

MVB FINANCIAL CORP  
Form 10-Q  
November 05, 2015  
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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 September 30, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission File number 000-50567

MVB Financial Corp.

(Exact name of registrant as specified in its charter)

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

301 Virginia Avenue

Fairmont, West Virginia 26554-2777

(Address of principal executive offices)

304-363-4800

(Registrant's telephone number, including area code)

Not Applicable

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

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes  No

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

As of November 5, 2015, the number of shares outstanding of the issuer's only class of common stock was 8,061,921.

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MVB Financial Corp.

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1.

The unaudited interim consolidated financial statements of MVB Financial Corp. (“the Company” or “MVB”) and subsidiaries (“Subsidiaries”) including MVB Bank, Inc. (the “Bank” or “MVB Bank”) and its wholly-owned subsidiary Potomac Mortgage Group, Inc., which does business as MVB Mortgage (“MVB Mortgage”) and MVB Insurance, LLC (“MVB Insurance”) listed below are included on pages 3-38 of this report.

Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014

Consolidated Statements of Income for the Nine Months and Three Months ended September 30, 2015 and 2014

Consolidated Statements of Comprehensive Income for the Nine Months and Three Months ended September 30, 2015 and 2014

Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2015 and 2014

Notes to Consolidated Financial Statements

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Management’s Discussion and Analysis of Financial Condition and Results of Operations are included on pages 39-53 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)

|   | September 30,<br>2015<br>(Unaudited) | December 31,<br>2014<br>(Note 1) |
|---|--------------------------------------|----------------------------------|
| Assets  |                                      |                                  |
| Cash and cash equivalents:  |                                      |                                  |
| Cash and due from banks   | \$ 16,522                            | \$ 13,403                        |
| Interest bearing balances   | 8,613                                | 16,674                           |
| Total cash and cash equivalents   | 25,135                               | 30,077                           |
| Certificates of deposits in other banks   | 13,150                               | 11,907                           |
| Investment securities:  |                                      |                                  |
| Securities available-for-sale   | 68,158                               | 68,213                           |
| Securities held-to-maturity (fair value of \$53,923 for 2015 and \$55,871 for 2014) | 52,969                               | 54,538                           |
| Loans held for sale   | 73,047                               | 69,527                           |
| Loans:  | 994,833                              | 798,297                          |
| Less: Allowance for loan losses   | (7,388)                              | (6,223)                          |
| Net loans   | 987,445                              | 792,074                          |
| Bank premises, furniture and equipment  | 26,292                               | 25,472                           |
| Bank owned life insurance   | 22,172                               | 21,679                           |
| Accrued interest receivable and other assets  | 19,681                               | 19,193                           |
| Goodwill  | 18,480                               | 17,779                           |
| Total assets  | \$ 1,306,529                         | \$ 1,110,459                     |
| Liabilities   |                                      |                                  |
| Deposits  |                                      |                                  |
| Non-interest bearing  | \$ 87,244                            | \$ 67,066                        |
| Interest bearing  | 931,011                              | 756,161                          |
| Total deposits  | 1,018,255                            | 823,227                          |
| Accrued interest, taxes and other liabilities                                       | 11,591                               | 10,310                           |
| Repurchase agreements   | 26,562                               | 32,673                           |
| FHLB and other borrowings   | 102,468                              | 101,287                          |
| Subordinated debt   | 33,524                               | 33,524                           |
| Total liabilities   | 1,192,400                            | 1,001,021                        |
| Stockholders' equity  |                                      |                                  |
|   | 16,334                               | 16,334                           |

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Preferred stock, par value \$1,000; 20,783 authorized and 9,283 issued in 2015 and 2014, respectively

Common stock, par value \$1; 20,000,000 shares authorized; 8,112,998 and 8,034,362 issued; and 8,061,921 and 7,983,285 outstanding in 2015 and 2014, respectively

|  |              |              |
|--|--------------|--------------|
| Additional paid-in capital                 | 8,113        | 8,034        |
| Retained earnings                          | 74,123       | 74,342       |
| Accumulated other comprehensive loss       | 18,958       | 14,454       |
| Treasury stock, 51,077 shares, at cost     | (2,315)      | (2,642)      |
| Total stockholders' equity                 | (1,084)      | (1,084)      |
| Total liabilities and stockholders' equity | 114,129      | 109,438      |
|  | \$ 1,306,529 | \$ 1,110,459 |

See accompanying notes to unaudited financial statements.

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## MVB Financial Corp. and Subsidiaries

## Consolidated Statements of Income

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

|   | Nine months ended<br>September 30, |           | Three months ended<br>September 30, |          |
|---|------------------------------------|-----------|-------------------------------------|----------|
|   | 2015                               | 2014      | 2015                                | 2014     |
| Interest income                                     |                                    |           |                                     |          |
| Interest and fees on loans                          | \$ 29,187                          | \$ 23,322 | \$ 10,584                           | \$ 8,161 |
| Interest on deposits with other banks               | 198                                | 150       | 71                                  | 53       |
| Interest on investment securities – taxable         | 674                                | 1,022     | 213                                 | 253      |
| Interest on tax exempt loans and securities         | 1,689                              | 2,138     | 548                                 | 627      |
| Total interest income                               | 31,748                             | 26,632    | 11,416                              | 9,094    |
| Interest expense                                    |                                    |           |                                     |          |
| Deposits  | 4,554                              | 4,133     | 1,665                               | 1,337    |
| Repurchase agreements                               | 62                                 | 262       | 18                                  | 29       |
| FHLB and other borrowings                           | 493                                | 399       | 159                                 | 126      |
| Subordinated debt                                   | 1,648                              | 589       | 556                                 | 544      |
| Total interest expense                              | 6,757                              | 5,383     | 2,398                               | 2,036    |
| Net interest income                                 | 24,991                             | 21,249    | 9,018                               | 7,058    |
| Provision for loan losses                           | 1,856                              | 2,192     | 636                                 | 783      |
| Net interest income after provision for loan losses | 23,135                             | 19,057    | 8,382                               | 6,275    |
| Noninterest income                                  |                                    |           |                                     |          |
| Service charges on deposit accounts                 | 471                                | 500       | 175                                 | 183      |
| Income on bank owned life insurance                 | 492                                | 424       | 160                                 | 169      |
| Visa debit card and interchange income              | 684                                | 573       | 244                                 | 203      |
| Mortgage fee income                                 | 23,881                             | 12,491    | 8,955                               | 4,948    |
| Gain on sale of portfolio loans                     | 1,119                              | 1,549     | 319                                 | 216      |
| Insurance and investment services income            | 3,805                              | 2,745     | 1,142                               | 909      |
| Gain on sale of securities                          | 130                                | 396       | 4                                   | 271      |
| Gain (loss) on derivatives                          | 67                                 | 548       | (2,039)                             | (391)    |
| Gain on sale of other real estate owned             | 654                                | 57        | 618                                 | —        |
| Other operating income                              | 596                                | 119       | 376                                 | 72       |
| Total noninterest income                            | 31,899                             | 19,402    | 9,954                               | 6,580    |
| Noninterest expense                                 |                                    |           |                                     |          |
| Salary and employee benefits                        | 30,131                             | 22,327    | 10,203                              | 7,598    |
| Occupancy expense                                   | 2,657                              | 2,036     | 902                                 | 732      |
| Equipment depreciation and maintenance              | 1,524                              | 1,111     | 557                                 | 400      |
| Data processing and communications                  | 2,945                              | 2,114     | 1,075                               | 733      |
| Mortgage processing                                 | 2,310                              | 1,706     | 774                                 | 596      |
| Marketing, contributions and sponsorships           | 1,094                              | 828       | 398                                 | 293      |

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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Professional fees                             | 2,217     | 1,522     | 936       | 645       |
| Printing, postage and supplies                | 566       | 579       | 210       | 186       |
| Insurance, tax and assessment expense         | 1,283     | 1,147     | 436       | 423       |
| Travel, entertainment, dues and subscriptions | 1,237     | 1,003     | 485       | 330       |
| Other operating expenses                      | 1,138     | 866       | 448       | 279       |
| Total noninterest expense                     | 47,102    | 35,239    | 16,424    | 12,215    |
| Income before income taxes                    | 7,932     | 3,220     | 1,912     | 640       |
| Income tax expense                            | 2,518     | 556       | 506       | 103       |
| Net income                                    | \$ 5,414  | \$ 2,664  | \$ 1,406  | \$ 537    |
| Preferred dividends                           | 430       | 187       | 145       | 144       |
| Net income available to common shareholders   | \$ 4,984  | \$ 2,477  | \$ 1,261  | \$ 393    |
| <br>  |           |           |           |           |
| Earnings per share – basic                    | \$ 0.62   | \$ 0.31   | \$ 0.16   | \$ 0.05   |
| Earnings per share – diluted                  | \$ 0.62   | \$ 0.31   | \$ 0.16   | \$ 0.05   |
| Weighted average shares outstanding - basic   | 7,998,203 | 7,863,820 | 8,023,549 | 8,032,362 |
| Weighted average shares outstanding - diluted | 8,606,354 | 8,077,895 | 8,631,700 | 8,246,437 |

See accompanying notes to unaudited financial statements.



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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Unaudited)(Dollars in thousands)

|   | Nine months ended<br>September 30, |          | Three months<br>ended<br>September 30, |        |
|---|------------------------------------|----------|--|--------|
|   | 2015                               | 2014     | 2015                                   | 2014   |
| Net Income  | \$ 5,414                           | \$ 2,664 | \$ 1,406                               | \$ 537 |
| Other comprehensive income:                               |                                    |          |  |        |
| Unrealized holding gains during the year                  | 549                                | 1,855    | 433                                    | 209    |
| Income tax effect   | (220)                              | (742)    | (174)                                  | (83)   |
| Reclassification adjustment for gain recognized in income | (130)                              | (396)    | (4)                                    | (271)  |
| Income tax effect   | 52                                 | 159      | 2                                      | 108    |
| Change in defined benefit pension plan                    | 127                                | (505)    | (400)                                  | (190)  |
| Income tax effect   | (51)                               | 202      | 160                                    | 76     |
| Other comprehensive income                                | 327                                | 573      | 17                                     | (151)  |
| Comprehensive income                                      | \$ 5,741                           | \$ 3,237 | \$ 1,423                               | \$ 386 |

See accompanying notes to unaudited financial statements.

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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited) (Dollars in thousands)

|   | Nine months ended     |                       |
|---|-----------------------|-----------------------|
|   | September 30,<br>2015 | September 30,<br>2014 |
| Operating activities  |                       |                       |
| Net income  | \$ 5,414              | \$ 2,664              |
| Adjustments to reconcile net income to net cash provided by operating activities: |                       |                       |
| Net amortization and accretion of investments                                     | 586                   | 628                   |
| Net amortization of deferred loan fees  | (110)                 | 166                   |
| Provision for loan losses   | 1,856                 | 2,192                 |
| Depreciation and amortization   | 1,437                 | 898                   |
| Stock based compensation  | 308                   | 222                   |
| Loans originated for sale   | (1,047,432)           | (596,844)             |
| Proceeds of loans sold  | 1,067,793             | 647,905               |
| Mortgage fee income   | (23,881)              | (12,491)              |
| Gain on sale of investment securities   | (130)                 | (396)                 |
| Income on bank owned life insurance   | (492)                 | (424)                 |
| Deferred taxes  | 118                   | (1,016)               |
| Other, net  | 799                   | (1,405)               |
| Net cash provided by operating activities   | 6,266                 | 42,099                |
| Investing activities  |                       |                       |
| Purchases of investment securities available-for-sale                             | (28,212)              | (24,268)              |
| Purchases of investment securities held-to-maturity                               | —                     | (250)                 |
| Maturities/paydowns of investment securities held-to-maturity                     | 865                   | 1,000                 |
| Maturities/paydowns of investment securities available-for-sale                   | 15,601                | 6,533                 |
| Sales of investment securities available-for-sale                                 | 12,912                | 54,268                |
| Sales of investment securities held-to-maturity                                   | 421                   | —                     |
| Purchases of premises and equipment   | (1,648)               | (7,985)               |
| Net increase in loans   | (177,798)             | (139,999)             |
| Gain on sale of portfolio loans   | (1,119)               | (1,549)               |
| Purchases of restricted bank stock  | (17,431)              | (8,080)               |
| Redemptions of restricted bank stock  | 16,977                | 9,602                 |
| Proceeds from sale of certificates of deposit with banks                          | 248                   | —                     |
| Purchase of certificates of deposit with banks                                    | (1,491)               | —                     |
| Proceeds from sale of other real estate owned                                     | 1,132                 | 76                    |
| Branch acquisition, net cash acquired   | 48,292                | —                     |
| Purchase of bank owned life insurance   | —                     | (5,000)               |
| Net cash used in investing activities   | (131,251)             | (115,652)             |
| Financing activities  |                       |                       |
| Net increase in deposits  | 126,331               | 150,510               |

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|  |           |           |
|--|-----------|-----------|
| Net (decrease) in repurchase agreements          | (6,111)   | (47,684)  |
| Net change in short-term FHLB borrowings         | 3,335     | (48,062)  |
| Principal payments on FHLB borrowings            | (2,154)   | (1,120)   |
| Proceeds from subordinated debt                  | —         | 29,400    |
| Proceeds from stock offering                     | —         | 5,617     |
| Preferred stock issuance                         | —         | 7,834     |
| Dividend reinvestment plan proceeds              | —         | 180       |
| Common stock options exercised                   | (448)     | 48        |
| Cash dividends paid on common stock              | (480)     | (317)     |
| Cash dividends paid on preferred stock           | (430)     | (187)     |
| Net cash provided by financing activities        | 120,043   | 96,219    |
| (Decrease) in cash and cash equivalents          | (4,942)   | 22,666    |
| Cash and cash equivalents at beginning of period | 30,077    | 39,843    |
| Cash and cash equivalents at end of period       | \$ 25,135 | \$ 62,509 |

Supplemental disclosure of cash flow information

|  |          |          |
|--|----------|----------|
| Loans transferred to other real estate owned               | \$ 174   | \$ 346   |
| Cashless stock options exercised                           | \$ 1,180 | \$ —     |
| Cash payments for:   |          |          |
| Interest on deposits, repurchase agreements and borrowings | \$ 8,278 | \$ 6,444 |
| Income taxes   | \$ 2,400 | \$ 1,600 |
| See accompanying notes to unaudited financial statements.  |          |          |

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MVB Financial Corp. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 – Basis of Presentation

These consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with instructions to Form 10 Q. Accordingly, they do not include all the information and footnotes required by GAAP for annual year-end financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, have been included and are of a normal, recurring nature. The consolidated balance sheet as of December 31, 2014 has been derived from audited financial statements included in the Company’s 2014 filing on Form 10-K. Operating results for the nine and three months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

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

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in MVB’s December 31, 2014, Form 10-K filed with the Securities and Exchange Commission.

