

Annual Report 2019



POWERING / YOUR
POTENTIAL



Our Purpose

**Trusted
Partners on
the Financial
Frontier —
Committed to
Your Success**

Our Values

Love

We are respectful, considerate and thoughtful towards our Team Members, clients and community.

Trust

We are reliable and act with integrity.

Commitment

We take ownership of our responsibilities in support of MVB achieving its Purpose.

Adaptive

We easily respond to change in a productive way.

Teamwork

We effectively and efficiently work with others to accomplish more.

A MESSAGE FROM THE CEO

Powering Your Potential

Beginning 2019 with very strong earnings and highly sought-after noninterest-bearing deposit growth, MVB carried that momentum through the year end, setting growth records in multiple areas. Guided by our MVB 3.0 strategy, MVB truly transformed in 2019 from a traditional bank to an independent, creative-thinking financial holding company with a strong banking CoRe to power our potential for the future.



That's really what we do at MVB. At our CoRe, we power your potential. We fuel the American dream. We strive to unlock the potential within our shareholders, clients, Team and communities. Your success is our success. You deserve more than a bank. You deserve a trusted partner on the financial frontier -- committed to your success. That's who we are.

Leveraging Disruption

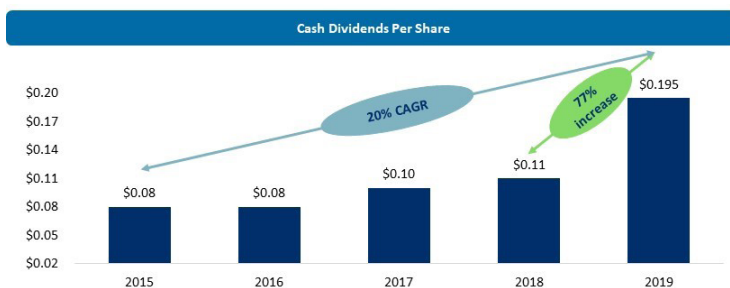
MVB's innovative model leverages the disruption occurring in the financial services industry to the benefit of our shareholders.

In 2019, MVB validated that we are doing the right things right, including executing well on increased assets through better margin; quality lending; significant growth in deposits, especially NIB deposits; and a surge in revenue at MVB Mortgage.

MVB's story resonates with investors as illustrated in our coverage by three analysts – Hovde Group; Keefe, Bruyette & Woods; and Piper Sandler – which is significant for a company of our size. MVB was selected as a Sandler O'Neill Sm-All Star for 2019, one of only 30 major exchange-traded banks to earn this honor and one of only 13 new members to this year's class.

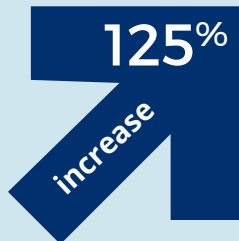
Enhancing Shareholder Value

As your trusted partner, providing added shareholder value is always top of mind. Total shareholder return was increased in 2019 from MVB stock price appreciation, increased dividend payouts and redemption of outstanding subordinated debt which occurred without diluting shares.

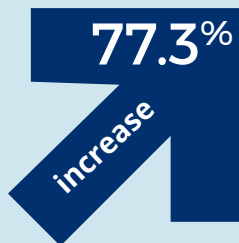


STRONG RESULTS

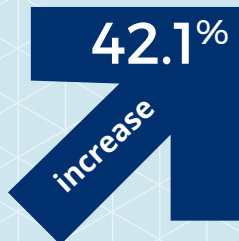
Annual Earnings



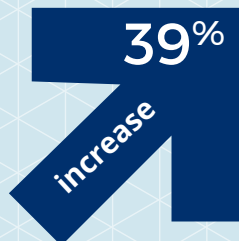
Dividend Increase



Market Capitalization



NIB Deposits

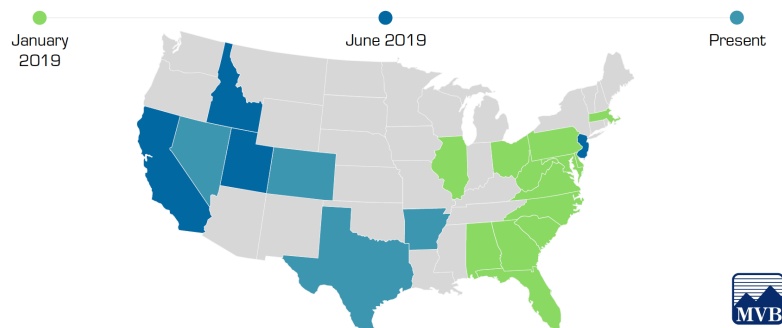


MVB's total equity increased 20% year over year, and our growth in book value per share grew from \$14.55 as of December 31, 2018, to \$17.13, or 18%, as of December 31, 2019. We grew our dividend from \$0.11 in 2018 to \$0.195 in 2019 (a 77% increase). 2019 net income is nearly equal to our net income over the past three years combined.

Investing in Team MVB

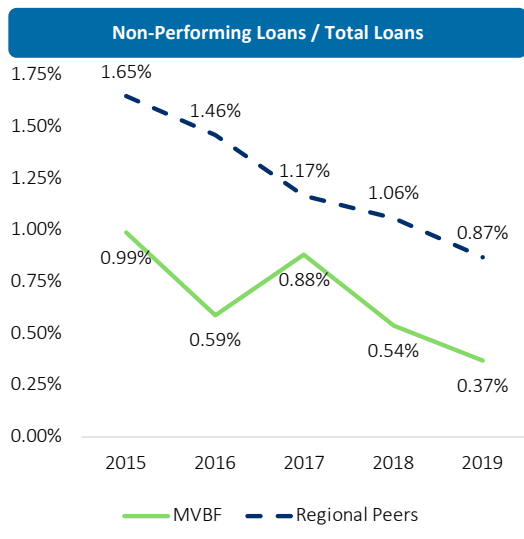
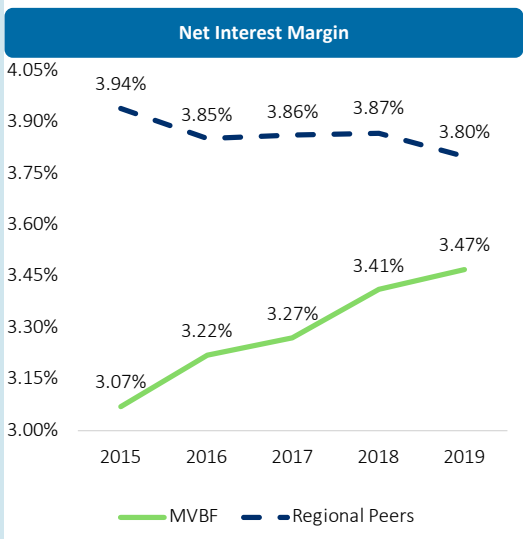
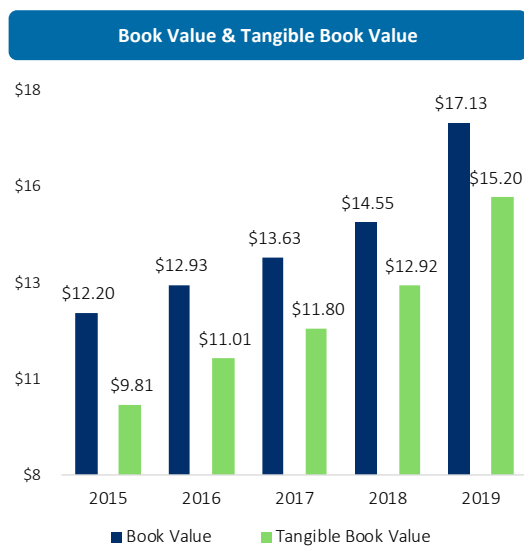
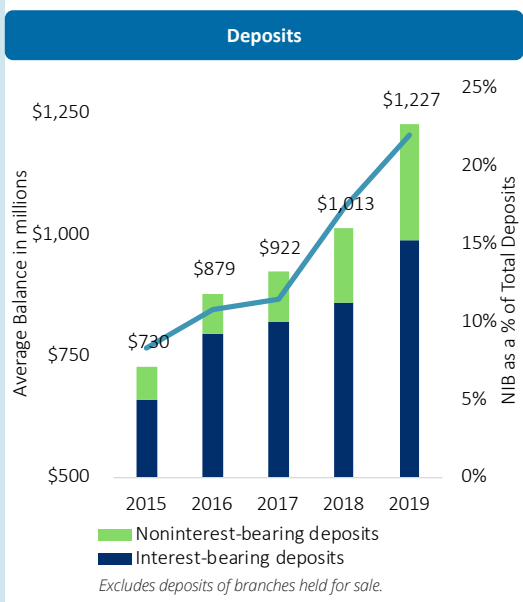
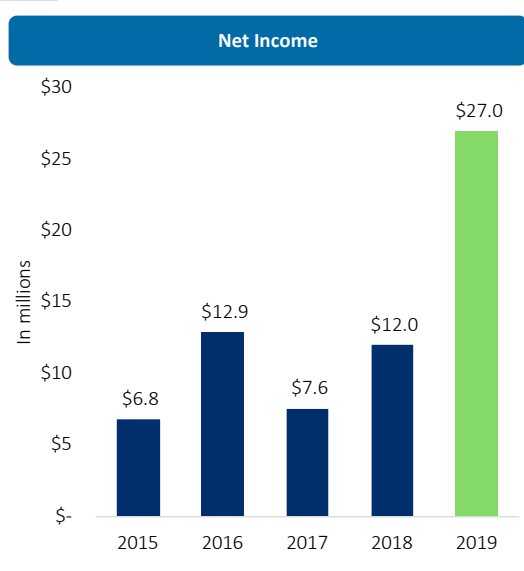
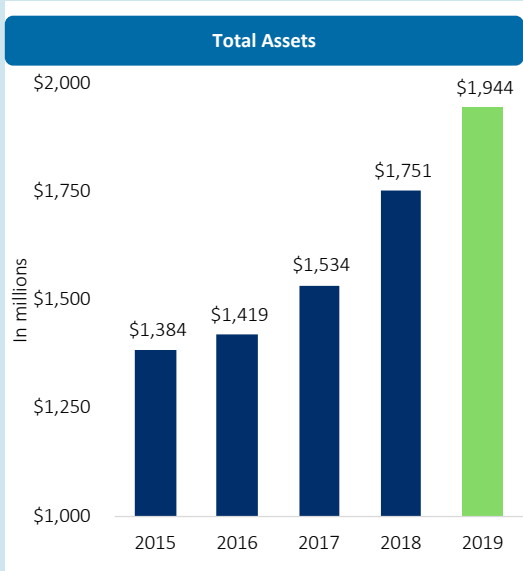
As part of our transformation from the inside out, every day we live our Purpose and Values with a growth mindset. Our people, Team MVB, and culture are second to none. We have grown from 35 Team Members in 2005 to more than 400 Team Members in more than 20 different states in 2019.

Team Member Growth in 2019 Organic Growth & Acquisition



Over the past year, we invested in our Team. With our partner The Pacific Institute, we rolled out training for "Thought Patterns for High Performance" across the entire company as part of our ongoing Culture Initiative. To celebrate the completion of this training, we hosted two special "Hacking the Rockstar Attitude" Team events with celebrity drummer Mark Schulman.

In an effort to further and incentivize innovative thinking, we empowered the Most Valuable Initiatives Team in the first quarter to review Team Member suggestions for improving process efficiencies. In the fourth quarter, we started the Team Member Referral Program and launched the Emerging Leaders Program.



Regional peers defined as public institutions headquartered in West Virginia, Maryland, Virginia and the Washington D.C. MSA with assets between \$1.0 billion and \$3.0 billion. Peer data reflects the most recent data publicly available.

Preserving the CoRe to Stimulate Progress

Now that MVB has successfully executed its MVB 3.0 “Blue Ocean” Strategy. What’s next? At the end of 2019 and beginning of 2020 we took some creative steps to move our company toward the future.

Our Retail and Commercial Deposit Teams across all markets have been combined to become our new CoRe Banking sales vertical – “CO” for Commercial and “RE” for Retail. This new structure will facilitate stronger Team MVB collaboration in each market to the benefit of our clients. MVB intends to focus our growth in our CoRe Commercial markets, where we have the most density, in West Virginia and Northern Virginia, supported by our CoRe Banking footprint, as well as our expanding Fintech vertical.

MVB has essentially transformed from four sales verticals – Mortgage, Fintech, Commercial and Retail – to two – CoRe Banking and Fintech. In their book, “Built to Last,” Jim Collins and Jerry I. Porras write about the concept “Preserve the Core, Stimulate Progress.”

“A visionary company has a relentless drive for progress, yet it is concurrently ideological and progressive, i.e., it adapts without compromising its Core ideals. There’s an ongoing dynamic interplay between the Core and progress, and the visionary company embraces both successfully.” - from the book, “Built to Last”

MVB is that visionary company exhibiting a dynamic duality. On one hand we have our always constant Purpose and Values; on the other, we have a progressive mindset seeking opportunities, continuous improvement, innovation, entrepreneurship and creativity. On one hand we have our true CoRe, CoRe Banking and Commercial Lending; on the other, we have our Fintech vertical and investments. Together, these two halves make more than a whole – the synergy between the two is what powers our potential for the future.

MVB MORTGAGE



\$5.8 million
net income

Led by CEO Ed Dean, MVB Mortgage had an extraordinary year and played a vital role in overall earnings growth with 2019 net income of \$5.8 million and with \$1.8 billion in closed loan volume year (Year-End 2019). With such a robust pipeline, keeping up with it all year was a challenge, but a good one, and the Mortgage Team stepped up to meet that challenge head on.

COMMERCIAL LENDING



Strong growth in our Northern Virginia market and consistent performance by our Commercial Lending Team drove year-over-year growth in total commercial loans, an increase of \$138.9 million, or 14.8%, from December 31, 2018. Loans, including loans at branches held for sale, of \$1.4 billion as of December 31, 2019, increased \$35.1 million, or 2.5%, from September 30, 2019, and increased \$113.1 million, or 8.7%, from December 31, 2018.

Nonperforming loans decreased \$2.0 million, to 0.37% of total loans as of December 31, 2019, compared to 0.41% as of September 30, 2019, and 0.54% as of December 31, 2018.

Guiding Us Through Uncertain Times

As I write this letter from my home office sitting beside my wife, Ann, I feel mixed emotions. We should celebrate Team MVB's smashingly successful 2019 year; yet, as we head into 2020, our world is in the midst of the worst pandemic of our time.

I find solace that our personal and MVB families are faring well, and that analysts are placing MVBF at the top of their conviction rankings of Outperformers even during this challenging time. Notably, MVBF is top ranked by the Hovde Group for being "well positioned for an earnings defensibility perspective, and MVBF is poised to see a significant boost to its tangible book value in 2020."

Coming off the best year in our Company's history, Team MVB will step up no matter what disruptive challenges come our way in 2020 and beyond. I still believe the best is yet to come for MVBF, our Team, clients, shareholders and communities.

I am grateful for our dedicated Board of Directors and Teammates. Thank you for believing in MVB and for allowing us to be your trusted partner. As always, feel free to contact me directly with comments or questions, including ways we can assist you or someone you know with your financial needs.

The best is yet to come,



Larry F. Mazza, President & CEO
MVB Financial Corp.



203.8% IRR internal rate of return
on Fintech investment portfolio

MVB's Fintech sales vertical continues to scale up and add talent. To better serve our clients on the west coast, in 2019 we expanded our footprint to include a dedicated Fintech Operations Center in Salt Lake City, Utah. We also invested in up-and-coming Fintech companies on the financial frontier.

In the second quarter of 2019, MVB reached a historic high, \$15.4 million in net income – the best-ever quarter performance for MVB. This milestone was due to a \$13.5 million pre-tax gain realized in the second quarter from our forward-thinking Fintech investment portfolio and was a critical boost to earnings. Our Fintech investment portfolio has a more than 203.8% Internal Rate of Return (IRR), since its inception in 2016.

NIB deposits, including NIB deposits of branches held for sale, of \$297.8 million as of December 31, 2019, increased \$84.2 million, or 39.4%, from December 31, 2018. Our strategic initiatives in Fintech and specialty deposits are behind these results, with noninterest-bearing deposits now 20.5% of our total deposits.

FINTECH

CHARTWELL
COMPLIANCE



By welcoming Chartwell Compliance to the MVB family in the third quarter,

we demonstrated our commitment to compliance excellence, which we believe is not only the right thing to do, but also a competitive advantage that mitigates risk within our Fintech vertical. Chartwell consistently provides world-class compliance consulting and has formed a specialty niche in the Fintech industry, which aligns with MVB as the preferred bank for Fintech companies.

The successful integration of Chartwell Compliance has exceeded our expectations as far as cooperation among our Team Members. We will continue to leverage this competitive advantage that helps reduce risk for our expanding Fintech vertical.

CHARTWELL 

**MVB Bank
Recognized
for Outstanding
Community Impact**

PILLARS OF THE COMMUNITY AWARD

In June 2019, MVB Bank was presented with the prestigious Federal Home Loan Bank of Pittsburgh Pillars of the Community Award in recognition of the Bank's commitment to community lending, revitalization and service over the past year. The Pillars Award is FHLBank Pittsburgh's highest organizational honor and is presented annually to select FHLBank members.

John Bendel, FHLBank Senior Director of Community Investment, spoke at the June awards event in Pittsburgh about MVB Bank's community achievements. MVB CFO Don Robinson and Laura Rye, Community Reinvestment Act Officer for MVB Bank and Chief Operating Officer for the MVB Community Development Corporation, accepted the award on behalf of MVB Bank.

"MVB Bank is committed to making positive change in the communities it serves," said Winthrop Watson, FHLBank Pittsburgh's President and CEO. "That commitment can be witnessed every day, as the bank works to create affordable housing, assists small businesses, fights homelessness, promotes homeownership and revitalizes communities. We are proud to have MVB Bank as part of our membership cooperative."

An active member of the FHLBank cooperative, MVB Bank saw completion in 2018 of phase two of Deckers Court, a Habitat for Humanity project providing five new homes to low-income families in Morgantown, West Virginia. The project used a grant from FHLBank Pittsburgh's Affordable Housing Program.

MVB Bank also took advantage of FHLBank's Community Lending Program in 2018 to provide financing to small businesses. MVB Bank made good use of the Home4Good and First Front Door products, as well, ensuring that more individuals and families find decent, affordable homes. Additionally, MVB Bank is now supporting the Monticello neighborhood of Clarksburg in the Blueprint Communities revitalization initiative.



**IMPACTING OUR
COMMUNITIES**



3,413
hours
of volunteer service

As our Company continues to evolve, we will always remain committed to the success of our communities, an important aspect of our Purpose. Team MVB recorded more than 3,400 hours of volunteer service in 2019, and our company contributed \$300 thousand in sponsorships to nonprofit organizations.

CHANGING THE GAME

WVSSAC MVB Opioid Awareness Summit Provides Hope

About one-eighth of West Virginia's economy, an estimated \$8.8 billion per year, is spent to address the state's growing opioid epidemic.

West Virginia bears the highest per-capita economic burden caused by the opioid crisis in the nation. The state also leads the nation in opioid-related deaths.

Don Robinson, Executive Vice President and Chief Financial Officer for MVB Financial Corp., has a vested interest in fighting this epidemic.

WVSSAC-MVB Bank Opioid Awareness Summit with a goal of increasing awareness of the state's growing opioid epidemic and establishing possible solutions.

The first-of-its-kind events were held in September 2019 at the WVU Coliseum in Morgantown and at Marshall's Cam Henderson Center in Huntington, where approximately 14,000 high school students attended to hear influential messages from former NBA player and recovering opioid addict Chris Herron, along with Rhonda Sciortino, who overcame abandonment, abuse, poverty, filth and hunger while growing up in an addictive household to build a life of affluence. Additionally, both events were livestreamed to approximately 136,000 middle school and high school teens.

"Both Chris and Rhonda shared ways to escape the tremendous impacts of addiction and rallied the students of West Virginia to change the game," Robinson said. "The kids really responded to their stories. We received a lot of positive feedback from the two Summit events. Connecting our youth with resources to help them deal with the impact of opioid addiction in their homes has been very powerful."

The Opioid Awareness Summit was the successful kickoff to the extensive WV Game Changers initiative, which focuses on prevention coupled with compassionate treatment programs and educational and employment opportunities.

"MVB Bank is a very valued corporate partner of the WVSSAC," said Bernie Dolan, WVSSAC Executive Director. "They are indeed Game Changers with their innovative approach to addressing the opioid and substance misuse in West Virginia. They have been with us from conceptualization until final product and we value not only their input, but their hands-on approach beginning with Larry Mazza and Don Robinson and including all their employees and support staff. We would not have made the strides we have in opioid and substance misuse without MVB Bank."

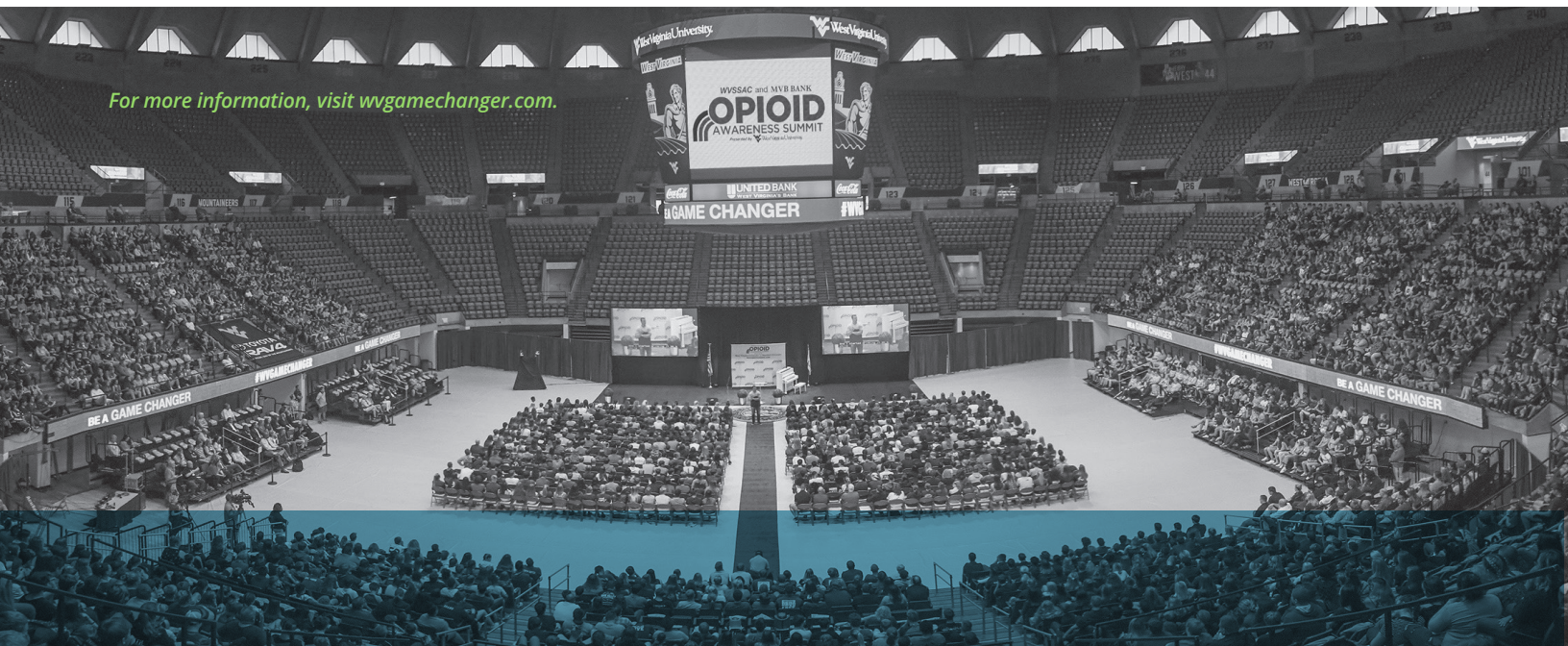


"I have seven children under the age of 18, and it is important to me as a parent that we come together to address this issue affecting so many families," Robinson said.

On behalf of MVB, Robinson approached the West Virginia Secondary Schools Activities Commission (WVSSAC) with ideas to influence change, urging the organization to take action against the opioid epidemic and initiate transformation within the Mountain State.

In 2019, MVB and the WVSSAC joined forces with West Virginia University, Marshall University, the West Virginia Department of Education to address the overwhelming opioid issue. The powerhouse team commenced the

For more information, visit wvgamechanger.com.



HACKING THE ROCK STAR ATTITUDE

Culture Initiative Continues

Throughout 2019, the word “culture” was quickly adopted into the daily language of MVB Team Members when the Culture Initiative, which launched in 2018, revved into high gear.

Refreshed Purpose, Values and Behaviors were among the year’s initial projects. These refreshed standards that would soon make up MVB’s secret sauce were a thoughtful combination of input and suggestions from each Team Member throughout the organization.

