

MVB FINANCIAL CORP
Form 10-Q
August 06, 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 June 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 August 6, 2015, the number of shares outstanding of the issuer's only class of common stock was 7,996,978.

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MVB Financial Corp.

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Item Financial Statements

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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 3-36 of this report.

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

Consolidated Statements of Income for the Six Months and Three Months ended June 30, 2015 and 2014

Consolidated Statements of Comprehensive Income for the Six Months and Three Months ended June 30, 2015 and 2014

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Management’s Discussion and Analysis of Financial Condition and Results of Operations are included on pages 37-51 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)

	June 30, 2015 (Unaudited)	December 31, 2014 (Note 1)
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 11,944	\$ 13,403
Interest bearing balances	2,070	16,674
Total cash and cash equivalents	14,014	30,077
Certificates of deposits in other banks	11,659	11,907
Investment securities:		
Securities available-for-sale	65,855	68,213
Securities held-to-maturity (fair value of \$53,441 for 2015 and \$55,871 for 2014)	53,141	54,538
Loans held for sale	116,307	69,527
Loans:	911,085	798,297
Less: Allowance for loan losses	(7,047)	(6,223)
Net loans	904,038	792,074
Bank premises, furniture and equipment	25,645	25,472
Bank owned life insurance	22,011	21,679
Accrued interest receivable and other assets	22,617	19,193
Goodwill	17,779	17,779
Total assets	\$ 1,253,066	\$ 1,110,459
Liabilities		
Deposits		
Non-interest bearing	\$ 76,666	\$ 67,066
Interest bearing	814,303	756,161
Total deposits	890,969	823,227
Accrued interest, taxes and other liabilities	10,791	10,310
Repurchase agreements	26,263	32,673
FHLB and other borrowings	178,245	101,287
Subordinated debt	33,524	33,524
Total liabilities	1,139,792	1,001,021
Stockholders' equity		
Preferred stock, par value \$1,000; 20,783 authorized and 9,283 issued in 2015 and 2014, respectively	16,334	16,334

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Common stock, par value \$1; 20,000,000 shares authorized; 8,047,550 and 8,034,362 issued; and 7,996,473 and 7,983,285 outstanding in 2015 and 2014, respectively	8,048	8,034
Additional paid-in capital	74,450	74,342
Retained earnings	17,858	14,454
Accumulated other comprehensive loss	(2,332)	(2,642)
Treasury stock, 51,077 shares, at cost	(1,084)	(1,084)
Total stockholders' equity	113,274	109,438
Total liabilities and stockholders' equity	\$ 1,253,066	\$ 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)

	Six months ended		Three months ended	
	June 30,	2014	June 30,	2014
	2015		2015	
Interest income				
Interest and fees on loans	\$ 18,603	\$ 15,162	\$ 9,839	\$ 7,996
Interest on deposits with other banks	127	97	63	51
Interest on investment securities – taxable	461	769	222	358
Interest on tax exempt loans and securities	1,141	1,511	570	757
Total interest income	20,332	17,539	10,694	9,162
Interest expense				
Deposits	2,889	2,796	1,522	1,691
Repurchase agreements	44	233	20	107
FHLB and other borrowings	334	273	177	143
Subordinated debt	1,092	45	549	26
Total interest expense	4,359	3,347	2,268	1,967
Net interest income	15,973	14,192	8,426	7,195
Provision for loan losses	1,220	1,408	561	889
Net interest income after provision for loan losses	14,753	12,784	7,865	6,306
Noninterest income				
Service charges on deposit accounts	296	317	164	171
Income on bank owned life insurance	332	255	165	127
Visa debit card and interchange income	440	370	231	203
Mortgage fee income	14,926	7,543	8,617	4,333
Gain on sale of portfolio loans	800	1,333	454	658
Insurance and investment services income	2,663	1,836	965	820
Gain on sale of securities	126	125	5	125
Gain (loss) on derivatives	2,106	939	(143)	604
Other operating income	256	102	76	25
Total noninterest income	21,945	12,820	10,534	7,066
Noninterest expense				
Salary and employee benefits	19,928	14,729	10,194	7,932
Occupancy expense	1,755	1,304	880	677
Equipment depreciation and maintenance	967	711	484	349
Data processing and communications	1,870	1,381	944	696
Mortgage processing	1,536	1,112	790	567
Marketing, contributions and sponsorships	696	535	359	290
Professional fees	1,281	878	619	380