In certain instances, amounts reported in prior periods’ consolidated financial statements have been reclassified to conform to the current presentation. Specifically, a portion of the prior periods’ interest income and interest expense was classified as gain on loans held for sale and has been reclassified in the current presentation.

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

Note 2 – Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). These amendments affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g. insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance, and creates a Topic 606, Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This ASU will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is not permitted. The ASU allows for either full retrospective or modified retrospective adoption. We are evaluating the transition method that will be elected and the potential effects of the adoption of the ASU on our financial statements.

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In June 2014, the FASB issued ASU No. 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. The amendments in the ASU require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The amendments in the ASU also require expanded disclosures, effective for the current reporting period of June 30, 2015, about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings (see Note 5 to the Consolidated Financial Statements). The Company adopted the amendments in this ASU effective January 1, 2015. As of June 30, 2015, all of the Company's repurchase agreements were typical in nature (i.e., not repurchase-to-maturity transactions or repurchase agreements executed as a repurchase financing) and are accounted for as secured borrowings. As such, the adoption of ASU No. 2014-11 did not have a material impact on the Company's Consolidated Financial Statements but resulted in additional disclosures.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): "Amendments to the Consolidation Analysis." The amendments modify the evaluation reporting organizations must perform to determine if certain legal entities should be consolidated as VIEs. Specifically, the amendments: (1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company is currently evaluating the provisions of ASU No. 2015-02 to determine the potential impact the new standard will have on the Company's consolidated financial statements.

## Note 3 – Investments

Amortized cost and fair values of investment securities held-to-maturity at September 30, 2015, including gross unrealized gains and losses, are summarized as follows:

| (in thousands)                               | Amortized<br>Cost | Unrealized<br>Gain | Unrealized<br>Loss | Fair<br>Value |
|--|-------------------|--------------------|--------------------|---------------|
| Municipal securities                         | \$ 52,969         | \$ 1,336           | \$ (382)           | \$ 53,923     |
| Total investment securities held-to-maturity | \$ 52,969         | \$ 1,336           | \$ (382)           | \$ 53,923     |

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

| (in thousands)                               | Amortized<br>Cost | Unrealized<br>Gain | Unrealized<br>Loss | Fair<br>Value |
|--|-------------------|--------------------|--------------------|---------------|
| Municipal securities                         | \$ 54,538         | \$ 1,600           | \$ (267)           | \$ 55,871     |
| Total investment securities held-to-maturity | \$ 54,538         | \$ 1,600           | \$ (267)           | \$ 55,871     |

Amortized cost and fair values of investment securities available-for-sale at September 30, 2015 are summarized as follows:

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| (in thousands)                                 | Amortized<br>Cost | Unrealized<br>Gain | Unrealized<br>Loss | Fair<br>Value |
|--|-------------------|--------------------|--------------------|---------------|
| U.S. Agency securities                         | \$ 32,104         | \$ 20              | \$ (34)            | \$ 32,090     |
| U.S. Sponsored Mortgage-backed securities      | 35,044            | 23                 | (355)              | 34,712        |
| Municipal securities                           | 459               | —                  | —                  | 459           |
| Total debt securities                          | 67,607            | 43                 | (389)              | 67,261        |
| Equity and other securities                    | 809               | 88                 | —                  | 897           |
| Total investment securities available-for-sale | \$ 68,416         | \$ 131             | \$ (389)           | \$ 68,158     |

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

| (in thousands)                                 | Amortized<br>Cost | Unrealized<br>Gain | Unrealized<br>Loss | Fair<br>Value |
|--|-------------------|--------------------|--------------------|---------------|
| U.S. Agency securities                         | \$ 37,926         | \$ 73              | \$ (465)           | \$ 37,534     |
| U.S. Sponsored Mortgage-backed securities      | 30,293            | 58                 | (419)              | 29,932        |
| Total debt securities                          | 68,219            | 131                | (884)              | 67,466        |
| Equity and other securities                    | 670               | 77                 | —                  | 747           |
| Total investment securities available-for-sale | \$ 68,889         | \$ 208             | \$ (884)           | \$ 68,213     |

The following tables summarize amortized cost and fair values of debt securities by maturity at September 30, 2015:

|                                  | Held to Maturity  |               | Available for sale |               |
|----------------------------------|-------------------|---------------|--------------------|---------------|
|                                  | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost  | Fair<br>Value |
| Within one year                  | \$ —              | \$ —          | \$ —               | \$ —          |
| After one year, but within five  | 5,467             | 5,620         | 23,101             | 23,085        |
| After five years, but within ten | 13,681            | 13,889        | 12,310             | 12,305        |
| After ten years                  | 33,821            | 34,414        | 32,196             | 31,871        |
| Total                            | \$ 52,969         | \$ 53,923     | \$ 67,607          | \$ 67,261     |

Investment securities with a carrying value of \$113,661 at September 30, 2015, were pledged to secure public funds, repurchase agreements and potential borrowings at the Federal Reserve discount window.

The Company's investment portfolio includes securities that are in an unrealized loss position as of September 30, 2015, the details of which are included in the following table. Although these securities, if sold at September 30, 2015 would result in a pretax loss of \$771, the Company has no intent to sell the applicable securities at such market values,



and maintains the Company has the ability to hold these securities until all principal has been recovered. Declines in the market values of these securities can be traced to general market conditions which reflect the prospect for the economy as a whole. When determining other-than-temporary impairment on securities, the Company considers such factors as adverse conditions specifically related to a certain security or to specific conditions in an industry or geographic area, the time frame securities have been in an unrealized loss position, the Company's ability to hold the security for a period of time sufficient to allow for anticipated recovery in value, whether or not the security has been downgraded by a rating agency, and whether or not the financial condition of the security issuer has severely deteriorated. As of September 30, 2015, 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.

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The following table discloses investments in an unrealized loss position at September 30, 2015:

| Description and number of positions<br>(in thousands) | Less than 12 months |                 | 12 months or more |                 |
|---|---------------------|-----------------|-------------------|-----------------|
|   | Fair Value          | Unrealized Loss | Fair Value        | Unrealized Loss |
| U.S. Agency securities (7)                            | \$ 4,993            | \$ (10)         | \$ 14,075         | \$ (24)         |
| U.S. Sponsored Mortgage-backed securities (14)        | 13,286              | (89)            | 12,606            | (266)           |
| Municipal securities (42)                             | 9,076               | (140)           | 8,059             | (242)           |
|   | \$ 27,355           | \$ (239)        | \$ 34,740         | \$ (532)        |

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

| Description and number of positions<br>(in thousands) | Less than 12 months |                 | 12 months or more |                 |
|---|---------------------|-----------------|-------------------|-----------------|
|   | Fair Value          | Unrealized Loss | Fair Value        | Unrealized Loss |
| U.S. Agency securities (9)                            | \$ 996              | \$ (3)          | \$ 26,900         | \$ (462)        |
| U.S. Sponsored Mortgage-backed securities (8)         | 678                 | (3)             | 14,824            | (416)           |
| Municipal securities (42)                             | 528                 | (3)             | 16,489            | (264)           |
|   | \$ 2,202            | \$ (9)          | \$ 58,213         | \$ (1,142)      |

For the three month period ended September 30, 2015 and 2014, the Company sold investments available-for-sale of \$1.4 million and \$17.1 million, respectively, resulting in gross gains of \$4 and \$275 and gross losses of \$0 and \$4.

For the nine month period ended September 30, 2015 and 2014, the Company sold investments available-for-sale of \$12.9 million and \$54.3 million, respectively, resulting in gross gains of \$125 and \$489 and gross losses of \$0 and \$93.

For the three and nine month periods ended September 30, 2015, the Company sold investments held-to-maturity of \$421, resulting in gross gains of \$5. The held-to-maturity investment was sold due to a credit downgrade. The Company sold no held-to-maturity investments during 2014.

Note 4 – Loans and Allowance for Loan Losses

The following table summarizes the primary segments of the allowance for loan losses (“ALL”), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of September 30, 2015:

| (in thousands)                 | Commercial | Residential | Home<br>Equity | Consumer | Total    |
|--------------------------------|------------|-------------|----------------|----------|----------|
| ALL balance June 30, 2015      | \$ 5,201   | \$ 1,018    | \$ 632         | \$ 196   | \$ 7,047 |
| Charge-offs                    | (299)      | —           | —              | (5)      | (304)    |
| Recoveries                     | —          | —           | —              | 9        | 9        |
| Provision                      | 515        | 101         | 78             | (58)     | 636      |
| ALL balance September 30, 2015 | \$ 5,417   | \$ 1,119    | \$ 710         | \$ 142   | \$ 7,388 |

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|                                       | Commercial | Residential | Home<br>Equity | Consumer | Total    |
|---------------------------------------|------------|-------------|----------------|----------|----------|
| ALL balance December 31, 2014         | \$ 4,363   | \$ 962      | \$ 691         | \$ 207   | \$ 6,223 |
| Charge-offs                           | (708)      | (14)        | —              | (5)      | (727)    |
| Recoveries                            | 21         | 1           | 1              | 13       | 36       |
| Provision                             | 1,741      | 170         | 18             | (73)     | 1,856    |
| ALL balance September 30, 2015        | \$ 5,417   | \$ 1,119    | \$ 710         | \$ 142   | \$ 7,388 |
| Individually evaluated for impairment | \$ 595     | \$ 301      | \$ 28          | \$ 6     | \$ 930   |
| Collectively evaluated for impairment | \$ 4,822   | \$ 818      | \$ 682         | \$ 136   | \$ 6,458 |

The following table summarizes the primary segments of the Company loan portfolio as of September 30, 2015:

| (in thousands)                        | Commercial | Residential | Home<br>Equity | Consumer  | Total      |
|---------------------------------------|------------|-------------|----------------|-----------|------------|
| Individually evaluated for impairment | \$ 12,036  | \$ 849      | \$ 28          | \$ 6      | \$ 12,919  |
| Collectively evaluated for impairment | 687,623    | 210,997     | 65,617         | 17,677    | 981,914    |
| Total Loans                           | \$ 699,659 | \$ 211,846  | \$ 65,645      | \$ 17,683 | \$ 994,833 |

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

| (in thousands)                 | Commercial | Residential | Home<br>Equity | Consumer | Total    |
|--------------------------------|------------|-------------|----------------|----------|----------|
| ALL balance June 30, 2014      | \$ 4,485   | \$ 685      | \$ 825         | \$ 246   | \$ 6,241 |
| Charge-offs                    | (634)      | (30)        | —              | (1)      | (665)    |
| Recoveries                     | 3          | —           | 2              | —        | 5        |
| Provision                      | 633        | 224         | (38)           | (36)     | 783      |
| ALL balance September 30, 2014 | \$ 4,487   | \$ 879      | \$ 789         | \$ 209   | \$ 6,364 |

|                                | Commercial | Residential | Home<br>Equity | Consumer | Total    |
|--------------------------------|------------|-------------|----------------|----------|----------|
| ALL balance December 31, 2013  | \$ 3,609   | \$ 519      | \$ 554         | \$ 253   | \$ 4,935 |
| Charge-offs                    | (632)      | (133)       | —              | (11)     | (776)    |
| Recoveries                     | 7          | —           | 3              | 3        | 13       |
| Provision                      | 1,503      | 493         | 232            | (36)     | 2,192    |
| ALL balance September 30, 2014 | \$ 4,487   | \$ 879      | \$ 789         | \$ 209   | \$ 6,364 |

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|                                       |          |        |        |        |          |
|---------------------------------------|----------|--------|--------|--------|----------|
| Individually evaluated for impairment | \$ 893   | \$ 278 | \$ 29  | \$ 10  | \$ 1,210 |
| Collectively evaluated for impairment | \$ 3,594 | \$ 601 | \$ 760 | \$ 199 | \$ 5,154 |

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

| (in thousands)                        | Commercial | Residential | Equity    | Consumer  | Total      |
|---------------------------------------|------------|-------------|-----------|-----------|------------|
| Individually evaluated for impairment | \$ 5,764   | \$ 837      | \$ 29     | \$ 16     | \$ 6,646   |
| Collectively evaluated for impairment | 543,327    | 151,331     | 43,576    | 18,046    | 756,280    |
| Total Loans                           | \$ 549,091 | \$ 152,168  | \$ 43,605 | \$ 18,062 | \$ 762,926 |

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 September 30, 2015 and 2014, net deferred fees and costs of \$1,228 and \$1,402, respectively, were included in the carrying value of loans.

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

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The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of September 30, 2015 and December 31, 2014 (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 |
| September 30, 2015        |  |                   |   |                      |                          |
| Commercial                |  |                   |   |                      |                          |
| Commercial Business       | \$ —                                   | \$ —              | \$ 2,758                                  | \$ 2,758             | \$ 2,758                 |
| Commercial Real Estate    | 6,522                                  | 498               | —   | 6,522                | 6,522                    |
| Acquisition & Development | 269                                    | 97                | 2,487                                     | 2,756                | 4,431                    |
| Total Commercial          | 6,791                                  | 595               | 5,245                                     | 12,036               | 13,711                   |
| Residential               | 827                                    | 301               | 22  | 849                  | 849                      |
| Home Equity               | 28                                     | 28                | —   | 28                   | 28                       |
| Consumer                  | 6                                      | 6                 | —   | 6                    | 6                        |
| Total impaired loans      | \$ 7,652                               | \$ 930            | \$ 5,267                                  | \$ 12,919            | \$ 14,594                |
| December 31, 2014         |  |                   |   |                      |                          |
| Commercial                |  |                   |   |                      |                          |
| Commercial Business       | \$ —                                   | \$ —              | \$ 3,606                                  | \$ 3,606             | \$ 3,606                 |
| Commercial Real Estate    | 1,527                                  | 260               | 5,021                                     | 6,548                | 6,548                    |
| Acquisition & Development | 273                                    | 102               | 3,355                                     | 3,628                | 4,703                    |
| Total Commercial          | 1,800                                  | 362               | 11,982                                    | 13,782               | 14,857                   |
| Residential               | 969                                    | 298               | —   | 969                  | 969                      |
| Home Equity               | 28                                     | 28                | —   | 28                   | 28                       |
| Consumer                  | 2                                      | 2                 | —   | 2                    | 2                        |
| Total impaired loans      | \$ 2,799                               | \$ 690            | \$ 11,982                                 | \$ 14,781            | \$ 15,856                |

Impaired loans have decreased during 2015, primarily as the result of three loans, of which the recorded investment of each has decreased for various reasons. A loan that is dependent upon the condition of the coal industry, which had a balance of \$3.6 million as of December 31, 2014, was reduced by principal payments totaling \$848 and now represents a recorded investment of \$2.8 million. Meanwhile, two unrelated acquisition and development loans with a total December 31, 2014 balance of \$3.1 million were reduced as the result of a principal curtailment of a \$268 and a \$600 charge-off. These two loans now represent a total recorded investment of \$2.2 million. Meanwhile, it is important to note that \$7.8 million, or 60%, of the \$12.9 million total recorded investment in impaired loans as of September 30, 2015 was concentrated in just two impaired loans. Furthermore, one of the two loans had a balance of \$5.0 million and is a loan to finance a commercial real estate property in the Northern Virginia market, which had as primary tenants, government contractors that have vacated the premises as a result of losing significant contracts with the United States government. This loan was purchased from another financial institution in late 2013 but it is the

Bank's position that the "Loan Sales Agreement" has been breached by the selling institution and legal recourse is being pursued by the Bank.



