

MVB FINANCIAL CORP  
Form 10-Q  
May 13, 2010  
Table of Contents

**United States**  
**Securities and Exchange Commission**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2010

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 333-120931

**MVB Financial Corp.**

(Exact name of registrant as specified in its charter)

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

**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**

(Issuer's telephone number)

**Not Applicable**

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

Indicate by check mark whether the registrant has (1) 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 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  (Do not check if a smaller reporting company)

Smaller reporting company

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

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

As of May 13, 2010, the number of shares outstanding of the issuer's only class of common stock was 1,629,971.

**Table of Contents**

**MVB Financial Corp.**

**Part I. Financial Information**

	2
Item 1. <u>Financial Statements</u>	2
The unaudited interim consolidated financial statements of MVB Financial Corp. and Subsidiaries (MVB or the Company ) listed below are included on pages 2-13 of this report.	
	2
	3
	4
	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Management's Discussion and Analysis of Financial Condition and Results of Operations is included on pages 14-23 of this report.	
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk.</u>	23
Item 4. <u>Controls and Procedures</u>	23
Item 4T. <u>Controls and Procedures</u>	23

**Part II. Other Information**

	24
Item 1. <u>Legal Proceedings</u>	24
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	24
Item 3. <u>Defaults Upon Senior Securities</u>	24
Item 4. <u>Removed and Reserved</u>	24
Item 5. <u>Other Information</u>	24
Item 6. <u>Exhibits</u>	24

**Table of Contents****Part I. Financial Information****Item 1. Financial Statements****MVB Financial Corp. and Subsidiaries****Consolidated Balance Sheets****(Dollars in thousands, except Share and Per Share Data)**

	<b>March 31</b>	<b>December</b>
	<b>2010</b>	<b>2009</b>
	<b>(Unaudited)</b>	<b>(Note 1)</b>
<b>Assets</b>		
Cash and due from banks	\$ 2,381	\$ 2,321
Interest bearing balances with banks	24,737	3,935
Certificates of deposits in other banks	47,345	49,442
Investment securities:		
Securities held-to-maturity, at cost	7,495	6,594
Securities available-for-sale, at approximate market value	43,298	37,292
Loans:	234,577	232,847
Less: Allowance for loan losses	(2,565)	(2,241)
<b>Net loans</b>	<b>232,012</b>	<b>230,606</b>
Loans held for sale	1,742	1,764
Bank premises, furniture and equipment, net	7,692	7,757
Accrued interest receivable and other assets	12,325	13,051
<b>Total assets</b>	<b>\$ 379,027</b>	<b>\$ 352,762</b>
<b>Liabilities</b>		
Deposits		
Non-interest bearing	\$ 30,321	\$ 23,493
Interest bearing	257,071	241,038
<b>Total deposits</b>	<b>287,392</b>	<b>264,531</b>
Accrued interest, taxes and other liabilities	2,457	2,130
Repurchase agreements	38,478	35,641
Federal Home Loan Bank borrowings	19,146	19,198
Long-term debt	4,124	4,124
<b>Total liabilities</b>	<b>351,597</b>	<b>325,624</b>
<b>Stockholders equity</b>		
Preferred stock, \$1,000 par value, 5,000 shares authorized; none issued		
Common stock, \$1 par value, 4,000,000 authorized, 1,629,971 and 1,629,971 issued	1,629	1,629
Additional paid-in capital	20,460	20,457
Treasury Stock, 28,036 and 23,036 shares, respectively	(622)	(522)
Retained earnings	6,345	5,917
Accumulated other comprehensive income (loss)	(382)	(343)

<b>Total stockholders equity</b>	27,430	27,138
<b>Total liabilities and stockholders equity</b>	<b>\$ 379,027</b>	<b>\$ 352,762</b>

See accompanying notes to unaudited financial statements.

**Table of Contents****MVB Financial Corp. and Subsidiaries****Consolidated Statements of Income****(Unaudited) (Dollars in Thousands except Share and Per Share Data)**

	<b>Three Months Ended March 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Interest income</b>		
Interest and fees on loans	\$ 3,092	\$ 2,865
Interest on deposits with other banks	208	120
Interest on investment securities taxable	303	295
Interest on tax exempt loans and securities	178	125
<b>Total interest income</b>	<b>3,781</b>	<b>3,405</b>
<b>Interest expense</b>		
Deposits	1,125	1,052
Repurchase agreements	101	39
Federal Home Loan Bank borrowings	131	146
Long-term debt	19	36
<b>Total interest expense</b>	<b>1,376</b>	<b>1,273</b>
<b>Net interest income</b>	<b>2,405</b>	<b>2,132</b>
Provision for loan losses	280	151
<b>Net interest income after provision for loan losses</b>	<b>2,125</b>	<b>1,981</b>
<b>Other income</b>		
Service charges on deposit accounts	172	154
Income on bank owned life insurance	64	43
Visa debit card income	79	63
Income on loans held for sale	89	102
Other operating income	117	56
Gain on sale of securities	47	
<b>Total other income</b>	<b>568</b>	<b>418</b>
<b>Other expense</b>		
Salary and employee benefits	1,146	1,055
Occupancy expense	146	142
Equipment expense	106	99
Data processing	140	141
Visa debit card expense	65	54
Advertising	36	48
Legal and accounting fees	36	33
Printing, stationery and supplies	26	23
Other taxes	45	44
FDIC insurance	137	45
Other operating expenses	249	184
<b>Total other expense</b>	<b>2,132</b>	<b>1,868</b>

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Income before income taxes	561	531
Income tax expense	133	152
<b>Net income</b>	<b>\$ 428</b>	<b>\$ 379</b>
Basic net income per share	\$ 0.26	\$ 0.23
Diluted net income per share	\$ 0.26	\$ 0.23
Basic weighted average shares outstanding	1,629,971	1,614,548
Diluted weighted average shares outstanding	1,656,087	1,645,060

See accompanying notes to unaudited financial statements.