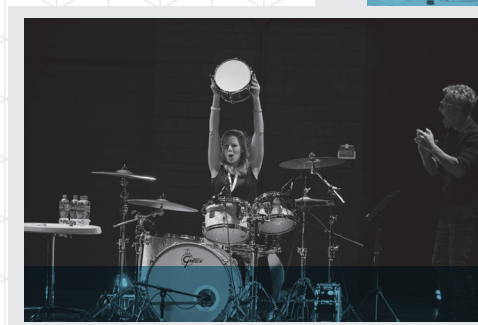
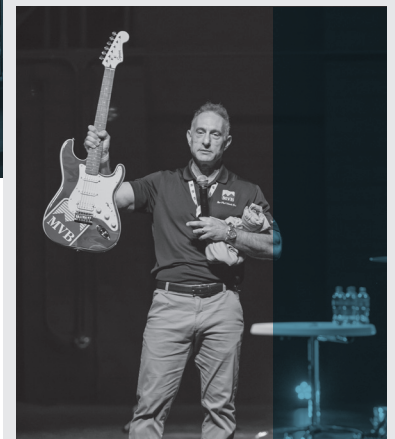
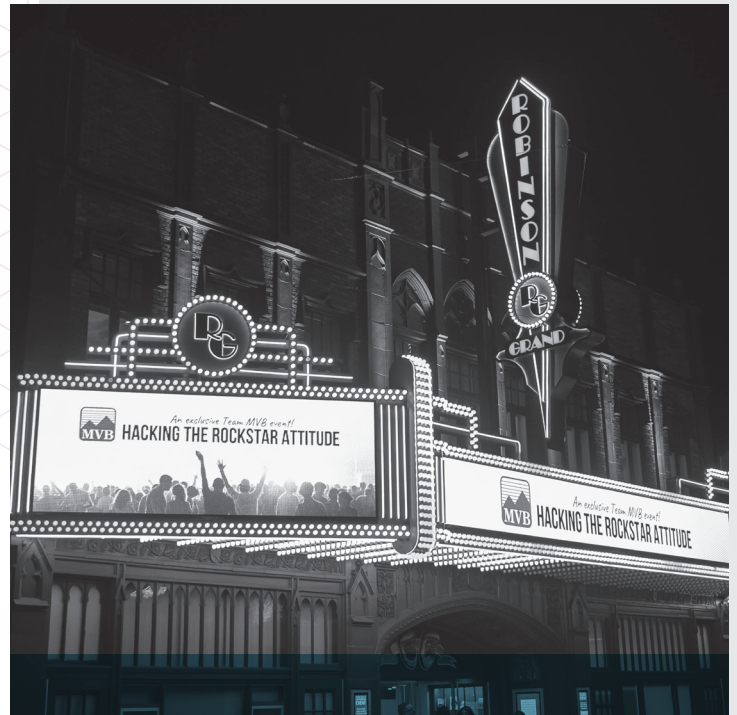
A major milestone for the Culture Initiative was the introduction of “Thought Patterns for High Performance,” a program launched throughout MVB in partnership with The Pacific Institute (TPI) that honed in on the science behind how people think and steps to improve success through proven tools and techniques.

After 14 successful sessions led by 14 of MVB’s own Team Members-turned-facilitators, roughly 95% of MVB Team Members began implementing their new and improved thought patterns into their careers and personal lives.

In August, Team MVB was ready to rock. One of the most anticipated projects of the Culture Initiative to date was premiering two exclusive events titled “Hacking the Rockstar Attitude,” which featured world-class celebrity drummer and keynote speaker Mark Schulman.

Schulman took a break while on tour with P!NK to offer a rockin’ drum performance as well as an empowering speech to Team Members in both Virginia and West Virginia.

Foam fingers and glow sticks in hand, Team MVB gathered to listen to Schulman’s praised performance. Applause erupted with each drum performance, only to be quickly settled with intent listening as Schulman spoke about concepts such as his $A \times B = C$ formula – Attitude x Behavior = Consequences. During each event, Schulman picked a Team Member from the audience to partake in a live drum lesson on stage. Before heading back on tour, Schulman invited Team Members and their friends and family, who were also in attendance, to join him behind his drum set for photo opportunities.





From left to right are MVB's Kim Barnum, Amy Walton, Tina Spangler and Herman DeProspero.

LIVING UNITED

Team MVB shows Transformational Support for the United Way of Monongalia and Preston Counties

"MVB's participation has been transformative for us in so many ways," said UWMPC CEO Brandi Helms. "MVB is not only one of our biggest sponsors but having someone like Herman on our board and committees has helped us to get the most out of our resources by looking at our cash management and investment strategy. We know that our agency is healthy. Kim, another board member and head of our personnel committee, has been key to our success in so many ways. Amy has helped us run our fundraising campaigns and get word out about all of our activities on social media. When you get people like that involved you want to keep them involved!"

The United Way of Monongalia and Preston Counties (UWMPC) in West Virginia is one of the region's most dynamic non-profits, improving the community's health and wellness, ensuring that children and youth have the support and experiences needed for a successful life and career and increasing the number of financially stable households. UWMPC funds 24 agencies with more than 40 programs.

Team MVB has been an integral part of UWMPC's mission every step of the way for more than a decade, and 2019 was no exception. Members of the MVB family serve on its Board of Directors and committees, help keep the organization's finances on track to ensure that it has the maximum resources available and participate as volunteers in a host of events throughout the year.

Herman DeProspero, Market President, MVB North Market; Kim Barnum, West Virginia Regional Manager, Vice President, MVB Mortgage; Tina Spangler, North Market Leader, MVB CoRe Banking; and Amy Walton, Banking Center Manager, MVB Suncrest, are four of the most active MVB Team Members serving UWMPC.

At a recent awards ceremony, DeProspero was named Advocate of the Year, and MVB won the Community Advocate Award presented by UWMPC to one company each year for its outstanding contributions to help meet the need of people in Monongalia and Preston Counties.

One of the programs MVB supports is "Power of the Purse," part of superstar Dolly Parton's national "Imagination Library," which provides free books to children from birth to age 5 to promote reading in the home. On Team MVB, Spangler runs the program. She is also lead committee member for Women's United, a group that is supported by the United Way. Other activities include annual food drives and outerwear collections.

GOVERNMENT LENDING

MVB Launches New Unit

"The relationship we have with MVB Bank is more than transactional, it's personal. The MVB Team understands our goals as a small business and has given us the flexibility we needed to achieve rapid growth over the past three years. They aren't just our bank, they're our partner," said Dwight Hunt, B3 CEO/President.



One of the areas of growth in CoRe Banking is the new Government Lending Team, which launched in 2019, and is based at the Bank's Northern Virginia regional corporate office in Reston, Virginia.

Formation of the Team consolidates and expands the services MVB provides to clients resulting in a one-stop shop for government contractors. This effort builds on MVB's strong reputation for connecting government contractors with the resources they need to grow.

"MVB Bank has relationships with some of the top 10 fastest growing government contractors. We have a very strong portfolio of treasury management services," said Jamie Nalls, Chief CoRe Banking Officer. "From the beginning, we have had a solid foundation in government leasing. However, we identified the need to broaden our market share among small, mid- and large-sized government contractors. Serving this community connects us not only to our clients but also to owners and employees by strengthening relationships through existing cash management services, retail and mortgage platforms through MVB Mortgage."

Christopher O. Turley serves as Market President of Government Lending. His Team is focused on expanding relationship opportunities by providing and supporting equipment leasing, merger and acquisition and general working capital needs of government contractors.

"Government contracts are very competitive. It's a small market with a few very well-known players. Think six degrees of separation," Turley said. "It's demanding. The government expects our clients to deliver in full and on time."

MVB has strong relationships with clients like B3 Group, Inc., a digital transformation consulting firm based in Herndon, Virginia. Owned and operated by Brad Palmer and 20-year U.S. Army veteran Dwight Hunt, B3 was the fastest growing company in the Washington, D.C. area in 2019, according to Washington Business Journal.

Turley provided B3 Group with a financing solution that offered support and flexibility, allowing B3 leadership to control its end-of-year planning and execute their growth strategy. Ultimately that solution supported B3 Group's ability to win the \$686 million Digital Transformation Center (DTC) contract with the U.S. Department of Veterans Affairs.

"The simplest way to put it is that we found the right creative, opportunistic and mutually beneficial financial solution," Turley said. "We made ourselves experts on the company's business model and goals, allowing them to target, with precision, their goals and objectives while fully accounting for the industry 'trade winds' when competing for federal contracts."

A truly stellar relationship goes beyond the contract. It requires an understanding of how MVB can support its clients by leveraging the breadth of capabilities, employees, products and services.

MVB
Celebrates
20th
Anniversary

20^{BY}
2020

with Acts
of Kindness

MVB has achieved many milestones in the growth journey of its 20-year plus history,

including expanding its footprint, being listed on The Nasdaq Capital Market and qualifying for inclusion on the Russell 2000 Index. MVB Bank was formed in October 1997, chartered under the laws of the State of West Virginia and commenced operations in January 1999. Each of the Bank's locations in West Virginia and Northern Virginia commemorated its 20th anniversary with cake and balloons.

MVB wanted to extend its celebration by launching the MVB 20BY2020 Campaign in January 2019. The initiative including all Team Members focused on contributing 20 acts of kindness by 2020. Team MVB exceeded the goal of 20 acts of kindness and infectiously spread Respect, Love and Caring throughout its communities. MVB's two locations in Marion County, West Virginia, participated in seven of the acts of kindness, including hosting a canned food drive for area youth, visiting residents at a senior living facility, distributing goody bags to children at a local park, donating supplies to several local nonprofit organizations and more. From preparing a hot meal for guests of the Rosenbaum Family House in Morgantown, to delivering breakfast to neighbors in Reston, Team Members across all MVB markets shared the love year-round.

SWEET DREAMS

When MVB heard of the good works of Sleep in Heavenly Peace in Harrison County, West Virginia, Team Members were eager to join the organization's efforts to build beds for children without one of their own. Sleep in Heavenly Peace (SHP), a national nonprofit organization whose motto is "no kid sleeps on the floor in our town," is comprised of volunteers dedicated to building, assembling and delivering beds to children in need.

"Giving kids a bed of their own provides them with a safe and private space and leads to a good night's rest, better performance in school, better social skills and much more," said Dave Lang, Harrison County Chapter President of Sleep in Heavenly Peace. "That's my driving force."

On June 15, 2019, MVB hosted the Harrison County SHP Team as well as the Medbrook Children's Charity Team to participate in Bunks Across America, a nationwide bed building event, in the parking lot of MVB's Bridgeport Operations Center.

The mission of Medbrook Children's Charity is to improve the lives of local children in need. Dr. Kelly Nelson, founder of Medbrook Children's Charity and member of MVB's Board of Directors, said, "Being able to provide bedding for children certainly fits that mission."

When it was time to pack the lumber and hammers away after an inspiring day of bed building, MVB, Medbrook Children's Charity and Harrison County SHP had collectively built 50 beds for children throughout Harrison County. Additionally, MVB provided monetary donations and committed 92 volunteer service hours to SHP throughout 2019. Team Members hosted two bedding drives to provide comforters, sheets and pillows to accompany each new bed.

"MVB cares about our community and is proud to be part of such a wonderful event," said John Schirripa, MVB Bank Chief Lending Officer and Regional President.



MVB'S EXPERIENCED BOARD OF DIRECTORS



David B. Alvarez

Year Appointed: 2013
Chairman of the Board
President, Energy Transportation



Gary A. LeDonne

Year Appointed: 2016
Executive in Residence at the John Chambers
College of Business & Economics at WVU
*Committees: Audit / ERM, Finance, HR &
Compensation (Chair)*



James J. Cava, Jr.

Year Appointed: 2013
Managing Member, Cava & Banko, PLLC
*Committees: Audit / ERM, Finance, HR &
Compensation*



Larry F. Mazza

Year Appointed: 2005
President & CEO, MVB & MVB Bank



Harry Edward Dean III

Year Appointed: 2012
CEO, MVB Mortgage



Dr. Kelly R. Nelson

Year Appointed: 2005
Physician
*Committees: Audit / ERM, Nominating &
Corporate Governance (Chair), HR &
Compensation*



John W. Ebert

Year Appointed: 2013
President, J.W. Ebert Corporation
*Committees: Audit / ERM, Finance (Chair),
Nominating & Corporate Governance*



J. Christopher Pallotta

Year Appointed: 1999
Director, Bond Insurance Agency
Committees: Finance



Daniel W. Holt

Year Appointed: 2017
Co-Founder & CEO, BillGO
Committees: Nominating & Corporate Governance



Cheryl D. Spielman

Year Appointed: 2019
Retired Partner, Ernst & Young
Committees: Audit / ERM (Chair), Finance



Independent Chairman.



Non-Independent Director.



Independent Director.

SHAREHOLDER AND CONTACT INFORMATION

Shareholders Meeting

The Annual Meeting of Shareholders of MVB Financial Corp. (MVB) will be held at 9:00 a.m. on May 19, 2020. This meeting is for the purpose of considering and voting upon certain proposals. Only those shareholders of record at the close of business on March 25, 2020, shall be entitled to notice of the meeting and to vote at the meeting.

Transfer Agent & Shareholder Inquiries

The corporation's transfer agent is Computershare. Inquiries concerning transfer requirements, lost certificates, and change of address should be directed to:

Computershare

462 South 4th Street
Louisville, KY 40202
www.computershare.com

All Other Inquiries

Investor inquiries to the Company should be directed to:

Marcie Lipscomb
304.285.0020
mlipscomb@mvpbanking.com

All Other Inquiries About the Company Should Be Directed to:

MVB Financial Corp.
Attn: Investor Relations
301 Virginia Avenue
Fairmont, WV 26554
844-MVB-BANK (844-862-2265)

Form 10-K

A copy of the MVB Financial Corp. Form 10-K for 2019, which has been filed with the SEC, is available without attachments at no charge upon written request and is also available at <http://ir.mvpbanking.com>.

Inquiries should be directed to the Investor Relations contact above.

Independent Registered Accounting Firm
Dixon Hughes Goodman LLP
809 Glen Eagles Court, Suite 200
Baltimore, MD 21286

Stock Market Listing

MVB Financial Corp. stock is traded on The Nasdaq Capital Market under the symbol: MVBF.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019

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

For the transition period from _____ to _____

Commission file number 000-50567



FINANCIAL

MVB Financial Corp.

(Exact name of registrant as specified in its charter)

West Virginia

(State or other jurisdiction of incorporation or organization)

20-0034461

(I.R.S. Employer Identification No.)

301 Virginia Avenue, Fairmont, WV

(Address of principal executive offices)

26554

(Zip Code)

Registrant's telephone number, including area code (304) 363-4800

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$1.00 Par Value Per Share	MVBF	The Nasdaq Stock Market LLC (Nasdaq Capital Market)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) Act. Yes No

Indicate by check mark whether the registrant (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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

Based upon the average selling price of sales known to the registrant of the common shares of the registrant during the period through June 30, 2019, the aggregate market value of the common shares of the registrant held by non-affiliates during that time was \$175,928,132. For this purpose, certain executive officers and directors are considered affiliates.

Portions of the registrant's definitive proxy statement relating to the Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

As of March 12, 2020, the registrant had 11,946,789 shares of common stock outstanding with a par value of \$1.00 per share.

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PART I

ITEM 1. BUSINESS

Corporate Overview

MVB Financial Corp. (the “Company”) is a financial holding company and was organized in 2003. MVB operates principally through its wholly-owned subsidiary, MVB Bank, Inc. (“MVB Bank” or the “Bank”). MVB Bank’s operating subsidiaries include Potomac Mortgage Group (“PMG” which began doing business under the registered trade name “MVB Mortgage”), MVB Insurance, LLC (“MVB Insurance”), MVB Community Development Corporation (“MVB CDC”), and ProCo Global, Inc. (“ProCo” which began doing business under the registered trade name Chartwell Compliance “Chartwell”).

MVB Bank was chartered in 1997 and commenced operations in 1999.

In 2012, MVB Bank acquired Potomac Mortgage Group, Inc. (“PMG” which 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 2013, this fifty percent interest (50%) in LSP was reduced to a twenty-five percent (25%) interest and in 2017, a forfeiture of a partial interest occurred, which increased the interest owned to thirty-three percent (33%). At this time, LSP began doing business as Lenderworks.

MVB Insurance was originally formed in 2000. In 2013, MVB Insurance became a direct subsidiary of the Company. MVB Insurance continues to operate its title insurance business, which is immaterial in terms of revenue. The Company reorganized MVB Insurance as a subsidiary of the Bank in 2016.

MVB CDC was formed in 2017 and was created as a means to provide opportunities for loans and investments that help to increase access to equity capital in under-served urban and rural areas of West Virginia and our market areas in Virginia. MVB CDC promotes specific bank-driven economic development strategies, provides for effective support for its CRA compliance strategy, and helps to support positive local reputation of the Bank through marketing and visible activities in the communities where we live and work.

Chartwell Compliance, based from Bethesda, Maryland, was acquired by MVB on September 13, 2019. Chartwell Compliance provides integrated regulatory compliance, state licensing, financial crimes prevention and enterprise risk management services that include consulting, outsourcing, testing and training solutions. Chartwell has expanded its services to both Fintech clients and banks, in coordination with MVB Bank’s current compliance officers, to help create and implement strategy and provide expert compliance resources to aid MVB in carrying out stringent and faster new client due diligence.

Business Overview

The Company’s primary business activities, through its subsidiaries, are primarily community banking and mortgage banking. The Bank offers its customers a full range of products and services including:

- Various demand deposit accounts, savings accounts, money market accounts, and certificates of deposit;
- Commercial, consumer, and real estate mortgage loans and lines of credit;
- Debit cards;
- Cashier’s checks;
- Safe deposit rental facilities; and
- Non-deposit investment services.

The Company is also involved in new innovative strategies to provide independent banking to corporate clients throughout the United States by leveraging recent investments in Fintech. The dedicated Fintech sales team is based in Salt Lake City, UT and specializes in providing banking services to corporate Fintech clients, with an overarching focus on operational risk and compliance. This business line has the potential for fee income revenue as relationships grow.

The Bank’s financial products and services are offered through its financial service locations and automated teller machines (“ATMs”) in West Virginia and Virginia, as well as telephone and internet-based banking through both personal computers and mobile devices. Non-deposit investment services are offered through an association with a broker-dealer. The Bank has deployed Automated Interactive Teller machines (“AITs”) in several branch locations. AITs provide services by featuring video interaction

with a bank employee upon request. A customer can deposit cash and checks and withdraw cash, as well as a variety of other services typically occurring in a traditional branch location.

Since its opening in 1999, the Bank has experienced significant growth in assets, loans, and deposits due to strong community and customer support in Marion and Harrison counties in West Virginia, expansion into Jefferson, Berkeley, Monongalia, and Kanawha counties in West Virginia and, most recently, into Fairfax and Loudoun counties in Virginia. Since the acquisition of PMG, mortgage banking is now a much more significant focus, which has opened increased market opportunities in the Washington, DC metropolitan region and added enough volume to further diversify the Company’s revenue stream.

The Company’s business activities include three reportable segments: commercial and retail banking, mortgage banking, and a financial holding company. For a discussion of each of these reporting segments, please see Note 20, “Segment Reporting” of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Primary Market Area and Customers

The Company considers its primary market area to be comprised of those counties where it has a physical branch presence and their contiguous counties. This includes Marion, Harrison, Jefferson, Berkeley, Monongalia, and Kanawha counties of West Virginia and Fairfax and Loudoun counties of Virginia. The Bank currently operates a total of fifteen full-service banking branches: twelve in West Virginia and three in Virginia. MVB Mortgage operates eleven mortgage-only offices, located in Virginia, within the Washington, DC metropolitan area, Maryland, North Carolina, South Carolina, Georgia, and Florida. In addition, MVB Mortgage has mortgage loan originators located at select Bank locations throughout West Virginia.

The Company originates various types of loans, including commercial and commercial real estate loans, residential real estate loans, home equity lines of credit, real estate construction loans, and consumer loans (loans to individuals). In general, the Company retains most of its originated loans (exclusive of long-term, fixed rate residential mortgages that are sold). However, loans originated in excess of the Bank’s legal lending limit are participated to other banking institutions and the servicing of those loans is retained by the Bank.

The current economic climate in the Company’s primary market areas reflect economic climates that are consistent with the general national climate. Unemployment in the United States was 3.4%, 3.7% and 3.9% in 2019, 2018, and 2017, respectively. The unemployment levels in the Company’s primary market areas were as follows for the periods indicated:

	December 2019	December 2018	December 2017
Berkeley County, WV	3.0 %	3.6 %	3.5 %
Harrison County, WV	4.5 %	4.2 %	4.5 %
Jefferson County, WV	2.7 %	3.0 %	2.9 %
Marion County, WV	5.0 %	5.1 %	5.5 %
Monongalia County, WV	3.4 %	3.9 %	3.5 %
Kanawha County, WV	4.4 %	4.7 %	5.0 %
Fairfax County, VA	1.9 %	2.1 %	2.5 %
Loudoun County, VA	1.9 %	2.1 %	2.6 %

Segment Reporting

The Company has identified three reportable segments: commercial and retail banking; mortgage banking; and financial holding company. Insurance services was previously identified as a reportable segment until entering into the Asset Purchase Agreement with USI, as discussed above and in Note 21, “Discontinued Operations” of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. Revenue from commercial and retail banking activities consists primarily of interest earned on loans and investment securities and service charges on deposit accounts. Revenue from financial holding company activities is mainly comprised of intercompany service income and dividends.

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.

On June 30, 2016, the Company entered into an Asset Purchase Agreement with USI Insurance Services (“USI”), in which USI

purchased substantially all of the assets and assumed certain liabilities of MVB Insurance, which resulted in a pre-tax gain of \$6.9 million, as discussed in Note 21, "Discontinued Operations" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. MVB Insurance retained the assets related to, and continues to operate, its title insurance business. The title insurance business is immaterial in terms of revenue.

Based on a measurement period that ended June 30, 2019, the Company earned and was reasonably assured to receive an estimated earn-out payment of \$600 thousand related to the Asset Purchase Agreement with USI. This estimate was recorded as contingent consideration from discontinued operations. On August 27, 2019, the Company adjusted the estimate recorded in the second quarter of 2019 to match the earn-out payment received of \$575 thousand.

For more information about each of the Company's reportable segments, please refer to Note 20, "Segment Reporting" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Commercial Loans

At December 31, 2019, the Bank had outstanding approximately \$1.1 billion in commercial loans, including commercial, commercial real estate, financial and agricultural loans. These loans represented approximately 77.4% of the total aggregate loan portfolio as of that date.

Lending Practices. Commercial lending entails significant additional risks as compared with consumer lending (i.e., single-family residential mortgage lending, and installment lending). In addition, the payment experience on commercial loans typically depends on adequate cash flow of a business and thus may be subject, to a greater extent, to adverse conditions in the general economy or in a specific industry. Loan terms include amortization schedules commensurate with the purpose of each loan, the source of repayment and the risk involved. The primary analysis technique used in determining whether to grant a commercial loan is the review of a schedule of estimated cash flows to evaluate whether anticipated future cash flows will be adequate to service both interest and principal due. In addition, the Bank reviews collateral to determine its value in relation to the loan in the event of a foreclosure.

The Bank evaluates all new commercial loans and the Credit Department facilitates an annual loan review process that ensures that a significant portion of the commercial loan portfolio, typically a minimum of 50%, is reviewed each year under a risk-based approach. If deterioration in credit worthiness has occurred, the Bank takes prompt action designed to assure repayment of the loan. Upon detection of the reduced ability of a borrower to meet original cash flow obligations, the loan is considered a classified loan and reviewed for possible downgrading or placement on non-accrual status.

Consumer Loans

At December 31, 2019, the Bank had outstanding consumer loans in an aggregate amount of approximately \$3.7 million or approximately 0.3% of the aggregate total loan portfolio.

Lending Practices: Consumer loans generally involve more risk as to collectability than mortgage loans because of the type and nature of the collateral and, in certain instances, the absence of collateral. As a result, consumer lending collections are dependent upon the borrower's continued financial stability, and thus are more likely to be adversely affected by employment loss, personal bankruptcy, or adverse economic conditions. Credit approval for consumer loans requires demonstration of sufficiency of income to repay principal and interest due, stability of employment, a positive credit record and sufficient collateral for secured loans. It is the policy of the Bank to review its consumer loan portfolio monthly and to charge-off loans that do not meet its standards and to adhere strictly to all laws and regulations governing consumer lending.

Real Estate Loans

At December 31, 2019, the Bank had approximately \$306.7 million of residential real estate loans, home equity lines of credit, and construction mortgages outstanding, representing 22.3% of total loans outstanding.

