysis of Net Interest Income (Unaudited)**

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

(Dollars in thousands)	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
<b>Assets</b>						
Interest-bearing deposits in banks	\$ 11,402	\$ 5	0.17%	\$ 12,127	\$ 4	0.14%
CD s with other banks	9,427	41	1.75	9,427	41	1.75
Investment securities:						
Taxable	105,933	411	1.55	78,900	246	1.25
Tax-exempt	56,748	413	2.90	35,351	279	3.15
Loans and loans held for sale:						
Commercial	432,965	4,836	4.47	285,383	3,394	4.76
Tax exempt	37,207	341	3.67	22,723	236	4.15
Real estate	216,480	2,008	3.71	200,466	1,769	3.53
Consumer	18,599	195	4.19	17,021	207	4.87
Allowance for loan losses	(5,328)			(4,335)		
<b>Net loans</b>	<b>699,923</b>	<b>7,380</b>	<b>4.22</b>	<b>521,258</b>	<b>5,606</b>	<b>4.30</b>
<b>Total earning assets</b>	<b>883,433</b>	<b>8,250</b>	<b>3.74</b>	<b>657,063</b>	<b>6,176</b>	<b>3.76</b>
Cash and due from banks	24,809			21,453		
Other assets	71,170			53,134		
<b>Total assets</b>	<b>\$ 979,412</b>			<b>\$ 731,650</b>		
<b>Liabilities</b>						
Deposits:						
NOW	339,098	546	0.64	245,171	504	0.82
Money market checking	31,794	31	0.39	22,980	18	0.31
Savings	38,663	37	0.38	27,758	41	0.59
IRAs	9,605	30	1.26	9,597	42	1.76
CDs	232,902	454	0.78	148,603	302	0.81
Repurchase agreements and federal funds sold	75,296	126	0.67	69,469	127	0.73
FHLB and other borrowings	86,507	263	1.21	73,994	258	1.39
Subordinated debt	4,124	19	1.86	4,124	20	1.90
<b>Total interest-bearing liabilities</b>	<b>817,989</b>	<b>1,506</b>	<b>0.74</b>	<b>601,696</b>	<b>1,312</b>	<b>0.87</b>
Non-interest bearing demand deposits	59,717			54,981		
Other liabilities	6,784			6,418		
<b>Total liabilities</b>	<b>884,490</b>			<b>663,095</b>		
<b>Stockholders equity</b>						
Preferred stock	8,500			8,500		
Common stock	7,708			2,970		
Paid-in capital	69,614			49,416		

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Treasury stock	(2,167)		(1,084)	
Retained earnings	14,220		10,287	
Accumulated other comprehensive income	(2,953)		(1,534)	
<b>Total stockholders equity</b>	<b>94,922</b>		<b>68,555</b>	
<b>Total liabilities and stockholders equity</b>	<b>\$ 979,412</b>		<b>\$ 731,650</b>	
Net interest spread		3.00		2.89
Net interest income-margin	\$ 6,744	3.05%	\$ 4,864	2.96%

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**Non-Interest Income**

Gain on loans held for sale generates the core of the Bank's noninterest income. Noninterest income totaled \$6.0 million in the first quarter of 2014 compared to \$7.0 million in the first quarter of 2013. The decrease of \$1.0 million was mainly the result of a decrease in gain on loans held for sale of \$1.1 million as a result of a decrease in loan production.

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 March 31, 2014 and 2013, service charges totaled \$120 and \$137, 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 first quarter of 2014, noninterest expense totaled \$10.8 million compared to \$9.4 million in the first quarter of 2013. The Company's efficiency ratio was 84.98% for the first quarter of 2014 compared to 79.38% for the first quarter of 2013. This ratio measures the efficiency of noninterest expenses incurred in relationship to net interest income plus non-interest income. The increased efficiency ratio is the result of noninterest expense outpacing the growth in net interest income and other income.

Salaries and benefits totaled \$6.8 million for the quarter ended March 31, 2014 compared to \$6.2 million for the quarter ended March 31, 2013. This \$577 increase in salaries and benefits is mainly the result of the addition of the Sabraton and Edwin Miller Bank offices as well as additions in the areas of information technology staff, legal staff, operations center staff, human resources and accounting additions and additional staff related to MVB Insurance, LLC, as well as increases for existing staff. The Company had 300 full-time equivalent personnel at March 31, 2014, as noted, compared to 252 full-time equivalent personnel as of March 31, 2013. Company and Bank management will continue to strive to find new ways of increasing efficiencies and leveraging its resources, while effectively optimizing customer service.

For the quarters ended March 31, 2014 and 2013, occupancy expense totaled \$617 and \$430, respectively. This \$187 increase is the result of the additions of the Sabraton and Edwin Miller Bank offices and additional leased office space in both the Cheat Lake Bank office, the Bank Operations Center, MVB Insurance, LLC and MVB Financial Corp. Data processing costs increased \$175 compared to the first quarter of 2013 due to the increased usage of products available to save time and better automate processes.

Other operating expense totaled \$856 in the first quarter of 2014 compared to \$743 in the first quarter of 2013. The largest items relating to this increase were in the areas of postage and freight expense, telephone expense and insurance expense.

**Return on Average Assets and Average Equity**

Returns on average assets (ROA) and average equity (ROE) were .47% and 4.88% for the first quarter of 2014 compared to .65% and 6.93% in the first quarter of 2013.