**Table of Contents****MVB Financial Corp. and Subsidiaries****Consolidated Statements of Cash Flows****(Unaudited) (Dollars in thousands)**

	<b>Three Months Ended March 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating activities</b>		
Net income	\$ 428	\$ 379
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	280	151
Deferred income tax (benefit)	(152)	(46)
Depreciation	113	110
Stock based compensation	4	4
Loans originated for sale	(6,859)	(8,704)
Proceeds of loans sold	6,881	8,385
Proceeds from sale of other real estate owned	703	
(Gain) on sale of other real estate owned	(40)	
Amortization, net of accretion	73	13
Decrease/(increase) in interest receivable and other assets	103	(334)
Increase in accrued interest, taxes, and other liabilities	327	244
<b>Net cash provided by operating activities</b>	<b>1,861</b>	<b>202</b>
<b>Investing activities</b>		
(Increase) in loans made to customers	(1,686)	(8,903)
Purchases of premises and equipment	(48)	(56)
(Increase) in interest bearing balances with banks, net	(20,802)	(4)
Purchases of certificates of deposit in other banks	(15,242)	(24,141)
Proceeds from maturity of certificates of deposit in other banks	17,339	2,297
Purchases of investment securities available-for-sale	(11,293)	(1,551)
Proceeds from sales, maturities and calls of securities available-for-sale	4,917	4,848
Purchases of investment securities held-to-maturity	(532)	
<b>Net cash (used in) investing activities</b>	<b>(27,347)</b>	<b>(27,510)</b>
<b>Financing activities</b>		
Net increase in deposits	22,861	50,192
Net increase/(decrease) in repurchase agreements	2,837	(3,504)
Proceeds from Federal Home Loan Bank Borrowings		52,104
Principal payments on Federal Home Loan Bank borrowings	(52)	(71,414)
Purchase of treasury stock	(100)	(197)
Common stock options exercised		171
<b>Net cash provided by financing activities</b>	<b>25,546</b>	<b>27,352</b>
<b>Increase in cash and cash equivalents</b>	<b>60</b>	<b>44</b>
Cash and cash equivalents - beginning of period	2,321	\$ 4,710
<b>Cash and cash equivalents - end of period</b>	<b>\$ 2,381</b>	<b>\$ 4,754</b>
Cash payments for:		
Interest on deposits, repurchase agreements and borrowings	\$ 1,462	\$ 1,262
Income taxes	\$	\$ 5

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

See accompanying notes to unaudited financial statements.

**Table of Contents**

**MVB Financial Corp. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 1 Basis of Presentation**

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Section 310(b) of Regulation SB. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for annual year-end financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, have been included and are of a normal, recurring nature. The balance sheet as of December 31, 2009 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

The accounting and reporting policies of MVB 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, 2009 has been extracted from audited financial statements included in MVB's 2009 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, 2009, Form 10-K filed with the Securities and Exchange Commission.

Management has reviewed events occurring through May 13, 2010, the date the financial statements were issued and no subsequent events occurred requiring accrual or disclosure.

**Note 2. Allowance for Loan Losses**

The provision for loan losses for the three months ended March 31, 2010 and 2009 was \$280 and \$151, respectively. Management bases the provision for loan losses upon its continuing evaluation of the adequacy of the allowance for loan losses and the overall management of inherent credit risk.

Management continually monitors the risk in the loan portfolio through review of the monthly delinquency reports and the Loan Review Committee, which is responsible for the determination of the adequacy of the allowance for loan losses. This analysis involves both experience of the portfolio to date and the makeup of the overall portfolio. The allocation among the various components of the loan portfolio and its adequacy is somewhat difficult considering the limited operating history in newer markets. Specific loss estimates are derived for individual loans based on specific criteria such as current delinquency status, related deposit account activity, estimates of cash flow and underlying collateral value.

The results of this analysis at March 31, 2010, indicate that the allowance for loan losses is considered adequate to absorb losses inherent in the portfolio.

See accompanying notes to unaudited financial statements.