Lending Practices: The Bank generally requires that the residential real estate loan amount be no more than 80% of the purchase price or the appraised value of the real estate securing the loan, unless the borrower obtains private mortgage insurance for the percentage exceeding 80%. Occasionally, the Bank may lend up to 100% of the appraised value of the real estate. Loans made in this lending category are generally one to ten-year adjustable rate, fully amortizing to maturity mortgages. MVB Bank

also originates fixed rate real estate loans and generally sells these loans in the secondary market. Most real estate loans are secured by first mortgages with evidence of title in favor of the Bank in the form of an attorney's opinion of the title or a title insurance policy. MVB Bank also requires proof of hazard insurance with the Bank named as the mortgagee and as the loss payee. Full appraisals are obtained from licensed appraisers for the majority of loans secured by real estate.

Home Equity Loans: Home equity lines of credit are generally made as second mortgages by MVB Bank. The maximum amount of a home equity line of credit is generally limited to 80% of the appraised value of the property less the balance of the first mortgage. The Bank will lend up to 89.9% of the appraised value of the property at higher interest rates which are considered compatible with the additional risk assumed in these types of loans. The home equity lines of credit are written with 10 year terms, but are subject to review upon request for renewal.

Construction Loans: Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost (including interest) of construction. If the estimate of construction cost proves to be inaccurate, MVB may advance funds beyond the amount originally committed to permit completion of the project. Also, note that with respect to construction loans, the Bank generally makes loans to the homeowner and not to builders. At December 31, 2019, residential mortgage construction loans to individuals totaled approximately \$130.9 million with an average life of 12 months and are generally refinanced to a permanent loan upon completion of the construction.

Competition

The Company experiences significant competition in attracting depositors and borrowers. Competition in lending activities comes principally from other commercial banks, savings associations, insurance companies, governmental agencies, credit unions, brokerage firms and pension funds. The primary factors in competing for loans are interest rate and overall lending services. Competition for deposits comes from other commercial banks, savings associations, money market funds and credit unions as well as from insurance companies and brokerage firms. The primary factors in competing for deposits are interest rates paid on deposits, account liquidity, convenience of office location and overall financial condition. The Company believes that its community approach provides flexibility, which enables the Bank to offer an array of banking products and services. MVB Mortgage faces significant competition from both traditional financial institutions and other national and local mortgage banking operations.

The Company primarily focuses on the Marion, Harrison, Jefferson, Berkeley, Monongalia and Kanawha County markets in West Virginia and the northern Virginia area for its products and services. Management believes it has developed a level of expertise in serving this area.

The Company operates under a "needs-based" selling approach that management believes has proven successful in serving the financial needs of most customers. It is not the Company's strategy to compete solely on the basis of interest rates. Management believes that a focus on customer relationships and service will promote our customers' continued use of our financial products and services and will lead to enhanced revenue opportunities.

Employees

As of December 31, 2019, the Company had 443 employees, including 429 full-time employees.

Supervision and Regulation

The Company, the Bank and its subsidiaries are subject to extensive regulation under federal and state laws. The Company's earnings are affected by general economic conditions, management policies, changes in state and federal laws and regulations and actions of various regulatory authorities, including those referred to in this section. The following discussion describes elements of an extensive regulatory framework applicable to bank holding companies, financial holding companies, and banks and contains specific information about the Company. Regulation of banks, bank holding companies, and financial holding companies is intended primarily for the protection of depositors, the insurance fund of the Federal Deposit Insurance Corporation ("FDIC") and the stability of the financial system, rather than for the protection of shareholders and creditors.

In addition to banking laws, regulations and regulatory agencies, the Company is subject to various other laws, regulations, supervision and examination by other regulatory agencies, all of which directly or indirectly affect the operations and management of the Company and its ability to make distributions to shareholders. State and federal law govern the activities in

which the Bank engages, the investments it makes, and the aggregate amount of loans that may be granted to one borrower. Various consumer and compliance laws and regulations also affect the Company's operations.

The following discussion is qualified in its entirety by reference to the full text of the statutes, regulations and policies that are described. Such statutes, regulations and policies are continually under review by Congress and state legislatures and federal and state regulatory agencies. The likelihood and timing of any such changes and the impact such changes may have on the Company is impossible to determine with any certainty. A change in statutes, regulations or regulatory policies applicable to the Company and its subsidiaries could have a material effect on our business, financial condition or our results of operations.

Financial Regulatory Reform

During the past several years, there has been a significant increase in regulation and regulatory oversight for U.S. financial services firms, primarily resulting from the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") in 2010. The Dodd-Frank Act is extensive, complicated, and comprehensive legislation that impacts practically all aspects of a banking organization, representing a significant overhaul of many aspects of the regulation of the financial services industry. The Dodd-Frank Act implements numerous and far-reaching changes that affect financial companies, including banks, bank holding companies, and financial holding companies such as the Company. The Dodd-Frank Act imposes prudential regulation on depository institutions and their holding companies. As such, the Company is subject to more stringent standards and requirements with respect to (1) bank and nonbank acquisitions and mergers, (2) the "financial activities" in which it engages as a financial holding company, (3) affiliate transactions and (4) proprietary trading, among other provisions.

On May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (the "EGRRCPA") was enacted, which repeals or modifies certain provisions of the Dodd-Frank Act and eases regulations on all but the largest banks. These modifications, among other changes: (i) exempt banks with less than \$10 billion in assets from the ability-to-repay requirements for certain qualified residential mortgage loans held in portfolio; (ii) eliminate the requirement for appraisals for certain transactions valued at less than \$400,000 in rural areas; (iii) exempt banks that originate fewer than 500 open-end and 500 closed-end mortgages from the Home Mortgage Disclosure Act's expanded data disclosures; (iv) clarify that, subject to various conditions, reciprocal deposits of another depository institution obtained using a deposit broker through a deposit placement network for purposes of obtaining maximum deposit insurance would not be considered brokered deposits subject to the FDIC's brokered-deposit regulations; (v) raise eligibility for the 18-month exam cycle from \$1 billion to banks with \$3 billion in assets; and (vi) simplify capital calculations by requiring regulators to establish for institutions under \$10 billion in assets a community bank leverage ratio (tangible equity to average consolidated assets) at a percentage not less than 8% and not greater than 10% that upon the election of a bank would replace the risk-based capital requirements. In addition, the Board of Governors of the Federal Reserve System ("Federal Reserve Board") was required to raise the asset threshold under its Small Bank Holding Company Policy Statement from \$1 billion to \$3 billion for bank holding companies that are exempt from consolidated capital requirements, provided that such companies meet certain other conditions such as not engaging in significant nonbanking activities.

Certain provisions of the Dodd-Frank Act and other laws, such as the EGRRCPA, are subject to further rulemaking, guidance and interpretation by the applicable federal regulators. New regulations and statutes are regularly proposed and/or adopted that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating and doing business in the United States. Changes in leadership at various federal banking agencies, including the Federal Reserve System (the "Federal Reserve"), can also change the policy direction of these agencies. Certain of these recent proposals and changes are described below. The Company will continue to evaluate the impact of any new regulations so promulgated, including changes in regulatory costs and fees, modifications to consumer products or disclosures required by the Consumer Financial Protection Bureau ("CFPB") and the requirements of the enhanced supervision provisions, among others.

Regulatory Agencies

The Company is a legal entity separate and distinct from the Bank and the Bank's wholly-owned subsidiaries. As a financial holding company and a bank holding company, the Company is regulated under the Bank Holding Company Act of 1956, as amended ("BHCA"), and it and its subsidiaries are subject to inspection, examination and supervision by the Federal Reserve Board. The BHCA provides generally for "umbrella" regulation of financial holding companies such as the Company by the Federal Reserve Board, and for functional regulation of banking activities by bank regulators, securities activities by securities regulators, and insurance activities by insurance regulators. The Company is also under the jurisdiction of the Securities and Exchange Commission ("SEC") and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as administered by the SEC.

The Bank is a West Virginia state chartered bank. The Bank is not a member bank of the Federal Reserve ("non-member bank").

Accordingly, the West Virginia Division of Financial Institutions and the FDIC are the primary regulators of the Bank and the Bank's subsidiaries.

Bank Holding Company Activities

In general, the BHCA limits the business of bank holding companies to banking, managing or controlling banks and other activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. In addition, bank holding companies that qualify and elect to be financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the Federal Reserve Board in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as solely determined by the Federal Reserve Board), without prior approval of the Federal Reserve Board. Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments. Under current federal law, as a bank holding company, the Company has elected to become a financial holding company.

Most of the financial activities that are permissible for financial holding companies also are permissible for a bank's "financial subsidiary," except for insurance underwriting, insurance company portfolio investments, real estate investments and development, and merchant banking, which must be conducted by a financial holding company. In order for a financial subsidiary of a bank to engage in permissible financial activities, federal law requires, among other conditions, that the parent bank be well managed and have at least a satisfactory Community Reinvestment Act rating, and the parent bank and all of its bank affiliates must be well capitalized.

To maintain financial holding company status, a financial holding company and all of its depository institution subsidiaries must be "well capitalized" and "well managed" under applicable Federal Reserve Board regulations and the depository institution subsidiaries controlled by the company must have at least a satisfactory Community Reinvestment Act rating. A depository institution subsidiary is considered to be "well capitalized" if it satisfies the requirements for this status discussed in the sections captioned "Capital Requirements" and "Prompt Corrective Action," included elsewhere in this item. A depository institution subsidiary is considered "well managed" if it received a composite rating of 1 or 2 and management rating of at least "satisfactory" in its most recent examination. If a financial holding company ceases to meet these capital and management requirements, the Federal Reserve Board's regulations provide that the financial holding company must enter into an agreement with the Federal Reserve Board to comply with all applicable capital and management requirements. Until the financial holding company returns to compliance, the Federal Reserve Board may impose limitations or conditions on the conduct of its activities, and the company may not commence any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the Federal Reserve Board. If the company does not return to compliance within 180 days, the Federal Reserve Board may require divestiture of the holding company's depository institutions. If a depository institution receives a rating of less than satisfactory under the Community Reinvestment Act, the financial holding company may not commence any additional financial activity or acquire a company engaged in financial activity, until the bank subsidiary has achieved at least a rating of satisfactory under the Community Reinvestment Act.

See the section captioned "Community Reinvestment Act" included elsewhere in this item.

The Federal Reserve Board has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve Board has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

As required by the EGRRCPA, in August 2018, the Federal Reserve Board issued an interim final rule that expanded applicability of the Federal Reserve Board's Small Bank Holding Company Policy Statement. The interim final rule raised the policy statement's asset threshold from \$1 billion to \$3 billion in total consolidated assets for a bank holding company or savings and loan holding company that: (1) is not engaged in significant nonbanking activities; (2) does not conduct significant off-balance sheet activities; and (3) does not have a material amount of debt or equity securities, other than trust-preferred securities, outstanding that are registered with the SEC. The interim final rule provides that, if warranted for supervisory purposes, the Federal Reserve Board may exclude a company from the threshold increase. Management believes the Company meets the conditions of the Federal Reserve Board's Small Bank Holding Company Policy Statement and is therefore excluded from consolidated capital requirements and is subject to specific debt to equity ratio requirements. To be considered well capitalized, a company subject to the Small Bank Holding Company Policy Statement must meet certain requirements, including having a debt-to-equity ratio of 1.0:1 or less. Further, qualification as a small bank holding company allows the Company to file more abbreviated, and less frequent, consolidated and holding company reports with the Federal Reserve. The Bank remains subject to

regulatory capital requirements administered by the federal banking agencies.

Federal Securities Regulation

The Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act. We are subject to the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), which imposes numerous reporting, accounting, corporate governance and business practices on companies, as well as financial and other professionals who have involvement with the U.S. public markets. We are generally subject to these requirements and applicable SEC rules and regulations.

Acquisitions

The BHCA, the Bank Merger Act, West Virginia banking law, and other federal and state statutes regulate acquisitions of commercial banks and their parent holding companies. The BHCA requires the prior approval of the Federal Reserve Board for the direct or indirect acquisition by a bank holding company of more than 5.0% of the voting shares of a commercial bank or its parent holding company. Under the Bank Merger Act, the prior approval of the FDIC or other appropriate bank regulatory authority is required for a non-member bank to merge with another bank or purchase substantially all of the assets or assume any deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant’s performance record under the Community Reinvestment Act (see the section captioned “Community Reinvestment Act” included elsewhere in this item) and its compliance with consumer protection laws and the effectiveness of the subject organizations in combating money laundering activities.

Current federal law authorizes interstate acquisitions of banks and bank holding companies without geographic limitation. Furthermore, a bank headquartered in one state is authorized to merge with a bank headquartered in another state, subject to market share limitations and any state requirement that the target bank shall have been in existence and operating for a minimum period of time. Under the Dodd-Frank Act, national and state-chartered banks may open an initial branch in a state other than its home state by establishing a de novo branch at any location in such host state at which a bank chartered in such a host state could establish a branch. Applications to establish such branches must be filed with the appropriate bank regulator(s).

Other Safety and Soundness Regulations

The Federal Reserve Board has enforcement powers over bank holding companies and their nonbanking subsidiaries. The Federal Reserve Board has authority to prohibit activities that represent unsafe or unsound practices or constitute violations of law, rule, regulation, administrative order or written agreement with a federal regulator. These powers may be exercised through the issuance of cease and desist orders, civil money penalties or other actions.

Federal and state banking regulators also have broad enforcement powers over the Bank, including the power to impose fines and other civil and criminal penalties, and to appoint a receiver in order to conserve the assets of the Bank for the benefit of depositors and other creditors. The West Virginia Commissioner of Banking also has the authority to take possession of a West Virginia state bank in certain circumstances, including, among other things, when it appears necessary in order to protect or preserve the assets of that bank for the benefit of depositors and other creditors.

Anti-Money Laundering and the USA PATRIOT Act

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001, or the USA Patriot Act, substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The USA Patriot Act contains anti-money laundering measures affecting insured depository institutions, broker-dealers and certain other financial institutions. Financial institutions are prohibited from entering into specified financial transactions and account relationships and must use enhanced due diligence procedures in their dealings with certain types of high-risk customers and implement a written customer identification program. Financial institutions must take certain steps to assist government agencies in detecting and preventing money laundering and report certain types of suspicious transactions. The USA Patriot Act includes the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001, which grants the Secretary of the U.S. Treasury broad authority to establish regulations and to impose requirements and restrictions on financial institutions’ operations. The U.S. Treasury has issued a number of regulations to implement the USA Patriot Act under this authority requiring financial institutions

to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. Regulatory authorities routinely examine financial institutions for compliance with these obligations, and failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Office of Foreign Assets Control Regulation

The U.S. Treasury Department's Office of Foreign Assets Control, or OFAC, administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. We are responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Incentive Compensation

The Federal Reserve Board reviews, as part of its regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews are tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of this supervisory initiative will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In June 2010, the Federal Reserve Board, Office of the Comptroller of the Currency ("OCC"), and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

In June 2016, the Federal Reserve Board, other federal banking agencies, and the SEC jointly published a proposed rulemaking designed to strengthen the incentive-based compensation practices at covered institutions by better aligning the financial rewards for covered persons with an institution's long-term safety and soundness. The proposed rule uses a tiered approach that applies provisions to covered financial institutions according to three categories of average total consolidated assets: Level 1 (\$250 billion or more), Level 2 (\$50 billion to \$250 billion), and Level 3 (\$1 billion to \$50 billion). For all covered institutions, the proposed rule would (i) prohibit types and features of incentive-based compensation arrangements that encourage inappropriate risks because they are "excessive" or "could lead to material financial loss" at a covered institution, (ii) require incentive-based compensation arrangements to adhere to three basic principles: (1) a balance between risk and reward; (2) effective risk management and controls; and (3) effective governance, and (iii) require appropriate board or directors (or committee) oversight and record keeping and disclosures to the appropriate agency. For Level 1 and Level 2 institutions, the proposed rule would (i) require the following: the deferral of awards for senior executive officers and significant risk takers; the subjecting of unpaid and unvested incentive compensation to the risk of downward adjustments or forfeiture; the subjecting of paid incentive compensation to the risk of "clawback;" establishing a board compensation committee; expanded risk-management and control standards; additional record keeping requirements for senior executive officers and significant risk takers; and detailed policies and procedures to ensure rule compliance and (ii) prohibit certain inappropriate practices, including: the purchase of hedging instruments that offset decreases in the value of incentive compensation; allowing a range of payouts that might encourage risk taking; and basing compensation solely on comparison to peer and volume-driven incentives without regard to transaction quality or compliance with sound risk management. The comment period ended in July 2016.

If these or other regulations are adopted in a form similar to that initially proposed, they will impose limitations on the manner in which we may structure compensation for our executives.

In addition, SEC regulations require public companies, like the Company, to provide various disclosures about executive compensation in annual reports and proxy statements and to present to their shareholders a non-binding vote on the approval of executive compensation.

The scope and content of the U.S. banking regulators' policies on incentive compensation and SEC rulemaking with respect to executive compensation are continuing to develop.

The Volcker Rule

The Volcker Rule implements section 619 of the Dodd-Frank Act and prohibits insured depository institutions and affiliated companies (together, "banking entities") from engaging in short-term proprietary trading of certain securities, derivatives, and commodity futures, and options on these instruments, for their own account and prohibits banking entities from investing in certain types of funds ("covered funds"). EGRRCPA exempts from the Volcker Rule banking entities with \$10 billion or less in total consolidated assets and have total trading assets and trading liabilities that are less than 5% of total consolidated assets. Implementation of this provision is subject to a rulemaking which is in process. As of July 22, 2019, the effective date for the rulemaking implementing the EGRRCPA exemption, the Company and the Bank are below these thresholds and thus exempt from the Volcker Rule.

Limit on Dividends

The Company is a legal entity separate and distinct from the Bank and the Bank's wholly-owned subsidiaries. The Company's ability to obtain funds for the payment of dividends and for other cash requirements largely depends on the amount of dividends the Bank declares. However, the Federal Reserve Board expects the Company to serve as a source of financial and managerial strength to the Bank to reduce potential loss exposure to the Bank's depositors and to the FDIC insurance fund in the event the Bank becomes insolvent or is in danger of becoming insolvent. Under this requirement, the Company is expected to commit resources to support the Bank, including at times when the Company may not be in a financial position to provide such resources. Any capital loans by the Company to the Bank would be subordinate in right of payment to depositors and to certain other indebtedness of the Bank. In the event of the Company's bankruptcy, any commitment by the Company to a federal bank regulatory agency to maintain the capital of the Bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Accordingly, the Federal Reserve Board may require the Company to retain capital for further investment in the Bank, rather than pay dividends to its shareholders. The Bank may not pay dividends to the Company if, after paying those dividends, the Bank would fail to meet the required minimum levels under the risk-based capital guidelines and the minimum leverage ratio requirements. The Bank must have the approval from the West Virginia Division of Financial Institutions if a dividend in any year would cause the total dividends for that year to exceed the sum of the current year's net earnings and the retained earnings for the preceding two years, less required transfers to surplus. These provisions could limit the Company's ability to pay dividends on its outstanding common shares.

In addition, the Company and the Bank are subject to other regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums (See "Capital Requirements" below). The appropriate federal regulatory authority is authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The appropriate federal regulatory authorities have stated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve Board has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

Transactions with Affiliates

Transactions between the Bank and its subsidiaries, on the one hand, and the Company or any other subsidiary, on the other hand, are regulated under federal banking law. The Federal Reserve Act, made applicable by section 8(j) of the Federal Deposit Insurance Act (the "FDIA"), imposes quantitative and qualitative requirements and collateral requirements on covered transactions by the Bank with, or for the benefit of, its affiliates, and generally requires those transactions to be on terms at least as favorable to the Bank as if the transaction were conducted with an unaffiliated third party. Covered transactions are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets

(unless otherwise exempted by the Federal Reserve Board) from the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. In general, any such transaction by the Bank or its subsidiaries must be limited to certain thresholds on an individual and aggregate basis and, for credit transactions with any affiliate, must be secured by designated amounts of specified collateral.

Federal law also limits a bank's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of non-repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons individually and in the aggregate.

Capital Requirements

The Bank is required to comply with applicable capital adequacy standards established by the FDIC ("Capital Rules"). The Company is exempt from the Federal Reserve Board's capital adequacy standards as it believes it meets the requirements of the Small Bank Holding Company Policy Statement. State chartered banks, such as the Bank, are subject to similar capital requirements adopted by the West Virginia Division of Financial Institutions.

The Capital Rules, among other things, (i) include a "Common Equity Tier 1" ("CET1") measure, (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments to capital as compared to existing regulations.

Under the Capital Rules, the minimum capital ratios effective as of January 1, 2015 are:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the leverage ratio").

The Capital Rules also include a new "capital conservation buffer", composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and increased by 0.625% on each subsequent January 1, until it reached 2.5% on January 1, 2019. The Capital Rules also provide for a "countercyclical capital buffer" that is only applicable to certain covered institutions and does not have any current applicability to the Company or the Bank. The capital conservation buffer is designed to absorb losses during periods of economic stress and effectively increases the minimum required risk-weighted capital ratios. Banking institutions with a ratio of CET1 to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer and, if applicable, the countercyclical capital buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Since fully phased in on January 1, 2019, the Capital Rules require the Bank to maintain an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, (iii) a minimum ratio of Total capital to risk-weighted assets of at least 10.5%; and (iv) a minimum leverage ratio of 4%. The Capital Rules also provide for a number of deductions from and adjustments to CET1.

The Capital Rules prescribe a standardized approach for risk weightings that expanded the risk-weighting categories from the general risk-based capital rules to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

In September 2017, the Federal Reserve Board, along with other bank regulatory agencies, proposed amendments to its capital requirements to simplify certain aspects of the capital rules for community banks, including the Bank, in an attempt to reduce the regulatory burden for such smaller financial institutions. In July 2019, the bank regulatory agencies finalized the rule which applies to banking organizations with less than \$250 billion in total consolidated assets and less than \$10 billion in total foreign exposure. The rule simplifies the capital treatment for mortgage servicing assets, certain deferred tax assets, investments in the capital instruments of unconsolidated financial institutions, and minority interest. The rule also allows bank holding companies to redeem common stock without prior approval unless otherwise required. Generally, the final rule is effective as of April 1, 2020, however banking organizations are permitted to use this simpler regulatory capital requirements as of January 1, 2020.

In June 2016, the Financial Accounting Standards Board (“FASB”) issued an update to the accounting standards for credit losses that included the Current Expected Credit Losses (“CECL”) methodology, which replaces the existing incurred loss methodology for certain financial assets. CECL became effective January 1, 2020. In December 2018, the federal bank regulatory agencies approved a final rule providing an option to phase-in, over a period of three years, the day-one regulatory capital effects resulting from the implementation of CECL.

Notwithstanding the foregoing, the EGRRCPA, simplifies capital calculations by requiring regulators to establish for insured depository institutions under \$10 billion in assets a community bank leverage ratio (“CBLR”) (tangible equity to average consolidated assets) at a percentage not less than 8% and not greater than 10% that such institutions may elect to replace the general applicable risk-based capital requirements under the Capital Rules. Such institutions that meet the CBLR will automatically be deemed to be well-capitalized, although the regulators retain the flexibility to determine that the institution may not qualify for the CBLR test based on the institution’s risk profile. In November 2019, the federal bank regulators issued a final rule on the CBLR, setting the minimum required CBLR at 9%. Depository institutions and depository institution holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9%, will be eligible to opt into the CBLR framework. Banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the regulators’ capital rules and, if applicable, will be considered to have met the well-capitalized ratio requirements for purposes of section 38 of the FDIA. The final rule was effective on January 1, 2020 and the CBLR framework will be available for banks to use in their March 31, 2020 Call Report.

Prompt Corrective Action

The FDIA requires among other things, the federal banking agencies to take “prompt corrective action” in respect of depository institutions that do not meet minimum capital requirements. The FDIA includes the following five capital tiers: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” A depository institution’s capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures, which reflect changes under the Capital Rules that became effective on January 1, 2015, are the total capital ratio, the CET1 capital ratio, the Tier 1 capital ratio and the leverage ratio.

A bank will be (i) “well capitalized” if the institution has a total risk-based capital ratio of 10.0% or greater, a CET1 capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) “adequately capitalized” if the institution has a total risk-based capital ratio of 8.0% or greater, a CET1 capital ratio of 4.5% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 4.0% or greater and is not “well capitalized”; (iii) “undercapitalized” if the institution has a total risk-based capital ratio that is less than 8.0%, a CET1 capital ratio less than 4.5%, a Tier 1 risk-based capital ratio of less than 6.0% or a leverage ratio of less than 4.0%; (iv) “significantly undercapitalized” if the institution has a total risk-based capital ratio of less than 6.0%, a CET1 capital ratio less than 3.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 3.0%; and (v) “critically undercapitalized” if the institution’s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank’s capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank’s overall financial condition or prospects for other purposes.

As noted above, the EGRRCPA eliminated these requirements for banks with less than \$10.0 billion in assets who elect to follow the CBLR.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be “undercapitalized.” “Undercapitalized” institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution’s capital. In addition, for a capital restoration plan to be acceptable, the depository institution’s parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution’s total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a

depository institution fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.”