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Printing, postage and supplies	356	392	170	199
Insurance, tax and assessment expense	847	724	419	385
Travel, entertainment, dues and subscriptions	752	674	432	362
Other operating expenses	690	584	420	351
Total noninterest expense	30,678	23,024	15,711	12,188
Income before income taxes	6,020	2,580	2,688	1,184
Income tax expense	2,012	453	783	215
Net income	\$ 4,008	\$ 2,127	\$ 1,905	\$ 969
Preferred dividends	285	43	143	22
Net income available to common shareholders	\$ 3,723	\$ 2,084	\$ 1,762	\$ 947
Earnings per share – basic	\$ 0.47	\$ 0.27	\$ 0.22	\$ 0.12
Earnings per share – diluted	\$ 0.46	\$ 0.26	\$ 0.22	\$ 0.12
Weighted average shares outstanding - basic	7,985,320	7,778,152	7,987,333	7,897,242
Weighted average shares outstanding - diluted	8,672,228	7,991,701	8,674,241	8,110,791

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)

	Six months ended		Three months ended	
	June 30,	2014	June 30,	2014
	2015		2015	
Net Income	\$ 4,008	\$ 2,127	\$ 1,905	\$ 969
Other comprehensive income:				
Unrealized holding gains during the year	114	1,646	(425)	1,109
Income tax effect	(44)	(658)	170	(443)
Reclassification adjustment for gain recognized in income	(126)	(125)	(5)	(125)
Income tax effect	50	50	2	50
Change in defined benefit pension plan	527	(315)	800	(315)
Income tax effect	(211)	126	(320)	126
Other comprehensive income	310	724	222	402
Comprehensive income	\$ 4,318	\$ 2,851	\$ 2,127	\$ 1,371

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)

	Six months ended	
	June 30, 2015	June 30, 2014
Operating activities		
Net income	\$ 4,008	\$ 2,127
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Net amortization and accretion of investments	387	434
Net amortization of deferred loan fees	(4)	27
Provision for loan losses	1,220	1,408
Depreciation and amortization	932	587
Stock based compensation	203	129
Loans originated for sale	(708,970)	(381,190)
Proceeds of loans sold	677,116	408,709
Mortgage fee income	(14,926)	(7,543)
Gain on sale of investment securities	(126)	(125)
Income on bank owned life insurance	(332)	(255)
Deferred taxes	254	(936)
Other, net	(195)	150
Net cash (used in) provided by operating activities	(40,433)	23,522
Investing activities		
Purchases of investment securities available-for-sale	(22,733)	(24,268)
Purchases of investment securities held-to-maturity	—	(250)
Maturities/paydowns of investment securities held-to-maturity	790	750
Maturities/paydowns of investment securities available-for-sale	13,521	4,759
Sales of investment securities available-for-sale	11,484	37,177
Sales of investment securities held-to-maturity	421	—
Purchases of premises and equipment	(1,105)	(4,962)
Net increase in loans	(113,180)	(112,078)
Purchases of restricted bank stock	(12,418)	(7,361)
Redemptions of restricted bank stock	9,498	5,937
Proceeds from sale of certificates of deposit with banks	248	76
Proceeds from sale of other real estate owned	239	—
Purchase of bank owned life insurance	—	(5,000)
Net cash used in investing activities	(113,235)	(105,220)
Financing activities		
Net increase in deposits	67,742	51,232
Net (decrease) in repurchase agreements	(6,410)	(45,057)
Net change in short-term FHLB borrowings	77,041	22,202
Principal payments on FHLB borrowings	(83)	(1,080)

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Proceeds from subordinated debt	—	29,313
Proceeds from stock offering	—	5,662
Preferred stock issuance	—	7,834
Dividend reinvestment plan proceeds	—	180
Common stock options exercised	(81)	48
Cash dividends paid on common stock	(319)	(317)
Cash dividends paid on preferred stock	(285)	(43)
Net cash provided by financing activities	137,605	69,974
(Decrease) in cash and cash equivalents	(16,063)	(11,724)
Cash and cash equivalents at beginning of period	30,077	39,843
Cash and cash equivalents at end of period	\$ 14,014	\$ 28,119

Supplemental disclosure of cash flow information

Loans transferred to other real estate owned	\$ —	\$ 146
Cashless stock options exercised	\$ 169	\$ —
Cash payments for:		
Interest on deposits, repurchase agreements and borrowings	\$ 5,391	3,632
Income taxes	\$ 1,900	1,020

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 six and three months ended June 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 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.