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

|  | Nine months ended<br>September 30, 2015       |   |  | Three months ended<br>September 30, 2015      |   |  |
|--|---|---|--|---|---|--|
|  | Average<br>Investment<br>in Impaired<br>Loans | Interest<br>Income<br>Recognized<br>on Accrual<br>Basis | Interest<br>Income<br>Recognized on<br>Cash<br>Basis | Average<br>Investment<br>in Impaired<br>Loans | Interest<br>Income<br>Recognized<br>on Accrual<br>Basis | Interest<br>Income<br>Recognized<br>on Cash<br>Basis |
| Commercial   |   |   |  |   |   |  |
| Commercial Business                                    | \$ 3,228                                      | \$ 117  | \$ 114   | 2,945   | 39  | 39   |
| Commercial Real Estate<br>Acquisition &<br>Development | 6,533   | 44  | 37   | 6,525   | 15  | 12   |
| Total Commercial                                       | 3,210   | 7   | 7  | 2,957   | 2   | 2  |
| Residential  | 12,971  | 168   | 158  | 12,427  | 56  | 53   |
| Home Equity  | 935   | 15  | 11   | 909   | 5   | 7  |
| Consumer   | 28  | 1   | 1  | 28  | —   | —  |
| Total  | 1   | —   | —  | 1   | —   | —  |
|  | \$ 13,935                                     | \$ 184  | \$ 170   | \$ 13,365                                     | \$ 61   | \$ 60  |

  

|  | Nine months ended<br>September 30, 2014       |   |  | Three months ended<br>September 30, 2014      |   |  |
|--|---|---|--|---|---|--|
|  | Average<br>Investment<br>in Impaired<br>Loans | Interest<br>Income<br>Recognized on<br>Accrual<br>Basis | Interest<br>Income<br>Recognized on<br>Cash<br>Basis | Average<br>Investment<br>in Impaired<br>Loans | Interest<br>Income<br>Recognized on<br>Accrual<br>Basis | Interest<br>Income<br>Recognized on<br>Cash<br>Basis |
| Commercial   |   |   |  |   |   |  |
| Commercial Business                                    | \$ —  | \$ —  | \$ —   | \$ —  | \$ —  | \$ —   |
| Commercial Real Estate<br>Acquisition &<br>Development | 1,854   | 94  | 50   | 1,740   | 31  | 8  |
| Total Commercial                                       | 4,635   | 119   | 92   | 4,583   | 2   | 4  |
| Residential  | 6,489   | 213   | 142  | 6,323   | 33  | 12   |
| Home Equity  | 779   | 15  | 14   | 868   | 5   | 5  |
| Consumer   | 28  | 1   | —  | 28  | —   | —  |
| Total  | 25  | 1   | 1  | 16  | —   | —  |
|  | \$ 7,321                                      | \$ 230  | \$ 157   | \$ 7,235                                      | \$ 38   | \$ 17  |

As of September 30, 2015, the Bank held three foreclosed residential real estate properties representing \$174, or 64%, of the total balance of other real estate owned. Meanwhile, there are two additional consumer mortgage loans collateralized by residential real estate properties in the process of foreclosure. The total recorded investment in these loans was \$249 as of September 30, 2015.

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

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weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. The portion of any loan that represents a specific allocation of the allowance for loan losses is placed in the Doubtful category. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank's Chief Credit Officer is responsible for the timely and accurate risk rating of the loans in the portfolio at origination and on an ongoing basis. The Credit Department ensures that a review of all commercial relationships of one million dollars or greater is performed annually.

Review of the appropriate risk grade is included in both the internal and external loan review process, and 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 September 30, 2015 and December 31, 2014 (in thousands):

| September 30, 2015        | Pass       | Special<br>Mention | Substandard | Doubtful | Total      |
|---------------------------|------------|--------------------|-------------|----------|------------|
| Commercial                |            |                    |             |          |            |
| Commercial Business       | \$ 318,871 | \$ 5,334           | \$ 2,902    | \$ —     | \$ 327,107 |
| Commercial Real Estate    | 270,414    | 10,933             | 7,341       | —        | 288,688    |
| Acquisition & Development | 78,168     | 2,940              | 1,224       | 1,532    | 83,864     |
| Total Commercial          | 667,453    | 19,207             | 11,467      | 1,532    | 699,659    |
| Residential               | 208,667    | 2,075              | 1,047       | 57       | 211,846    |
| Home Equity               | 65,320     | 262                | 63          | —        | 65,645     |
| Consumer                  | 17,258     | 424                | 1           | —        | 17,683     |
| Total Loans               | \$ 958,698 | \$ 21,968          | \$ 12,578   | \$ 1,589 | \$ 994,833 |

| December 31, 2014         | Pass       | Special<br>Mention | Substandard | Doubtful | Total      |
|---------------------------|------------|--------------------|-------------|----------|------------|
| Commercial                |            |                    |             |          |            |
| Commercial Business       | \$ 234,547 | \$ 618             | \$ 3,713    | \$ —     | \$ 238,878 |
| Commercial Real Estate    | 262,215    | 11,242             | 7,323       | —        | 280,780    |
| Acquisition & Development | 34,391     | 3,075              | 1,496       | 2,132    | 41,094     |
| Total Commercial          | 531,153    | 14,935             | 12,532      | 2,132    | 560,752    |
| Residential               | 171,395    | 2,147              | 965         | —        | 174,507    |
| Home Equity               | 45,684     | 223                | 28          | —        | 45,935     |
| Consumer                  | 16,477     | 624                | 2           | —        | 17,103     |
| Total Loans               | \$ 764,709 | \$ 17,929          | \$ 13,527   | \$ 2,132 | \$ 798,297 |

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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.

A loan that has deteriorated and is in a collection process could warrant non-accrual status. A thorough review is to be presented to the Chief Credit Officer and or the Management Loan Committee ("MLC"), as required with respect to any loan which is in a collection process and to make a determination as to whether the loan should be placed on non-accrual status. The placement of loans on non-accrual status will be subject to applicable regulatory restrictions and guidelines. Generally, loans should be placed in non-accrual status when the loan approaches 90 days past due, when it becomes likely the borrower cannot or will not make scheduled principal or interest payments, when full repayment of principal and interest is not expected, or when the loan displays potential loss characteristics. Normally, all accrued interest should be charged off when a loan is placed in non-accrual status. Any payments subsequently received should be applied to principal. To remove a loan from non-accrual status, all principal and interest due must be paid up to date and the bank is reasonably sure of future satisfactory payment performance. Usually, this requires a six-month recent history of payments due. Removal of a loan from non-accrual status will require the approval of the Chief Credit Officer and or MLC.

The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of September 30, 2015 and December 31, 2014 (in thousands):

| September 30,<br>2015                 | 30-59 Days 60-89 Days 90 Days + Total |          |          |          |           | Total Loans | Non-<br>Accrual | 90+ Days<br>Still Accruing |
|---------------------------------------|---------------------------------------|----------|----------|----------|-----------|-------------|-----------------|----------------------------|
|                                       | Current                               | Past Due | Past Due | Past Due | Past Due  |             |                 |                            |
| Commercial<br>Business                | \$ 323,621                            | \$ 2,758 | \$ 615   | \$ 113   | \$ 3,486  | \$ 327,107  | \$ 85           | \$ 27                      |
| Commercial<br>Real Estate             | 278,150                               | 47       | 4,794    | 5,697    | 10,538    | 288,688     | 5,020           | 677                        |
| Acquisition &<br>Development<br>Total | 81,070                                | —        | —        | 2,794    | 2,794     | 83,864      | 2,488           | 307                        |
| Commercial<br>Residential             | 682,841                               | 2,805    | 5,409    | 8,604    | 16,818    | 699,659     | 7,593           | 1,011                      |
| Home Equity                           | 211,013                               | 23       | 195      | 615      | 833       | 211,846     | 397             | 254                        |
| Consumer                              | 65,350                                | 290      | 5        | —        | 295       | 65,645      | 35              | —                          |
| Total                                 | 17,519                                | 57       | —        | 107      | 164       | 17,683      | —               | 107                        |
|                                       | \$ 976,723                            | \$ 3,175 | \$ 5,609 | \$ 9,326 | \$ 18,110 | \$ 994,833  | \$ 8,025        | \$ 1,372                   |

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| December 31,<br>2014      | 30-59 Days 60-89 Days 90 Days + Total |          |          |          |           | Total Loans | Non-     | 90+ Days       |
|---------------------------|---------------------------------------|----------|----------|----------|-----------|-------------|----------|----------------|
|                           | Current                               | Past Due | Past Due | Past Due | Past Due  |             | Accrual  | Still Accruing |
| Commercial Business       | \$ 233,464                            | \$ 3,738 | \$ 1,500 | \$ 176   | \$ 5,414  | \$ 238,878  | \$ 107   | \$ 69          |
| Commercial Real Estate    | 270,600                               | 234      | 4,925    | 5,021    | 10,180    | 280,780     | —        | 5,021          |
| Acquisition & Development | 37,739                                | —        | —        | 3,355    | 3,355     | 41,094      | 3,355    | —              |
| Total                     | 541,803                               | 3,972    | 6,425    | 8,552    | 18,949    | 560,752     | 3,462    | 5,090          |
| Commercial Residential    | 167,392                               | 4,478    | 2,126    | 511      | 7,115     | 174,507     | 487      | 216            |
| Home Equity               | 45,815                                | 120      | —        | —        | 120       | 45,935      | —        | —              |
| Consumer                  | 16,692                                | 411      | —        | —        | 411       | 17,103      | —        | —              |
| Total                     | \$ 771,702                            | \$ 8,981 | \$ 8,551 | \$ 9,063 | \$ 26,595 | \$ 798,297  | \$ 3,949 | \$ 5,306       |

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

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

Company and Bank management have identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; trends in volume and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry and/or geographic standpoint. The combination of historical charge-off and qualitative factors are then weighted for each risk grade. These weightings are determined internally based upon the likelihood of loss as a loan's risk grading deteriorates.

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

To estimate the liability for off-balance sheet credit exposures, bank management analyzed the portfolios of letters of credit, non-revolving lines of credit, and revolving lines of credit, and based its calculation on the expectation of future advances of each loan category. Letters of credit were determined to be highly unlikely to advance since they are generally in place only to ensure various forms of performance of the borrowers. In the Bank's history, there have been no letters of credit drawn upon. In addition, many of the letters of credit are cash secured and do not warrant an allocation. Non-revolving lines of credit were determined to be highly likely to advance as these are typically construction lines. Meanwhile, the likelihood of revolving lines of credit advancing varies with each individual borrower. Therefore, the future usage of each line was estimated based on the average line utilization of the revolving line of credit portfolio as a whole.

Once the estimated future advances were calculated, an allocation rate, which was derived from the Bank's historical losses and qualitative environmental factors, was applied in the similar manner as those used for the allowance for loan loss calculation. The resulting estimated loss allocations were totaled to determine the off-balance sheet liability related to these loans.



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## Troubled Debt Restructurings

The restructuring of a loan is considered a troubled debt restructuring (“TDR”) if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. At September 30, 2015 and December 31, 2014, the Bank had specific reserve allocations for TDR’s of \$597 and \$582, respectively.

Loans considered to be troubled debt restructured loans totaled \$7.6 million and \$9.4 million as of September 30, 2015 and December 31, 2014, respectively. \$2.5 million and \$3.4 million, respectively, represent three loans to two borrowers that have defaulted under the restructured terms. All three loans are acquisition and development loans that were considered restructured due to extended interest only periods and/or unsatisfactory repayment structures once transitioned to principal and interest payments. These borrowers have experienced continued financial difficulty and are considered non-performing loans as of September 30, 2015 and December 31, 2014.

The following tables present details related to loans identified as TDR’s for the periods indicated (in thousands):

|                                | New TDRs (1)<br>For the Nine months ended<br>September 30, 2014 |   | For the Three months ended<br>September 30, 2014           |                        |   |  |
|--------------------------------|---|---|--|------------------------|---|--|
|                                | Number of<br>Contracts  | Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment | Number of<br>Contracts | Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
| Commercial                     |   |   |  |                        |   |  |
| Acquisition and<br>development | 1   | \$ 496  | \$ 375   | —                      | \$ —  | \$ —   |
| Total Commercial               | 1   | 496   | 375  | —                      | —   | —  |
| Residential Real Estate        | 1   | 389   | 385  | —                      | —   | —  |
| Total                          | 2   | \$ 885  | \$ 760   | —                      | \$ —  | \$ —   |

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

There were no new TDR’s for the nine and three months ended September 30, 2015.

NOTE 5 - BORROWED FUNDS

Short-term Borrowings

Along with traditional deposits, the Bank has access to short-term borrowings from FHLB to fund its operations and investments. Short-term borrowings from FHLB totaled \$99.2 million at September 30, 2015, compared to \$95.8 million at December 31, 2014.

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Information related to short-term borrowings is summarized as follows:

| (Dollars in thousands)   | September 30,<br>2015 |   | December 31,<br>2014 |   |
|--|-----------------------|---|----------------------|---|
| Balance at end of period   | \$ 99,164             |   | \$ 95,829            |   |
| Average balance during the three and twelve months ended           | 140,193               |   | 76,185               |   |
| Maximum month-end balance during the three and twelve months ended | 147,872               |   | 120,229              |   |
| Weighted-average rate during the three and twelve months ended     | 0.28                  | % | 0.27                 | % |
| Rate at end of period  | 0.34                  | % | 0.32                 | % |

Repurchase agreements:

Along with traditional deposits, the Bank has access to securities sold under agreements to repurchase “repurchase agreements” with customers represent funds deposited by customers, on an overnight basis, that are collateralized by investment securities owned by the Company. Repurchase agreements with customers are included in borrowings section on the consolidated balance sheets. All repurchase agreements are subject to terms and conditions of repurchase/security agreements between the Company and the client and are accounted for as secured borrowings. The Company's repurchase agreements reflected in liabilities consist of customer accounts and securities which are pledged on an individual security basis.

As of September 30, 2015 and December 31, 2014, the Bank had repurchase agreements of \$26.6 million and \$32.7 million, respectively. These borrowings were collateralized by investment securities or FHLB letters of credit with a carrying value of \$27.1 million and \$33.3 million at September 30, 2015 and December 31, 2014, respectively. Declines in the value of the collateral would require the Company to pledge additional securities. As of September 30, 2015 and December 31, 2014 the Company had \$7.5 million and \$5.6 million, respectively, of available unpledged securities.