**Table of Contents****MVB Financial Corp. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

(Dollars in thousands)	March 31	
	2010	2009
<b>Allowance for loan losses</b>		
Balance, beginning of period	\$ 2,241	\$ 1,860
Loan charge-offs	(1)	(26)
Loan recoveries	45	49
<b>Net charge-offs</b>	44	23
Loan loss provision	280	151
<b>Balance, end of period</b>	<b>\$ 2,565</b>	<b>\$ 2,034</b>

Total non-performing assets and accruing loans past due 90 days are summarized as follows:

(Dollars in thousands)	March 31	
	2010	2009
<b>Non-accrual loans:</b>		
Commercial	\$ 1,025	\$ 811
Real Estate	137	
Consumer	111	10
<b>Total non-accrual loans</b>	<b>1,273</b>	<b>821</b>
Renegotiated loans		
<b>Total non-performing loans</b>	<b>1,273</b>	<b>821</b>
Other real estate, net	452	779
<b>Total non-performing assets</b>	<b>\$ 1,725</b>	<b>\$ 1,600</b>
Accruing loans past due 90 days or more	\$ 757	\$ 1,895
Non-performing loans as a % of total loans	.44%	.39%
Allowance for loan losses as a % of non-performing loans	215.84%	247.75%

**Note 3. Borrowed Funds**

The Company is a party to repurchase agreements with certain customers. As of March 31, 2010 and December 31, 2009, the Company had repurchase agreements of \$38.5 million and \$35.6 million.

The bank is a member of the Federal Home Loan Bank ( FHLB ) of Pittsburgh, Pennsylvania. Borrowings from the FHLB are secured by stock in the FHLB of Pittsburgh, qualifying first mortgage loans, mortgage-backed securities and certain investment securities. The remaining maximum borrowing capacity with the FHLB at March 31, 2010 was approximately \$76.7 million.

**Table of Contents****MVB Financial Corp. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Borrowings from the FHLB were as follows:

	<b>March 31 2010</b>	<b>December 31 2009</b>
Fixed interest rate note, originating April 1999, due April 2014, interest of 5.41% is payable monthly.	\$ 1,000	\$ 1,000
Fixed interest rate note, originating January 2005, due January 2020, interest of 5.14% is payable in monthly installments of \$11.	993	1,012
Fixed interest rate note, originating April 2002, due May 2017, interest of 5.90% is payable monthly.	658	662
Fixed interest rate note, originating July 2006, due July 2016, interest of 4.50% is payable in monthly installments of \$8.	1,370	1,380
Fixed interest rate note, originating October 2006, due October 2021, interest of 5.20% is payable in monthly installments of \$6.	1,104	1,109
Fixed interest rate note, originating February 2007, due February 2022, interest of 5.22% is payable in monthly installments of \$5.	925	929
Fixed interest rate note, originating April 2007, due April 2022, interest of 5.18% is payable in monthly installments of \$6.	1,047	1,051
Fixed interest rate note, originating December 2007, due December 2017, interest of 5.25% is payable in monthly installments of \$7.	1,049	1,055
Fixed interest rate note originating November 2009, due May 2010, interest of 2.26% payable quarterly.	4,000	4,000
Fixed interest rate note originating March 2008, due March 2013, interest of 0.35% payable quarterly.	2,000	2,000
Fixed interest rate note originating May 2009, due May 2010, interest of .72% payable quarterly.	5,000	5,000
	<b>\$ 19,146</b>	<b>\$ 19,198</b>

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

The Trust Preferred Securities and the Debentures mature in 30 years and are redeemable by the Company after five years. Interest payments are due in March, June, September and December and are adjusted at the interest due dates at a rate of 1.62% over the three month LIBOR Rate. The Company reflects borrowed funds in the amount of \$4.1 million as of March 31, 2010 and 2009 and interest expense of \$19 and \$36 for the periods ended March 31, 2010 and 2009.

**Table of Contents****MVB Financial Corp. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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

<b>Year</b>	<b>Amount</b>
2010	9,158
2011	221
2012	232
2013	2,244
2014	1,257
Thereafter	10,158
	<b>23,270</b>

**Note 4. - Comprehensive Income**

The Company is required to present comprehensive income in a full set of general-purpose financial statements for all periods presented. The following represents comprehensive income for the three month periods ended March 31, 2010 and March 31, 2009.

The following table represents other comprehensive income before tax and net of tax:

<b>(in thousands)</b>	<b>For the three months ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Unrealized gain (losses) on securities available for sale	\$ 72	\$ 42
Pension liability adjustment	(139)	
Tax effect	27	(16)
Net of tax effect	(40)	26
Net income as reported	428	379
Total comprehensive income	\$ 388	\$ 405

**Note 5 Net Income Per Common Share**

MVB 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, 2010 and 2009, stock options to purchase 124,658 and 132,663 shares at an average price of \$15.81 and \$15.40, respectively, were outstanding. For the three months ended March 31, 2010 and 2009, the dilutive effect of stock options was 26,116 and 30,512 shares, respectively.

**Note 6 Recent Accounting Pronouncements**

In December 2009, the FASB issued ASU 2009-16, *Accounting for Transfer of Financial Assets*. ASU 2009-16 provides guidance to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing

## Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

involvement, if any, in transferred financial assets. ASU 2009-16 is effective for annual periods beginning after November 15, 2009 and for interim periods within those fiscal years. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

In December 2009, the FASB issued ASU 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. The objective of ASU 2009-17 is to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant

---

**Table of Contents**

**MVB Financial Corp. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

and reliable information to users of financial statements. ASU 2009-17 is effective for annual periods beginning after November 15, 2009 and for interim periods within those fiscal years. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In September 2009, the FASB issued new guidance impacting Topic 820. This creates a practical expedient to measure the fair value of an alternative investment that does not have a readily determinable fair value. This guidance also requires certain additional disclosures. This guidance is effective for interim and annual periods ending after December 15, 2009. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In October 2009, the FASB issued ASU 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing*. ASU 2009-15 amends Subtopic 470-20 to expand accounting and reporting guidance for own-share lending arrangements issued in contemplation of convertible debt issuance. ASU 2009-15 is effective for fiscal years beginning on or after December 15, 2009 and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