“Significantly undercapitalized” depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become “adequately capitalized,” requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. “Critically undercapitalized” institutions are subject to the appointment of a receiver or conservator.

The appropriate federal banking agency may, under certain circumstances, reclassify a well-capitalized insured depository institution as adequately capitalized. The FDIA provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice. The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

In addition to the “prompt corrective action” directives, failure to meet capital guidelines may subject a banking organization to a variety of other enforcement remedies, including additional substantial restrictions on its operations and activities, termination of deposit insurance by the FDIC and, under certain conditions, the appointment of a conservator or receiver.

For further information regarding the capital ratios and leverage ratio of the Company and the Bank, see the discussion under the section captioned “Capital/Stockholders’ Equity” included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 14, “Regulatory Capital Requirements” of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Safety and Soundness Standards

The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the “prompt corrective action” provisions of the FDIA. See “Prompt Corrective Action” above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Deposit Insurance

The Bank’s deposits are insured by the FDIC up to the limits set forth under applicable law. The FDIC imposes a risk-based deposit premium assessment system that determines assessment rates for an insured depository institution based on an assessment rate calculator, which is based on a number of elements to measure the risk each insured depository institution poses to the FDIC insurance fund. The assessment rate is applied to total average assets less tangible equity, as defined under the Dodd-Frank Act. The assessment rate schedule can change from time to time at the discretion of the FDIC, subject to certain limits. Under the current system, premiums are assessed quarterly.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Depositor Preference

The FDIA provides that, in the event of the “liquidation or other resolution” of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including depositors whose deposits are payable only outside of the United States and the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Federal Home Loan Bank (“FHLB”) membership

The FHLB provides credit to its members in the form of advances. As a member of the FHLB of Pittsburgh, the Bank must maintain an investment in the capital stock of that FHLB in an amount equal to 0.10% of the calculated Member Asset Value (“MAV”) plus 4.00% of outstanding advances and 0.75% of outstanding letters of credit. The MAV is determined by taking line item values for various investment and loan classes and applying an FHLB haircut to each item. At December 31, 2019, the Bank held capital stock of FHLB in the amount of \$15.0 million.

Federal and State Consumer Laws

The Company and the Bank are subject to a number of federal and state consumer protection laws that extensively govern our relationship with our customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act (“HMDA”), the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act and these laws’ respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices, restrict our ability to raise interest rates and subject us to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys’ fees. Federal bank regulators, state attorneys general, and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which we operate and civil money penalties. Failure to comply with consumer protection requirements may also result in our failure to obtain any required bank regulatory approval for merger or acquisition transactions we may wish to pursue or our prohibition from engaging in such transactions even if approval is not required.

The CFPB is a federal agency responsible for implementing federal consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations. The CFPB also has examination and enforcement authority over all banks with more than \$10 billion in assets, as well as their affiliates, which authority would not apply to the Company or the Bank. As the Bank’s principal federal regulator, the FDIC has examination and enforcement authority over the Bank.

The CFPB has concentrated much of its rulemaking efforts on a variety of mortgage-related topics required under the Dodd-Frank Act, including mortgage origination disclosures, minimum underwriting standards and ability to repay, high-cost mortgage lending, and servicing practices. The CFPB issued final rules changing the reporting requirements for lenders under the HMDA. The new rules expand the range of transactions subject to these requirements to include most securitized residential mortgage loans and credit lines. The rules also increase the overall amount of data required to be collected and submitted, including additional data points about the loans and borrowers. The expanded data is being collected as of January 1, 2018.

Financial Privacy

Federal law currently contains extensive customer privacy protection provisions, including substantial customer privacy protections provided under the Financial Services Modernization Act of 1999 (commonly known as the Gramm-Leach-Bliley Act). Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution’s policies and procedures regarding the handling of customers’ nonpublic personal

financial information. These provisions also provide that, except for certain limited exceptions, an institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means. In December 2015, Congress amended the Gramm-Leach-Bliley Act privacy provisions to include an exception under which if a financial institution meets certain conditions, it is not required to provide annual privacy notices to customers. In August 2018, the CFPB finalized a rule implementing this provision, and that rule became effective September 17, 2018.

Automated Overdraft Payment Regulation

Federal regulators have adopted consumer protection regulations and guidance related to automated overdraft payment programs offered by financial institutions. Regulation E prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machine and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. Financial institutions must also provide consumers with a notice that explains the financial institution's overdraft services, including the fees associated with the service and the consumer's choices. In addition, FDIC-supervised institutions must monitor overdraft payment programs for "excessive or chronic" customer use and undertake "meaningful and effective" follow-up action with customers that overdraw their accounts more than six times during a rolling 12-month period. Financial institutions must also impose daily limits on overdraft charges, review and modify check-clearing procedures, prominently distinguish account balances from available overdraft coverage amounts and ensure board and management oversight regarding overdraft payment programs.

Community Reinvestment Act

The Community Reinvestment Act of 1977 ("CRA") requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. The CRA requires the Bank's primary federal bank regulatory agency, the FDIC, to assess the Bank's record in meeting the credit needs of the communities served by the Bank, including low- and moderate-income neighborhoods and persons. Institutions are assigned one of four ratings: "Outstanding," "Satisfactory," "Needs to Improve" or "Substantial Noncompliance."

In order for a financial holding company to commence any new activity permitted by the BHCA, or to acquire any company engaged in any new activity permitted by the BHCA, each insured depository institution subsidiary of the financial holding company must have received a rating of at least "satisfactory" in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering a request for an approval of a proposed transaction to consolidate with or acquire the assets or assume the liabilities of an insured depository institution, or to open or relocate a branch office.

Cybersecurity

In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. We employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding our defensive measures, the threat from cyber-attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to date, we are not aware that we have experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, our systems and those of our customers and third-party service providers are under constant threat and it is possible that we could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature

and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by us and our customers. For further discussion of risks related to cybersecurity, see Item 1A, Risk Factors, of this Annual Report on Form 10-K.

Monetary Policy and Economic Conditions

The business of financial institutions is affected not only by general economic conditions, but also by the policies of various governmental regulatory agencies, including the Federal Reserve Board. The Federal Reserve Board regulates money and credit conditions and interest rates to influence general economic conditions primarily through open market operations in U.S. government securities, changes in the discount rate on bank borrowings and changes in the reserve requirements against depository institutions' deposits. These policies and regulations significantly affect the overall growth and distribution of loans, investments and deposits, and the interest rates charged on loans, as well as the interest rates paid on deposit accounts.

The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of financial institutions in the past and are expected to continue to have significant effects in the future. In view of the changing conditions in the economy and the money markets and the activities of monetary and fiscal authorities, the Company cannot predict future changes in interest rates, credit availability or deposit levels.

Effect of Environmental Regulation

The Company's primary exposure to environmental risk is through its lending activities. In cases when management believes environmental risk potentially exists, the Company mitigates its environmental risk exposures by requiring environmental site assessments at the time of loan origination to confirm collateral quality as to commercial real estate parcels posing higher than normal potential for environmental impact, as determined by reference to present and past uses of the subject property and adjacent sites. Environmental assessments are typically required prior to any foreclosure activity involving non-residential real estate collateral.

With regard to residential real estate lending, management reviews those loans with inherent environmental risk on an individual basis and makes decisions based on the dollar amount of the loan and the materiality of the specific credit.

The Company anticipates no material effect on anticipated capital expenditures, earnings or competitive position as a result of compliance with federal, state or local environmental protection laws or regulations.

Other Regulatory Matters

The Company is subject to examinations and investigations by federal and state banking regulators, as well as the SEC, various taxing authorities and various state regulators. The Company periodically receives requests for information from regulatory authorities in various states, including state insurance commissions and state attorneys general, securities regulators and other regulatory authorities, concerning the Company's business and accounting practices. Such requests are considered incidental to the normal conduct of business.

Future Legislation and Regulation

Congress may enact legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although enactment of the proposed legislation could impact the regulatory structure under which we operate and may significantly increase costs, impede the efficiency of internal business processes, require an increase in regulatory capital, require modifications to our business strategy, and limit our ability to pursue business opportunities in an efficient manner. A change in statutes, regulations or regulatory policies applicable to the Company or any of its subsidiaries could have a material, adverse effect on our business, financial condition and results of operations.

Corporate and available information

We file reports with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any other filings required by the SEC. We make available through our website (<http://www.mvbbanking.com>), free

of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information on our website is not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC.

The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ITEM 1A. RISK FACTORS

The following discussion sets forth some of the more important risk factors that could materially affect our financial condition, results of operations, business and prospects. Other factors that could affect the Company's financial condition and operations are discussed in the "Forward-Looking Statements" section below (Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations). The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or that management currently deems immaterial may also impair our business operations. You should carefully consider the risks and uncertainties described below together with all of the information included or incorporated by reference in this Annual Report on Form 10-K. This Annual Report on Form 10-K is qualified in its entirety by these risk factors.

If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected.

References to "we," "us," and "our" in this "Risk Factors" section refer to the Company and its subsidiaries, including the Bank, unless otherwise specified or unless the context otherwise requires.

Risks Related to Economic and Market Conditions

Our business depends upon the general economic conditions of the State of West Virginia and the Commonwealth of Virginia, and may be adversely affected by downturns in these and the other local economies in which we operate.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the markets where we operate, including the State of West Virginia and the Commonwealth of Virginia and the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment, natural disasters; or a combination of these or other factors.

While the U.S. economy experienced growth during 2019, with increasing exports, jobs, and manufacturing production, continued economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and savings habits. Such conditions, combined with continued oil price volatility, could have a material adverse effect on the credit quality of our loans and our business, financial condition and results of operations.

Our success depends primarily on the general economic conditions of the State of West Virginia and the Commonwealth of Virginia and the specific local markets in which we operate. Unlike larger national or other regional banks that are more geographically diversified, we provide banking and financial services primarily to customers across West Virginia and Virginia. The local economic conditions in these areas have a significant impact on the demand for our products and services as well as the ability of our customers to repay loans, the value of the collateral securing loans and the stability of our deposit funding sources. Moreover, approximately 46.8% of the securities in our municipal securities portfolio were issued by political subdivisions or agencies within the State of West Virginia and the Commonwealth of Virginia. A significant decline in general economic conditions in State of West Virginia and the Commonwealth of Virginia, whether caused by recession, inflation, unemployment, changes in oil prices, changes in securities markets, acts of terrorism, outbreak of hostilities or other international or domestic occurrences or other factors could impact these local economic conditions and, in turn, have a material adverse effect on our business, financial condition and results of operations.

A significant portion of our loans are secured by real estate concentrated in the State of West Virginia and the Commonwealth of Virginia, which may adversely affect our earnings and capital if real estate values decline.

Nearly 75.2% of our total loans are real estate interests (residential, nonresidential including both owner-occupied and investment real estate, and construction and land development) mainly concentrated in the State of West Virginia and the Commonwealth of Virginia, a relatively small geographic area. As a result, declining real estate values in these markets could negatively impact the value of the real estate collateral securing such loans. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values in satisfaction of any non-performing or defaulted loans, our earnings and capital could be adversely affected.

Changes in U.S. trade policies and other factors beyond our control, including the imposition of tariffs and retaliatory tariffs, may adversely impact our business, financial condition and results of operations.

Changes in U.S. trade policies and other factors beyond our control, including the imposition of tariffs and retaliatory tariffs, may adversely impact our business, financial condition and results of operations.

Following the U.S. presidential election in 2016, there has been discussion and dialogue regarding potential changes to U.S. trade policies, legislation, treaties and tariffs, including trade policies and tariffs affecting other countries, including China, the European Union, Canada and Mexico and retaliatory tariffs by such countries. Tariffs and retaliatory tariffs have been imposed, and additional tariffs and retaliatory tariffs have been proposed. Such tariffs, retaliatory tariffs or other trade restrictions on products and materials that our customers import or export could impact the prices of our customers' products, which could reduce demand for such products, reduce our customers' margins, and adversely impact their revenues, financial results and ability to service their debt. In addition, to the extent changes in the political environment have a negative impact on us or on the markets in which we operate our business, results of operations and financial condition could be materially and adversely impacted in the future.

Severe weather, natural disasters, pandemics, epidemics, acts of war or terrorism or other external events could have significant effects on our business.

Severe weather and natural disasters, including tornados, drought and floods, epidemics and pandemics, acts of war or terrorism or other external events or the fear of such events could have a significant effect on our ability to conduct business. Such events could affect the stability of our deposit base; impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Although management has established disaster recovery and business continuity policies and procedures, the occurrence of any such event could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

The coronavirus or COVID-19 pandemic, trade wars, tariffs, and similar events and disputes, domestic and international, have adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. Market interest rates have declined significantly. Such events also may adversely affect business and consumer confidence, generally. We and our customers, and our respective suppliers, vendors and processors may be adversely affected. Any such adverse changes may adversely affect our profitability, growth asset quality and financial condition.

The COVID-19 outbreak is ongoing, and its dynamic nature, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and actions that may be taken by governmental authorities to contain the outbreak or to treat its impact. The Federal Reserve stated on February 28, 2020 that it was closely monitoring coronavirus developments and their effects on the economic outlook, and would act appropriately to support the economy. On March 3, 2020, the Federal Reserve reduced the target federal funds rate by 50 basis points to 1.00% to 1.25%. The Federal Reserve also announced it was purchasing Treasury bills into the second quarter of 2020, conducting overnight repurchase agreement operations at least through April 2020, and will continue to reinvest amounts of principal received by the Federal Reserve on its portfolio of treasury and agency debt and mortgage-backed securities. Lastly, the Federal Reserve also reduced the interest it pays on excess reserves from 1.60% to 1.10%. We expect that such reductions in interest rates will adversely affect our net interest income and margins, and our profitability.

Risks Related to Our Business

Our nonresidential real estate loans expose us to greater risks of nonpayment and loss than residential mortgage loans, which may cause us to increase our allowance for loan losses which would reduce our net income.

At December 31, 2019, \$1.1 billion, or 77.7%, of our loan portfolio consisted of nonresidential real estate loans. Nonresidential real estate loans generally expose a lender to greater risk of non-payment and loss than residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Such loans expose us to additional risks because they typically are made on the basis of the borrower's ability to make repayments from the cash flow of the borrower's business and are secured by collateral that may depreciate over time. These loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential mortgage loans. Because such loans generally entail greater risk than residential mortgage loans, we may need to increase our allowance for loan losses in the future to account for the likely increase in probable incurred credit losses associated with the growth of such loans, which would reduce our net income. Also, many of our nonresidential real estate borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a residential mortgage loan.

Our allowance for loan losses could become inadequate and reduce earnings and capital.

The Bank maintains an allowance for loan losses that it believes is adequate for absorbing the estimated future losses inherent in its loan portfolio. Management conducts a periodic review and consideration of the loan portfolio to determine the amount of the allowance for loan losses based upon general market conditions, credit quality of the loan portfolio and performance of the Bank's clients relative to their financial obligations with it. The amount of future losses, however, is susceptible to changes in economic and other market conditions, including changes in interest rates and collateral values, which are beyond the Bank's control, and these future losses may exceed its current estimates. Management performs stress tests on the loan portfolios to estimate future loan losses, but additional provisions for loan losses could be required in the future, including as a result of changes in the economic assumptions underlying management's estimates and judgments, adverse developments in the economy on a national basis or in the Bank's market area, or changes in the circumstances of particular borrowers. We cannot predict with absolute certainty the amount of losses or guarantee that the allowance for loan losses is adequate to absorb future losses in the loan portfolio. Excessive loan losses could have a material adverse effect on the Company's financial condition and results of operations.

The profitability of MVB Mortgage will be significantly reduced if we are not able to sell mortgages.

Currently, we generally sell all of the mortgage loans originated by MVB Mortgage. The profitability of MVB Mortgage depends in large part upon our ability to originate a high volume of loans and to sell them in the secondary market. Thus, we are dependent upon (i) the existence of an active secondary market and (ii) our ability to sell loans into that market. Volatile interest rate environments could increase this risk initially. However, past performance supports the Company's ability to fund the increase in MVB Mortgage's production.

MVB Mortgage's ability to sell mortgage loans readily is dependent upon the availability of an active secondary market for single-family mortgage loans, which in turn depends in part upon the continuation of programs currently offered by Fannie Mae and Freddie Mac and other institutional and non-institutional investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Some of the largest participants in the secondary market, including Fannie Mae and Freddie Mac, are government-sponsored enterprises with substantial market influence whose activities are governed by federal law. Any future changes in laws that significantly affect the activity of these government-sponsored enterprises and other institutional and non-institutional investors or any impairment of our ability to participate in such programs could, in turn, adversely affect our operations.

Our largest source of revenue (net interest income) is subject to interest rate risk.

The Bank's financial condition and results of operations are significantly affected by changes in interest rates. The Bank's earnings depend primarily upon its net interest income, which is the difference between its interest income earned on its interest-earning assets, such as loans and investment securities, and its interest expense paid on its interest-bearing liabilities, consisting of deposits and borrowings. Moreover, the loans included in our interest-earning assets are primarily comprised of variable and adjustable rate loans. Net interest income is subject to interest rate risk in the following ways:

- In general, for a given change in interest rates, the amount of change in value (positive or negative) is larger for assets

and liabilities with longer remaining maturities. The shape of the yield curve may affect new loan yields, funding costs and investment income differently.

- The remaining maturity of various assets or liabilities may shorten or lengthen as payment behavior changes in response to changes in interest rates. For example, if interest rates decline sharply, loans may prepay, or pay down, faster than anticipated, thus reducing future cash flows and interest income. Conversely, if interest rates increase, depositors may cash in their certificates of deposit prior to maturity (notwithstanding any applicable early withdrawal penalties) or otherwise reduce their deposits to pursue higher yielding investment alternatives.
- Re-pricing frequencies and maturity profiles for assets and liabilities may occur at different times. For example, in a falling rate environment, if assets re-price faster than liabilities, there will be an initial decline in earnings. Moreover, if assets and liabilities re-price at the same time, they may not be by the same increment. For instance, if the Federal Funds Rate increased 50 basis points, rates on demand deposits may rise by 10 basis points; whereas rates on prime-based loans will instantly rise 50 basis points.

Financial instruments do not respond in a parallel fashion to rising or falling interest rates. This causes asymmetry in the magnitude of changes to net interest income, net economic value and investment income resulting from the hypothetical increases and decreases in interest rates. Interest rate risk is more fully described under the section captioned “Interest Rate Risk” in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and in the section captioned “Interest Rate Sensitivity Management” in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of this Annual Report on Form 10-K.

We may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to us. Any such losses could have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive industry and market area and failure to effectively compete could have a material adverse effect on our business, financial condition, and results of operations.

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and community banks within the various markets where we operate. We also face competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Also, technology and other changes have lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks. For example, consumers can maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as “disintermediation,” could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. Further, many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can.

Our ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain and build long-term customer relationships based on top quality service, high ethical standards and safe, sound assets.
- The ability to expand our market position.
- The scope, relevance and pricing of products and services offered to meet customer needs and demands.
- The rate at which we introduce new products and services relative to our competitors.
- Customer satisfaction with our level of service.
- Industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our

growth and profitability, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

The value of our goodwill and other intangible assets may decline in the future.

As of December 31, 2019, we had \$23.1 million of goodwill and other intangible assets. A significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or a significant and sustained decline in the price of our common stock may necessitate taking charges in the future related to the impairment of our goodwill and other intangible assets. If we were to conclude that a future write-down of goodwill and other intangible assets is necessary, we would record the appropriate charge, which could have a material adverse effect on our business, financial condition and results of operations.

New lines of business or new products and services may subject us to additional risks.

We are focused on our long-term growth and have undertaken various new business initiatives, many of which involve activities that are new to us, or in some cases, are in the early stages of development. From time to time, we may develop, grow and/or acquire new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets for these products and services are not fully developed. For example, the Company is involved in new innovative strategies to provide independent banking to corporate clients throughout the United States by leveraging recent investments in Fintech. We also acquired Chartwell Compliance in September of 2019 which provides integrated regulatory compliance, state licensing, financial crimes prevention and enterprise risk management services that include consulting, outsourcing, testing and training solutions. Given our evolving business and product diversification, these new initiatives may subject us to, among other risks, increased business, reputational and operational risk, as well as more complex legal, regulatory and compliance costs and risks. Furthermore, the Bank has several large depositor relationships that are concentrated in the Fintech industry and the loss of any relationship could force us to fund our business through more expensive and less stable sources.

In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition. All service offerings, including current offerings and those which may be provided in the future, may become more risky due to changes in economic, competitive and market conditions beyond our control.

Our investments in financial technology companies and initiatives subject us to material financial, reputational and strategic risks.

Our investments in various financial technology companies have had a significant impact on our results of operations, and we anticipate they will continue to have a significant impact on our results of operations in the future. For any investments where we have the ability to exercise significant influence but not control over the operating and financial policies of the investee are accounted for using the equity method of accounting. For investments accounted for under the equity method, we would increase or decrease our investment by our proportionate share of the investee's net income or loss. For any investments where we are not able to exercise significant influence over the investee are accounted for under ASU 2016-01, where changes in fair value resulting from observable price changes arising from orderly transactions are recognized in net income. We also periodically evaluate our investments for impairment. See Note 1, "Summary of Significant Accounting Policies" for more information.

Any earnings from our financial technology investments can be volatile and difficult to predict. Furthermore, we invest in many of these financial technology companies for strategic purposes. Where we are a minority shareholder, we may be unable to influence the activities of these organizations which could have an adverse impact on our ability to execute our strategic initiatives and successfully develop and implement the banking platform we are developing with these and other partners.

Potential acquisitions may disrupt our business and dilute stockholder value.

We generally seek merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or

expanded services. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- Potential exposure to unknown or contingent liabilities of the target company.
- Exposure to potential asset quality issues of the target company.
- Potential disruption to our business.
- Potential diversion of our management's time and attention.
- The possible loss of key employees and customers of the target company.
- Difficulty in estimating the value of the target company.
- Potential changes in banking or tax laws or regulations that may affect the target company.

Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our business, financial condition and results of operations.

The Company is subject to liquidity risk, which could disrupt our ability to meet our financial obligations.

Liquidity refers to the ability of the Company to ensure sufficient levels of cash to fund operations, such as meeting deposit withdrawals, funding loan commitments, paying expenses and meeting quarterly payment obligations under certain subordinated debentures issued by the Company in connection with the issuance of floating rate redeemable trust preferred securities. The source of the funds for the Company's debt obligations is dependent on the Bank.

Any significant restriction or disruption of the Company's ability to obtain funding from these or other sources could have a negative effect on the Company's ability to satisfy its current and future financial obligations, which could materially affect the Company's financial condition.

Limited availability of borrowings and liquidity from the FHLB system and other sources could negatively impact earnings.

The Bank is currently a member bank of the FHLB of Pittsburgh. Membership in this system of quasi-governmental, regional home-loan oriented agency banks allows us to participate in various programs offered by the FHLB. We borrow funds from the FHLB, which are secured by a blanket lien on certain residential and commercial mortgage loans, and if applicable, investment securities with collateral values in excess of the outstanding balances. Current and future earnings shortfalls and minimum capital requirements of the FHLB may impact the collateral necessary to secure borrowings and limit the borrowings extended to their member banks, as well as require additional capital contributions by member banks. Should this occur, our short-term liquidity needs could be negatively impacted. If we were restricted from using FHLB advances due to weakness in the system or with the FHLB of Pittsburgh, we may be forced to find alternative funding sources. If we are required to rely more heavily on higher cost funding sources, revenues may not increase proportionately to cover these costs, which would adversely affect results of operations and financial position.

We may not be able to attract and retain the skilled people necessary to conduct our business.

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities engaged in by us can be intense and we may not be able to hire people or to retain them. Many of our branches are located in rural areas and small towns where the competition for labor can be fierce, and where the pool of qualified employees may be small. The unexpected loss of services of key personnel could have a material adverse impact on our business, financial condition and results of operations because of their skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

Interruption to our information systems or breaches in security, including as a result of cyber-attacks or other cyber incidents, could adversely affect the Company's operations or otherwise harm our business.

The Company relies on information systems and communications for operating and monitoring all major aspects of business, as well as internal management functions. Any failure, interruption, intrusion or breach in security of these systems could result in failures or disruptions in the customer relationship, management, general ledger, deposit, loan and other systems.

There have been several cyber-attacks on websites of large financial services companies. Even if not directed at the Company

specifically, attacks on other entities with whom we do business or on whom we otherwise rely or attacks on financial or other institutions important to the overall functioning of the financial system could adversely affect, directly or indirectly, aspects of our business.

Cyber-attacks on third party retailers or other business establishments that widely accept debit card or check payments could compromise sensitive Bank customer information, such as debit card and account numbers. Such an attack could result in significant costs to the Bank, such as costs to reimburse customers, reissue debit cards and open new customer accounts.