Information related to repurchase agreements is summarized as follows:

| (Dollars in thousands)   | September 30,<br>2015 |   | December 31,<br>2014 |   |
|--|-----------------------|---|----------------------|---|
| Balance at end of period   | \$ 26,562             |   | \$ 32,673            |   |
| Average balance during the three and twelve months ended           | 24,645                |   | 55,731               |   |
| Maximum month-end balance during the three and twelve months ended | 26,562                |   | 83,781               |   |
| Weighted-average rate during the three and twelve months ended     | 0.30                  | % | 0.52                 | % |
| Rate at end of period  | 0.30                  | % | 0.35                 | % |

Term notes from the FHLB were as follows:

September 30,    December 31,

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| (Dollars in thousands)   | 2015     | 2014     |
|--|----------|----------|
| Fixed interest rate notes, originating between April 2002 and April 2007, due between May 2017 and April 2022, interest of between 5.18% and 5.90% payable monthly | \$ 2,479 | \$ 4,618 |
| Amortizing fixed interest rate note, originating February 2007, due February 2022, payable in monthly installments of \$5, including interest of 5.22%             | 825      | 840      |
| Subordinated Debt  | \$ 3,304 | \$ 5,458 |

In March 2007, the Company completed the private placement of \$4 million Floating Rate, Trust Preferred Securities

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

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

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

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

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

At the election of a holder, any or all of the Notes may be converted into shares of common stock during the 30-day period after the first, second, third, fourth, and fifth anniversaries of the issuance of the Notes or upon a notice to prepay by the Company. The Notes will convert into common stock based on \$16 per share of the Company's common stock. The conversion price will be subject to anti-dilution adjustments for certain events such as stock splits, reclassifications, non-cash distributions, extraordinary cash dividends, pro rata repurchases of common stock, and business combination transactions. The Company must give 20 days' notice to the holders of the Company's intent to prepay the Notes, so that holders may execute the conversion right set forth above if a holder so desires.

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

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

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

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

The Company reflects subordinated debt in the amount of \$33.5 million as of September 30, 2015 and December 31, 2014 and interest expense of \$1,648 and \$589 for the nine months ended September 30, 2015 and 2014.

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

(dollars in thousands)

| Year       | Amount     |
|------------|------------|
| 2015       | \$ 99,186  |
| 2016       | 94         |
| 2017       | 615        |
| 2018       | 81         |
| 2019       | 85         |
| Thereafter | 35,931     |
|            | \$ 135,992 |

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.

Assets Measured on a Recurring Basis

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. The following measurements are made on

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a recurring basis.

- Available-for-sale investment securities - Available-for-sale investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities and private label entities, municipal bonds and corporate debt securities. There have been no changes in valuation techniques for the year ended December 31, 2014. Valuation techniques are consistent with techniques used in prior periods.
- Loans held for sale — Loans held for sale are carried at fair 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 committed market rates or the price secondary markets are currently offering for similar loans using observable market data.
- Interest rate lock commitment - 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 less (iii) expected costs to deliver the interest rate locks, any expected “pull through rate” is applied to this calculation to estimate the derivative value.
- Interest rate cap - The fair value of the interest rate cap is determined at the end of each quarter by using Bloomberg Finance which values the interest rate cap using observable inputs from forward and futures yield curves as well as standard market volatility.
- Interest rate swap – Interest rate swaps are recorded at fair value based on third party vendors who compile prices from various sources and may determine fair value of identical or similar instruments by using pricing models that consider observable market data.
- Forward sales commitments – Forward sales commitments 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. A majority of the interest rate locks and loans held for sale are committed on a best efforts basis.

The following tables present the assets and liabilities reported on the consolidated statements of financial condition at their fair value on a recurring basis as of September 30, 2015 and December 31, 2014 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| (in thousands)                            | September 30, 2015 |           |           | Total     |
|---|--------------------|-----------|-----------|-----------|
|   | Level I            | Level II  | Level III |           |
| Assets:                                   |                    |           |           |           |
| U.S. Government Agency securities         | \$ —               | \$ 32,090 | \$ —      | \$ 32,090 |
| U.S. Sponsored Mortgage backed securities | —                  | 34,712    | —         | 34,712    |
| Municipal securities                      | —                  | 459       | —         | 459       |
| Equity and Other securities               | 88                 | 809       | —         | 897       |
| Loans held for sale                       | —                  | 73,047    | —         | 73,047    |
| Interest rate lock commitment             | —                  | —         | 1,758     | 1,758     |

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|                           |   |     |   |     |
|---------------------------|---|-----|---|-----|
| Interest rate swap        | — | 580 | — | 580 |
| Interest rate cap         | — | 443 | — | 443 |
| Liability:                |   |     |   |     |
| Interest rate swap        | — | 580 | — | 580 |
| Forward sales commitments | — | 417 | — | 417 |

| (in thousands)                            | December 31, 2014 |           |           |           |
|---|-------------------|-----------|-----------|-----------|
|   | Level I           | Level II  | Level III | Total     |
| Assets:                                   |                   |           |           |           |
| U.S. Government Agency securities         | \$ —              | \$ 37,534 | \$ —      | \$ 37,534 |
| U.S. Sponsored Mortgage backed securities | —                 | 29,932    | —         | 29,932    |
| Equity and Other securities               | 77                | 670       | —         | 747       |
| Loans held for sale                       | —                 | 69,527    | —         | 69,527    |
| Interest rate lock commitment             | —                 | —         | 1,020     | 1,020     |
| Interest rate cap                         | —                 | 1,423     | —         | 1,423     |
| Liability:                                |                   |           |           |           |
| Forward sales commitments                 | —                 | 431       | —         | 431       |

The following table represents recurring level III assets:

| (in thousands)  | For the three | For the three | For the   | For the   |
|---|---------------|---------------|-----------|-----------|
|   | months        | months        | nine      | nine      |
|   | ended         | ended         | months    | months    |
|   | September     | September     | ended     | ended     |
|   | 30, 2015      | 30, 2014      | September | September |
|   |               |               | 30, 2015  | 30, 2014  |
| Balance, beginning of period                              | \$ 1,653      | \$ 3,210      | \$ 1,020  | \$ 2,271  |
| Realized and unrealized gains (loss) included in earnings | 105           | (391)         | 738       | 548       |
| Balance, end of period                                    | \$ 1,758      | \$ 2,819      | \$ 1,758  | \$ 2,819  |

#### Assets Measured on a Nonrecurring Basis

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 nonrecurring basis during 2015 and 2014 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

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assets which, subsequent to their initial recognition, were remeasured at fair value through a write-down included in other non-interest expense.

- 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.
- Mortgage Servicing Rights – Mortgage servicing rights (“MSRs”) do not trade in an active, open market with readily observable prices. While sales of MSRs do occur, the precise terms and conditions typically are not readily available.

Assets measured at fair value on a nonrecurring basis as of September 30, 2015 and December 31, 2014 are included in the tables below:

| (in thousands)            | September 30, 2015 |          |           | Total     |
|---------------------------|--------------------|----------|-----------|-----------|
|                           | Level I            | Level II | Level III |           |
| Assets:                   |                    |          |           |           |
| Impaired loans            | \$ —               | \$ —     | \$ 11,989 | \$ 11,989 |
| Other real estate owned   | —                  | —        | 274       | 274       |
| Mortgage servicing rights | —                  | —        | 1,155     | 1,155     |

| (in thousands)            | December 31, 2014 |          |           | Total     |
|---------------------------|-------------------|----------|-----------|-----------|
|                           | Level I           | Level II | Level III |           |
| Assets:                   |                   |          |           |           |
| Impaired loans            | \$ —              | \$ —     | \$ 14,091 | \$ 14,091 |
| Other real estate owned   | —                 | —        | 575       | 575       |
| Mortgage servicing rights | —                 | —        | 1,423     | 1,423     |



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The following tables present quantitative information about the Level 3 significant unobservable inputs for assets measured at fair value on a nonrecurring basis at September 30, 2015 and December 31, 2014.

| (Dollars in thousands)    | Quantitative Information about Level 3 Fair Value Measurements |                             |  |                       |
|---------------------------|--|-----------------------------|--|-----------------------|
|                           | Fair Value   | Valuation Technique         | Unobservable Input   | Range                 |
| September 30, 2015:       |  |                             |  |                       |
| Impaired loans            | \$ 11,989  | Appraisal of collateral (1) | Appraisal adjustments(2)<br>Liquidation expense (2)          | 20% - 30%<br>5% - 10% |
| Other real estate owned   | \$ 274   | Appraisal of collateral (1) | Appraisal adjustments (2)<br>Liquidation expense (2)         | 20% - 30%<br>5% - 10% |
| Mortgage servicing rights | \$ 1,155   | Discounted cash flows       | Constant prepayment rate<br>Cost of service<br>Discount rate | 12%<br>0.25%<br>12%   |

| (Dollars in thousands)    | Quantitative Information about Level 3 Fair Value Measurements |                             |  |                       |
|---------------------------|--|-----------------------------|--|-----------------------|
|                           | Fair Value   | Valuation Technique         | Unobservable Input   | Range                 |
| December 31, 2014:        |  |                             |  |                       |
| Impaired loans            | \$ 14,091  | Appraisal of collateral (1) | Appraisal adjustments (2)<br>Liquidation expense (2)         | 20% - 30%<br>5% - 10% |
| Other real estate owned   | \$ 575   | Appraisal of collateral (1) | Appraisal adjustments (2)<br>Liquidation expense (2)         | 20% - 30%<br>5% - 10% |
| Mortgage servicing rights | \$ 1,423   | Discounted cash flows       | Constant prepayment rate<br>Cost of service<br>Discount rate | 12%<br>0.25%<br>12%   |

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

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

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

Certificates of deposits: The fair values for certificates of deposits are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for certificates of deposits with similar terms of investors. 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 held for sale: Loans held for sale are reported at fair value. These loans currently consist of one-to-four-family residential loans originated for sale in the secondary market. Fair value is based on committed market rates or the price secondary markets are currently offering for similar loans using observable market data. (Level II)

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.



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Mortgage servicing rights: The carrying value of mortgage servicing rights approximates their fair value.

Interest rate lock commitment: 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 less (iii) expected costs to deliver the interest rate locks, any expected “pull through rate” is applied to this calculation to estimate the derivative value. The “pull through rate” range from 78% – 80% and 77% - 81% as of September 30, 2015 and December 31, 2014.

Interest rate cap: The fair value of the interest rate cap is determined at the end of each quarter by using Bloomberg Finance which values the interest rate cap using observable inputs from forward and futures yield curves as well as standard market volatility.

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.

Forward Sales Commitments: Forward sales commitments are used to mitigate interest rate risk for residential mortgage loans held for sale and interest rate locks and manage expected funding percentages. These instruments are considered derivatives and are recorded at fair value, based on (i) committed sales prices from investors for commitments to sell mortgage loans or (ii) observable market data inputs for commitments to sell mortgage backed securities.

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 debt are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for debt 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.

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

Fair Value Measurements at:

| Carrying | Estimated | Quoted Prices in<br>Active Markets For<br>Identical Assets | Significant<br>Other<br>Observable | Significant<br>Unobservable<br>Inputs |
|----------|-----------|--|------------------------------------|---------------------------------------|
|----------|-----------|--|------------------------------------|---------------------------------------|

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|   | Value        | Fair Value   | (Level 1) | Inputs (Level 2) | (Level 3) |
|---|--------------|--------------|-----------|------------------|-----------|
| September 30, 2015:                       |              |              |           |                  |           |
| Financial assets:                         |              |              |           |                  |           |
| Cash and cash equivalents                 | \$ 25,135    | \$ 25,135    | \$ 25,135 | \$ —             | \$ —      |
| Certificates of deposits with other banks | 13,150       | 13,341       | —         | 13,341           | —         |
| Securities available-for-sale             | 68,158       | 68,158       | 88        | 68,070           | —         |
| Securities held-to-maturity               | 52,969       | 53,923       | —         | 53,923           | —         |
| Loans held for sale                       | 73,047       | 73,047       | —         | 73,047           | —         |
| Loans, net                                | 994,833      | 1,000,857    | —         | —                | 1,000,857 |
| Mortgage servicing rights                 | 1,155        | 1,155        | —         | —                | 1,155     |
| Interest rate lock commitment             | 1,758        | 1,758        | —         | —                | 1,758     |
| Interest rate swap                        | 580          | 580          | —         | 580              | —         |
| Interest rate cap                         | 443          | 443          | —         | 443              | —         |
| Accrued interest receivable               | 3,250        | 3,250        | —         | 800              | 2,450     |
| Financial liabilities:                    |              |              |           |                  |           |
| Deposits                                  | \$ 1,018,255 | \$ 1,019,968 | \$ —      | \$ 1,019,968     | \$ —      |
| Repurchase agreements                     | 26,562       | 26,562       | —         | 26,562           | —         |
| FHLB and other borrowings                 | 102,468      | 102,476      | —         | 102,476          | —         |
| Interest rate swap                        | 580          | 580          | —         | 580              | —         |
| Forward sales commitments                 | 417          | 417          | —         | 417              | —         |
| Accrued interest payable                  | 458          | 458          | —         | 458              | —         |
| Subordinated debt                         | 33,524       | 31,172       | —         | 31,172           | —         |
| December 31, 2014                         |              |              |           |                  |           |
| Financial assets:                         |              |              |           |                  |           |
| Cash and cash equivalents                 | \$ 30,077    | \$ 30,077    | \$ 30,077 | \$ —             | \$ —      |
| Certificates of deposits with other banks | 11,907       | 12,035       | —         | 12,035           | —         |
| Securities available-for-sale             | 68,213       | 68,213       | 77        | 68,136           | —         |
| Securities held-to-maturity               | 54,538       | 55,871       | —         | 55,871           | —         |
| Loans held for sale                       | 69,527       | 69,527       | —         | 69,527           | —         |
| Loans, net                                | 792,074      | 803,036      | —         | —                | 803,036   |
| Mortgage servicing rights                 | 1,423        | 1,423        | —         | —                | 1,423     |
| Interest rate lock commitment             | 1,020        | 1,020        | —         | —                | 1,020     |
| Interest rate cap                         | 1,423        | 1,423        | —         | 1,423            | —         |
| Accrued interest receivable               | 2,387        | 2,387        | —         | 728              | 1,659     |
| Financial liabilities:                    |              |              |           |                  |           |
| Deposits                                  | \$ 823,227   | \$ 824,078   | \$ —      | \$ 824,078       | \$ —      |
| Repurchase agreements                     | 32,673       | 32,673       | —         | 32,673           | —         |
| FHLB and other borrowings                 | 101,287      | 101,338      | —         | 101,338          | —         |
| Forward sales commitments                 | 431          | 431          | —         | 431              | —         |
| Accrued interest payable                  | 376          | 376          | —         | 376              | —         |
| Subordinated debt                         | 33,524       | 31,172       | —         | 31,172           | —         |

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

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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 Offerings

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

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

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, 2014 and 2013, 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 plus interest on convertible preferred stock by the weighted average number of shares outstanding increased by both the number of shares that would be issued assuming the exercise of stock options and convertible preferred stock. At September 30, 2015 and 2014, stock options to purchase 509,899 and 518,670 shares at an average price of \$11.59 and \$8.05, respectively, were outstanding. For the three and nine months ended September 30, 2015 and 2014, the dilutive effect of stock options was 118,526 and 214,075 shares, respectively. For the three and nine months ended September 30, 2015 and 2014, the dilutive effect of convertible preferred stock was 489,625 and 0 shares, respectively.