In January 2010, the FASB issued ASU 2010-01, *Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash – a consensus of the FASB Emerging Issues Task Force*. ASU 2010-01 clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend. ASU 2010-01 is effective for interim and annual periods ending on or after December 15, 2009 and should be applied on a retrospective basis. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In January 2010, the FASB issued ASU 2010-02, *Consolidation (Topic 810): Accounting and reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification*. ASU 2010-02 amends Subtopic 810-10 to address implementation issues related to changes in ownership provisions including clarifying the scope of the decrease in ownership and additional disclosures. ASU 2010-02 is effective beginning in the period that an entity adopts Statement 160. If an entity has previously adopted Statement 160, ASU 2010-02 is effective beginning in the first interim or annual reporting period ending on or after December 15, 2009 and should be applied retrospectively to the first period Statement 160 was adopted. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In January 2010, the FASB issued ASU 2010-04, *Accounting for Various Topics – Technical Corrections to SEC Paragraphs*. ASU 2010-04 makes technical corrections to existing SEC guidance including the following topics: accounting for subsequent investments, termination of an interest rate swap, issuance of financial statements - subsequent events, use of residential method to value acquired assets other than goodwill, adjustments in assets and liabilities for holding gains and losses, and selections of discount rate used for measuring defined benefit obligation. ASU 2010-04 is effective January 15, 2010. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In January 2010, the FASB issued ASU 2010-05, *Compensation – Stock Compensation (Topic 718): Escrowed Share Arrangements and the Presumption of Compensation*. ASU 2010-05 updates existing guidance to address the SEC staff's views on overcoming the presumption that for certain shareholders escrowed share arrangements represent compensation. ASU 2010-05 is effective January 15, 2010. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about

**Table of Contents**

**MVB Financial Corp. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

In February 2010, the FASB issued ASU 2010-08, *Technical Corrections to Various Topics*. ASU 2010-08 clarifies guidance on embedded derivatives and hedging. ASU 2010-08 is effective for interim and annual periods beginning after December 15, 2009. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In March 2010, the FASB issued ASU 2010-11, *Derivatives and Hedging*. ASU 2010-11 provides clarification and related additional examples to improve financial reporting by resolving potential ambiguity about the breadth of the embedded credit derivative scope exception in ASC 815-15-15-8. ASU 2010-11 is effective at the beginning of the first fiscal quarter beginning after June 15, 2010. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

In April 2010, the FASB issued ASU 2010-13, *Compensation - Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades*. ASU 2010-13 provides guidance on the classification of a share-based payment award as either equity or a liability. A share-based payment that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. ASU 2010-13 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010 and is not expected to have a significant impact on the Company's financial statements.

**Note 7 Fair Value of Financial Instruments**

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

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

**Table of Contents****MVB Financial Corp. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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.

The following table presents the assets and liabilities reported on the consolidated statements of financial condition at their fair value as of March 31, 2010 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, 2010			Total
	Level I	Level II	Level III	
Assets:				
Investment securities, available for sale		43,298		43,298

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

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

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

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

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

**Repurchase Agreements:** The fair values of repurchase agreements approximate their estimated fair values.

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

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

**Table of Contents****MVB Financial Corp. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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

	<b>March 31, 2010</b>	
	<b>Carrying Value</b>	<b>Estimated Fair Value</b>
	<b>(Dollars in thousands)</b>	
<b>Financial assets:</b>		
Cash and due from banks	2,381	2,381
Interest bearing balances	72,082	72,176
Securities available-for-sale	43,298	43,298
Securities held-to-maturity	7,495	7,559
Loans	232,012	237,348
Accrued interest receivable	1,133	1,133
	<b>\$ 358,401</b>	<b>\$ 363,895</b>
<b>Financial liabilities:</b>		
Deposits	\$ 287,392	\$ 287,392
Repurchase agreements	38,478	38,478
Federal Home Loan Bank Borrowings	19,146	19,912
Accrued interest payable	445	445
Long-term debt	4,124	4,124
	<b>\$ 349,585</b>	<b>350,351</b>

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.

Amortized cost and approximate fair values of investment securities held-to-maturity at March 31, 2010, including gross unrealized gains and losses, are summarized as follows:

<b>(Dollars in thousands)</b>	<b>Amortized Cost</b>	<b>Unrealized Gain</b>	<b>Unrealized Loss</b>	<b>Approximate Fair Value</b>
Municipal securities	\$ 6,495	\$ 37	\$ 25	\$ 6,507
U. S. Agency securities	1,000	52		1,052

\$ 7,495	\$ 89	\$ 25	\$ 7,559
----------	-------	-------	----------

**Table of Contents****MVB Financial Corp. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Amortized cost and approximate fair values of investment securities available-for-sale at March 31, 2010 are summarized as follows:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Approximate Fair Value
U. S. Agency securities	\$ 16,108	\$ 180	\$ (3)	\$ 16,285
Mortgage-backed securities	26,750	200	(61)	26,889
Other securities	124			124
	\$ 42,982	\$ 380	\$ (64)	\$ 43,298