In addition, there have been efforts on the part of third parties to breach data security at financial institutions, including through the use of social engineering schemes such as “phishing.” The ability of our customers to bank remotely, including online and through mobile devices, requires secure transmission of confidential information and increases the risk of data security breaches. Because the techniques used to attack financial services company communications and information systems change frequently (and generally increase in sophistication), attacks are often not recognized until launched against a target and we may be unable to address these techniques in advance of attacks, including by implementing adequate preventative measures. We may also be unable to prevent attacks that are supported by foreign governments or other well-financed entities and that may originate from less regulated and remote areas of the world.

The occurrence of any such failure, disruption or security breach of our information systems, particularly if widespread or resulting in financial losses to our customers, could damage our reputation and our relationships with our partners and customers, result in a loss of customer business, subject us to additional regulatory scrutiny, and expose us to civil litigation and possible financial liability. These risks could have a material effect on our business, results of operations and financial condition.

We continually encounter technological change and failure to continually adapt to such change could materially impact our financial condition and results of operations.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on our business, financial condition and results of operations.

Consumers may decide not to use banks to complete their financial transactions, or deposit funds electronically with banks having no branches within our market area, which could affect net income.

Technology and other changes allow parties to complete financial transactions without banks. For example, consumers can pay bills and transfer funds directly without banks. Consumers can also shop for higher deposit interest rates at banks across the country, which may offer higher rates because they have few or no physical branches and open deposit accounts electronically. This process could result in the loss of fee income, as well as the loss of client deposits and the income generated from those deposits, in addition to increasing our funding costs.

Our operations rely on certain external vendors who may not perform in a satisfactory manner.

We are reliant upon certain external vendors to provide products and services necessary to maintain our day-to-day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with applicable contractual arrangements or service level agreements. We maintain a system of policies and procedures designed to monitor vendor risks including, among other things, (i) changes in the vendor’s organizational structure, (ii) changes in the vendor’s financial condition and (iii) changes in the vendor’s support for existing products and services. The failure of an external vendor to perform in accordance with applicable contractual arrangements or the service level agreements could be disruptive to our operations, which could have a material adverse impact on the business and its financial condition and results of operations.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the

affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Environmental reviews of real property before initiating foreclosure actions may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, financial condition and results of operations.

Financial services companies depend on the accuracy and completeness of information about customers and counterparties which, if inaccurate, could have a material adverse impact on our financial condition and results of operations.

In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on our business, financial condition and results of operations.

Risks Related to the Legal and Regulatory Environment

Changes in tax laws, including those included in the Tax Cuts and Jobs Act, may adversely affect our performance and create the risk that we may need to adjust our accounting for these changes.

We are subject to extensive federal, state and local taxes, including income, excise, sales/use, payroll, franchise, withholding and ad valorem taxes. Changes to our taxes could have a material adverse effect on our performance. In addition, our customers are subject to a wide variety of federal, state and local taxes. Changes in taxes paid by our customers may adversely affect their ability to purchase homes or consumer products, which could adversely affect their demand for our loans and deposit products. In addition, such negative effects on our customers could result in defaults on the loans we have made and decrease the value of mortgage-backed securities in which we have invested.

On December 22, 2017, H.R.1, formally known as the "Tax Cuts and Jobs Act" (the "Tax Reform Act") was enacted into law. This tax legislation made significant changes to U.S. tax laws and includes numerous provisions that affect businesses, such as ours. Among other things, the Tax Reform Act (i) establishes a new, flat corporate federal statutory income tax rate of 21%, (ii) eliminates the corporate alternative minimum tax and allows the use of any such carryforwards to offset regular tax liability for any taxable year, (iii) limits the deduction for net interest expense incurred by U.S. corporations, (iv) allows businesses to immediately expense, for tax purposes, the cost of new investments in certain qualified depreciable assets, (v) eliminates or reduces certain deductions related to meals and entertainment expenses, (vi) modifies the limitation on excessive employee remuneration to eliminate the exception for performance-based compensation and clarifies the definition of a covered employee and (vii) limits the deductibility of deposit insurance premiums. The Tax Reform Act is still unclear in certain respects and, while the Internal Revenue Service has issued proposed regulations with respect to the Tax Reform Act, many of the regulations are not yet finalized and will require additional interpretation and implementation by the Internal Revenue Service, state tax authorities and courts. As discussed elsewhere in this Annual Report on Form 10-K, as a result of the Tax Reform Act, the Company was required to re-measure its deferred tax asset, resulting in an income tax charge of \$646 thousand for the year ended December 31, 2017. Any future regulation, court decision, legislation or Internal Revenue Service interpretation could lessen or increase the adverse (and positive) impacts of the Tax Reform Act, which in-turn could affect our current or future financial statements.

We are subject to extensive government regulation and supervision and possible enforcement and other legal actions that could detrimentally affect our business.

We, primarily through the Bank and certain non-bank subsidiaries, are subject to extensive federal and state regulation and supervision, which vests a significant amount of discretion in the various regulatory authorities. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not security holders. These regulations and supervisory guidance affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes. Other changes to statutes, regulations or regulatory policies or supervisory guidance, including changes in interpretation or implementation of statutes, regulations, policies or supervisory guidance, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure

to comply with laws, regulations, policies or supervisory guidance could result in enforcement and other legal actions by Federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, the revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties and/or reputational damage. In this regard, government authorities, including the bank regulatory agencies, are pursuing aggressive enforcement actions with respect to compliance and other legal matters involving financial activities, which heightens the risks associated with actual and perceived compliance failures. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

For further detail, see the sections captioned “Supervision and Regulation” included in Item 1, Business, and Note 14, “Regulatory Capital Requirements” of the Notes to Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Failure to meet any of the various capital adequacy guidelines which we are subject to could adversely affect our operations and could compromise the status of the Company as a financial holding company.

The Company and the Bank are required to meet certain regulatory capital adequacy guidelines and other regulatory requirements imposed by the Federal Reserve Board, the FDIC and the U.S. Department of Treasury. If the Company or the Bank fails to meet these minimum capital guidelines and other regulatory requirements, our financial condition and results of operations would be materially and adversely affected and could compromise the status of the Company as a banking holding company. See the sections captioned “Supervision and Regulation—Capital Requirements” in Item 1, Business, and Note 14, “Regulatory Capital Requirements” of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, for detailed capital guidelines for bank holding companies and banks.

The Company is a financial holding company, and its sources of funds are limited.

The Company is a financial holding company and its operations are primarily conducted by the Bank, which is subject to significant federal and state regulation. Cash available to pay dividends to shareholders of the Company is derived primarily from dividends paid by the Bank. As a result, the Company’s ability to receive dividends or loans from its Bank subsidiary is restricted. Under federal law, the payment of dividends by the Bank is subject to capital adequacy requirements. The Federal Reserve Board and/or the FDIC prohibit a dividend payment by the Company or the Bank that would constitute an unsafe or unsound practice. See the sections captioned “Supervision and Regulation – Limit on Dividends” in Item 1, Business, and Note 14, “Regulatory Capital Requirements” of the Notes to Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

The inability of the Bank to generate profits and pay such dividends to the Company, or regulator restrictions on the payment of such dividends to the Company even if earned, would have an adverse effect on the financial condition and results of operations of the Company and the Company’s ability to pay dividends to its shareholders.

In addition, since the Company is a legal entity separate and distinct from the Bank, its right to participate in the distribution of assets of the Bank upon the Bank’s liquidation, reorganization or otherwise will be subject to the prior claims of the Bank’s creditors, which will generally take priority over the Bank’s shareholders.

Risks Associated With Our Common Stock

The trading volume in our common stock is less than that of other larger financial services companies.

Shares of our common stock began trading on the Nasdaq Capital Market on December 7, 2017 under the symbol “MVBF,” and were previously traded on the OTC Bulletin Board. There has been limited trading in our shares over the last 12 months. If limited trading in the common stock continues, it may be difficult for investors to sell such shares in the public market at any given time at prevailing prices. Also, the sale of a large block of common stock could depress the market price of the common stock to a greater degree than a company that typically has a higher volume of trading of its securities.

If we are unable to maintain compliance with Nasdaq listing requirements, our stock could be delisted, and the trading price, volume and marketability of our stock could be adversely affected.

As of December 7, 2017, our common stock began trading on the Nasdaq Capital Market. Previously, our common stock was traded on the OTC Bulletin Board. There can be no assurances, however, that we will be able to maintain compliance with Nasdaq’s present listing standards, or that Nasdaq will not implement additional listing standards with which we will be unable to

comply. Failure to maintain compliance with Nasdaq listing requirements could result in the delisting of our shares from trading on the Nasdaq system, which could have a material adverse effect on the trading price, volume and marketability of our common stock.

Our stock price can be volatile.

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry;
- perceptions in the marketplace regarding us and/or our competitors;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- changes in government regulations; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, including real or anticipated changes in the strength of the economies we serve; industry factors and general economic and political conditions and events, such as economic slowdowns or recessions; interest rate changes, oil price volatility or credit loss trends could also cause our stock price to decrease regardless of operating results.

Our ability to pay dividends is not certain and we may be unable to pay future dividends. As a result, capital appreciation, if any, of our common stock may be your sole opportunity for gains on your investment for the foreseeable future.

Our ability to pay dividends in the future is not certain. Any future determination relating to dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects, regulatory restrictions and other factors that our Board of Directors may deem relevant. The holders of our common stock are entitled to receive dividends when, and if declared by our Board of Directors out of funds legally available for that purpose. As part of our consideration of whether to pay cash dividends, we intend to retain adequate funds from future earnings to support the development and growth of our business. In addition, our ability to pay dividends is restricted by federal policies and regulations and by the terms of our existing indebtedness. It is the policy of the Federal Reserve Board that bank holding companies should pay cash dividends on common stock only out of net income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. For further information, see the section captioned "Supervision and Regulation – Limit on Dividends" in Item 1, Business, of this Annual Report on Form 10-K.

We are exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act of 2002.

We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. At December 31, 2019, we have no material weaknesses in our internal control over financial reporting but a material weakness could occur in the future. A "material weakness" is a control deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. If we fail to maintain a system of internal control over financial reporting that meets the requirements of Section 404, we might be subject to sanctions or investigation by regulatory authorities. Additionally, failure to comply with Section 404 or the report by us of a material weakness may cause investors to lose confidence in our financial statements and our stock price may be adversely affected. If we fail to remedy any material weakness, our financial statements may be inaccurate, we may not have access to the capital markets, and our stock price may be adversely affected.

General Risk Factors

The value of the securities in our investment securities portfolio may be negatively affected by disruptions in securities markets.

Due to credit and liquidity risks and economic volatility, making the determination of the value of a securities portfolio is less certain. A decline in market value associated with these disruptions could result in other-than-temporary or permanent impairments of these assets, which would lead to accounting charges which could have a material negative effect on our financial condition and results of operations.

Our accounting policies and estimates are critical to how we report our financial condition and results of operations, and any changes to such accounting policies and estimates could materially affect how we report our financial condition and results of operations.

Accounting policies and estimates are fundamental to how we record and report our financial condition and results of operations. Our management makes judgments and assumptions in selecting and adopting various accounting policies and in applying estimates so that such policies and estimates comply with U.S. generally accepted accounting principles (“GAAP”).

Management has identified certain accounting policies as being critical because they require management’s judgment to ascertain the valuations of assets, liabilities, commitments and contingencies. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset, valuing an asset or liability or reducing a liability. Because of the uncertainty surrounding our judgments and the estimates pertaining to these matters, actual outcomes may be materially different from amounts previously estimated. For example, because of the inherent uncertainty of estimates, the Bank could need to significantly increase its allowance for loan losses if actual losses are more than the amount reserved. Any increase in its allowance for loan losses or loan charge-offs could have a material adverse effect on our financial condition and results of operations. In addition, we cannot guarantee that we will not be required to adjust accounting policies or restate prior financial statements. See the section captioned “Allowance for Loan Losses” in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, located elsewhere in this Annual Report on Form 10-K for further discussion related to our process for determining the appropriate level of the allowance for loan losses.

Further, from time to time, the FASB and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. The ongoing economic recession has resulted in increased scrutiny of accounting standards by legislators and our regulators, particularly as they relate to fair value accounting principles. In addition, ongoing efforts to achieve convergence between GAAP and International Financial Reporting Standards may result in changes to GAAP. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements or otherwise adversely affecting our financial condition or results of operations.

Our accounting estimates and risk management processes rely on analytical and forecasting models which may prove to be inadequate or inaccurate which could result in unexpected losses, insufficient allowances for loan losses, or unexpected fluctuations in the value of our financial instruments.

The processes we use to estimate our inherent loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models we use for interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models we use for determining our probable loan losses are inadequate, the allowance for loan losses may not be sufficient to support future charge-offs. If the models we use to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company, through its Bank subsidiary, owns its main office located at 301 Virginia Avenue in Fairmont, West Virginia. The Company’s subsidiaries own or lease various other offices in the counties and cities in which they operate. As of December 31,

2019, the Company operated fifteen full-service banking branches and eleven mortgage-only offices, with locations as further described in Item 1, Business, of this Annual Report on Form 10-K. Eight of the fifteen full-service banking branches are owned and the remaining seven are leased. All mortgage locations are leased.

On November 21, 2019, the Company entered into a Purchase and Assumption Agreement with Summit Community Bank, Inc., a subsidiary of Summit Financial Group, Inc. pursuant to which Summit will purchase certain assets and assume certain liabilities of three branch locations in Berkeley County, WV and one branch location in Jefferson County, WV.

On January 31, 2020, the Company closed one branch location in Morgantown, WV.

No one facility is material to the Company. Management believes that the facilities are generally in good condition and suitable for the operations for which they are used. However, management continually looks for opportunities to upgrade its facilities and locations and may do so in the future.

Additional information concerning the property and equipment owned or leased by the Company and its subsidiaries is incorporated herein by reference from Note 4, "Premises and Equipment" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

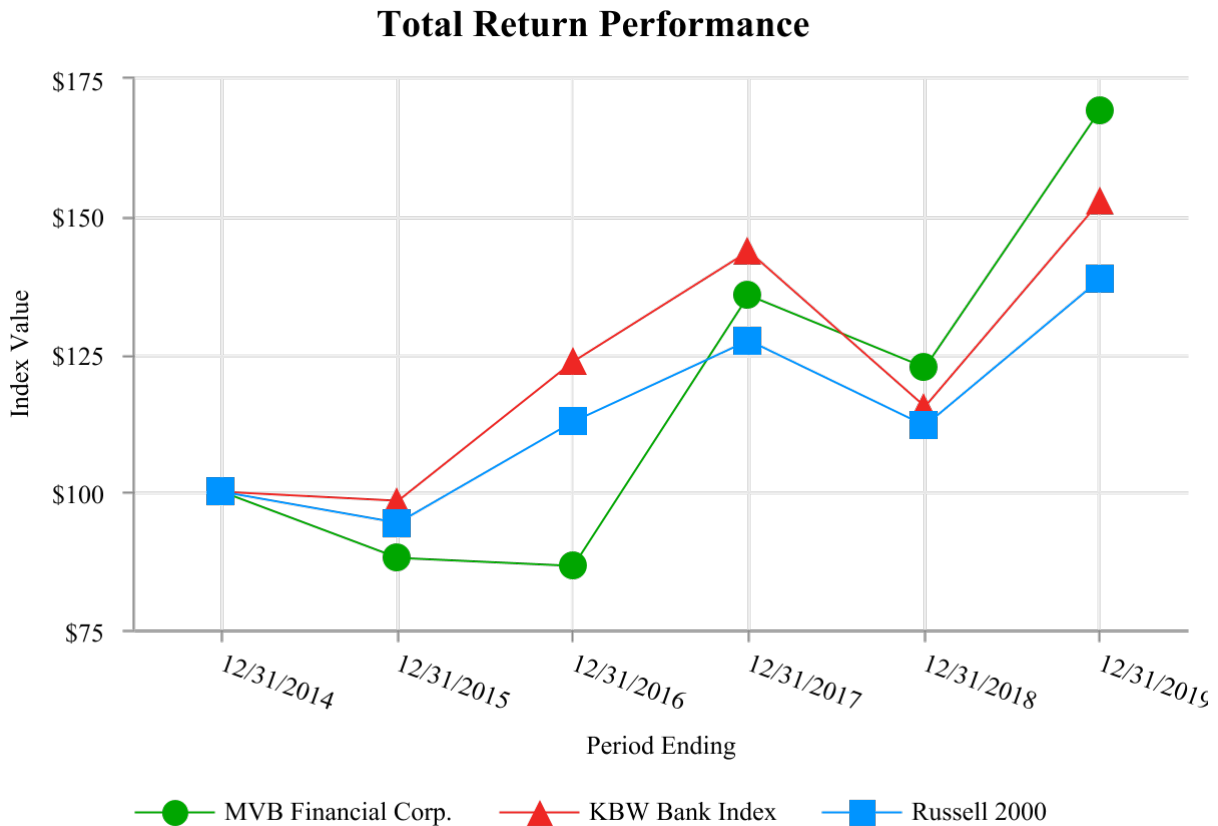
PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company’s common stock is traded on the Nasdaq Capital Market under the symbol “MVBF.”

MVB Financial Corp. had 957 stockholders of record at March 12, 2020.

The following five-year performance graph compares the cumulative total shareholder return (assuming reinvestment of dividends) on the Company’s common stock to the KBW Bank Index and the Russell 2000 Index. The stock performance graph assumes \$100 was invested on December 31, 2014, and the cumulative return is measured as of each subsequent fiscal year end.



Index	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
MVB Financial Corp.	\$ 100.00	\$ 87.93	\$ 86.46	\$ 135.69	\$ 122.62	\$ 169.25
KBW Bank Index	100.00	98.41	123.61	143.70	115.53	152.65
Russell 2000	100.00	94.29	112.65	127.46	111.94	138.50

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by Issuer and Affiliated Purchasers

None.

ITEM 6. SELECTED FINANCIAL DATA

The following consolidated summary sets forth the Company's selected financial data that has been derived from the Company's audited consolidated financial statements for each of the periods and at the dates indicated.

(Dollars in thousands except per share data)	Years Ended December 31,				
	2019	2018	2017	2016	2015
Balance Sheet Data:					
Assets	\$ 1,944,114	\$ 1,750,969	\$ 1,534,302	\$ 1,418,804	\$ 1,384,476
Investment securities	254,335	231,213	231,507	162,368	123,115
Loans, net	1,362,766	1,293,427	1,096,063	1,043,764	1,024,164
Loans held for sale	109,788	75,807	66,794	90,174	102,623
Deposits	1,265,042	1,309,154	1,159,580	1,107,017	1,012,314
Stockholders' equity	211,936	176,773	150,192	145,625	114,712
Weighted average shares outstanding - basic	11,713,885	11,030,984	10,308,738	8,212,021	8,104,316
Weighted average shares outstanding - diluted	12,044,667	12,722,003	10,440,228	10,068,733	8,140,116
Income Statement Data:					
Interest income	\$ 82,361	\$ 69,760	\$ 56,598	\$ 54,123	\$ 44,100
Interest expense	22,961	17,706	12,301	11,132	9,225
Net interest income	59,400	52,054	44,297	42,991	34,875
Provision for loan loss	1,789	2,440	2,173	3,632	2,493
Net interest income after provision for loan loss	57,611	49,614	42,124	39,359	32,382
Noninterest income	64,604	38,640	40,706	43,205	34,955
Noninterest expense	87,201	72,878	70,500	69,209	57,848
Income from continuing operations, before income taxes	35,014	15,376	12,330	13,355	9,489
Income tax expense - continuing operations	8,450	3,373	4,755	4,378	2,886
Net Income from continuing operations	26,564	12,003	7,575	8,977	6,603
Income from discontinued operations, before income taxes	575	—	—	6,346	353
Income tax expense - discontinued operations	148	—	—	2,411	140
Net Income from discontinued operations	427	—	—	3,935	213
Net Income	26,991	12,003	7,575	12,912	6,816
Preferred dividends	479	489	498	1,128	575
Net Income available to common shareholders	26,512	11,514	7,077	11,784	6,241
Per Share Data:					
Earnings per share from continuing operations - basic	\$ 2.22	\$ 1.04	\$ 0.69	\$ 0.96	\$ 0.75
Earnings per share from discontinued operations - basic	0.04	—	—	0.48	0.03
Earnings per share per common shareholder - basic	2.26	1.04	0.69	1.44	0.78
Earnings per share from continuing operations - diluted	2.16	1.00	0.68	0.92	0.74
Earnings per share from discontinued operations - diluted	0.04	—	—	0.39	0.03
Earnings per share per common shareholder - diluted	2.20	1.00	0.68	1.31	0.77
Cash dividends	0.20	0.11	0.10	0.08	0.08
Book value	17.13	14.55	13.63	12.93	12.20
Tangible book value ¹	15.20	12.92	11.80	11.01	9.81
Asset Quality Ratios:					
Nonperforming loans to gross loans	0.37 %	0.54 %	0.88 %	0.59 %	0.99 %
Nonperforming assets to total assets	0.34	0.53	0.72	0.47	0.76
Net charge-offs to gross loans	0.07	0.11	0.13	0.24	0.07
Allowance for loan losses to gross loans	0.86	0.84	0.89	0.86	0.78
Selected Ratios:					
Return on average assets - continuing operations	1.44 %	0.73 %	0.52 %	0.63 %	0.54 %
Return on average assets - discontinued operations	0.02	—	—	0.28	0.02
Return on average equity - continuing operations	13.61	7.46	5.23	7.30	5.89
Return on average equity - discontinued operations	0.22	—	—	3.20	0.19
Dividend payout	8.48	10.16	13.64	5.00	9.40
Efficiency ratio	70.32	80.36	82.94	80.29	82.84
Equity to assets	10.90	10.10	9.79	10.26	8.29
Bank Common equity tier 1 capital ratio	12.05	12.47	13.34	13.60	11.45
Bank Tier 1 risk-based capital ratio	12.05	12.47	13.34	13.60	11.45
Bank Total risk-based capital ratio	12.84	13.29	14.22	14.46	12.19
Bank Leverage ratio	9.94	10.24	10.69	10.88	9.50

¹ This is a non-GAAP measure that the Company believes is helpful to interpreting financial results. For a reconciliation to the most directly comparable GAAP financial measure, please see “Non-GAAP Financial Measure Reconciliation” below.

Non-GAAP Financial Measure Reconciliation

Years Ended December 31,

(Dollars in thousands except per share data)	2019	2018	2017	2016	2015
Goodwill	19,630	18,480	18,480	18,480	18,480
Intangibles	3,473	550	646	744	845
Total intangibles	23,103	19,030	19,126	19,224	19,325
Total Equity	211,936	176,773	150,192	145,625	114,712
Less: Preferred equity	(7,334)	(7,834)	(7,834)	(16,334)	(16,334)
Less: Total intangibles	(23,103)	(19,030)	(19,126)	(19,224)	(19,325)
Tangible common equity	181,499	149,909	123,232	110,067	79,053
Tangible common equity	181,499	149,909	123,232	110,067	79,053
Common shares outstanding	11,944,289	11,607,293	10,444,627	9,996,544	8,061,921
Tangible book value per common share	15.20	12.92	11.80	11.01	9.81

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements:

Statements in this Annual Report on Form 10-K that are based on other than historical data are “forward-looking statements” 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 the Company and its subsidiaries (collectively, “we,” “our,” or “us”), including the Bank; and
- statements preceded by, followed by or that include the words “may,” “could,” “should,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” “projects,” “outlook,” or similar expressions.

These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing our view as of any subsequent date. Forward-looking statements involve significant risks and uncertainties (both known and unknown) 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:

- our ability to successfully execute business plans, manage risks, and achieve objectives;
- changes in local, national and international political and economic conditions, including without limitation changes in the political and economic climate, 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, natural disasters, epidemics and pandemics, including the COVID-19 outbreak, military actions, and terrorist attacks;
- changes in financial market conditions, either internationally, nationally, or locally in areas in which we 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;
- our ability to successfully conduct acquisitions and integrate acquired businesses;
- potential difficulties in expanding our businesses 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, including the recently enacted Tax Reform Act, and regulatory assessments and fees, including policies of the U.S. Department of Treasury, the Federal Reserve, and the FDIC;
- the impact of executive compensation rules under the Dodd-Frank Act and banking regulations which may impact our ability 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 EGRRCPA, and rules and regulations thereunder, some 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 we engage in such activities, the fees that our subsidiaries 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 us, 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 our implementation of new technologies;
- our ability to develop and maintain secure and reliable information technology systems;
- legislation or regulatory changes which adversely affect our operations or business;
- our ability to comply with applicable laws and regulations; changes in accounting policies or procedures as may be required by the FASB or regulatory agencies; and
- costs of deposit insurance and changes with respect to FDIC insurance coverage levels.

Certain risk factors that might cause actual results may differ materially from those presented are more fully described in this

Annual Report on Form 10-K within Part I, Item 1A, Risk Factors, and from time to time, in other filings with the SEC. Actual results may differ materially from those expressed in or implied by any forward-looking statement. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. 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.