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## Note 9 – Segment Reporting

During 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. In addition, the commercial and retail banking segment activity includes holding company revenue and expense items.

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. Revenue from insurance services is comprised mainly of commissions on the sale of insurance products.

Information about the reportable segments and reconciliation to the consolidated financial statements for the three and nine month periods ended September 30, 2015 and 2014 are as follows:

| Three months ended September 30,<br>2015<br>(in thousands) | Commercial &      |                     |           |                              | Consolidated |
|--|-------------------|---------------------|-----------|------------------------------|--------------|
|  | Retail<br>Banking | Mortgage<br>Banking | Insurance | Intercompany<br>Eliminations |              |
| Revenues:  |                   |                     |           |                              |              |
| Interest income  | \$ 10,427         | \$ 1,029            | \$ —      | \$ (40)                      | \$ 11,416    |
| Mortgage fee income  | (28)              | 9,293               | —         | (310)                        | 8,955        |
| Insurance and investment services<br>income                | 98                | —                   | 1,044     | —                            | 1,142        |
| Other income   | 2,589             | (1,544)             | 1         | (1,189)                      | (143)        |
| Total operating income                                     | 13,086            | 8,778               | 1,045     | (1,539)                      | 21,370       |
| Expenses:  |                   |                     |           |                              |              |
| Interest expense   | 2,333             | 415                 | —         | (350)                        | 2,398        |
| Provision for loan losses                                  | 636               | —                   | —         | —                            | 636          |
| Salaries and employee benefits                             | 3,982             | 5,302               | 919       | —                            | 10,203       |
| Other expense  | 5,223             | 1,894               | 293       | (1,189)                      | 6,221        |
| Total operating expenses                                   | 12,174            | 7,611               | 1,212     | (1,539)                      | 19,458       |
| Income (loss) before income taxes                          | 912               | 1,167               | (167)     | —                            | 1,912        |
| Income tax expense (benefit)                               | 121               | 448                 | (63)      | —                            | 506          |
| Net income (loss)  | 791               | 719                 | (104)     | —                            | 1,406        |
| Preferred stock dividends                                  | 145               | —                   | —         | —                            | 145          |
| Net income (loss) available to common<br>shareholders      | \$ 646            | \$ 719              | \$ (104)  | \$ —                         | \$ 1,261     |

|  |           |           |       |           |           |
|--|-----------|-----------|-------|-----------|-----------|
| Capital expenditures for the<br>three-month period ended September<br>30, 2015 | \$ 490    | \$ 53     | \$ —  | \$ -      | \$ 543    |
| Total assets as of September 30, 2015  | 1,460,120 | 110,119   | 2,944 | (266,654) | 1,306,529 |
| Total assets as of December 31, 2014   | 1,189,746 | 101,791   | 4,031 | (185,109) | 1,110,459 |
| Goodwill as of September 30, 2015  | 1,598     | 16,882    | -     | -         | 18,480    |
| Goodwill as of December 31, 2014   | \$ 897    | \$ 16,882 | \$ -  | \$ -      | \$ 17,779 |



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| Three months ended September 30, 2014<br>(in thousands)                     | Commercial &<br>Retail<br>Banking | Mortgage<br>Banking | Insurance | Intercompany<br>Eliminations | Consolidated |
|---|-----------------------------------|---------------------|-----------|------------------------------|--------------|
| Revenues:   |                                   |                     |           |                              |              |
| Interest income   | \$ 8,277                          | \$ 725              | \$ —      | \$ 92                        | \$ 9,094     |
| Mortgage fee income   | 39                                | 5,223               | —         | (314)                        | 4,948        |
| Insurance and investment services<br>income                                 | 63                                | —                   | 846       | —                            | 909          |
| Other income  | 1,706                             | (391)               | —         | (592)                        | 723          |
| Total operating income  | 10,085                            | 5,557               | 846       | (814)                        | 15,674       |
| Expenses:   |                                   |                     |           |                              |              |
| Interest expense  | 1,999                             | 287                 | —         | (250)                        | 2,036        |
| Provision for loan losses   | 783                               | —                   | —         | —                            | 783          |
| Salaries and employee benefits  | 3,281                             | 3,473               | 844       | —                            | 7,598        |
| Other expense   | 3,330                             | 1,630               | 221       | (564)                        | 4,617        |
| Total operating expenses  | 9,393                             | 5,390               | 1,065     | (814)                        | 15,034       |
| Income (loss) before income taxes   | 692                               | 167                 | (219)     | —                            | 640          |
| Income tax expense (benefit)  | 116                               | 66                  | (79)      | —                            | 103          |
| Net income (loss)   | 576                               | 101                 | (140)     | —                            | 537          |
| Preferred stock dividends   | 144                               | —                   | —         | —                            | 144          |
| Net income (loss) available to common<br>shareholders                       | \$ 432                            | \$ 101              | \$ (140)  | \$ —                         | \$ 393       |
| Capital expenditures for the three-month<br>period ended September 30, 2014 |                                   |                     |           |                              |              |
|   | \$ 2,943                          | \$ 71               | 9         | \$ -                         | \$ 3,023     |
| Total assets as of September 30, 2014                                       | 1,186,006                         | 82,648              | 2,804     | (184,644)                    | 1,086,814    |
| Total assets as of December 31, 2013  | 1,021,097                         | 92,290              | 3,012     | (129,339)                    | 987,060      |
| Goodwill as of September 30, 2014   | 897                               | 16,882              | -         | -                            | 17,779       |
| Goodwill as of December 31, 2013  | \$ 897                            | \$ 16,882           | \$ -      | \$ -                         | \$ 17,779    |

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| Nine months ended September 30, 2015<br>(in thousands)                     | Commercial &      |                     |           | Intercompany<br>Eliminations | Consolidated |
|--|-------------------|---------------------|-----------|------------------------------|--------------|
|  | Retail<br>Banking | Mortgage<br>Banking | Insurance |                              |              |
| Revenues:  |                   |                     |           |                              |              |
| Interest income  | \$ 29,049         | \$ 2,996            | \$ —      | \$ (297)                     | \$ 31,748    |
| Mortgage fee income  | 36                | 24,678              | —         | (833)                        | 23,881       |
| Insurance and investment services<br>income                                | 276               | —                   | 3,529     | —                            | 3,805        |
| Other income   | 6,658             | 1,056               | 6         | (3,507)                      | 4,213        |
| Total operating income   | 36,019            | 28,730              | 3,535     | (4,637)                      | 63,647       |
| Expenses:  |                   |                     |           |                              |              |
| Interest expense   | 6,568             | 1,319               | —         | (1,130)                      | 6,757        |
| Provision for loan losses  | 1,856             | —                   | —         | —                            | 1,856        |
| Salaries and employee benefits   | 11,457            | 15,967              | 2,707     | —                            | 30,131       |
| Other expense  | 14,284            | 5,474               | 720       | (3,507)                      | 16,971       |
| Total operating expenses   | 34,165            | 22,760              | 3,427     | (4,637)                      | 55,715       |
| Income before income taxes   | 1,854             | 5,970               | 108       | —                            | 7,932        |
| Income tax expense   | 188               | 2,287               | 43        | —                            | 2,518        |
| Net income   | 1,666             | 3,683               | 65        | —                            | 5,414        |
| Preferred stock dividends  | 430               | —                   | —         | —                            | 430          |
| Net income available to common<br>shareholders                             | \$ 1,236          | \$ 3,683            | \$ 65     | \$ —                         | \$ 4,984     |
| Capital expenditures for the nine-month<br>period ended September 30, 2015 |                   |                     |           |                              |              |
|  | \$ 1,487          | \$ 152              | \$ 9      | \$ -                         | \$ 1,648     |
| Total assets as of September 30, 2015                                      | 1,460,120         | 110,119             | 2,944     | (266,654)                    | 1,306,529    |
| Total assets as of December 31, 2014                                       | 1,189,746         | 101,791             | 4,031     | (185,109)                    | 1,110,459    |
| Goodwill as of September 30, 2015  | 1,598             | 16,882              | -         | -                            | 18,480       |
| Goodwill as of December 31, 2014   | \$ 897            | \$ 16,882           | \$ -      | \$ -                         | \$ 17,779    |

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| Nine months ended September 30, 2014<br>(in thousands)                     | Commercial &      |                     |           | Intercompany<br>Eliminations | Consolidated |
|--|-------------------|---------------------|-----------|------------------------------|--------------|
|  | Retail<br>Banking | Mortgage<br>Banking | Insurance |                              |              |
| Revenues:  |                   |                     |           |                              |              |
| Interest income  | \$ 24,399         | \$ 1,959            | \$ —      | \$ 274                       | \$ 26,632    |
| Mortgage fee income  | 31                | 13,362              | —         | (902)                        | 12,491       |
| Insurance and investment services<br>income                                | 192               | —                   | 2,553     | —                            | 2,745        |
| Other income   | 6,912             | 548                 | —         | (3,294)                      | 4,166        |
| Total operating income   | 31,534            | 15,869              | 2,553     | (3,922)                      | 46,034       |
| Expenses:  |                   |                     |           |                              |              |
| Interest expense   | 5,276             | 776                 | —         | (669)                        | 5,383        |
| Provision for loan losses  | 2,192             | —                   | —         | —                            | 2,192        |
| Salaries and employee benefits   | 9,644             | 10,105              | 2,578     | —                            | 22,327       |
| Other expense  | 11,325            | 4,225               | 615       | (3,253)                      | 12,912       |
| Total operating expenses   | 28,437            | 15,106              | 3,193     | (3,922)                      | 42,814       |
| Income (loss) before income taxes  | 3,097             | 763                 | (640)     | —                            | 3,220        |
| Income tax expense (benefit)   | 490               | 305                 | (239)     | —                            | 556          |
| Net income (loss)  | 2,607             | 458                 | (401)     | —                            | 2,664        |
| Preferred stock dividends  | 187               | —                   | —         | —                            | 187          |
| Net income (loss) available to common<br>shareholders                      | \$ 2,420          | \$ 458              | \$ (401)  | \$ —                         | \$ 2,477     |
| Capital expenditures for the nine-month<br>period ended September 30, 2014 | \$ 7,371          | \$ 262              | \$ 352    | \$ -                         | \$ 7,985     |
| Total assets as of September 30, 2014                                      | 1,186,006         | 82,648              | 2,804     | (184,644)                    | 1,086,814    |
| Total assets as of December 31, 2013                                       | 1,021,097         | 92,290              | 3,012     | (129,339)                    | 987,060      |
| Goodwill as of September 30, 2014  | 897               | 16,882              | -         | -                            | 17,779       |
| Goodwill as of December 31, 2013   | \$ 897            | \$ 16,882           | \$ -      | \$ -                         | \$ 17,779    |

## Commercial &amp; Retail Banking

For the three months ended September 30, 2015, the Commercial & Retail Banking segment earned \$646 compared to \$432 during the three months ended September 30, 2014. Net interest income increased by \$1.8 million, mainly the result of average loan balances increasing by \$208.7 million. In addition, average interest bearing liabilities increased \$165.3 million which led to a \$362 increase in interest expense. Noninterest income increased by \$851, largely the result of an increase in gain on sale of other real estate owned of \$618, an increase in other operating income of \$519,

an increase in swap fee income of \$382, an increase in gain on sale of portfolio loans of \$104, a decrease in gain on sale of securities of \$267 and a decrease in the derivative valuation of \$496. Noninterest expense increased by \$2.6 million, mainly the result of the following: \$701 increase in salaries expense, \$824 in other operating expense, \$360 increase in data processing and communications expense, \$293 in professional fees and \$292 in occupancy and equipment. In addition and as discussed in Note 12, noninterest expense related merger and acquisition costs increased by \$502 for the three months ended September 30, 2015 compared to 2014.

For the nine months ended September 30, 2015, the Commercial & Retail Banking segment earned \$1.2 million compared to \$2.4 million during the nine months ended September 30, 2014. Net interest income increased by \$3.4

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million, mainly the result of average loan balances increasing by \$193.4 million. In addition, average interest bearing liabilities increased \$142.2 million which led to a \$1.4 million increase in interest expense. The increase in interest expense was largely due to a \$1.1 million increase in interest expense on subordinated debt, the result of a full nine months' worth of interest during the nine months ended September 30, 2015 versus only three months' worth for the same time period in 2014. Noninterest income decreased \$165, largely the result of a decrease in gain on sale of securities of \$266, a decrease in gain on sale of portfolio loans of \$430 and a decrease in the derivative valuation of \$991 which was offset by an increase in gain on sale of other real estate owned of \$597, an increase in swap fee income of \$382, an increase in other operating income of \$303, and an increase in debit card income and interchange income of \$111. Noninterest expense increased by \$4.8 million, mainly the result of the following: \$1.8 million in salaries expense, \$813 in occupancy and equipment expense, \$959 in data processing and communications expense and \$739 in professional fees. Preferred stock dividends also increased by \$243 as a result of new preferred stock issued by the Company on June 30, 2014, causing a full nine months' worth of interest during the nine months ended September 30, 2015 versus only three months' worth for the same time period in 2014. In addition and as discussed in Note 12, noninterest expense related merger and acquisition costs increased by \$359 for the nine months ended September 30, 2015 compared to 2014.

### Mortgage Banking

For the three months ended September 30, 2015, the Mortgage Banking segment earned \$719 compared to \$101 during the three months ended September 30, 2014. Net interest income increased \$176, noninterest income increased by \$2.9 million and noninterest expense increased by \$2.1 million. The \$719 earnings increase is mainly due to a 59% increase in origination volume, which helped drive a \$4.1 million increase in mortgage fee income. A \$43.3 million decrease in loans held for sale caused a \$1.2 million decrease in gain on derivative. Personnel expense also increased by \$1.8 million.

For the nine months ended September 30, 2015, the Mortgage Banking segment earned \$3.7 million compared to \$458 during the nine months ended September 30, 2014. Net interest income increased \$494, noninterest income increased by \$11.8 million and noninterest expense increased by \$7.1 million. The \$3.2 million earnings increase is mainly due to an 82% increase in origination volume, which helped drive an \$11.3 million increase in mortgage fee income as well as a \$511 increase in gain on derivative. Personnel expense also increased by \$5.9 million.