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

	March 31, 2010			
	Held to Maturity		Available for sale	
	Amortized Cost	Approximate Fair Value	Amortized Cost	Approximate Fair Value
Within one year	\$	\$	\$ 532	\$ 534
After one year, but within five	390	396	9,045	9,072
After five years, but within ten	425	428	3,765	3,786
After ten Years	6,680	6,735	29,640	29,906
<b>Total</b>	<b>\$ 7,495</b>	<b>\$ 7,559</b>	<b>\$ 42,982</b>	<b>\$ 43,298</b>

The Company's investment portfolio includes securities that are in an unrealized loss position as of March 31, 2010, the details of which are included in the following table. Although these securities, if sold at March 31, 2010 would result in a pretax loss of \$89, the Company has no intent to sell the applicable securities at such fair values, and maintains the Company has the ability to hold these securities until all principal has been recovered. Declines in the fair 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, 2010, 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 fair value.

The following table discloses investments in an unrealized loss position:

At March 31, 2010, total temporary impairment totaled \$89.

Less than 12 months

12 months or more

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Description and number of positions	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Agencies(1)	\$ 1,009	\$ (3)	\$	\$
Mortgage-backed securities(10)	9,770	(61)		
Municipal securities(8)	2,321	(25)		
	\$ 13,100	\$ (89)	\$	\$

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

The Private Securities Litigation Reform Act of 1995 indicates that the disclosure of forward-looking information is desirable for investors and encourages such disclosure by providing a safe harbor for forward-looking statements that involve risk and uncertainty. All statements other than statements of historical fact included in this Form 10-Q including statements in Management's Discussion and Analysis of Financial Condition and Results of Operations are, or may be deemed to be, forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. In order to comply with the terms of the safe harbor, the corporation notes that a variety of factors, (e.g., changes in the national and local economies, changes in the interest rate environment, competition, etc.) could cause MVB's actual results and experience to differ materially from the anticipated results or other expectations expressed in those forward-looking statements.

At March 31, 2010 and for the Three Months Ended March 31, 2010 and 2009:

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2010</b>	<b>2009</b>
Net income to:		
Average assets	.47%	.55%
Average stockholders' equity	6.32	5.78
Net interest margin	2.85	3.38
Average stockholders' equity to average assets	7.47	9.56
Total loans to total deposits (end of period)	81.62	95.03
Allowance for loan losses to total loans (end of period)	1.09	0.96
Efficiency ratio	71.71	73.25
Capital ratios:		
Tier 1 capital ratio	12.58	12.69
Risk-based capital ratio	13.65	13.59
Leverage ratio	8.40	10.49
Cash dividends as a percentage of net income	N/A	N/A
Per share data:		
Book value per share (end of period)	\$ 16.84	\$ 16.20
Market value per share (end of period)*	20.00	20.00
Basic earnings per share	.26	.24
Diluted earnings per share	.26	.23

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

## **Table of Contents**

### ***Introduction***

The following discussion and analysis of the consolidated financial statements of MVB Financial Corp. is presented to provide insight into management's assessment of the financial results. MVB has two wholly-owned second tier holding companies which own 100 percent of MVB Bank, Inc. (the bank). The bank is the primary financial entity in this discussion. Unless otherwise noted, this discussion will be in reference to the bank.

MVB Bank, Inc. was chartered by the State of West Virginia and is subject to regulation, supervision, and examination by the Federal Deposit Insurance Corporation and the West Virginia Department of Banking. The bank is not a member of the Federal Reserve System. The bank is a member of the Federal Home Loan Bank of Pittsburgh.

The bank began operations January 4, 1999, at 301 Virginia Avenue in Fairmont, West Virginia. MVB Bank, Inc. provides a full array of financial products and services to its customers, including traditional banking products such as deposit accounts, lending products, debit cards, automated teller machines, and safe deposit rental facilities. The bank opened a banking office in the Shop N Save supermarket in White Hall, WV during the second quarter of 2000. During August of 2005, the bank opened a full-service office at 1000 Johnson Avenue in Bridgeport, WV. In October of 2005 MVB Bank, Inc. purchased an office at 88 Somerset Boulevard in Charles Town, WV. Additionally, the bank opened a full service office at 651 Foxcroft Avenue in Martinsburg, WV during August 2007.

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.

### ***Application of Critical Accounting Policies***

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

The most significant accounting policies followed by MVB are presented in Note 1 to the audited consolidated financial statements included in MVB's 2009 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

## **Table of Contents**

techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses to be the accounting area that requires the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

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

## ***Results of Operations***

### *Overview of the Statement of Income*

For the quarter ended March 31, 2010, MVB earned \$428 compared to \$379 in the first quarter of 2009. Net interest income increased by \$273, the result of increased interest income of \$376 and higher interest expense of \$103. The increase in interest income of \$273 was mostly the result of greater interest and fees on loans of \$227. This increase in interest on loans was the result of an increase in average loan balances of \$24.9 million. The other driver of increased interest income was the continued growth of a CD program in which MVB purchased CDs in other banks and funded those investments with lower cost funding sources to earn \$204 during the first quarter of 2010.

Loan loss provisions of \$280 and \$151 were made for the quarters ended March 31, 2010 and 2009, 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.