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**Overview of the Statement of Condition**

The Company's interest-earning assets, interest-bearing liabilities, and stockholders' equity changed significantly during the first quarter of 2014 compared to 2013. The most significant areas of change between the quarters ended March 31, 2014 and March 31, 2013 were as follows: loans and loans held for sale increased to an average balance of \$699.9 million from \$521.3 million, interest-bearing liabilities grew to an average balance of \$818.0 million from \$601.7 million and stockholders' equity grew by \$26.4 million to an average of \$94.9 million. These trends reflect the continued growth of the Company and its subsidiaries in the loan, deposit and capital areas.

Total assets at March 31, 2014 were \$997.4 million or an increase of \$10.4 million since December 31, 2013. The greatest area of increase was \$53.3 million in loan growth.

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Deposits totaled \$754.6 million at March 31, 2014 or an increase of \$58.8 million since December 31, 2013, mainly the result of an increase in broker buster deposits and other interest bearing deposits.

Stockholders' equity has increased approximately \$5.3 million from December 31, 2013 due to earnings for the three months ended March 31, 2014 of \$1.2 million and through the issuance of 240,954 shares of common stock totaling \$3.7 million in additional capital.

**Cash and Cash Equivalents**

Cash and cash equivalents totaled \$32.6 million as of March 31, 2014 compared to \$39.8 million as of December 31, 2013.

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 \$161.4 million as of March 31, 2014 and \$163.1 million as of December 31, 2013. The investment portfolio is fairly evenly balanced between government sponsored agency securities, mortgage-backed securities and municipal securities.

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

**Loans**

The 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. Northern Virginia is also a key area of focus for the Bank in the secondary market lending arena.



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**Loan Concentration**

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

**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 \$754.6 million at March 31, 2014.

Non-interest bearing deposits remain a core funding source for the Bank and, thus, the Company. At March 31, 2014, non-interest bearing deposits totaled \$56.8 million compared to \$63.3 million at December 31, 2013. The Company and Bank management intend to continue to focus on finding ways to increase the base of non-interest bearing funding sources of the Bank and other Company subsidiaries.

Interest-bearing deposits totaled \$697.8 million at March 31, 2014 compared to \$632.5 million at December 31, 2013. Average interest-bearing liabilities totaled \$818.0 million during the first quarter of 2014 compared to \$601.7 million for the first quarter of 2013. Average non-interest bearing demand deposits totaled \$59.7 million for the first quarter of 2014 compared to \$55.0 million for the first quarter of 2013. 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 March 31, 2014, repurchase agreements totaled \$71.5 million compared to \$81.6 million at December 31, 2013. In addition to the aforementioned funds alternatives, the

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Bank has access to more than \$302.5 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.

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**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 six counties in which the Company and the Bank focuses possess better economic climates than the general national climate. Unemployment in the United States was 7.0% and 8.1% in February 2014 and 2013, respectively. The unemployment levels in the six West Virginia counties where MVB operates in were as follows: Berkeley County's unemployment rate was 6.4% and 7.0% in February 2014 and 2013, respectively. Harrison County's unemployment rate was 6.3% and 6.6% in February 2014 and 2013, respectively. Jefferson County's unemployment rate was 5.3% and 5.1% in February 2014 and 2013, respectively. Marion County's unemployment rate was 6.5% and 6.7% in February 2014 and 2013, respectively. Monongalia County's unemployment rate was 4.6% and 4.9% in February 2014 and 2013, respectively. Kanawha County's unemployment rate was 6.4% and 6.8% in February 2014 and 2013, respectively. The numbers from all six counties continue to be significantly better than the national numbers.

The Company and the Bank nonperforming loan information supports the fact that the West Virginia economy has not suffered as much as that of the nation as a whole. Nonperforming loans to total loans were 0.64% in March of 2014 versus 0.66% in March of 2013 and charge offs to total loans were 0.00% and 0.11 % for each period respectively. The Company and the Bank continue to closely monitor economic and delinquency trends.

**Capital/Stockholders Equity**

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

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

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During 2013, the Company commenced a private offering to accredited investors under Rule 506 of Regulation D. As of December 31, 2013 the Company had received subscriptions for 610,194 shares totaling \$9.8 million in additional capital at December 31, 2013. During the first quarter of 2014 the Company received additional subscriptions for 236,524 shares totaling \$3.8 million in additional capital at March 31, 2014. The proceeds of this offering are being used in connection with the acquisition of CFG Community Bank as well as continued growth of the Company.

At March 31, 2014, accumulated other comprehensive loss totaled \$(2,639) compared to \$(2,961) at December 31, 2013. This change is primarily the result in the rise of the market values of investment securities.

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Treasury stock shares totaled 102,154 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 2013 Form 10-K. At March 31, 2014, the Company's and the Bank's risk-based capital ratios exceeded the minimum standards for a well capitalized financial institution.

**Commitments**

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

Loan commitments are made to accommodate the financial needs of the Bank's customers. The Bank uses the same underwriting standards in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties. The total amount of loan commitments outstanding at March 31, 2014 and December 31, 2013 was \$134.9 million and \$92.3 million, respectively.

**Market Risk**

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

**Effects of Inflation on Financial Statements**

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



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

### **Future Outlook**

The Company's and the Bank's results of operations in the first quarter of 2014 are in line with the first quarter of 2013 mainly due to the improvement in net interest income and the addition of insurance 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.

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**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 March 31, 2014, of the design and operation of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, the Company's Chief Executive Officer, along with the Company's Principal Accounting Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2014.

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

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Part II. Other Information

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

No response required.

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

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

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101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

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**SIGNATURES**

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

Date: May 15, 2014

MVB Financial Corp.

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

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