In this Management’s Discussion and Analysis, we review and explain the general financial condition and the results of operations for MVB Financial Corp. and its subsidiaries. We have designed this discussion to assist you in understanding the significant changes in the Company’s financial condition and results of operations. We have used GAAP to prepare the accompanying consolidated financial statements. We engaged Dixon Hughes Goodman LLP to audit the consolidated financial statements and internal control over financial reporting and their independent audit reports are included elsewhere in this Annual Report on Form 10-K.

Introduction

The following discussion and analysis of the Consolidated Financial Statements is presented to provide insight into management’s assessment of the financial results and operations of the Company. You should read this discussion and analysis in conjunction with the audited Consolidated Financial Statements and footnotes and the ratios and statistics contained elsewhere in this Annual Report on Form 10-K.

Application of Critical Accounting Policies

The Company’s consolidated financial statements are prepared in accordance with GAAP 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 consolidated financial statements; accordingly, as this information changes, the consolidated financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. 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 consolidated 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, “Summary of Significant Accounting Policies” of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. These policies, along with the disclosures presented in the other financial statement notes and in this Management’s Discussion and Analysis, provide information on how significant assets and liabilities are valued in the consolidated 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.

Allowance for Loan Losses

The Allowance for Loan Losses (“ALL”) represents management’s estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the ALL 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 the Bank’s historical loss experience 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, “Summary of Significant Accounting Policies” of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, describes the methodology used to determine the ALL and a discussion of the factors driving changes in the amount of the ALL.

Investment Securities

Investment securities at the time of purchase are classified as one of the following:

Available-for-Sale Securities - Includes debt that will be held for indefinite periods of time. These securities may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and yield of alternative investments. Such securities are reported at fair value, with unrealized holding gains and losses excluded from earnings and reported as a separate component of stockholders' equity, net of estimated income tax effect.

Equity Securities - Includes equity securities that are adjusted to fair value on a monthly basis, with the change in value recorded directly on the income statement. The Company has chosen to measure the equity securities without readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes for underlying transactions for identical or similar investments of new issues.

The amortized cost of investment in debt securities is adjusted for amortization of premiums and accretion of discounts, computed by a method that results in a level yield. Gains and losses on the sale of investment securities are computed on the basis of specific identification of the adjusted cost of each security.

Securities are periodically reviewed for other-than-temporary impairment. For debt securities, management considers whether the present value of future cash flows expected to be collected are less than the security's amortized cost basis (the difference defined as the credit loss), the magnitude and duration of the decline, the reasons underlying the decline and the Company's intent to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value, to determine whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, if the Company does not intend to sell the security, and it is more-likely-than-not that it will not be required to sell the security, before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of credit loss. Any remaining difference between fair value and amortized cost (the difference defined as the non-credit portion) is recognized in other comprehensive income, net of applicable taxes. A decline in value that is considered to be other-than-temporary is recorded as a loss within noninterest income in the consolidated statement of income.

Common stock of the FHLB represents ownership in an institution which is wholly owned by other financial institutions. These equity securities are accounted for at cost, less impairment and are classified as other assets.

See Note 2, "Investment Securities" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K for the Company's policy regarding the other than temporary impairment of investment securities.

Goodwill and Other Intangible Assets

As discussed in Note 1, "Summary of Significant Accounting Policies" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, the Company must assess goodwill and other intangible assets each year for impairment. This assessment involves estimating the fair value of the Company's reporting units. If the fair value of the reporting unit is less than its carrying value including goodwill, the Company would be required to take a charge against earnings to write down the assets to the lower value.

Pension Plan

As discussed in Note 10, "Pension Plan" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, 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%.

Deferred Tax Assets

The Company uses an estimate of future earnings to support our position that the benefit of deferred tax assets will be realized. If future income should prove non-existent or less than the amount of the deferred tax assets within the tax years to which they may

be applied, the asset may not be realized and our net income will be reduced. Management also evaluates deferred tax assets to determine if it is more likely than not that the deferred tax benefit will be utilized in future periods. If not, a valuation allowance is recorded. Our deferred tax assets are described further in Note 8, "Income Taxes" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Recent Accounting Pronouncements and Developments

In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirement for Defined Benefit Plans*, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The updates in this ASU are part of the disclosure framework project ASU 2018-14 and modify the disclosure requirements under ASC 715-201 for employers that sponsor defined benefit pension or other postretirement plans. Those modifications include the removal, addition, and of disclosure requirements as well as clarifying specific disclosure requirements. The ASU removed the following disclosures: 1) the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year; 2) the amount and timing of plan assets expected to be returned to the employer; 3) the disclosures related to the June 2001 amendments to the Japanese Welfare Pension Insurance Law; 4) related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan; 5) for nonpublic entities, the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy; however, nonpublic entities will be required to disclose separately the amounts of transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 plan assets and 6) for public entities, the effects of a one-percentage-point change in assumed health care cost trend rates on the (i) aggregate of the service and interest cost components of net periodic benefit costs and (ii) benefit obligation for postretirement health care benefits. The ASU added the following disclosures: 1) the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates and 2) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The ASU then clarified the following disclosures: 1) the projected benefit obligation ("PBO") and fair value of plan assets for plans with PBOs more than plan assets; and 2) the accumulated benefit obligation ("ABO") and fair value of plan assets for plans with ABOs more than plan assets. ASU 2018-14 will be effective for public business entities for fiscal years ending after December 15, 2020. The Company is currently evaluating the impact of the pending adoption on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The updates in this ASU are part of the disclosure framework project and modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. The modifications include additions, modification, and removal of disclosure requirements. The ASU removed the following disclosure requirements: 1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, 2) the policy for timing of transfers between levels, 3) the valuation process for Level 3 fair value measurements, and 4) for nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The ASU added the following disclosure requirements: 1) the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and 2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. The ASU also modified the following disclosure requirements: 1) in lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities; 2) for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and 3) clarification that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. ASU 2018-13 is effective for public business entities for fiscal years and interim periods within those years beginning after December 15, 2019. The Company is currently evaluating the impact of the pending adoption on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This update requires a reclassification from accumulated other comprehensive income ("AOCI") to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate in the Tax Reform Act, which was enacted on December 22, 2017. The Tax Reform Act included a reduction to the corporate income tax rate from 34 percent to 21 percent effective January 1, 2018. The amendments in the ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company elected to early adopt ASU 2018-02 during the first quarter of 2018 and elected to reclassify the income tax effects of

the Tax Reform Act from AOCI to retained earnings. The amount of the reclassification is the difference between the historical corporate income tax rate and the newly enacted 21 percent corporate income tax rate, which amounted to \$646 thousand.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which amends the existing hedge accounting model and expands an entity's ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest-rate risk. The ASU eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The ASU also changes certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. This ASU is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company adopted this ASU in accordance with paragraph ASC 815-20-65-3 subpart C. The adoption of this ASU did not have a significant impact on the Company's financial condition, results of operations and consolidated financial statements. The Company can now employ additional hedging strategies as described above, including the ability to apply fair value hedge accounting to a specified pool of assets by excluding the portion of the hedged items related to prepayments, defaults and other events. This allows the Company to better align its accounting and the financial reporting of its hedging activities with their economic objectives thereby reducing the earnings volatility resulting from these hedging activities.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. This ASU amends guidance on the amortization period of premiums on certain purchased callable debt securities. Specifically, the amendments shorten the amortization period of premiums on certain purchased callable debt securities to the earliest call date. The amendments affect all entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date (that is, at a premium). For public companies, this update is effective for fiscal years beginning after December 15, 2018, including all interim periods within those fiscal years. The adoption of this guidance was not material to the consolidated financial statements, as was always our current policy to amortize premiums of investment securities to the earliest call date.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. Topic 350, *Intangibles – Goodwill and Other (Topic 350)*, currently requires an entity that has not elected the private company alternative for goodwill to perform a two-step test to determine the amount, if any, of goodwill impairment. In Step 1, an entity compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the entity performs Step 2 and compares the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeds the implied fair value of that goodwill is recorded, limited to the amount of goodwill allocated to that reporting unit to address concerns over the cost and complexity of the two-step goodwill impairment test. The amendments in this update remove the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. For public companies, this update is effective for fiscal years beginning after December 15, 2019, including all interim periods within those fiscal years, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company early adopted this guidance effective January 1, 2019 and the adoption of this guidance did not have a material impact on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and subsequent amendments to the initial guidance in November 2018, ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, in April 2019, ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, in May 2019, ASU 2019-05, *Financial Instruments – Credit Losses, Topic 326*, and in November 2019, ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, and ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, all of which clarifies codification and corrects unintended application of the guidance. The new guidance replaces the incurred loss impairment methodology in current GAAP with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit impaired loans will receive an allowance account at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, with such allowance limited to the amount by which fair value is below amortized cost. The guidance was initially effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company has formed an implementation team led by the CFO, that also includes other lines of business and functions within the Company. The Company has also engaged a third party to assist with a data gap analysis and will utilize the data to determine the impact of the pronouncement. Additionally, the Company has researched and acquired software to assist in the development of models that can meet the requirements of the new guidance. While this standard may

potentially have a material impact on the Company's consolidated financial statements, we are still in the process of completing our evaluation. In July 2019, the FASB proposed changes to the effective date for smaller reporting companies, as defined by the SEC, and other non-SEC reporting entities. The proposal would delay the effective date to fiscal years beginning after December 31, 2022, including interim periods within those fiscal periods. As the Company is a smaller reporting company for fiscal year 2019, the proposed delay would be applicable. On November 15, 2019, the FASB issued ASU 2019-10, *Financial Investments – Credit Issues (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which finalizes a delay in the effective date of the standard for smaller reporting companies until January 2023.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* and subsequent amendments to the initial guidance in September 2017, ASU 2017-13, *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments (SEC Update)*, in January 2018, ASU 2018-10, *Codification Improvements to Topic 842, Leases*, in July 2018, ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, in December 2018, ASU 2019-01, *Leases (Topic 842): Codification Improvements* in March 2019, and in November 2019, ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*. Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. ASU 2016-02 initially required transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842) - Targeted Improvements*, which, among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In December 2018, the FASB also issued ASU 2018-20, *Leases (Topic 842) - Narrow Scope Improvements*, for Lessors which provides certain policy elections and changes lessor accounting for sales and similar taxes and certain lessor costs. Upon the adoption of ASU 2016-02, ASU 2018-11, and ASU 2018-20 on January 1, 2019, the Company recognized right-of-use assets and related lease liabilities totaling \$12.9 million and \$15.7 million, respectively. The initial balance sheet gross up upon adoption was primarily related to operating leases of certain real estate properties and financing leases of certain office equipment. The Company has no material subleases or leasing arrangements for which it is the lessor of property or equipment. The Company applied certain practical expedients provided under ASU 2016-02 whereby the Company did reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases, and (iii) initial direct costs for any existing leases. The Company did not apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by related accounting guidance). The Company accounted for lease and non-lease components separately because such amounts are readily determinable under our lease contracts and because this election resulted in a lower impact on our balance sheet. The Company utilized the modified-retrospective transition approach prescribed by ASU 2018-11.

In January 2016, the FASB issued ASU 2016-01, *Accounting for Financial Instruments - Overall: Classification and Measurement (Subtopic 825-10)*. Amendments within ASU 2016-01 that relate to non-public entities have been excluded from this presentation. The amendments in this ASU 2016-01 address the following: 1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; 2) simplify the impairment assessment of equity investments without readily-determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; 3) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 4) require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 5) require separate presentation in other comprehensive income for the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 6) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and 7) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this guidance in the first quarter of 2018. The adoption of ASU 2016-01 on January 1, 2018 did not have a material

impact on the Company's Consolidated Financial Statements. In accordance with 4) above, the Company discloses the fair value of its loan portfolio on a quarterly basis using an exit price notion.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new revenue pronouncement creates a single source of revenue guidance for all companies in all industries and is more principles-based than current revenue guidance. The pronouncement provides a five-step model for a company to recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The five steps are: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations and (5) recognize revenue when each performance obligation is satisfied. The Company evaluated the impact of this standard on individual customer contracts, while management evaluated the impact of this standard on the broad categories of its customer contracts and revenue streams. The Company determined that this standard did not have a material impact on its consolidated financial statements because revenue related to financial instruments, including loans and investment securities are not in scope of these updates. Loan interest income, investment interest income, insurance services revenue and BOLI are accounted for under other U.S. GAAP standards and out of scope of ASC 606 revenue standard. The Company also completed an evaluation of certain costs related to customer contracts and revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross versus net). Based on the evaluation, the Company determined that the classification of certain debit and credit card related costs should change (i.e., costs previously recorded as expense are now recorded as contra-revenue). This classification change resulted in immaterial changes to both revenue and expense. The Company adopted the revenue recognition standard and its related amendments as of January 1, 2019 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Consistent with the modified retrospective approach, the Company did not adjust prior period amounts for the debit and credit card related cost reclassifications noted above.

Summary Financial Results

Excluding discontinued operations, the Company earned \$26.6 million in 2019 compared to \$12.0 million in 2018, an increase of \$14.6 million. The 2019 earnings equated to a return on average assets of 1.44% and a return on average equity of 13.61%, compared to 2018 results of 0.73% and 7.46%, respectively. Basic earnings per share were \$2.22 in 2019 compared to \$1.04 in 2018. Diluted earnings per share were \$2.16 in 2019 compared to \$1.00 in 2018.

Excluding discontinued operations, the Company earned \$12.0 million in 2018 compared to \$7.6 million in 2017, an increase of \$4.4 million. The 2018 earnings equated to a return on average assets of 0.73% and a return on average equity of 7.46%, compared to 2017 results of 0.52% and 5.23%, respectively. Basic earnings per share were \$1.04 in 2018 compared to \$0.69 in 2017. Diluted earnings per share were \$1.00 in 2018 compared to \$0.68 in 2017.

Net interest income increased \$7.3 million, noninterest income increased \$26.0 million, and noninterest expenses increased by \$14.3 million during 2019 compared to 2018. The Company's yield on earning assets in 2019 was 4.81% compared to 4.58% in 2018. Total loans increased by \$70.2 million to \$1.4 billion at December 31, 2019.

Net interest income increased \$7.8 million, noninterest income decreased \$2.1 million and noninterest expenses increased by \$2.4 million during 2018 compared to 2017. The Company's yield on earning assets in 2018 was 4.58% compared to 4.17% in 2017. Total loans increased by \$198.4 million to \$1.3 billion at December 31, 2018.

Deposits decreased \$44.1 million to \$1.3 billion at December 31, 2019, from \$1.3 billion at December 31, 2018. The Bank offers an uncomplicated product design accompanied by a simple fee structure that is attractive to customers. The overall cost of interest-bearing liabilities for the Company was 1.68% in 2019 compared to 1.37% in 2018. This cost of interest-bearing liabilities, combined with the earning asset yield, resulted in a net interest margin of 3.47% in 2019 compared to 3.41% in 2018.

Deposits increased \$149.6 million to \$1.3 billion at December 31, 2018, from \$1.2 billion at December 31, 2017. The overall cost of interest-bearing liabilities for the Company was 1.37% in 2018 compared to 1.04% in 2017. Increasing the asset yield at a faster pace than the cost of interest-bearing liabilities resulted in a net interest margin of 3.41% in 2018 compared to 3.27% in 2017.

Interest Income and Expense

Net interest income is the amount by which interest income on earning assets exceeds interest expense incurred on interest-bearing liabilities. Interest-earning assets include loans, investment securities and certificates of deposit in other banks. Interest-

bearing liabilities include interest-bearing deposits and borrowed funds such as sweep accounts and repurchase agreements. Net interest income remains the primary source of revenue for the Bank. Net interest income is also impacted by changes in market interest rates, as well as the mix of interest-earning assets and interest-bearing liabilities. Net interest income is also impacted favorably by increases in noninterest bearing demand deposits and equity.

Net interest margin is calculated by dividing net interest income by average interest-earning assets and serves as a measurement of the net revenue stream generated by the Bank's balance sheet. Net interest margin was 3.47% in 2019 compared to 3.41% and 3.27% in 2018 and 2017, respectively. The net interest margin continues to face considerable pressure due to falling interest rates and competitive pricing of loans and deposits in the Bank's markets. During 2019, the Federal Reserve lowered its key interest rate from a range of 2.25% to 2.50% to a range of 1.50% to 1.75%. Management's estimate of the impact of future changes in market interest rates is shown in the section captioned "Interest Rate Risk."

Net interest spread is calculated by taking the difference between interest earned on earning assets and interest paid on interest-bearing liabilities in an effort to maximize net interest income while maintaining an appropriate level of interest rate risk. Net interest spread was 3.13% in 2019 compared to 3.21% and 3.13% in 2018 and 2017, respectively. The difference between the net interest margin and net interest spread was 34 basis points in 2019 compared to 20 basis points in 2018. This was due to an increase of \$86.9 million in average noninterest bearing demand deposits.

Company management continues to analyze methods to deploy assets into an earning asset mix which will result in a stronger net interest margin. Loan growth continues to be strong and management anticipates that loan activity will remain strong in the near-term future.

During 2019, net interest income increased by \$7.3 million, or 14.1%, to \$59.4 million from \$52.1 million in 2018. This increase is largely due to the growth in average earning assets, primarily \$133.6 million in commercial loans. Average total earning assets was \$1.7 billion in 2019 compared to \$1.5 billion in 2018. Average total loans and loans held for sale increased to \$1.5 billion in 2019 from \$1.3 billion in 2018, primarily as the result of a \$133.6 million increase in average commercial loans. As a result of the increase in average total earning assets, total interest income increased by \$12.6 million, or 18.1%, to \$82.4 million in 2019 from \$69.8 million in 2018. Average investment securities increased \$3.5 million, as the result of a \$20.6 million decrease in taxable investments and a \$24.1 million increase in tax-exempt investments. Yield on tax-exempt securities decreased 14 basis points and taxable securities yield decreased 2 basis points. Average interest-bearing liabilities increased in 2019 by \$68.9 million. The increase was primarily the result of a \$86.6 million increase in the average balance of money market checking accounts and a \$67.9 million increase in the average balance of certificates of deposit, partially offset by a \$51.7 million decrease in the average balance of NOW accounts, a \$6.9 million decrease in the average balance of borrowings, a \$7.3 million decrease in the average balance of repurchase agreements and federal funds sold, and a \$13.7 million decrease in the average balance of subordinated debt due to redemptions and conversions into common stock. Average interest-bearing deposits grew to \$1.2 billion in 2019 from \$1.1 billion in 2018. Total interest expense increased by \$5.3 million, caused primarily by a \$5.8 million increase in deposit interest and a \$445 thousand increase in interest on FHLB and other borrowings. The result was a 31-basis point increase in the cost of interest bearing liabilities from 2018 to 2019.

During 2018, net interest income increased by \$7.8 million, or 17.5%, to \$52.1 million from \$44.3 million in 2017. This increase is largely due to the growth in average earning assets, primarily \$24.3 million in taxable investment securities and \$102.7 million in commercial loans. Average total earning assets was \$1.52 billion in 2018 compared to \$1.36 billion in 2017. Average total loans and loans held for sale increased to \$1.28 billion in 2018 from \$1.15 billion in 2017, primarily as the result of a \$102.7 million increase in average commercial loans. As a result of the increase in average total earning assets, total interest income increased by \$13.2 million, or 23.3%, to \$69.8 million in 2018 from \$56.6 million in 2017. Average investment securities increased \$44.7 million, as the result of a \$24.3 million increase in taxable investments and a \$20.4 million increase in tax-exempt investments. Yield on tax-exempt securities increased 38 basis points and taxable securities yield increased 27 basis points. Average interest-bearing liabilities increased in 2018 by \$111.3 million. The increase was primarily the result of a \$57.3 million increase in the average balance of certificates of deposit, a \$68.5 million increase in the average balance of borrowings, and a \$5.4 million increase in the average balance of money market checking accounts, partially offset by a \$5.3 million decrease in the average balance of NOW accounts, a \$5.0 million decrease in the average balance of repurchase agreements and federal funds sold, and a \$7.8 million decrease in the average balance of subordinated debt due to conversions into common stock. Average interest-bearing deposits grew to \$1.1 billion in 2018 from \$1.0 billion in 2017. Total interest expense increased by \$5.4 million, caused primarily by a \$3.3 million increase in deposit interest and a \$2.6 million increase in interest on FHLB and other borrowings. The result was a 33-basis point increase in the cost of interest bearing liabilities from 2017 to 2018.

The Company's average earning assets increased \$188.8 million and net interest income increased by \$7.3 million during 2019. The net interest margin continues to be pressured by falling rates, increased competition for high quality loan growth and the deposit volume required to fund the growth.

The Bank's yield on earning assets changed during 2019 as follows: the loan portfolio yield increased by 23 basis points and the investment portfolio yield increased by 4 basis points while the cost of interest bearing liabilities increased by 31 basis points.

The cost of interest-bearing liabilities increased to 1.68% in 2019 from 1.37% in 2018. This increase is primarily the result of a 33 basis point increase in the cost of borrowings and a 29 basis point increase on deposits. Further discussion on borrowings is included in Note 6, "Borrowed Funds" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Statistical Financial Information Regarding MVB Financial Corp.
The following tables provide further information about interest income and expense:
Average Balances and Analysis of Net Interest Income:

(Dollars in thousands)	2019			2018			2017		
	Average Balance	Interest Income/Expense	Yield/Cost	Average Balance	Interest Income/Expense	Yield/Cost	Average Balance	Interest Income/Expense	Yield/Cost
Assets									
Interest-bearing	\$ 9,264	\$ 209	2.26 %	\$ 5,176	\$ 108	2.09 %	\$ 3,790	\$ 52	1.37 %
CDs with other banks	14,097	280	1.99	14,778	295	2.00	14,619	288	1.97
Investment securities:									
Taxable	129,486	3,055	2.36	150,134	3,580	2.38	125,797	2,658	2.11
Tax-exempt	103,235	3,520	3.41	79,161	2,810	3.55	58,786	1,863	3.17
Loans and loans held									
Commercial	987,674	53,087	5.37	854,108	43,099	5.05	751,444	33,896	4.51
Tax exempt	12,549	443	3.53	14,352	499	3.48	15,064	520	3.45
Real estate	447,891	21,220	4.74	395,302	18,794	4.75	373,360	16,612	4.45
Consumer	8,948	547	6.11	11,349	575	5.07	13,660	709	5.19
Total loans	1,457,062	75,297	5.17	1,275,111	62,967	4.94	1,153,528	51,737	4.49
Total earning assets	1,713,144	82,361	4.81	1,524,360	69,760	4.58	1,356,520	56,598	4.17
Less: Allowance for	(11,318)			(10,530)			(9,626)		
Cash and due from	17,625			16,828			16,287		
Other assets	131,370			106,600			90,585		
Total assets	<u>\$1,850,821</u>			<u>\$1,637,258</u>			<u>\$1,453,766</u>		
Liabilities									
Deposits:									
NOW	\$ 381,092	\$ 3,586	0.94	\$ 432,789	\$ 3,246	0.75	\$ 438,123	\$ 2,608	0.60
Money market	331,636	5,144	1.55	245,008	2,455	1.00	239,632	1,781	0.74
Savings	38,324	4	0.01	44,049	29	0.07	47,034	78	0.17
IRAs	17,415	329	1.89	17,894	285	1.59	16,678	217	1.30
CDs	387,660	8,376	2.16	319,720	5,620	1.76	262,417	3,610	1.38
Repurchase agreements and federal funds sold	11,252	48	0.43	18,536	56	0.30	23,559	75	0.32
FHLB and other	183,812	4,704	2.56	190,686	4,259	2.23	122,144	1,690	1.38
Subordinated debt	12,124	770	6.35	25,774	1,756	6.81	33,524	2,242	6.69
Total interest-	1,363,315	22,961	1.68	1,294,456	17,706	1.37	1,183,111	12,301	1.04
Noninterest bearing	258,546			171,631			117,696		
Other liabilities	33,810			10,304			8,006		
Total liabilities	<u>1,655,671</u>			<u>1,476,391</u>			<u>1,308,813</u>		
Stockholders' equity									
Preferred stock	7,660			7,834			7,927		
Common stock	11,762			11,082			10,355		
Paid-in capital	118,837			107,669			96,987		
Treasury stock	(1,084)			(1,084)			(1,084)		
Retained earnings	61,712			42,509			34,155		
Accumulated other	(3,737)			(7,143)			(3,387)		
Total stockholders'	<u>195,150</u>			<u>160,867</u>			<u>144,953</u>		
Total liabilities and	<u>\$1,850,821</u>			<u>\$1,637,258</u>			<u>\$1,453,766</u>		
Net interest spread			3.13			3.21			3.13
Net interest income-	<u>\$ 59,400</u>	<u>3.47 %</u>		<u>\$ 52,054</u>	<u>3.41 %</u>		<u>\$ 44,297</u>	<u>3.27 %</u>	

¹ Non-accrual loans are included in total loan balances, lowering the effective yield for the portfolio in the aggregate.