Non-interest income for the quarters ended March 31, 2010 and 2009 totaled \$568 and \$418, respectively. The most significant portions of non-interest income are service charges on deposit accounts, which totaled \$172 at March 31, 2010, other operating income which totaled \$117 and income on loans held for sale which totaled \$89. Other operating income increased by \$61, mainly the result of the \$40 gain on OREO sale and \$17 in mortgage underwriting income which the bank did not have access to in the first quarter of 2009. Other areas of increase were as follows: \$47 gain on the sale of securities and \$21 in additional bank owned life insurance income.

Non-interest expense for the quarters ended March 31, 2010 and 2009 totaled \$2.1 million and \$1.9 million, respectively. The most significant differences were as follows: \$92 increase in FDIC insurance, \$91 increase in salaries and benefit expense and \$65 increase in other expense. The salaries and benefits increase is the result of the beginning of a correspondent loan program, increased commission expense on secondary market loans, increased pension expense and salary adjustments for existing staff. The largest increases in other expenses are related to dues and subscriptions.

### ***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

**Table of Contents**

Bank advances. Net interest income is the 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, 2010 and 2009 was 2.85% and 3.38% respectively. This decline can be traced to the certificate of deposit arbitrage program the bank implemented at the end of 2008 which includes \$49.4 million in average CDs with banks earning 1.65% as well as a decrease in the investment portfolio yield of roughly 1.73%. MVB has purchased on average \$49 million in certificates of deposit with other banks over the first quarter of 2010, funding those purchases with brokered deposits and earning a spread between 75 and 150 basis points on the transactions with little to no risk. Without these transactions the bank's net interest margin would have been around 3.18%, rather than the 2.85%. However without the transactions the bank would have earned roughly \$125 less.

Management continuously monitors the effects of net interest margin on the performance of the bank. Growth and mix of the balance sheet will continue to impact net interest margin in future periods

**Table of Contents****Average Balances and Interest Rates****(Unaudited)(Dollars in thousands)**

	Three Months Ended Mar. 31, 2010			Three Months Ended Mar. 31, 2009		
	Average Balance	Interest Income/Expense	Yield/Cost	Average Balance	Interest Income/Expense	Yield/Cost
<b>Assets</b>						
Interest-bearing deposits in banks	\$ 8,053	\$ 3	0.15%	\$ 326	\$	%
Certificates of deposit in other banks	49,392	204	1.65	18,188	120	2.64
Investment securities	45,114	363	3.22	24,482	303	4.95
<b>Loans:</b>						
Commercial	144,887	1,954	5.39	136,532	1,868	5.47
Tax exempt	11,285	119	4.22	10,656	117	4.39
Consumer	13,725	236	6.88	13,863	244	7.04
Real estate	64,603	902	5.58	48,578	753	6.20
<b>Total loans</b>	<b>234,500</b>	<b>3,211</b>	<b>5.64</b>	<b>209,629</b>	<b>2,982</b>	<b>5.69</b>
Total earning assets	337,059	3,781	4.49	252,625	3,405	5.39
Cash and due from banks	7,263			5,371		
Other assets	18,473			16,356		
<b>Total assets</b>	<b>\$ 362,795</b>			<b>\$ 274,352</b>		
<b>Liabilities</b>						
<b>Deposits:</b>						
Non-interest bearing demand	\$ 30,648	\$	%	\$ 23,231	\$	%
NOW	69,713	266	1.53	23,009	40	0.70
Money market checking	32,165	80	0.99	25,727	65	1.01
Savings	7,430	2	0.11	7,525	2	0.11
IRAs	10,624	87	3.28	7,780	78	4.01
CDs	125,243	690	2.20	114,037	867	3.04
Repurchase agreements & FFS	33,903	101	1.19	19,305	39	0.81
FHLB borrowings	19,674	131	2.66	21,928	146	2.66
Long-term debt	4,124	19	1.84	4,124	36	3.49
<b>Total interest-bearing liabilities</b>	<b>302,876</b>	<b>1,376</b>	<b>1.82</b>	<b>223,435</b>	<b>1,273</b>	<b>2.28</b>
Other liabilities	2,181			1,463		
<b>Total liabilities</b>	<b>335,705</b>			<b>248,129</b>		
<b>Stockholders equity</b>						
Common stock	1,630			1,614		
Paid-in capital	20,459			20,258		
Treasury Stock	(568)			(464)		
Retained earnings	5,894			5,140		
Accumulated other comprehensive income	(325)			(325)		
<b>Total stockholders equity</b>	<b>27,090</b>			<b>26,223</b>		

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

<b>Total liabilities and stockholders equity</b>	\$ 362,795		\$ 274,352	
Net interest spread		2.67		3.11
Impact of non-interest bearing funds on margin		.18		.26
Net interest income-margin	\$ 2,405	2.85%	\$ 2,132	3.38%

---

## **Table of Contents**

### ***Non-Interest Income***

Service charges on deposit accounts generate the core of the bank's non-interest income. Non-interest income totaled \$568 in the first quarter of 2010 compared to \$418 in the first quarter of 2009. This increase of \$150 is the result of a gain on sale of securities of \$47, a \$40 gain on sale of OREO, a \$21 increase in income on bank owned life insurance, a \$21 increase in other operating income and an \$18 increase in service charges on deposit accounts.

Service charges on deposit accounts include mainly non-sufficient funds and returned check fees, allowable overdraft fees and service charges on commercial accounts.