### Insurance

For the three months ended September 30, 2015, the Insurance segment lost \$104 compared to a \$140 loss during the three months ended September 30, 2014. Noninterest income increased by \$199 and noninterest expense increased by

\$147. Income tax benefit for the third quarter 2015 decreased by \$16.

For the nine months ended September 30, 2015, the Insurance segment earned \$65 compared to a \$401 loss during the nine months ended September 30, 2014. Noninterest income increased by \$982 and noninterest expense increased by \$234. Income tax expense for the nine months ended September 30, 2015 increased by \$282.

#### Note 10 – Pension Plan

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

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Information pertaining to the activity in the Company's defined benefit plan, using the latest available actuarial valuations for the three and nine months ended September 30, 2015 and 2014 is as follows:

| (in thousands)                     | For the three<br>months ended<br>September 30,<br>2015 | For the three<br>months ended<br>September 30,<br>2014 |
|------------------------------------|--|--|
| Service cost                       | \$ -   | \$ —   |
| Interest cost                      | 78   | 76   |
| Expected Return on Plan Assets     | (79)   | (81)   |
| Amortization of Net Actuarial Loss | 64   | 33   |
| Amortization of Prior Service Cost | —  | —  |
| Net Periodic Benefit Cost          | \$ 63  | \$ 28  |
| Contributions Paid                 | \$ 230   | \$ 157   |

| (in thousands)                     | For the nine<br>months ended<br>September 30,<br>2015 | For the nine<br>months ended<br>September 30,<br>2014 |
|------------------------------------|---|---|
| Service cost                       | \$ —  | \$ 346  |
| Interest cost                      | 235   | 231   |
| Expected Return on Plan Assets     | (237)   | (239)   |
| Amortization of Net Actuarial Loss | 192   | 103   |
| Amortization of Prior Service Cost | —   | —   |
| Net Periodic Benefit Cost          | \$ 190  | \$ 441  |
| Contributions Paid                 | \$ 302  | \$ 345  |

Note 11 – Comprehensive Income

The following tables present the components of accumulated other comprehensive income (“AOCI”) for the three and nine months ended September 30, 2015 and 2014:

| (in thousands)                | For the                                       |   |  |  | Affected line item in the Statement where net income is presented |
|-------------------------------|---|---|--|--|---|
|                               | For the three months ended September 30, 2015 | For the three months ended September 30, 2014 | For the nine months ended September 30, 2015 | For the nine months ended September 30, 2014 |   |
| Details about AOCI Components | Amount  | Amount  | Amount                                       | Amount                                       |   |
|                               | Reclassified from AOCI                        | Reclassified from AOCI                        | Reclassified from AOCI                       | Reclassified from AOCI                       |   |
| Available-for-sale securities |   |   |  |  |   |
| Unrealized holding gains      | \$ 4  | \$ 272  | \$ 130                                       | \$ 396                                       | Gain on sale of securities  |
|                               | 4   | 272   | 130  | 396  | Total before tax  |
|                               | (2)   | (109)   | (52)   | (159)  | Income tax expense  |
|                               | 2   | 163   | 78   | 237  | Net of tax  |



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|                                    |         |        |         |        |                       |
|------------------------------------|---------|--------|---------|--------|-----------------------|
| Defined benefit pension plan items |         |        |         |        |                       |
| Amortization of net actuarial loss | (64)    | (33)   | (192)   | (103)  | Salaries and benefits |
|                                    | (64)    | (33)   | (192)   | (103)  | Total before tax      |
|                                    | 26      | 13     | 77      | 41     | Income tax expense    |
|                                    | (38)    | (20)   | (115)   | (62)   | Net of tax            |
| Total reclassifications            | \$ (36) | \$ 143 | \$ (37) | \$ 175 |                       |

| (in thousands)  | Unrealized gains (losses) on available-for-sale securities | Defined benefit pension plan items | Total      |
|---|--|------------------------------------|------------|
| Balance at June 30, 2015  | \$ (412)   | \$ (1,920)                         | \$ (2,332) |
| Other comprehensive income (loss) before reclassification, net of tax | 259  | (278)                              | (19)       |
| Amounts reclassified from AOCI, net of tax                            | (2)  | 38                                 | 36         |
| Net current period OCI  | 257  | (240)                              | 17         |
| Balance at September 30, 2015   | \$ (155)   | \$ (2,160)                         | \$ (2,315) |
| Balance at June 30, 2014  | \$ (563)   | \$ (1,674)                         | \$ (2,237) |
| Other comprehensive income (loss) before reclassification, net of tax | 126  | (134)                              | (8)        |
| Amounts reclassified from AOCI, net of tax                            | (163)  | 20                                 | (143)      |
| Net current period OCI  | (37)   | (114)                              | (151)      |
| Balance at September 30, 2014   | \$ (600)   | \$ (1,788)                         | \$ (2,388) |
| Balance at January 1, 2015  | \$ (406)   | \$ (2,236)                         | \$ (2,642) |
| Other comprehensive income (loss) before reclassification, net of tax | 329  | (39)                               | 290        |
| Amounts reclassified from AOCI, net of tax                            | (78)   | 115                                | 37         |
| Net current period OCI  | 251  | 76                                 | 327        |
| Balance at September 30, 2015   | \$ (155)   | \$ (2,160)                         | \$ (2,315) |
| Balance at January 1, 2014  | \$ (1,476)   | \$ (1,485)                         | \$ (2,961) |
| Other comprehensive income (loss) before reclassification, net of tax | 1,113  | (365)                              | 748        |
| Amounts reclassified from AOCI, net of tax                            | (237)  | 62                                 | (175)      |
| Net current period OCI  | 876  | (303)                              | 573        |
| Balance at September 30, 2014   | \$ (600)   | \$ (1,788)                         | \$ (2,388) |



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## Note 12 – Mergers and Acquisitions

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

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

On May 1, 2015, MVB Bank, Inc. (MVB Bank), a wholly-owned subsidiary of MVB Financial Corp. (MVB Financial or the Company), issued a joint news release with BB&T Corporation (BB&T) and Susquehanna Bancshares, Inc. (Susquehanna) announcing the signing of a definitive agreement, subject to customary closing conditions including regulatory approvals, through which MVB Bank will acquire two branch locations of Susquehanna Bank in Berkeley County, West Virginia and will assume approximately \$69 million of deposits and \$17 million of loans. The two Susquehanna Bank branch locations are slated for divestiture under BB&T’s agreement with the United States Department of Justice and commitments to the Board of Governors of the Federal Reserve System in connection with BB&T’s pending acquisition of Susquehanna. On July 22, 2015, regulatory approvals for the acquisition of the two Susquehanna Bank branch locations were received and the acquisition closed August 28, 2015.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805. The assets and liabilities were recorded at their estimated fair values as of the August 28, 2015 acquisition date.

The following is a summary of net liabilities assumed:

|  |           |
|--|-----------|
| (in thousands)                               |           |
| Net assets acquired:                         |           |
| Cash received in transaction                 | \$ 47,962 |
| Cash on hand                                 | 330       |
| Loans  | 18,200    |
| Bank premises, furniture and equipment       | 609       |
| Accrued interest receivable and other assets | 62        |
| Core deposit intangible                      | 878       |

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|  |        |
|--|--------|
|  | 68,041 |
| Deposits                                       | 68,697 |
| Accrued interest payable and other liabilities | 45     |
|  | 68,742 |
| Net liabilities assumed                        | (701)  |
| Goodwill                                       | 701    |
|  | \$ —   |

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A valuation of the acquired loans and core deposit intangible was performed with the assistance of a third-party valuation consultant. The unpaid principal balance and fair value of performing loans was \$18.7 million and \$18.2 million, respectively. The discount of \$458 will be accreted through interest income over the life of the loans in accordance with Accounting Standards Codification (ASC) topic 310-20. No nonperforming loans were acquired in this transaction. The core deposit intangible will be amortized over 10 years using a double declining balance amortization method.

Merger costs related to the branch acquisitions were \$642, consisting primarily of legal, consulting and data processing expenses. Goodwill was recorded in the amount of \$701 which is the difference between the total purchase price and the net liabilities assumed and is not deductible for income tax purposes.

The following acquisition related costs are included in the consolidated statements of income for the three and nine months ended September 30, 2015 and 2014:

| (in thousands)                         | Three Months<br>Ended<br>September 30,<br>2015 | Three Months<br>Ended<br>September 30,<br>2014 |
|--|--|--|
| Professional fees                      | \$ 385   | \$ 97  |
| Marketing                              | 26   | —  |
| Printing, postage and supplies         | 66   | 1  |
| Equipment depreciation and maintenance | —  | 9  |
| Travel and entertainment               | 45   | 13   |
| Data processing and communications     | 76   | —  |
| Other operating expense                | 24   | —  |
| Total                                  | \$ 622   | \$ 120   |

| (in thousands)                 | Nine months<br>ended<br>September 30,<br>2015 | Nine months<br>ended<br>September 30,<br>2014 |
|--------------------------------|---|---|
| Professional fees              | \$ 397  | \$ 169  |
| Marketing                      | 26  | 4   |
| Printing, postage and supplies | 69  | 9   |

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|  |        |        |
|--|--------|--------|
| Equipment depreciation and maintenance | —      | 15     |
| Travel and entertainment               | 50     | 86     |
| Data processing and communications     | 76     | —      |
| Other operating expense                | 24     | —      |
| Total                                  | \$ 642 | \$ 283 |

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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;
  - 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;



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

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.

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## SUMMARY OF RESULTS OF OPERATIONS

At September 30, 2015 and 2014 and for the Nine and Three Months Ended September 30, 2015 and 2014:

|  | Nine months ended<br>September 30, |          | Three months<br>ended<br>September 30, |          |
|--|------------------------------------|----------|--|----------|
|  | 2015                               | 2014     | 2015                                   | 2014     |
| Net income to:   |                                    |          |  |          |
| Average assets (annualized)                                  | 0.61 %                             | 0.35 %   | 0.45 %                                 | 0.20 %   |
| Average stockholders' equity (annualized)                    | 6.49 %                             | 3.50 %   | 4.99 %                                 | 1.95 %   |
| Net interest margin  | 3.02 %                             | 3.02 %   | 3.11 %                                 | 2.91 %   |
| Average stockholders' equity to average assets               | 9.33 %                             | 9.86 %   | 9.01 %                                 | 10.31 %  |
| Total loans to total deposits (end of period)                | 97.70 %                            | 90.15 %  | 97.70 %                                | 90.15 %  |
| Allowance for loan losses to total loans (end of period)     | 0.74 %                             | 0.83 %   | 0.74 %                                 | 0.83 %   |
| Efficiency ratio   | 82.79 %                            | 86.69 %  | 86.57 %                                | 89.57 %  |
| Bank Capital ratios:   |                                    |          |  |          |
| Tier 1 capital ratio   | 11.88 %                            | 15.20 %  | 11.88 %                                | 15.20 %  |
| Risk-based capital ratio                                     | 12.60 %                            | 16.09 %  | 12.60 %                                | 16.09 %  |
| Leverage ratio   | 9.96 %                             | 11.12 %  | 9.96 %                                 | 11.12 %  |
| Common Equity Tier 1 capital ratio                           | 11.88 %                            | N/A      | 11.88 %                                | N/A      |
| Cash dividends on common stock as a percentage of net income | 8.87 %                             | 11.90 %  | 11.45 %                                | N/A      |
| Per share data:  |                                    |          |  |          |
| Book value per share (end of period)                         | \$ 12.05                           | \$ 11.65 | \$ 12.05                               | \$ 11.65 |
| Basic earnings per share                                     | \$ 0.62                            | \$ 0.31  | \$ 0.16                                | \$ 0.05  |
| Diluted earnings per share                                   | \$ 0.62                            | \$ 0.31  | \$ 0.16                                | \$ 0.05  |

## 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.

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MVB Mortgage has fourteen mortgage only offices, located in Virginia, Washington, DC, as well as North Carolina and South Carolina, and, in addition, has mortgage loan originators located at select Bank locations throughout West Virginia.

In the first quarter of 2013, the Bank opened its second Monongalia County location in the Sabraton area of Morgantown, West Virginia. In the second quarter of 2013, the Bank opened its second full service office in Berkeley County, West Virginia, at Edwin Miller Boulevard. In addition, the Bank opened a loan production office at 184 Summers Street, Charleston, Kanawha County, West Virginia, which was subsequently moved to 400 Washington Street East, Charleston, West Virginia and later replaced during March 2015 by a full service branch at the same location. During 2014, the Company continued to focus on growth in the Harrison, Berkeley, Jefferson and Monongalia County areas, as well as the Kanawha county area, as the primary method for reaching performance goals. In addition, the Bank opened a loan production office in Reston, Fairfax County, Virginia, from which the Bank operates as MVB Commercial Lending Company. During January 2015, the Bank opened a location at 100 NASA Boulevard, Fairmont, Marion County, West Virginia, which replaced the 9789 Mall Loop, White Hall, Marion County, West Virginia location as the Technology Park location offers a drive-thru facility to better serve customers. During March 2015, the location at 9789 Mall Loop was closed. Additionally during March 2015, the Bank opened a new full service location at 400 Washington Street East, Charleston, Kanawha County, West Virginia, replacing its loan production office at the same address. During August 2015, the Bank purchased two branches locations in Berkeley County, West Virginia, situated in West Virginia's eastern panhandle at 704 Foxcroft Avenue, Martinsburg, West Virginia and 5091 Gerrardstown Road, Inwood, West Virginia.

Currently, the Bank operates twelve full-service banking branches in West Virginia, which are located at: 301 Virginia Avenue in Fairmont, Marion County; 100 NASA Boulevard in Fairmont, 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; 704 Foxcroft Avenue in Martinsburg, Berkeley County; 5091 Gerrardstown Road in Inwood, Berkeley County; 2400 Cranberry Square in Cheat Lake, Monongalia County; 10 Sterling Drive in Morgantown, Monongalia County; 231 Aikens Center in Martinsburg, Berkeley County; and 400 Washington Street East in Charleston, Kanawha County. In addition, as noted, the Bank operates a loan production office as MVB Commercial Lending Company, at 1801 Reston Parkway, Suite 103, Reston, Fairfax County, Virginia. Subsequent to the close of the third quarter 2015, the Bank, having received all necessary regulatory approvals, opened a de novo branch on October 29, 2015, at 1801 Old Reston Avenue, Suite 103, Reston, Fairfax County, Virginia, replacing its loan production office, which was previously located at the same address.

In addition to MVB Mortgage, the Company has a wholly-owned subsidiary, MVB Insurance, LLC. MVB Insurance was originally formed in 2000 and reinstated in 2005, as a Bank subsidiary. Effective June 1, 2013, MVB Insurance became a direct subsidiary of the Company. MVB Insurance offers select insurance products such as title insurance, individual insurance, commercial insurance, employee benefits insurance, and professional liability insurance. MVB Insurance maintains its headquarters at 301 Virginia Avenue, Fairmont, West Virginia, and operates offices at: 48 Donley Street, Suite 703, Morgantown, West Virginia, 400 Washington Street East, Charleston, West Virginia,; and 300 Wharton Circle, Suite 260, 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. 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 metropolitan region and added enough volume to better diversify the Company's earnings stream.