Rate Volume Calculation: 2019 vs. 2018

(Dollars in thousands)	Change in Volume	Change in Rate	Change in Both Rate & Volume	Total Change
Earning Assets				
Loans				
Commercial	\$ 6,740	\$ 2,809	\$ 439	\$ 9,988
Tax exempt	(63)	8	(1)	(56)
Real estate	2,501	(66)	(9)	2,426
Consumer	(122)	119	(25)	(28)
Investment securities:				
Taxable	(492)	(38)	5	(525)
Tax-exempt	855	(111)	(34)	710
Interest-bearing deposits in banks	85	9	7	101
CDs with other banks	(14)	(1)	—	(15)
Total earning assets	\$ 9,490	\$ 2,729	\$ 382	\$ 12,601
Interest bearing liabilities				
NOW	\$ (388)	\$ 827	\$ (99)	\$ 340
Money market checking	868	1,345	476	2,689
Savings	(4)	(24)	3	(25)
IRAs	(8)	53	(1)	44
CDs	1,194	1,288	274	2,756
Repurchase agreements and federal funds sold	(22)	23	(9)	(8)
FHLB and other borrowings	(154)	621	(22)	445
Subordinated debt	(930)	(119)	63	(986)
Total interest bearing liabilities	\$ 556	\$ 4,014	\$ 685	\$ 5,255
Total	\$ 8,934	\$ (1,285)	\$ (303)	\$ 7,346

Rate Volume Calculation: 2018 vs. 2017

(Dollars in thousands)	Change in Volume	Change in Rate	Change in Both Rate & Volume	Total Change
Earning Assets				
Loans				
Commercial	\$ 4,631	\$ 4,022	\$ 550	\$ 9,203
Tax exempt	(25)	4	—	(21)
Real estate	976	1,139	67	2,182
Consumer	(120)	(17)	3	(134)
Investment securities:				
Taxable	514	342	66	922
Tax-exempt	645	224	78	947
Interest-bearing deposits in banks	19	27	10	56
CDs with other banks	3	4	—	7
Total earning assets	\$ 6,643	\$ 5,745	\$ 774	\$ 13,162
Interest bearing liabilities				
NOW	\$ (32)	\$ 678	\$ (8)	\$ 638
Money market checking	40	620	14	674
Savings	(5)	(47)	3	(49)
IRAs	16	48	4	68
CDs	788	1,003	219	2,010
Repurchase agreements and federal funds sold	(16)	(4)	1	(19)
FHLB and other borrowings	948	1,038	583	2,569
Subordinated debt	(518)	42	(10)	(486)
Total interest bearing liabilities	\$ 1,221	\$ 3,378	\$ 806	\$ 5,405
Total	\$ 5,422	\$ 2,367	\$ (32)	\$ 7,757

Provision for Loan Losses

The Company's provision for loan losses for 2019, 2018, and 2017 was \$1.8 million, \$2.4 million and \$2.2 million, respectively. The provision for loan losses, which is a product of management's formal quarterly analysis, is recorded in response to inherent losses in the loan portfolio.

Provision for loan losses of \$1.8 million and \$2.4 million were made for the year ended December 31, 2019 and 2018, respectively. The decrease in loan loss provision is most attributable to the relative lower growth in the loan portfolios, which increased \$69.7 million during 2019 versus a \$199.3 million increase during 2018. The total decrease in provision was also significantly impacted by the continued decline in historical loss rates, and a decrease in the need for ASC 310-10 specific loan loss allocations, during 2019. More specifically, total loan portfolio growth was 5.4% in 2019 versus 17.9% in 2018, while total specific loan loss allocations for impaired loans decreased by \$469 thousand in 2019, versus a decrease of \$145 thousand in 2018. Total net charge-offs were \$953 thousand in 2019, compared to \$1.4 million in 2018.

Provision for loan losses of \$2.4 million and \$2.2 million were made for the year ended December 31, 2018 and 2017, respectively. The slight increase in loan loss provision is most attributable to the growth in the loan portfolios in 2018. The total increase in provision would have been greater if not for continued decline in historical loss rates, and a decrease in the need for ASC 310-10 specific loan loss allocations, during 2018. More specifically, total loan portfolio growth was 17.9% in 2018 versus 4.9% in 2017, while total specific loan loss allocations for impaired loans decreased by \$145 thousand in 2018, versus an increase of \$645 thousand in 2017. Total net charge-offs were \$1.4 million in both 2018 and 2017, thereby generating roughly the same impact on the need for provision in both years.

Determining the appropriate level of the ALL requires considerable management judgment. In exercising this judgment, management considers numerous internal and external factors including, but not limited to, portfolio growth, national and local economic conditions, trends in the markets served and guidance from the Bank's primary regulators. Management seeks to maintain an ALL that is appropriate in the circumstances and that complies with applicable accounting and regulatory standards. Further discussion can be found earlier in this discussion under "Allowance for Loan Losses."

Noninterest Income

Mortgage fee income, holding gain on equity securities, commercial swap fee income, gain (loss) on derivatives and income on bank owned life insurance generate the core of the Company's noninterest income. Also, service charges on deposit accounts continue to be part of the core of the Company's noninterest income and include mainly non-sufficient funds and returned check fees, allowable overdraft fees and service charges on commercial accounts. The total of noninterest income for 2019, 2018 and 2017 was \$64.6 million, \$38.6 million and \$40.7 million, respectively.

The increase in noninterest income for 2019 compared to 2018 was primarily the result of a \$13.2 million increase in net holding gains on equity securities and a \$8.7 million increase in mortgage fee income. The increase of \$13.2 million in holding gain on equity securities was mainly the result of a holding gain of \$13.5 million relating to a Fintech investment. The increase in mortgage fee income was largely the result of an increase of \$342.9 million, or 27.0%, in the volume of mortgage loans sold which was driven by an increase of \$368.7 million, or 25.5%, in mortgage closed loan production volume. Excluding the increases in holding gain on equity securities and mortgage fee income, noninterest income for 2019 increased \$4.1 million and was primarily attributed to an increase in the gain on derivative of \$1.5 million and an increase in commercial swap fee income of \$1.2 million.

In 2019 and 2018, mortgage fee income increased \$8.7 million and decreased \$4.8 million, respectively. Mortgage closed loan production volume increased by \$368.7 million, or 25.5%, in 2019 and decreased \$93.8 million, or 6.1%, in 2018. With the pressure of decreasing rates during 2019, mortgage closed loan production increased in 2019 across most of the loan categories. The \$368.7 million increase in 2019 was due to a \$352.0 million increase in refinance volume, a \$59.8 million increase in purchase loans, a \$1.4 million increase in bridge loans, and a \$44.5 million decrease in construction loans. The decrease in 2018 was due to a \$46.9 million decrease in purchase loans, a \$35.4 million decrease in refinance volume, an \$8.8 million decrease in bridge loans, and a \$2.7 million decrease in construction loans, which was a result of increasing interest rates in 2018.

Gain on derivatives increased \$1.5 million from a loss of \$278 thousand in 2018 to a gain of \$1.3 million in 2019. This increase was largely the result of an increase of 23.39% in the locked pipeline of residential mortgage loans related to the derivative during the year ended December 31, 2019, compared to a decrease of 3.15% in the locked pipeline of residential mortgage loans related to the derivative during the year ended December 31, 2018.

Commercial swap fee income increased \$1.2 million from \$552 thousand in 2018 to \$1.7 million in 2019. This was primarily the result of an increase in swap volume from \$38.5 million in 2018 to \$58.3 million in 2019.

During the ordinary course of business in 2019, 2018 and 2017, the Company sold several investment securities at a loss of \$166 thousand, a gain of \$327 thousand and a gain of \$731 thousand, respectively. All investments that were sold were classified as available-for-sale. The Company is always looking at ways to improve yield while maintaining a high quality short-term investment portfolio.

Gain on sale of portfolio loans increased \$322 thousand from \$198 thousand in 2018 to \$520 thousand in 2019 and decreased \$340 thousand from \$538 thousand in 2017 to \$198 thousand in 2018. The total volume of portfolio loans sold in 2019, 2018 and 2017 was \$63.9 million, \$15.2 million, and \$52.9 million, respectively.

The Company is continually searching for ways to increase noninterest income. In addition, the Company believes that the acquisition of Chartwell Compliance during the third quarter of 2019 will generate increases to noninterest income through consulting income generated from their services.

Noninterest Expense

Noninterest expense was \$87.2 million, \$72.9 million and \$70.5 million in 2019, 2018 and 2017, respectively. Approximately 64%, 63% and 63% of noninterest expense for 2019, 2018 and 2017, respectively, related to personnel costs. Personnel is a critical component of every service organization, which is why personnel costs are such a significant part of the expenditure mix. Salaries and benefits increased by \$10.0 million in 2019 and increased by \$2.1 million in 2018. The 2019 increase is primarily the result of increased mortgage production, the build-out of other Company administration, the build-out of the Fintech team, increased incentive and stock-based compensation, and the additional team members acquired as a result of the Chartwell acquisition during the third quarter of 2019. The 2018 increase is primarily the result of additional staffing related to organic growth. The additional staffing was used for sales positions as well as the back-office support needed to facilitate growth.

Equipment and occupancy expense increased by \$983 thousand in 2019 and by \$384 thousand in 2018. The 2019 increase was mainly due to increases in lease expense, building repairs and maintenance, maintenance on equipment and technology. The 2018 increase was primarily due to one new full-service branch being opened during 2018 in the northern Virginia region as well as a full year of expenses from the Suncrest and Leesburg offices opened in 2017. Part of this increase was offset due to the decreased expenses related to the consolidation of two branches in Martinsburg, WV during December of 2017.

Professional fees increased by \$1.4 million in 2019 and increased by \$416 thousand in 2018. The 2019 increase was due to special projects and Fintech product and technology development. The 2018 increase was due to project management, additional accounting and auditing fees, recruiting expenses, and other efficiency implementations.

Travel, entertainment, dues, and subscriptions expense increased by \$1.3 million in 2019 and by \$587 thousand in 2018. More specifically, the 2019 increase was mainly due to a \$1.0 million increase in meals and entertainment and a \$835 thousand increase in travel expense, primarily the result of increased activity of the Fintech team. The 2018 increase was primarily due to a \$386 thousand increase in travel expense, and a \$288 thousand increase in publications and sponsorships.

Income Taxes

The Company incurred income tax expense of \$8.6 million, \$3.4 million, and \$4.8 million in 2019, 2018, and 2017, respectively.

The Company's effective tax rate was 24%, 22%, and 39% in 2019, 2018 and 2017, respectively. The decrease in effective tax rate for 2018 and 2019 was primarily driven by the Tax Reform Act, signed into law on December 22, 2017. The new law established a new, flat corporate federal statutory income tax rate of 21%. The Company's 2017 effective tax rate was also affected by the Tax Reform Act, as the Company was required to re-measure its net deferred tax asset, which resulted in an income tax charge of \$646 thousand. Among other things, the new law (i) eliminated the corporate alternative minimum tax and allows the use of any such carryforwards to offset regular tax liability for any taxable year, (ii) limited the deduction for net interest expense incurred by U.S. corporations, (iii) allowed businesses to immediately expense, for tax purposes, the cost of new investments in certain qualified depreciable assets, (iv) eliminated or reduced certain deductions related to meals and entertainment expenses, (v) modified the limitation on excessive employee remuneration to eliminate the exception for performance-based compensation and clarifies the definition of a covered employee and (vi) limited the deductibility of deposit insurance premiums. If not for having to re-measure the net deferred tax asset, the Company's effective tax rate for 2017 would have been 33%. The Company's effective tax rate is affected by certain permanent tax differences caused by statutory

requirements in the tax code. The largest permanent difference relates to tax-exempt interest income related to municipal investments and loans held by the Company. Other, smaller permanent differences arise from income derived from life insurance purchased on certain key employees and directors and meals and entertainment expenses.

Return on Assets

Excluding discontinued operations, the Company's return on average assets from continuing operations was 1.44% in 2019, compared to 0.73% in 2018 and 0.52% in 2017. The increased return in 2019 is a direct result of a \$14.6 million increase in earnings from continuing operations, while average total assets increased by \$213.6 million, mainly as the result of a \$182.0 million increase in average total loans. The increased return in 2018 is a direct result of a \$4.4 million increase in earnings from continuing operations, while average total assets increased by \$183.5 million, mainly as the result of a \$121.6 million increase in average total loans and a \$44.7 million increase in average investment securities.

Return on Equity

Excluding discontinued operations, the Company's return on average stockholders' equity from continuing operations was 13.61% in 2019, compared to 7.46% in 2018 and 5.23% in 2017. The increased return in 2019 is a direct result of a \$14.6 million increase in earnings from continuing operations, while average equity increased by \$34.3 million. The increased return in 2018 is a direct result of a \$4.4 million increase in earnings from continuing operations, while average equity increased by \$15.9 million.

Overview of the Statement of Condition

The greatest balance sheet changes from 2018 to 2019 were as follows: total assets increased by \$193.1 million to \$1.9 billion at December 31, 2019, loans increased by \$70.2 million to \$1.4 billion, deposits decreased by \$44.1 million to \$1.3 billion, accrued interest payable and other liabilities increased \$24.0 million to \$41.7 million, accrued interest receivable and other assets increased \$18.9 million to \$53.1 million, subordinated debt decreased \$13.4 million to \$4.1 million, and stockholders' equity increased \$35.2 million to \$211.9 million.

On November 21, 2019, the Company entered into a Purchase and Assumption Agreement with Summit Community Bank, Inc., a subsidiary of Summit Financial Group, Inc. pursuant to which Summit will purchase certain assets and assume certain liabilities of three branch locations in Berkeley County, WV and one branch location in Jefferson County, WV. Pursuant to the terms of the Purchase Agreement, Summit has agreed to assume certain deposit liabilities and to acquire certain loans, as well as cash, real property, personal property, and other fixed assets associated with the branch locations. Further discussion of this agreement, including the amounts classified as held for sale at December 31, 2019, is included in Note 1, "Summary of Significant Accounting Policies" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Cash and Cash Equivalents

Cash and cash equivalents totaled \$28.0 million at December 31, 2019, compared to \$22.2 million at December 31, 2018. During 2016, a deposit reclassification program was implemented and allowed the Company to reduce its requirement of reserve balances on hand in accordance with the Federal Reserve Board the daily Federal Reserve Requirement.

Management believes the current balance of cash and cash equivalents adequately serves the Company's liquidity and performance needs. Total cash and cash equivalents fluctuate on a daily basis due to transactions in process and other liquidity demands. Management believes liquidity needs 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 to meet cash obligations as they come due.

Investment Securities

Investment securities totaled \$254.3 million at December 31, 2019, compared to \$231.2 million at December 31, 2018.

The following table sets forth a summary of the investment securities portfolio as of the dates indicated reported at estimated fair value:

December 31, (Dollars in thousands)	2019	2018	2017
Available-for-sale securities:			
U. S. Agency securities	\$ 51,996	\$ 77,430	\$ 80,945
U.S. Sponsored Mortgage-backed securities	58,312	50,115	58,154
Municipal securities	113,092	83,761	75,842
Other securities	12,421	10,308	16,566
Total investment securities available-for-sale	\$ 235,821	\$ 221,614	\$ 231,507
Equity securities	\$ 18,514	\$ 9,599	\$ —

At December 31, 2019, investment securities are available-for-sale or equity securities. Management believes the available-for-sale classification provides flexibility in terms of managing the portfolio for liquidity, yield enhancement, and interest rate risk management opportunities. At December 31, 2019, the amortized cost of available-for-sale investment securities totaled \$231.8 million, resulting in unrealized gain in the investment portfolio of \$4.0 million. Management has the intent and ability to hold the investments to maturity and they are all high quality investments with no other than temporary impairment. The municipal securities continue to give the Company the ability to pledge and to better the effective tax rate.

The following table shows the maturities for the available-for-sale investment securities portfolio at December 31, 2019:

(Dollars in thousands)	Within one year		After one year, but within five		After five years, but within ten		After ten years		Total investment securities	
	Amortized Cost	Weighted Avg. Yield	Amortized Cost	Weighted Avg. Yield	Amortized Cost	Weighted Avg. Yield	Amortized Cost	Weighted Avg. Yield	Amortized Cost	Fair Value
U. S. Agency securities	\$ —	— %	\$ 13,997	2.06 %	\$ 14,707	2.38 %	\$ 23,342	2.52 %	\$ 52,046	\$ 51,996
U.S. Sponsored Mortgage-backed securities	—	—	—	—	11,098	1.74	47,650	2.58	58,748	58,312
Municipal securities	—	—	961	2.69	9,294	3.44	98,495	3.35	108,750	113,092
Other securities	90	5.02	985	2.46	10,319	5.37	853	3.79	12,247	12,421
Total	\$ 90	5.02 %	\$ 15,943	2.12 %	\$ 45,418	3.12 %	\$ 170,340	3.02 %	\$ 231,791	\$ 235,821

Management monitors the earnings performance and liquidity of the investment portfolio on a regular basis through the Asset and Liability Committee (“ALCO”) meetings. The ALCO also monitors net interest income and assists in the management of interest rate risk for the Company. Through active balance sheet management and analysis of the investment securities portfolio, sufficient liquidity is maintained to satisfy depositor requirements and the various credit needs of its customers. Management believes the risk characteristics inherent in the investment portfolio are acceptable based on these parameters.

Loans

The Company’s primary market areas are the Marion, Harrison, Jefferson, Berkeley, Monongalia, and Kanawha counties of West Virginia and Fairfax and Loudoun counties of Virginia, with a secondary focus on the adjacent counties. The portfolio consists principally of commercial lending, retail lending, which includes single-family residential mortgages and consumer lending. Loans totaled \$1.4 billion as of December 31, 2019 and \$1.3 billion as of December 31, 2018.

During 2019, the Bank experienced loan growth of \$70.2 million. The growth primarily came from the commercial and non-residential real estate area, which grew approximately \$122.8 million.

On November 21, 2019, the Company entered into a Purchase and Assumption Agreement with Summit Community Bank, Inc., a subsidiary of Summit Financial Group, Inc. pursuant to which Summit will purchase certain assets and assume certain liabilities of three branch locations in Berkeley County, WV and one branch location in Jefferson County, WV. Pursuant to the terms of the

Purchase Agreement, Summit has agreed to assume certain deposit liabilities and to acquire certain loans, as well as cash, real property, personal property, and other fixed assets associated with the branch locations. As of December 31, 2019, the balance of loans classified as held for sale as a result of this agreement was \$42.9 million.

Major classification of loans held for investment at December 31, are as follows:

(Dollars in thousands)	2019	2018	2017	2016	2015
Commercial and non-residential real estate	\$ 1,063,828	\$ 941,033	\$ 783,909	\$ 756,619	\$ 728,202
Residential real estate and home equity	306,710	353,944	308,614	280,838	285,490
Consumer and other	3,697	9,605	12,783	14,511	17,361
Total Loans	\$ 1,374,235	\$ 1,304,582	\$ 1,105,306	\$ 1,051,968	\$ 1,031,053
Deferred loan origination fees and costs, net	\$ 306	\$ (216)	\$ 635	\$ 897	\$ 1,117
Loans receivable	\$ 1,374,541	\$ 1,304,366	\$ 1,105,941	\$ 1,052,865	\$ 1,032,170

At December 31, 2019, commercial and non-residential real estate loans represented the largest portion of the portfolio approximating 77.4% of the total loan portfolio. Commercial and non-residential real estate loans totaled \$1.1 billion at December 31, 2019, compared to \$941.0 million at December 31, 2018. Management will continue to focus on the enhancement and growth of the commercial loan portfolio while maintaining appropriate underwriting standards and risk/price balance.

Residential real estate loans to retail customers (including home equity lines of credit) account for the second largest portion of the loan portfolio, comprising 22.3% of the total loan portfolio. Residential real estate and home equity loans totaled \$306.7 million at December 31, 2019, compared to \$353.9 million at December 31, 2018. Included in residential real estate loans are home equity credit lines totaling \$35.1 million at December 31, 2019, compared to \$59.0 million at December 31, 2018. Management believes the home equity loans are competitive products with an acceptable return on investment after risk considerations. Residential real estate lending continues to represent a primary focus due to the lower risk factors associated with this type of loan and the opportunity to provide service to those in the Marion, Harrison, Berkeley, Jefferson, Kanawha and Monongalia county markets of West Virginia and Fairfax and Loudoun county markets of Virginia. Under the Tax Reform Act signed into law on December 22, 2017, interest on home equity loans and lines of credit is no longer deductible. This change could adversely impact the level of originations and outstanding volumes of home equity loans and lines of credit in the future.

At December 31, 2019, consumer and other loan balances totaled \$3.7 million compared to \$9.6 million at December 31, 2018. The majority of consumer loans are in the direct lending area. Management is pleased with the performance and quality of the consumer loan portfolio, which can be attributed to the many years of experience of its consumer lenders. This is another important product necessary to serve our market areas.

At December 31, 2019, loans identified by management as potential problem loans amounted to \$10.0 million, which includes three commercial relationships. The five loans among these relationships include \$6.0 million in three commercial equipment loans to one borrower, a \$2.2 million commercial real estate loan to the second borrower, and a \$1.8 million government lease finance loan to a third borrower. These are loans where known information about the borrowers' possible credit problems causes management to have doubts as to the borrowers' ability to comply with the loan repayment terms in the future. These loans are being monitored closely, but as of year-end were not considered impaired loans.

The following table provides additional information about loans:

Loan maturities at December 31, 2019:

(Dollars in thousands)	One Year or Less	One Through Five Years	Due After Five Years	Total
Commercial and non-residential real estate	\$ 182,739	\$ 354,287	\$ 526,802	\$ 1,063,828
Residential real estate and home equity	135,523	12,886	158,301	306,710
Consumer and other	434	1,515	1,748	3,697
Total Loans	\$ 318,696	\$ 368,688	\$ 686,851	\$ 1,374,235

The preceding data has been compiled based upon the earlier of either contractual maturity or next repricing date.

The following table reflects the sensitivity of loans to changes in interest rates as of December 31, 2019 that mature after one year:

(Dollars in thousands)	Commercial and Non-Residential Real Estate	Residential Real Estate and Home Equity	Consumer and Other	Total
Predetermined fixed interest rate	\$ 420,946	\$ 136,414	\$ 2,720	\$ 560,080
Floating or adjustable interest rate	460,143	34,773	543	495,459
Total as of December 31, 2019	\$ 881,089	\$ 171,187	\$ 3,263	\$ 1,055,539

Loan Concentration

At December 31, 2019, commercial and non-residential real estate loans comprised the largest component of the loan portfolio. However, a large portion of commercial loans are real estate secured and they are geographically and industry diverse. Loans that are non-real estate secured are typically secured by accounts receivable, mortgages or equipment. While the loan concentration is in commercial loans, the commercial portfolio is comprised of loans to many different borrowers, in numerous different industries but primarily located in our market areas.

Allowance for Loan Losses

Management continually monitors the risk in the loan portfolio through review of the monthly delinquency reports and the Loan Review Committee. The Loan Review Committee is responsible for the determination of the adequacy of the ALL. This 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 delinquent status, related deposit account activity where applicable, and changes in the local and national economy. When appropriate, management also considers public knowledge and/or verifiable information from the local market to assess risks to specific loans and the loan portfolios as a whole.

The result of the evaluation of the adequacy at each period presented herein indicated that the ALL was considered adequate to absorb losses inherent in the loan portfolio.

At December 31, 2019 and 2018, impaired loans totaled \$9.5 million and \$12.8 million, respectively. A portion of the ALL of \$574 thousand and \$1.0 million was allocated to cover any loss in these loans at December 31, 2019 and 2018, respectively. Loans past due more than 30 days were \$9.3 million and \$16.2 million, respectively, at December 31, 2019 and 2018.

	December 31,		
	2019	2018	2017
Loans past due more than 30 days to gross loans	0.68 %	1.24 %	0.89 %
Loans past due more than 90 days to gross loans	0.07 %	0.40 %	0.25 %

Net charge-offs of \$953 thousand in 2019, \$1.4 million in 2018, and \$1.4 million in 2017 were incurred. The provision for loan losses was \$1.8 million in 2019, \$2.4 million in 2018, and \$2.2 million in 2017. Net charge-offs represented 0.07%, 0.11%, 0.13%, 0.24% and 0.07% in 2019, 2018, 2017, 2016 and 2015, respectively, compared to gross loans for the indicated period.