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 MVB.

### ***Non-Interest Expense***

For the first quarter of 2010, non-interest expense totaled \$2.1 million compared to \$1.9 million in the first quarter of 2009. MVB's efficiency ratio was 71.71% for the first quarter of 2010 compared to 73.25% for the first quarter of 2009. This ratio measures the efficiency of non-interest expenses incurred in relationship to net interest income plus non-interest income.

Salaries and benefits totaled \$1.15 million for the quarter ended March 31, 2010 compared to \$1.06 million for the quarter ended March 31, 2009. This \$91 increase in salaries and benefits is the result of \$26 relating to implementation of the correspondent lending program, \$24 relating to increases for existing employees, \$14 relating to pension, \$13 relating to commissions and \$5 relating to medical insurance. MVB had 79 full-time equivalent personnel at March 31, 2010 compared to 75 full-time equivalent personnel as of March 31, 2009. 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, 2010 and 2009, Visa debit card expense totaled \$65 and \$54, respectively. This \$11 increase was the result of increased card usage as a result of MVB's new MVChecking account.

FDIC insurance totaled \$137 and \$45 for the quarters ended March 31, 2010 and 2009, respectively. This \$92 increase was the result of increased premium costs to replenish the fund.

Other operating expense totaled \$249 in the first quarter of 2010 compared to \$184 in the first quarter of 2009. The most significant items relating to this increase were an increase in dues and subscriptions of \$26. The increased dues are the result of the new core deposit checking account offered in 2009 along with a more robust asset liability package begun late in 2009.

### ***Return on Average Assets and Average Equity***

Returns on average assets (ROA) and average equity (ROE) were .47% and 6.32% for the first quarter of 2010 compared to .55% and 5.78% in the first quarter of 2009.

### ***Overview of the Statement of Condition***

MVB's interest-earning assets, interest-bearing liabilities, and stockholders' equity changed significantly during the first quarter of 2010 compared to 2009. The most significant areas of change between the quarters ended March 31, 2010 and March 31, 2009 were as follows: average interest bearing deposits with banks increased \$7.7 million, CDs with banks grew to an average balance of \$49.4 million from an average of \$18.2, loans increased to an average balance of \$234.5 million from \$209.6 million, investment securities increased by \$20.6 million, and interest-bearing liabilities grew to an average balance of \$302.9 million from \$223.4 million. These trends reflect the continued growth of MVB in the loan and deposit areas. The deposit growth is largely the result of two new products begun in the second quarter of 2009, MVChecking and the brokerage buster account, as well as the increased funding for the CD arbitrage program.

## **Table of Contents**

Total assets at March 31, 2010 were \$379.0 million or an increase of \$26.3 million since December 31, 2009. The greatest areas of increase were \$20.8 million in interest bearing balances and \$6.9 million in investment securities.

Deposits totaled \$287.4 million at March 31, 2010 or an increase of \$22.9 million since December 31, 2009. \$17 of this increase is the result of acquiring one public funds relationship that is committed to the bank for a period of three years. Repurchase agreements totaled \$38.5 million and have increased \$2.8 million since December 31, 2009.

Stockholders' equity has increased approximately \$292 from December 31, 2009 due to earnings for the three months ended March 31, 2010 of \$428, purchase of treasury stock of \$100 and accumulated other comprehensive loss of \$39.

### ***Cash and Cash Equivalents***

Cash and cash equivalents totaled \$2.4 million as of March 31, 2010 compared to \$2.3 million as of December 31, 2009.

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 MVB are satisfied by the current balance of cash and cash equivalents, readily available access to traditional and non-traditional funding sources, and the portions of the investment and loan portfolios that mature within one year. These sources of funds should enable MVB to meet cash obligations as they come due.

### ***Investment Securities***

Investment securities totaled \$50.8 million as of March 31, 2010 and \$43.9 million as of December 31, 2009. Government sponsored agency securities and mortgage backed securities comprise the majority of the portfolio. This \$6.9 million increase is the result of investing the dollars secured through the addition of a three year deposit account agreement.

Management monitors 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. 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 and Berkeley County areas of West Virginia, and consists primarily of commercial lending, retail lending, which includes single-family residential mortgages, and consumer lending.

**Table of Contents**

The following table details total loans outstanding as of:

(Dollars in thousands)	March 31 2010	December 31 2009
Commercial and nonresidential real estate	\$ 151,014	\$ 152,426
Residential real estate	70,690	67,507
Consumer and other	12,873	12,914
<b>Total loans</b>	<b>\$ 234,577</b>	<b>\$ 232,847</b>

***Loan Concentration***

At March 31, 2010, 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. While the loan concentration is in commercial loans, the commercial portfolio is comprised of loans to many different borrowers, in numerous different industries but primarily located in our market areas.

***Allowance for Loan Losses***

Management continually monitors the loan portfolio through review of the monthly delinquency reports and through the Loan Review Committee. The 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.

***Funding Sources***

MVB considers a number of alternatives, including but not limited to deposits, short-term borrowings, and long-term borrowings when evaluating funding sources. Traditional deposits continue to be the most significant source of funds for the bank, reaching \$287.4 million at March 31, 2010.