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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 June 30, 2015, including gross unrealized gains and losses, are summarized as follows:

(in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Municipal securities	\$ 53,141	\$ 1,048	\$ (748)	\$ 53,441
Total investment securities held-to-maturity	\$ 53,141	\$ 1,048	\$ (748)	\$ 53,441

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 Cost	Unrealized Gain	Unrealized Loss	Fair 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 June 30, 2015 are summarized as follows:

(in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U.S. Agency securities	\$ 30,847	\$ 13	\$ (278)	\$ 30,582
U.S. Sponsored Mortgage-backed securities	35,026	17	(513)	34,530
Total debt securities	65,873	30	(791)	65,112

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Equity and other securities	670	73	—	743
Total investment securities available-for-sale	\$ 66,543	\$ 103	\$ (791)	\$ 65,855

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

(in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair 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 June 30, 2015:

	Held to Maturity		Available for sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	\$ —	\$ —	\$ —	\$ —
After one year, but within five	4,758	4,870	23,112	22,962
After five years, but within ten	14,497	14,593	9,845	9,702
After ten years	33,886	33,978	32,916	32,448
Total	\$ 53,141	\$ 53,441	\$ 65,873	\$ 65,112

Investment securities with a carrying value of \$114,838 at June 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 June 30, 2015, the details of which are included in the following table. Although these securities, if sold at June 30, 2015 would result in a pretax loss of \$1,539, the Company has no intent to sell the applicable securities at such market values, and maintains the Company has the ability to hold these securities until all principal has been recovered. Declines in the market values of these securities can be traced to general market conditions which reflect the prospect for the economy as a whole. When determining other-than-temporary impairment on securities, the Company considers such factors as adverse conditions specifically related to a certain security or to specific conditions in an industry or geographic area, the time frame securities have been in an unrealized loss position, the Company's ability to hold the security for a period of time sufficient to allow for anticipated recovery in value, whether or not the security has been downgraded by a rating agency, and whether or not the financial condition of the security issuer has severely deteriorated. As of June 30, 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.

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

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Description and number of positions (in thousands)	Less than 12 months		12 months or more	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Agency securities (9)	\$ 13,102	\$ (135)	\$ 13,964	\$ (143)
U.S. Sponsored Mortgage-backed securities (15)	18,826	(168)	12,836	(345)
Municipal securities (60)	16,260	(349)	8,121	(399)
	\$ 48,188	\$ (652)	\$ 34,921	\$ (887)

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

Description and number of positions (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 June 30, 2015 and 2014, the Company sold investments available-for-sale of \$0 and \$37.2 million, respectively, resulting in gross gains of \$0 and \$214 and gross losses of \$0 and \$89.

For the six month period ended June 30, 2015 and 2014, the Company sold investments available-for-sale of \$11.4 million and \$37.2 million, respectively, resulting in gross gains of \$121 and \$214 and gross losses of \$0 and \$89.

For the three and six month periods ended June 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 June 30, 2015:

(in thousands)	Commercial	Residential	Home Equity	Consumer	Total
ALL balance March 31, 2015	\$ 4,647	\$ 957	\$ 680	\$ 197	\$ 6,481
Charge-offs	—	—	—	—	—
Recoveries	—	—	—	5	5
Provision	554	61	(48)	(6)	561
ALL balance June 30, 2015	\$ 5,201	\$ 1,018	\$ 632	\$ 196	\$ 7,047

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	Commercial	Residential	Home Equity	Consumer	Total
ALL balance December 31, 2014	\$ 4,363	\$ 962	\$		