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This discussion and analysis should be read in conjunction with the prior year-end audited financial statements and footnotes thereto included in the Company's filing on Form 10-K and the unaudited financial statements, ratios, statistics, and discussions contained elsewhere in this Form 10-Q. At September 30, 2015, the Company had 376 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 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 2014 Annual Report on Form 10-K. These policies, along with the disclosures presented in the other financial statement notes and in management's discussion and analysis of operations, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses to be the accounting area that requires the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

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

For the three months ended September 30, 2015, the Company earned \$1.4 million compared to \$537 in the third quarter of 2014. Net interest income increased by \$2.0 million, noninterest income increased by \$3.4 million and noninterest expenses increased by \$4.2 million. The increase in net interest income was driven mainly by the continued growth of the Company balance sheet, with \$208.7 million in average loan growth and despite an increase in average interest



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bearing liabilities of \$165.3 million and an increase in interest expense of \$362. The increase in average interest bearing liabilities generated the increase in interest expense of \$362; \$284 of the increase was related to an increase in certificates of deposit, which increased cost of funds on certificates of deposit by 13 basis points.

Loan loss provisions of \$636 and \$783 were made for the quarters ended September 30, 2015 and 2014, respectively. The decrease in loan loss provision is attributable to decreasing historical loan loss rates within the residential real estate and home equity loan portfolios and lower historical levels of charge-offs. 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 \$304 in loans during the third quarter of 2015 versus \$665 for the same time period in 2014.

For the nine months ended September 30, 2015, the Company earned \$5.4 million compared to \$2.7 million for the nine months ended September 30, 2014. Net interest income increased by \$3.7 million, noninterest income increased by \$12.5 million and noninterest expenses increased by \$11.9 million. The increase in net interest income was driven mainly by the continued growth of the Company balance sheet, with \$193.4 million in average loan growth and despite an increase in average interest bearing liabilities of \$142.2 million and an increase in interest expense of \$1.4 million. The increase in average interest bearing liabilities generated the increase in interest expense of \$1.4 million, \$1.1 million which related to the issuance of subordinated debt in June 2014, which increased cost of funds on subordinated debt by 99 basis points. There was also a \$418 decrease in NOW interest expense for the nine months ended September 30, 2015. This decrease was related to the subordinated debt in that the funds were held in escrow during the second quarter 2014 up until the subordinated debt was issued on June 30, 2014.

Loan loss provisions of \$1.9 million and \$2.2 million were made for the nine months ended September 30, 2015 and 2014, respectively. The decrease in loan loss provision is attributable to decreasing historical loan loss rates within the residential real estate and home equity loan portfolios and lower historical levels of charge-offs. 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 \$727 in loans during the nine month period ended September 30, 2015 versus \$776 for the same time period in 2014.

## Interest Income and Expense

Net interest income is the amount by which interest income on earning assets exceeds interest expense on interest-bearing liabilities. Interest-earning assets include loans and investment securities. Interest-bearing liabilities include interest-bearing deposits and repurchase agreements, subordinated debt and Federal Home Loan Bank advances. Net interest income is a primary source of revenue for the bank. Changes in market interest rates, as well as changes in the mix and volume of interest-earning assets and interest-bearing liabilities impact net interest income. Net interest margin is calculated by dividing net interest income by average interest-earning assets. This ratio serves as a performance measurement of the net interest revenue stream generated by the Bank's balance sheet.

The net interest margin for the three months ended September 30, 2015 and 2014 was 3.11% and 2.91% respectively. The 20 basis point increase in the net interest margin for the quarter ended September 30, 2015 was the result of an 18 basis point increase in yield, mainly the result of an 18 basis point increase in yield on commercial loans. Cost of funds for the three months ended September 30, 2015 versus 2014 remained flat. The continued low rate environment and increasing competition for quality credit continues to apply pressure upon the Bank's loan portfolio yield. The Bank was able to grow average loan balances by \$208.7 million, which enabled an increase in net interest income of \$2.0 million. Additionally, investment securities average balance declined by \$13.4 million through sales and maturities, and the resulting funds earned higher rates in the loan portfolio. An increase in the Bank's average non-interest bearing balances of \$11.5 million led to a favorable increase in the impact of non-interest bearing funds on the margin by 1 basis point.

The net interest margin for the nine months ended September 30, 2015 and 2014 was 3.02% and 3.02% respectively. A 6 basis point increase in yield was offset by a 6 basis point increase in cost of funds. The 6 basis point increase in yield was the result of a 20 basis point increase in taxable investment securities and a 26 basis point increase in consumer loans. The 6 basis point increase in cost of funds was mainly the result of the addition of new subordinated debt. Interest expense related to the new subordinated debt that was issued on June 30, 2014 increased \$1.1 million. There was also a \$418 decrease in NOW interest expense for the nine months ended September 30, 2015. This decrease was related to the

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subordinated debt in that the funds were held in escrow during the second quarter 2014 up until the subordinated debt was issued on June 30, 2014. The continued low rate environment and increasing competition for quality credit continues to apply pressure upon the Bank's loan portfolio yield. The Bank was able to grow average loan balances by \$193.4 million, which enabled an increase in net interest income of \$3.7 million. Additionally, investment securities average balance declined by \$30.7 million through sales and maturities, and the resulting funds earned higher rates in the loan portfolio.

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.

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## Average Balances and Interest Rates

(Unaudited)(Dollars in thousands)

|   | Three Months Ended<br>September 30, 2015 |                                |                | Three Months Ended<br>September 30, 2014 |                                |                |   |
|---|--|--------------------------------|----------------|--|--------------------------------|----------------|---|
|   | Average<br>Balance                       | Interest<br>Income/<br>Expense | Yield/<br>Cost | Average<br>Balance                       | Interest<br>Income/<br>Expense | Yield/<br>Cost |   |
| <b>Assets</b>                                 |  |                                |                |  |                                |                |   |
| Interest-bearing deposits in<br>banks         | \$ 18,492                                | \$ 11                          | 0.24           | % \$ 26,910                              | \$ 10                          | 0.15           | % |
| CD's with other banks                         | 12,455                                   | 60                             | 1.93           | 9,427                                    | 43                             | 1.82           |   |
| Investment securities:                        |  |                                |                |  |                                |                |   |
| Taxable                                       | 53,018                                   | 213                            | 1.61           | 75,814                                   | 253                            | 1.33           |   |
| Tax-exempt                                    | 65,306                                   | 380                            | 2.33           | 55,874                                   | 430                            | 3.08           |   |
| Loans and loans held for sale:                |  |                                |                |  |                                |                |   |
| Commercial                                    | 633,312                                  | 6,880                          | 4.35           | 511,893                                  | 5,341                          | 4.17           |   |
| Tax exempt                                    | 19,214                                   | 168                            | 3.50           | 22,205                                   | 197                            | 3.55           |   |
| Real estate                                   | 342,048                                  | 3,506                          | 4.10           | 250,594                                  | 2,628                          | 4.19           |   |
| Consumer                                      | 17,039                                   | 198                            | 4.65           | 18,205                                   | 192                            | 4.22           |   |
| Allowance for loan losses                     | (7,043)                                  |                                |                | (6,644)                                  |                                |                |   |
| Net loans                                     | 1,004,570                                | 10,752                         | 4.28           | 796,253                                  | 8,358                          | 4.20           |   |
| Total earning assets                          | 1,160,884                                | 11,416                         | 3.93           | 970,922                                  | 9,094                          | 3.75           |   |
| Cash and due from banks                       | 13,939                                   |                                |                | 26,565                                   |                                |                |   |
| Other assets                                  | 83,438                                   |                                |                | 79,566                                   |                                |                |   |
| Total assets                                  | \$ 1,251,218                             |                                |                | \$ 1,070,409                             |                                |                |   |
| <b>Liabilities</b>                            |  |                                |                |  |                                |                |   |
| <b>Deposits:</b>                              |  |                                |                |  |                                |                |   |
| NOW   | \$ 451,658                               | \$ 699                         | 0.62           | % \$ 425,339                             | \$ 716                         | 0.67           | % |
| Money market checking                         | 68,070                                   | 102                            | 0.60           | 39,703                                   | 51                             | 0.51           |   |
| Savings                                       | 39,664                                   | 28                             | 0.28           | 36,875                                   | 29                             | 0.31           |   |
| IRAs  | 12,323                                   | 40                             | 1.30           | 9,557                                    | 29                             | 1.21           |   |
| CDs   | 300,686                                  | 796                            | 1.06           | 219,144                                  | 512                            | 0.93           |   |
| Repurchase agreements &<br>federal funds sold | 24,898                                   | 18                             | 0.29           | 35,519                                   | 29                             | 0.33           |   |
| FHLB and other borrowings                     | 115,103                                  | 159                            | 0.55           | 81,019                                   | 126                            | 0.62           |   |
| Subordinated debt                             | 33,524                                   | 556                            | 6.63           | 33,468                                   | 544                            | 6.50           |   |
| Total interest-bearing liabilities            | 1,045,926                                | 2,398                          | 0.92           | 880,624                                  | 2,036                          | 0.92           |   |
| Non-interest bearing demand<br>deposits       | 84,262                                   |                                |                | 72,756                                   |                                |                |   |
| Other liabilities                             | 8,236                                    |                                |                | 6,664                                    |                                |                |   |
| Total liabilities                             | 1,138,424                                |                                |                | 960,044                                  |                                |                |   |
| <b>Stockholders' equity</b>                   |  |                                |                |  |                                |                |   |
| Preferred stock                               | 16,334                                   |                                |                | 16,334                                   |                                |                |   |
| Common stock                                  | 8,075                                    |                                |                | 8,083                                    |                                |                |   |

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|  |              |              |
|--|--------------|--------------|
| Paid-in capital                            | 74,320       | 74,176       |
| Treasury stock                             | (1,084)      | (1,084)      |
| Retained earnings                          | 17,481       | 15,096       |
| Accumulated other comprehensive income     | (2,332)      | (2,240)      |
| Total stockholders' equity                 | 112,794      | 110,365      |
| Total liabilities and stockholders' equity | \$ 1,251,218 | \$ 1,070,409 |

|  |          |        |          |        |
|--|----------|--------|----------|--------|
| Net interest spread                            |          | 3.02   |          | 2.82   |
| Impact of non-interest bearing funds on margin |          | 0.09   |          | 0.08   |
| Net interest income-margin                     | \$ 9,018 | 3.11 % | \$ 7,058 | 2.91 % |

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|   | Nine Months Ended<br>September 30, 2015 |                                |                |   | Nine Months Ended<br>September 30, 2014 |                                |                |   |
|---|---|--------------------------------|----------------|---|---|--------------------------------|----------------|---|
|   | Average<br>Balance                      | Interest<br>Income/<br>Expense | Yield/<br>Cost |   | Average<br>Balance                      | Interest<br>Income/<br>Expense | Yield/<br>Cost |   |
| <b>Assets</b>                                 |   |                                |                |   |   |                                |                |   |
| Interest-bearing deposits in<br>banks         | \$ 15,782                               | \$ 30                          | 0.25           | % | \$ 17,276                               | \$ 24                          | 0.19           | % |
| CD's with other banks                         | 11,970                                  | 168                            | 1.87           |   | 9,427                                   | 126                            | 1.78           |   |
| Investment securities:                        |   |                                |                |   |   |                                |                |   |
| Taxable                                       | 53,659                                  | 674                            | 1.67           |   | 92,961                                  | 1,022                          | 1.47           |   |
| Tax-exempt                                    | 64,943                                  | 1,150                          | 2.36           |   | 56,305                                  | 1,250                          | 2.96           |   |
| Loans and loans held for sale:                |   |                                |                |   |   |                                |                |   |
| Commercial                                    | 593,077                                 | 18,894                         | 4.25           |   | 476,965                                 | 15,527                         | 4.34           |   |
| Tax exempt                                    | 20,409                                  | 539                            | 3.52           |   | 32,491                                  | 888                            | 3.64           |   |
| Real estate                                   | 325,775                                 | 9,723                          | 3.98           |   | 235,059                                 | 7,215                          | 4.09           |   |
| Consumer                                      | 17,031                                  | 570                            | 4.46           |   | 18,426                                  | 580                            | 4.20           |   |
| Allowance for loan losses                     | (6,801)                                 |                                |                |   | (5,970)                                 |                                |                |   |
| Net loans                                     | 949,491                                 | 29,726                         | 4.17           |   | 756,971                                 | 24,210                         | 4.26           |   |
| Total earning assets                          | 1,102,646                               | 31,748                         | 3.84           |   | 938,910                                 | 26,632                         | 3.78           |   |
| Cash and due from banks                       | 14,031                                  |                                |                |   | 21,547                                  |                                |                |   |
| Other assets                                  | 83,123                                  |                                |                |   | 73,265                                  |                                |                |   |
| Total assets                                  | \$ 1,192,999                            |                                |                |   | \$ 1,027,752                            |                                |                |   |
| <b>Liabilities</b>                            |   |                                |                |   |   |                                |                |   |
| <b>Deposits:</b>                              |   |                                |                |   |   |                                |                |   |
| NOW   | \$ 431,053                              | \$ 1,989                       | 0.62           | % | \$ 385,012                              | \$ 2,407                       | 0.83           | % |
| Money market checking                         | 60,940                                  | 274                            | 0.60           |   | 33,914                                  | 112                            | 0.44           |   |
| Savings                                       | 37,933                                  | 83                             | 0.29           |   | 37,805                                  | 97                             | 0.34           |   |
| IRAs  | 10,985                                  | 102                            | 1.24           |   | 9,590                                   | 85                             | 1.18           |   |
| CDs   | 273,818                                 | 2,106                          | 1.03           |   | 223,663                                 | 1,432                          | 0.85           |   |
| Repurchase agreements &<br>federal funds sold | 26,987                                  | 62                             | 0.31           |   | 63,026                                  | 262                            | 0.55           |   |
| FHLB and other borrowings                     | 121,724                                 | 493                            | 0.54           |   | 87,635                                  | 399                            | 0.61           |   |
| Subordinated debt                             | 33,524                                  | 1,648                          | 6.55           |   | 14,120                                  | 589                            | 5.56           |   |
| Total interest-bearing liabilities            | 996,964                                 | 6,757                          | 0.90           |   | 854,765                                 | 5,383                          | 0.84           |   |
| Non-interest bearing demand<br>deposits       | 77,330                                  |                                |                |   | 65,173                                  |                                |                |   |
| Other liabilities                             | 7,408                                   |                                |                |   | 6,474                                   |                                |                |   |
| Total liabilities                             | 1,081,702                               |                                |                |   | 926,412                                 |                                |                |   |
| <b>Stockholders' equity</b>                   |   |                                |                |   |   |                                |                |   |
| Preferred stock                               | 16,334                                  |                                |                |   | 11,169                                  |                                |                |   |
| Common stock                                  | 8,049                                   |                                |                |   | 7,913                                   |                                |                |   |
| Paid-in capital                               | 74,383                                  |                                |                |   | 71,661                                  |                                |                |   |

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|  |              |              |
|--|--------------|--------------|
| Treasury stock                             | (1,084)      | (1,084)      |
| Retained earnings                          | 16,122       | 14,289       |
| Accumulated other comprehensive income     | (2,507)      | (2,608)      |
| Total stockholders' equity                 | 111,297      | 101,340      |
| Total liabilities and stockholders' equity | \$ 1,192,999 | \$ 1,027,752 |

|  |           |      |   |           |        |
|--|-----------|------|---|-----------|--------|
| Net interest spread                            |           | 2.94 |   |           | 2.94   |
| Impact of non-interest bearing funds on margin |           | 0.08 |   |           | 0.08   |
| Net interest income-margin                     | \$ 24,991 | 3.02 | % | \$ 21,249 | 3.02 % |

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### Non-Interest Income

Mortgage fee income, insurance and investment services income and gain (loss) on derivatives generate the core of the Company's noninterest income. Also, gain on sale of portfolio loans continue to be part of the core of the Bank's noninterest income. In addition, during the third quarter of 2015, the Bank entered into two swap loan agreements. These swap loan agreements allow the bank to offer customers fixed rate loans and the bank to "swap" the interest rate on the loans with a third party at a floating rate. This helps the Bank lower its exposure by improving the interest rate risk position and also produced current period non-interest income.