Non interest bearing deposits remain a core funding source for MVB. At March 31, 2010, non-interest bearing deposits totaled \$30.3 million compared to \$23.5 million at December 31, 2009. Management intends to continue to focus on finding ways to increase the bank's base of non-interest bearing funding sources.

Interest-bearing deposits totaled \$257.1 million at March 31, 2010 compared to \$241.0 million at December 31, 2009. Average interest-bearing liabilities totaled \$302.9 million during the first quarter of 2010 compared to \$223.4 million for the first quarter of 2009. Average non-interest bearing demand deposits totaled \$30.6 million for the first quarter of 2010 compared to \$23.2 million for the first quarter of 2009. Management will continue to emphasize deposit gathering in 2010 by offering outstanding customer service and competitively priced products. Management will also concentrate on balancing deposit growth with adequate net interest margin to meet MVB's strategic goals.

Along with traditional deposits, MVB 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, 2010, repurchase agreements totaled \$38.5 million compared to \$35.6 million at December 31, 2009. In addition to the aforementioned funds alternatives, MVB has access to more than \$76.7 million through additional advances from the Federal Home Loan Bank of Pittsburgh, \$9.0 million from the Federal Reserve discount window and the ability to readily sell jumbo certificates of deposits to other banks as well as brokered deposit markets.

## **Table of Contents**

### ***Capital/Stockholders Equity***

The bank was initially capitalized when it sold 452,000 shares of stock at \$10 per share or a total of \$4.5 million in an offering during 1998.

In October of 1999 the bank completed a secondary offering of 66,000 shares of stock at \$11 per share or a total of \$726,000. This offering was used to purchase MVB's main office at 301 Virginia Avenue.

During November of 2002 the bank completed another secondary offering of 164,000 shares of stock at \$12.50 per share or a total of \$2.0 million. This offering was needed to continue funding the bank's growth.

In 2004, the bank formed a one-bank holding company. In that transaction, MVB Financial Corp. issued shares of common stock in exchange for shares of the bank's common stock.

In 2006, MVB completed a public offering of 725,000 shares totaling \$11.6 million.

In March 2007, MVB formed a statutory business trust for the purpose of issuing \$4 million in trust preferred capital securities with the proceeds invested in MVB Bank, Inc. This was done primarily to increase the lending limit of the bank. The securities mature in 30 years and are redeemable by the Company after five years. The securities are at an interest cost of 1.62% over the three month LIBOR rate which is reset quarterly.

In April 2008, MVB completed a public offering of more than 100,000 shares which provided 2.4 million in additional capital.

At March 31, 2010, accumulated other comprehensive (loss) totaled \$(382) compared to \$(343) at December 31, 2009.

Treasury stock shares increased by \$100 as MVB repurchased 5,000 shares.

The primary source of funds for dividends to be paid by MVB Financial Corp. is dividends received from its subsidiary bank, MVB Bank, Inc. Dividends paid by the subsidiary 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 MVB's 2009 Form 10-K. At March 31, 2010, MVB and its banking subsidiary'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.

## **Table of Contents**

Loan commitments are made to accommodate the financial needs of MVB's customers. MVB 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, 2010 and December 31, 2009 was \$35.1 million and \$33.0 million, respectively.

### ***Market Risk***

There have been no material changes in market risks faced by MVB since December 31, 2009. For information regarding MVB's market risk, refer to MVB's Annual Report to Shareholders for the year ended December 31, 2009.

### ***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 bank's results of operations in the first quarter of 2010 are an improvement over the first quarter of 2009 mainly due to the improvement in net interest income. At this time in 2009 rates had decreased dramatically in late 2008, decreasing yields on the loan portfolio while deposit rates remained high. Over the course of 2009 MVB reduced the cost of funds to offset the reduction in interest income. Much of this cost reduction in the area of time deposits has taken several months to take effect. MVB's emphasis in future periods will be to do those things that have made the bank successful thus far. The critical challenge for the bank in the future is to attract core deposits to fund growth in the new markets through continued delivery of the most outstanding customer service with the highest quality products and technology.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

No response required.

### **Item 4. Controls and Procedures**

No response required.

### **Item 4(T). Controls and Procedures**

The Company, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer, along with the Company's Chief Financial Officer (the Principal Financial Officer), has evaluated the effectiveness as of September 30, 2009, of the design and operation of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, the Company's President and Chief Executive Officer, along with the Company's Principal Accounting Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2010.

There have been no material changes in the Company's internal control over financial reporting during the first quarter of 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents**

**Part II. Other Information**

**Item 1. Legal Proceedings**

None.

**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. Removed and Reserved**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(a) The following exhibits were filed with Form SB-2 Registration Statement, Registration No. 333-120931, filed December 1, 2004, and are incorporated by reference herein.

Exhibit 3.1	Articles of Incorporation
Exhibit 3.1-1	Articles of Incorporation Amendment
Exhibit 3.2	Bylaws

(b) The following exhibits are filed herewith.

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

Edgar Filing: MVB FINANCIAL CORP - Form 10-Q

Exhibit 31.2	Certificate of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certificate of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certificate of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**Table of Contents**

**SIGNATURES**

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

May 13, 2010

MVB Financial Corp.

By: */s/ LARRY F. MAZZA*  
**Larry F. Mazza**  
**President and Chief Executive Officer**

By: */s/ ERIC L. TICHENOR*  
**Eric L. Tichenor**  
**Chief Financial Officer**