For the three months ended September 30, 2015, noninterest income totaled \$10.0 million compared to \$6.6 million for the same time period in 2014. The \$3.4 million increase in noninterest income was mainly the result of an increase in mortgage fee income of \$4.0 million, a decrease in gain on derivatives of \$1.6 million and a gain on sale of other real estate owned of \$618. The increase in mortgage fee income was due to an increase in loan production and loan sale volume as a result of an expansion into new markets and a decrease in interest rates. The decrease in gain on derivatives was a result of a \$43.3 million decrease in loans held for sale. The increase in gain on sale of other real estate owned was the result of a sale of one property during the third quarter of 2015.

For the nine months ended September 30, 2015, noninterest income totaled \$31.9 million compared to \$19.4 million for the same time period in 2014. The \$12.5 million increase in noninterest income was mainly the result of an increase in mortgage fee income of \$11.4 million and an increase in gain on sale of other real estate owned of \$597. The increase in mortgage fee income was due to an increase in loan production and loan sale volume as a result of an expansion into new markets and a decrease in interest rates. Further, the decrease in interest rates has increased the share of refinances from 21% during the nine months ended September 30, 2014 to 36% during the same time period in 2015. The gain on sale of other real estate owned was primarily the result of a sale of one property during the third quarter of 2015.

### Non-Interest Expense

The Company had 376 full-time equivalent personnel at September 30, 2015, as noted, compared to 325 full-time equivalent personnel as of September 30, 2014. Company and Bank management will continue to strive to find new ways of increasing efficiencies and leveraging its resources, while effectively optimizing customer service.

Salaries and employee benefits, occupancy and equipment, data processing and communications, mortgage processing and professional fees generate the core of the Company's noninterest expense. The Company's efficiency ratio was 86.57% for the third quarter of 2015 compared to 89.57% for the third quarter of 2014. This ratio measures



the efficiency of noninterest expenses incurred in relationship to net interest income plus noninterest income. The decreased efficiency ratio is the result of net interest income and noninterest income outpacing the growth in noninterest expense.

For the three months ended September 30, 2015, noninterest expense totaled \$16.4 million compared to \$12.2 million for the same time period in 2014. The \$4.2 million increase in noninterest expense was mainly the result of the following:

Salaries and employee benefits expense increased \$2.6 million, this increase related to: the addition of new bank and mortgage offices, increased commissions related to increased mortgage production, additional staffing related to organic growth and raises for existing staff.

Occupancy and equipment expense increased \$327. This increase was mainly the result of the opening of multiple new bank and mortgage office locations, the completion of a new facility in Kanawha County, West Virginia and construction of a new facility in the West Virginia High Technology Park in Fairmont, Marion County, West Virginia.

Data processing and communication costs increased \$342. This increase was largely driven by overall growth in terms of client base, personnel and office space, and the usage of new and enhanced products, services and providers to better serve the client base.

Mortgage processing costs increased \$178. This increase was primarily the result of increase mortgage loan volume.

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Salaries and employee benefits, occupancy and equipment, data processing and communications, mortgage processing and professional fees generate the core of the Company's noninterest expense. The Company's efficiency ratio was 82.79% for the nine months ended September 30, 2015 compared to 86.69% for the same time period in 2014. This ratio measures the efficiency of noninterest expenses incurred in relationship to net interest income plus noninterest income. The decreased efficiency ratio is the result of net interest income and noninterest income outpacing the growth in noninterest expense.

For the nine months ended September 30, 2015, noninterest expense totaled \$47.1 million compared to \$35.2 million for the same time period in 2014. The \$11.9 million increase in noninterest expense was mainly the result of the following:

Salaries and employee benefits expense increased \$7.8 million, this increase related to: the addition of new bank and mortgage offices, increased commissions related to increased mortgage production, additional staffing related to organic growth and raises for existing staff.

Occupancy and equipment expense increased \$1.0 million. This increase was mainly the result of the opening of multiple new bank and mortgage office locations, the completion of a new facility in Kanawha County, West Virginia and construction of a new facility in the West Virginia High Technology Park in Fairmont, Marion County, West Virginia.

Data processing and communication costs increased \$831. This increase was largely driven by overall growth in terms of client base, personnel and office space, and the usage of new and enhanced products, services and providers to better serve the client base.

Professional fees increased \$695. \$228 of this increase was related to merger and acquisition related professional fees as discussed in Note 12. The remainder of the increase is related to a greater amount of IT and project management related professional fees.

Mortgage processing costs increased \$604. This increase was primarily the result of increase mortgage loan volume.

### Return on Average Assets and Average Equity (Annualized)

Returns on average assets (ROA) and average equity (ROE) annualized were .45% and 4.99% for the third quarter of 2015 compared to .20% and 1.95% in the third quarter of 2014. The .25% increase in ROA is due to increased earnings of \$869 and a \$180.8 million increase in average assets for the third quarter of 2015 compared to the third quarter of 2014. The increase in average assets was primarily due to an increase in net loans due to continued loan growth. The 3.04% increase in ROE is also due to increased earnings of \$869 and a \$2.4 million increase in average equity for the third quarter of 2015 compared to the third quarter of 2014. The increase in average equity was mainly due increased earnings.

### Overview of the Statement of Condition

The Company's interest-earning assets, interest-bearing liabilities, and stockholders' equity changed significantly during the third quarter of 2015 compared to September 30, 2014. The most significant areas of change between the quarters ended September 30, 2015 and September 30, 2014 were as follows: net loans increased to an average balance of \$1,004.6 million from \$796.3 million, investment securities declined by \$13.4 million to an average of \$118.3 million, interest-bearing liabilities grew to an average balance of \$1,046.0 million from \$880.6 million and stockholders' equity grew by \$2.4 million to an average of \$112.8 million. These trends reflect the continued growth of the Company and its subsidiaries in the loan, deposit and capital areas.

Total assets at September 30, 2015 were \$1,306.5 million or an increase of \$195.4 million since December 31, 2014. The greatest area of increase was a \$195.4 million increase in net loan growth.

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Deposits totaled \$1,018.3 million at September 30, 2015 or an increase of \$194.8 million since December 31, 2014, mainly the result of an increase in savings, NOW and time deposits.

Stockholders' equity has increased approximately \$4.7 million from December 31, 2014 mainly due to earnings for the nine months ended September 30, 2015 of \$5.4 million.

## Cash and Cash Equivalents

Cash and cash equivalents totaled \$25.1 million as of September 30, 2015 compared to \$30.1 million as of December 31, 2014.

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 \$121.1 million as of September 30, 2015 and \$122.8 million as of December 31, 2014. The investment portfolio is fairly evenly balanced between government sponsored agency securities, mortgage-backed securities and municipal securities.

During the second quarter 2015, the Bank sold a held-to-maturity investment security due to a credit downgrade. This type of sale is permissible in accordance with GAAP. Due to the significant deterioration in this issuer's creditworthiness, we feel the sale does not taint our intentions in regards to the remainder of our held-to-maturity portfolio.

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

the investment portfolio are acceptable based on these parameters.

## Loans

The Company's loan portfolio totaled \$994.8 million as of September 30, 2015 and \$798.3 million as of December 31, 2014. The Bank's lending is primarily focused in the Marion, Harrison, Jefferson, Berkeley, Monongalia, and Kanawha counties of West Virginia, as well as the northern Virginia area for the mortgage and commercial lending business. Its extended market is in the adjacent counties. The portfolio consists principally of commercial lending, retail lending, which includes single-family residential mortgages, and consumer lending. The growth in loans is primarily attributable to organic growth within the Bank's primary lending areas and northern Virginia in addition to loans acquired in the two branch acquisition as discussed in Note 12.

## Loan Concentration

At September 30, 2015, commercial loans comprised the largest component of the loan portfolio. The majority of commercial loans that are not secured by real estate are lines of credit secured by accounts receivable and equipment and obligations of states and political subdivisions. While the loan concentration is in commercial loans, the commercial portfolio is comprised of loans to many different borrowers, in numerous different industries but primarily located in our market areas. The loan portfolio mix as of September 30, 2015 remains consistent with the mix as of December 31, 2014.

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### Allowance for Loan Losses

The allowance for loan losses was \$7.4 million or 0.74% of total loans at September 30, 2015 compared to \$6.2 million or 0.78% of total loans at December 31, 2014. 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 \$1,018.0 million at September 30, 2015.

Non-interest bearing deposits remain a core funding source for the Bank and, thus, the Company. At September 30, 2015, non-interest bearing deposits totaled \$87.2 million compared to \$67.1 million at December 31, 2014. 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 \$930.7 million at September 30, 2015 compared to \$756.2 million at December 31, 2014. Average interest-bearing liabilities totaled \$1,046.0 million during the third quarter of 2015 compared to \$880.6 million for the third quarter of 2014. This \$165.3 million increase is the result of the following: \$81.5 million increase in CDs, \$26.3 million increase in NOW, \$28.4 million increase in MMDA, \$34.1 million increase in FHLB and other borrowings and \$10.6 million decrease in repurchase agreements and federal funds sold. Average non-interest bearing demand deposits totaled \$84.3 million for the third quarter of 2015 compared to \$72.8 million for the third quarter of 2014. Management will continue to emphasize deposit gathering in 2015 by offering outstanding customer service and competitively priced products. The Company and Bank management will also concentrate on balancing deposit growth with adequate net interest margin to meet the Company's strategic goals.

Along with traditional deposits, the Bank has access to both repurchase agreements, which are corporate deposits secured by pledging securities from the investment portfolio, and Federal Home Loan Bank borrowings to fund its operations and investments. At September 30, 2014, repurchase agreements totaled \$26.6 million compared to \$32.7

million at December 31, 2014. In addition to the aforementioned funds alternatives, the Bank has access to more than \$249.0 million through additional advances from the Federal Home Loan Bank of Pittsburgh and the ability to readily sell jumbo certificates of deposits to other banks as well as brokered deposit markets.

## 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 utilizes several of the above. This allows the Bank to lower funding costs slightly while documenting the availability of each.

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## 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 slightly worse economic climates than the general national climate. Unemployment in the United States was 5.2% and 6.3% in 2015 and 2014, respectively. The unemployment levels in the six West Virginia counties where MVB operates in were as follows for the periods indicated:

|                   | August 2015 |   | August 2014 |   |
|-------------------|-------------|---|-------------|---|
| Berkeley County   | 5.6         | % | 5.4         | % |
| Harrison County   | 7.4         | % | 5.3         | % |
| Jefferson County  | 4.7         | % | 4.6         | % |
| Marion County     | 8.2         | % | 6.2         | % |
| Monongalia County | 6.0         | % | 4.9         | % |
| Kanawha County    | 6.7         | % | 5.9         | % |

Nonperforming loans to total loans were 0.94% in September of 2015 versus 0.62% in September of 2014 and charge offs to total loans were 0.07% and 0.10% 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 2013, the Company commenced a private offering to accredited investors under Rule 506 of Regulation D. As of December 31, 2013, the Company had received subscriptions for 610,194 shares totaling \$9.8 million in additional capital at December 31, 2013.

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



At September 30, 2015, accumulated other comprehensive loss totaled \$(2,315) compared to \$(2,642) at December 31, 2014. This change is primarily the result in the rise of the change in the value of the unrealized loss on available for sale securities.

Treasury stock shares totaled 51,077 shares.

The Board of Directors of the Company approved a transition from a semi-annual dividend to a quarterly dividend on August 18, 2015 and declared its first quarterly cash dividend to shareholders of record at the close of business on September 1, 2015, payable September 15, 2015.

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%, 100% or 150% (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

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Financial Statements of the Company's 2014 Form 10-K. At September 30, 2015, the Company's and the Bank's risk-based capital ratios exceeded the minimum standards for a well capitalized financial institution.

### Commitments

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

Loan commitments are made to accommodate the financial needs of the Bank's customers. The Bank uses the same underwriting standards in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties. The total amount of loan commitments outstanding at September 30, 2015 and December 31, 2014 was \$252.0 million and \$143.2 million, respectively.

### Market Risk

There have been no material changes in market risks faced by the Company since December 31, 2014. For information regarding the Company's market risk, refer to the Company's Annual Report to Shareholders for the year ended December 31, 2014.

### 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 results of operations in the third quarter of 2015 increased significantly compared to the third quarter of 2014 mainly due to an increase in noninterest income in the mortgage banking segment and an increase in net interest income in the commercial and retail banking segment . The Company has invested in the infrastructure to support envisioned future growth in each key area, including personnel, technology and processes to meet the growing compliance requirements in the industry. Commercial and retail loan production remains strong and mortgage and insurance have added staff and locations to ramp up production and improve profitability. The Company believes it is well positioned in some of the finest markets in the states of West Virginia and Virginia and will focus on doing the things that have made it successful thus far through the following: margin improvement; leveraging capital; organic portfolio loan growth; and operating efficiency. The critical challenge for the Company 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.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

No response required.

Item 4. Controls and Procedures

The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer, along with the Company's Chief Financial Officer (the Principal Financial Officer), has evaluated the effectiveness as of September 30, 2015, of the design and operation of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, the Company's Chief Executive Officer, along with the Company's Principal Accounting Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2015.

There have been no material changes in the Company's internal control over financial reporting during the third quarter of 2015 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

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

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

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.

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

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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: November 5, 2015

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