The following tables reflect the allocation of the ALL as of December 31, 2019, 2018, 2017, 2016 and 2015:

(Dollars in thousands)	Commercial and Non-Residential Real Estate	Residential Real Estate and Home Equity	Consumer and Other	Total
ALL balance at December 31, 2018	\$ 8,605	\$ 2,089	\$ 245	\$ 10,939
Charge-offs	(998)	—	(10)	(1,008)
Recoveries	1	5	49	55
Provision (Recovery)	2,490	(495)	(206)	1,789
ALL balance at December 31, 2019	\$ 10,098	\$ 1,599	\$ 78	\$ 11,775

(Dollars in thousands)	Commercial and Non-Residential Real Estate	Residential Real Estate and Home Equity	Consumer and Other	Total
ALL balance at December 31, 2017	\$ 7,804	\$ 1,824	\$ 250	\$ 9,878
Charge-offs	(1,024)	(166)	(290)	(1,480)
Recoveries	15	81	5	101
Provision	1,810	350	280	2,440
ALL balance at December 31, 2018	\$ 8,605	\$ 2,089	\$ 245	\$ 10,939

(Dollars in thousands)	Commercial and Non-Residential Real Estate	Residential Real Estate and Home Equity	Consumer and Other	Total
ALL balance at December 31, 2016	\$ 7,181	\$ 1,718	\$ 202	\$ 9,101
Charge-offs	(1,138)	(250)	(109)	(1,497)
Recoveries	39	44	18	101
Provision	1,722	312	139	2,173
ALL balance at December 31, 2017	\$ 7,804	\$ 1,824	\$ 250	\$ 9,878

(Dollars in thousands)	Commercial and Non-Residential Real Estate	Residential Real Estate and Home Equity	Consumer and Other	Total
ALL balance at December 31, 2015	\$ 6,066	\$ 1,810	\$ 130	\$ 8,006
Charge-offs	(1,995)	(224)	(338)	(2,557)
Recoveries	8	11	1	20
Provision	3,102	121	409	3,632
ALL balance at December 31, 2016	\$ 7,181	\$ 1,718	\$ 202	\$ 9,101

(Dollars in thousands)	Commercial and Non-Residential Real Estate	Residential Real Estate and Home Equity	Consumer and Other	Total
ALL balance at December 31, 2014	\$ 4,363	\$ 1,653	\$ 207	\$ 6,223
Charge-offs	(708)	(33)	(6)	(747)
Recoveries	20	6	11	37
Provision (Recovery)	2,391	184	(82)	2,493
ALL balance at December 31, 2015	\$ 6,066	\$ 1,810	\$ 130	\$ 8,006

(Dollars in thousands)	2019		2018		2017		2016		2015	
	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans
Commercial and non-residential real estate	\$ 10,098	78 %	\$ 8,605	72 %	\$ 7,804	71 %	\$ 7,181	72 %	\$ 6,066	70 %
Residential real estate and home equity	1,599	22	2,089	27	1,824	28	1,718	27	1,810	28
Consumer and other	78	—	245	1	250	1	202	1	130	2
Total	\$ 11,775	100 %	\$ 10,939	100 %	\$ 9,878	100 %	\$ 9,101	100 %	\$ 8,006	100 %

Non-performing assets consist of loans that are no longer accruing interest, loans that have been renegotiated to below market rates based upon financial difficulties of the borrower, and real estate acquired through foreclosure. When interest accruals are suspended, accrued interest income is reversed with current year accruals charged to earnings and prior year amounts generally charged off as a credit loss. When, in management's judgment, the borrower's ability to make periodic interest and principal payments resumes and collectability is no longer in doubt, which is evident by the receipt of six consecutive months of regular, on-time payments, the loan is eligible to be returned to accrual status. For 2019, interest income on loans would have increased by approximately \$582 thousand if loans had performed in accordance with their terms.

Non-performing assets and past due loans:

(Dollars in thousands)	2019	2018	2017	2016	2015
Non-accrual loans					
Commercial	\$ 3,533	\$ 4,495	\$ 8,350	\$ 4,975	\$ 8,195
Real estate and home equity	1,556	2,526	1,170	1,176	839
Consumer and other	34	82	179	78	371
Total non-accrual loans	5,123	7,103	9,699	6,229	9,405
Accruing loan past due 90 days or more	—	—	—	—	848
Total non-performing loans	5,123	7,103	9,699	6,229	10,253
Other real estate, net	1,397	2,145	1,346	414	239
Total non-performing assets	\$ 6,520	\$ 9,248	\$ 11,045	\$ 6,643	\$ 10,492
Allowance for loan losses	\$ 11,775	\$ 10,939	\$ 9,878	\$ 9,101	\$ 8,006
Nonperforming loans to gross loans	0.37 %	0.54 %	0.88 %	0.59 %	0.99 %
Allowance for loan losses to non-performing loans	229.85 %	154.01 %	101.85 %	146.11 %	78.08 %
Nonperforming assets to total assets	0.34 %	0.53 %	0.72 %	0.47 %	0.76 %

Impaired loans have decreased by \$3.3 million, or 25.8%, during 2019. This change is the net effect of multiple factors, including principal curtailments of \$1.6 million, the reclassification of \$1.4 million of previously reported impaired loans to performing loans, partial charge-offs of \$999 thousand, the identification of \$223 thousand of recently impaired loans, foreclosure and reclassification to other real estate owned of \$135 thousand, and normal loan amortization of \$474 thousand.

The \$1.6 million of principal curtailments were concentrated in one commercial relationship in which the underlying assets were purchased by an unrelated borrower and repurposed in a new business operation, with stronger performance, allowing the new loan to be originated as a performing loan. This relationship represented \$1.4 million, or 88%, or the total principal curtailments.

The \$1.4 million included in the reclassification of previously reported impaired loans to performing loans was concentrated in one residential real estate loan that returned to accrual status after that borrower provided six consecutive, on-time payments, thus allowing the loan to be adjusted to accrual status, and allowing the loan to be considered a performing loan.

Funding Sources

The Bank considers a number of alternatives, including but not limited to deposits, short-term borrowings, and long-term borrowings when evaluating funding sources. Traditional deposits, including deposits at branches held for sale, continue to be the most significant source of funds, totaling \$1.5 billion, or 84.2%, of funding sources at December 31, 2019. This same information at December 31, 2018, reflected \$1.3 billion in deposits representing 84.1% of such funding sources. FHLB and other borrowings and subordinated debt represented 15.1% and 14.9% of funding sources at December 31, 2019 and 2018, respectively. Repurchase agreements, which are available to large corporate customers, represented 0.7% and 1.0% of funding sources at December 31, 2019 and 2018, respectively, and represented the remainder of such funding sources. In 2018, \$16.0 million of subordinated debt was converted into common stock, which caused the issuance of 1,000,000 new shares and provided an annual interest expense savings of \$1.1 million. In 2019, \$1.0 million of subordinated debt was converted into common stock, which resulted in the issuance of 62,500 new shares, and \$12.4 million of subordinated debt was redeemed. These transactions provided an annual interest expense savings of \$970 thousand.

Management continues to emphasize the development of additional noninterest-bearing deposits as a core funding source for the Company. At December 31, 2019, noninterest-bearing balances totaled \$278.5 million compared to \$213.6 million at December 31, 2018, or 22.0% and 16.3% of total deposits, respectively. Interest-bearing deposits totaled \$1.0 billion at December 31, 2019, compared to \$1.1 billion at December 31, 2018, or 78.0% and 83.7% of total deposits, respectively.

On November 21, 2019, the Company entered into a Purchase and Assumption Agreement with Summit Community Bank, Inc., a subsidiary of Summit Financial Group, Inc. pursuant to which Summit will purchase certain assets and assume certain liabilities of three branch locations in Berkeley County, WV and one branch location in Jefferson County, WV. Pursuant to the terms of the Purchase Agreement, Summit has agreed to assume certain deposit liabilities and to acquire certain loans, as well as cash, real property, personal property, and other fixed assets associated with the branch locations. As of December 31, 2019, the balance of deposits classified as held for sale as a result of this agreement was \$188.3 million.

The following table sets forth the balance of each of the deposit categories for the years ended December 31, 2019, 2018 and 2017:

(Dollars in thousands)	2019	2018	2017
Demand deposits of individuals, partnerships, and corporations			
Noninterest bearing demand	\$ 278,547	\$ 213,597	\$ 125,963
Interest bearing demand	351,435	376,398	436,303
Savings and money markets	363,026	317,697	284,795
Time deposits including CDs and IRAs	272,034	401,462	312,519
Total deposits	<u>\$ 1,265,042</u>	<u>\$ 1,309,154</u>	<u>\$ 1,159,580</u>
Time deposits that meet or exceed the FDIC insurance limit	<u>\$ 8,955</u>	<u>\$ 15,280</u>	<u>\$ 18,832</u>

The following table sets forth the average balance and average rate paid on each of the deposit categories, including the deposits at branches held for sale, for the years ended December 31, 2019, 2018 and 2017:

(Dollars in thousands)	2019		2018		2017	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest bearing demand deposits	\$ 258,546		\$ 171,631		\$ 117,696	
Interest-bearing demand deposits:						
NOW	381,092	0.94 %	432,789	0.75 %	438,123	0.60 %
Money market checking	331,636	1.55 %	245,008	1.00 %	239,632	0.74 %
Savings	38,324	0.01 %	44,049	0.07 %	47,034	0.17 %
IRAs	17,415	1.89 %	17,894	1.59 %	16,678	1.30 %
CDs	387,660	2.16 %	319,720	1.76 %	262,417	1.38 %
Total interest-bearing deposits	<u>1,156,127</u>	<u>1.51 %</u>	<u>1,059,460</u>	<u>1.10 %</u>	<u>1,003,884</u>	<u>0.83 %</u>
Total deposits	<u>\$ 1,414,673</u>		<u>\$ 1,231,091</u>		<u>\$ 1,121,580</u>	

Average interest-bearing deposits, including deposits at branches held for sale, totaled \$1.2 billion during 2019 compared to \$1.1 billion during 2018. Average noninterest bearing deposits, including noninterest bearing deposits at branches held for sale, totaled \$258.5 million during 2019 compared to \$171.6 million during 2018.

Maturities of time deposits, including time deposits at branches held for sale, that meet or exceed the FDIC insurance limit as of December 31, 2019:

(Dollars in thousands)	2019
Under 3 months	\$ 1,831
Over 3-12 months	6,899
Over 1 to 3 years	3,214
Over 3 years	—
Total	<u>\$ 11,944</u>

Along with traditional deposits, the Bank has access to both short-term borrowings from FHLB and overnight repurchase agreements to fund its operations and investments.

Short-term borrowings:

(Dollars in thousands)	2019	2018	2017
Balance at end of year	\$ 192,063	\$ 212,395	\$ 149,596
Average balance during the year	187,226	171,117	100,969
Maximum month-end balance	240,811	264,297	220,097
Weighted-average rate during the year	2.24 %	2.27 %	1.16 %
Weighted-average rate at December 31	1.81 %	2.62 %	1.61 %

Repurchase agreements:

(Dollars in thousands)	2019	2018	2017
Balance at end of year	\$ 10,172	\$ 14,925	\$ 22,403
Average balance during the year	11,252	18,536	25,160
Maximum month-end balance	14,655	20,903	25,972
Weighted-average rate during the year	0.43 %	0.30 %	0.30 %
Weighted-average rate at December 31	0.44 %	0.16 %	0.34 %

In addition, the Company holds subordinated debt as follows:

(Dollars in thousands)	2019	2018	2017
Balance at end of year	\$ 4,124	\$ 17,524	\$ 33,524
Average balance during the year	12,125	25,774	33,524
Maximum month-end balance	17,524	33,524	33,524
Weighted-average rate during the year	6.35 %	6.81 %	6.69 %
Weighted-average rate at December 31	3.51 %	6.57 %	6.70 %

Capital/Stockholders' Equity

During the year ended December 31, 2019, stockholders' equity increased approximately \$35.2 million to \$211.9 million. This increase consists of net income for the year of \$27.0 million, a \$5.5 million decrease in other comprehensive loss, common stock options exercised totaling \$2.2 million, stock based compensation of \$1.8 million, common stock issued related to Chartwell acquisition totaling \$1.0 million, and the conversion of subordinated debt to common stock totaling \$1.0 million. These changes were offset by preferred stock redemption of \$500 thousand and dividends paid totaling \$2.8 million. With the stockholders' equity increasing as noted above, the equity to assets ratio increased 0.80% to 10.90% due to equity growth outpacing the \$193.1 million increase in total assets during 2019. The Company paid dividends to common shareholders of \$2.3 million in 2019 and \$1.2 million in 2018 and earned \$27.0 million in 2019 versus \$12.0 million in 2018, resulting in the dividend payout ratio decreasing from 10.16% in 2018 to 8.48% in 2019.

At December 31, 2019, accumulated other comprehensive loss totaled \$1.3 million, a decrease in the loss of \$5.5 million from December 31, 2018. This change is primarily the result of the increase in the market value of the investment portfolio from 2018 to 2019, principally in the area of municipal securities.

The Company and the Bank are also subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. The Bank is required to comply with applicable capital adequacy standards established by the FDIC. The Company is exempt from the Federal Reserve Board's capital adequacy standards as it believes it meets the requirements of the Small Bank Holding Company Policy Statement. State chartered banks, such as the Bank, are subject to similar capital requirements adopted by the West Virginia Division of Financial Institutions. Bank regulators have established "risk-based" capital requirements designed to measure capital adequacy. Risk-based capital ratios reflect the relative risks of various assets companies 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 the Company's risk-based capital ratios can be found in Note 14, "Regulatory Capital Requirements" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. See also "Supervision and Regulation" in Item 1, Business, of this Annual Report on Form 10-K.

At December 31, 2019, the Bank's risk-based capital ratios were above the minimum standards for a well-capitalized institution. The total risk-based capital ratio of 12.8% at December 31, 2019, is above the well capitalized standard of 10%. The Tier 1 risk-based capital ratio of 12.1% at December 31, 2019 also exceeded the well capitalized minimum of 8%. The common equity tier 1 capital ratio of 12.1% at December 31, 2019 is above the well capitalized standard of 6.5%. The leverage ratio at December 31, 2019 was 9.9% and was also above the well capitalized standard of 5%. Management believes that capital continues to provide a strong base for profitable growth.

Liquidity and Interest Rate Sensitivity

The objective of the asset/liability management function is to structure the balance sheet in ways that maintain consistent growth in net interest income and minimize exposure to market risks within its policy guidelines. This objective is accomplished through management of balance sheet liquidity and interest rate risk exposure based on changes in economic conditions, interest rate levels, and customer preferences. The Company manages balance sheet liquidity through the investment portfolio, sales of commercial and residential real estate loans, and through the utilization of diversified funding sources, including retail deposits, a variety of wholesale funding sources and borrowings through the FHLB. Interest rate risk is managed through the use of interest rate caps, commercial loan swap transactions and interest rate lock commitments on mortgage loans held for sale, as well as the structuring of loan terms that provide cash flows to be consistently re-invested along the rate cycle.

Interest Rate Risk

Our primary market risk is interest rate fluctuation. Interest rate risk results from the traditional banking activities in which the Bank engages, such as gathering deposits and extending loans. Many factors, including economic conditions, financial conditions, movements in interest rates, and consumer preferences affect the difference between interest earned on our assets and interest paid on our liabilities. The Company's interest rate risk represents the levels of exposure our income and market values have to fluctuations in interest rates. Interest rate risk is measured as the change in earnings and the theoretical market value of equity that results from changes in interest rates. The ALCO oversees the management of interest rate risk. ALCO's objective is to maximize stockholder value, enhance profitability and increase capital, serve customer and community needs, and protect the Company from any material financial consequences associated with changes in interest rates.

Interest rate risk arises from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships across yield curves that affect bank activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest rate related options embedded in certain bank products (option risk). Changes in interest rates may also affect a bank's underlying economic value. The values of a bank's assets, liabilities, and interest-rate related, off-balance sheet contracts are affected by changes in rates because the present values of future cash flows, and in some cases the cash flows themselves, are changed when discounting by different rates.

The Company believes that accepting some level of interest rate risk is necessary in order to achieve realistic profit goals. Management and the Board of Directors have chosen an interest rate risk profile that is consistent with our strategic business plan.

The Company's Board of Directors has established a comprehensive interest rate risk management policy, which is administered by our ALCO. The policy establishes limits on risk, which are quantitative measures of the percentage change in net interest income (a measure of net interest income at risk) and the fair value of equity capital (a measure of economic value of equity or "EVE" at risk) resulting from a hypothetical change in interest rates. The Company measures the potential adverse impacts that changing interest rates may have on our short-term earnings, long-term value, and liquidity by employing simulation analysis through the use of computer modeling. The simulation model captures optionality factors such as call features and interest rate caps and floors embedded in investment and loan portfolio contracts. As with any method of gauging interest rate risk, there are certain shortcomings inherent in the interest rate modeling methodology we employ. When interest rates change, actual movements in different categories of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from assumptions used in the model. Finally, the methodology does not measure or reflect the impact that higher rates may have on adjustable-rate loan customers' ability to service their debts, or the impact of rate changes on demand for loan and deposit products.

A base case forecast is prepared using Global Insight's Most Likely rate forecast and alternative simulations reflecting more and less extreme behavior of rates each quarter. The analysis gets presented to the ALCO and the Board of Directors. In addition, more frequent forecasts are produced when interest rates are particularly uncertain, when other business conditions so dictate, or when necessary to model potential balance sheet changes.

The balance sheet is subject to quarterly testing for interest rate shock possibilities to indicate the inherent interest rate risk. Average interest rates are shocked by +/- 100, 200, 300, and 400 basis points ("bp"). The goal is to structure the balance sheet so that net interest-earnings at risk over a twelve-month period and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels.

At December 31, 2019, the Company is shown in an asset sensitive position for the first year after rate shocks. Management continuously strives to reduce higher costing fixed rate funding instruments, while increasing assets that are more fluid in their repricing. An asset sensitive position, theoretically, is more favorable in a rising rate environment since more assets than liabilities will reprice in a given time frame as interest rates rise. Similarly, a liability sensitive position, theoretically, is favorable in a

declining interest rate environment since more liabilities than assets will reprice in a given time frame as interest rates decline. Management works to maintain a consistent spread between yields on assets and costs of deposits and borrowings, regardless of the direction of interest rates.

Estimated Changes in Net Interest Income

Change in interest rates	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp	-200 bp	-300 bp	-400 bp
Policy Limit	25.0 %	20.0 %	15.0 %	10.0 %	10.0 %	15.0 %	20.0 %	25.0 %
December 31, 2019	5.7 %	3.5 %	1.3 %	0.3 %	(6.9)%	(18.4)%	(26.8)%	(32.5)%
December 31, 2018	0.8 %	0.3 %	(0.7)%	(0.7)%	(2.9)%	(8.2)%	(16.9)%	(21.6)%

As shown above, measures of net interest income at risk in a rising rate environment were more favorable at December 31, 2019 versus December 31, 2018 and less favorable in a falling rate environment for the same time periods. One factor explaining this year-over-year difference is the general level of market interest rates. Relevant market yields were generally lower across the yield curve at December 31, 2019 versus December 31, 2018. As a result, spreads on asset yields relative to liability yields have compressed. A parallel downward interest rate shock would further compress the yields on assets and liabilities, while a parallel upward interest rate shock would widen the spread between yields on assets and liabilities.

Net interest income at risk exceeded policy limits in the -200 bp, -300 bp, and -400 bp parallel instantaneous interest rate shock scenarios. The policy violations in these scenarios are driven largely by the general level or market interest rates described in the preceding paragraph as well as the Company's cost of funding. The Company's deposit costs are low and have little room to reprice to a lower interest rate in a falling rate environment. However, the Company's floating rate assets are exposed to the full effect of repricing to a lower interest rate in a falling rate environment.

The paragraph above discusses net interest income at risk in various shock scenarios; scenarios in which interest rates immediately move by a large margin. Our net interest income profile exhibits declining net interest income when rates fall gradually, but the impact is not as extreme as is suggested in a shock scenario. Essentially, a gradual interest rate decline scenario smooths the impact of falling rates over a 12 or 24 month period. Our expectation is that over any given one to two year horizon, interest rates will likely move at a gradual pace.

As interest rates fall, MVB Mortgage experiences a higher volume of loan originations and refinance activity. This benefit is not reflected in measures of net interest income at risk, as origination and refinance activity at MVB Mortgage is classified as fee income. This increase in fee income represents a benefit to net income that offsets the losses to net interest income experienced in a falling rate environment.

The measures of equity value at risk indicate the ongoing economic value of the Company by considering the effects of changes in interest rates on all of the Company's cash flows, and by discounting the cash flows to estimate the present value of assets and liabilities. The difference between these discounted values of the assets and liabilities is the economic value of equity, which, in theory, approximates the fair value of the Company's net assets.

Estimated Changes in Economic Value of Equity (EVE)

Change in interest rates	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp	-200 bp	-300 bp	-400 bp
Policy Limit	35.0 %	25.0 %	17.0 %	12.0 %	12.0 %	17.0 %	25.0 %	35.0 %
December 31, 2019	10.6 %	8.6 %	6.7 %	5.0 %	(15.1)%	(36.8)%	(44.1)%	(32.5)%
December 31, 2018	(8.2)%	(6.4)%	(4.3)%	(2.0)%	(2.7)%	(11.9)%	(27.6)%	(33.3)%

The EVE at risk in down rate scenarios increased at December 31, 2019, when compared to December 31, 2018. EVE is positioned to increase in rising rate environments at December 31, 2019 compared to December 31, 2018. The increase in economic value of equity in rising rate environments is largely attributable to the effect that an increase in interest rates has on the present value of non-interest-bearing deposits. The discount rate for non-interest-bearing deposits rises as interest rates rise. However, these deposits pay a rate of zero. The cost of these liabilities does not increase as interest rates rise, but the discount rate applied to the expected future cash flows of these liabilities increases with interest rates. Any increase in the market rates used to discount the cash flows of these liabilities reduces the present value of these liabilities. The decrease in present value of these liabilities results in a net increase to economic value of equity. A falling rate environment would result in a higher net present value for these liabilities and would lead to a net decrease to economic value of equity.

Additionally, interest-bearing-deposits contribute to the large declines in economic value of equity in falling rate environments as a result of their low cost. Interest-bearing-deposit costs are modeled with a floor of zero, meaning that the interest rates paid on

deposits cannot be negative. In the event of a large downward interest rate shock, deposit costs would floor at zero. However, the discount rates applied to the expected future cash flows of these deposits could sustain a large decline in interest rates before reaching zero. This has the effect of increasing the present value of the interest-bearing-deposit liability and ultimately decreasing economic value of equity.

Impact of Inflation and Changing Prices

The consolidated financial statements and related notes have been prepared in accordance with GAAP, which generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

Liquidity

Maintenance of a sufficient level of liquidity is a primary objective of the ALCO. Liquidity, as defined by the ALCO, is the ability to meet anticipated operating cash needs, loan demand, and deposit withdrawals, without incurring a sustained negative impact on net interest income. It is the Company's policy to manage liquidity so that there is no need to make unplanned sales of assets or to borrow funds under emergency conditions.

The main source of liquidity for the Bank comes through deposit growth. Liquidity is also provided from cash generated from investment maturities, principal payments from loans, and income from loans and investment securities. During the year ended December 31, 2019, cash provided by financing activities totaled \$133.9 million, while outflows from investing activity totaled \$120.1 million. When appropriate, the Bank has the ability to take advantage of external sources of funds such as advances from the FHLB, national market certificate of deposit issuance programs, the Federal Reserve discount window, brokered deposits and CDARS. These external sources often provide attractive interest rates and flexible maturity dates that enable the Bank to match funding with contractual maturity dates of assets. Securities in the investment portfolio are classified as available-for-sale and can be utilized as an additional source of liquidity.

The Company has an effective shelf registration covering \$75 million of debt and equity securities, of which approximately \$75 million remains available, subject to authorization from the Board of Directors and market conditions, to issue equity or debt securities at our discretion. While we seek to preserve flexibility with respect to cash requirements, there can be no assurance that market conditions would permit us to sell securities on acceptable terms at any given time or at all.

Contractual Obligations

The following table reflects the contractual maturities of our term liabilities as of December 31, 2019. The amounts shown do not reflect contractual interest, early withdrawal or prepayment assumptions.

(Dollars in thousands)	Less than one year	One to three years	Three to five years	More than five years	Total
Certificates of deposit and individual retirement accounts	\$ 223,633	\$ 29,569	\$ 18,832	\$ —	\$ 272,034
Securities sold under agreement to repurchase	10,172	—	—	—	10,172
Operating leases	1,891	3,522	2,823	10,000	18,236
Finance leases	77	128	—	—	205
FHLB short-term advances	192,063	—	—	—	192,063
FHLB long-term advances	30	20,792	10,000	—	30,822
Total	\$ 427,866	\$ 54,011	\$ 31,655	\$ 10,000	\$ 523,532

¹ Certificates of deposit give customers rights to early withdrawal. Early withdrawals may be subject to penalties. The penalty amount depends on the remaining time to maturity at the time of early withdrawal.

Off-Balance Sheet Arrangements

The Bank has entered into certain agreements that represent off-balance sheet arrangements that could have a significant impact on the consolidated financial statements and could have a significant impact in future periods. Specifically, the Bank has entered into agreements to extend credit or provide conditional payments pursuant to standby and commercial letters of credit. In

addition, the Bank utilizes letters of credit issued by the FHLB to collateralize certain public funds deposits. Further discussion of these agreements, including the amounts outstanding at December 31, 2019, is included in Note 7, “Commitments and Contingent Liabilities” of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Commitments to extend credit, including loan commitments, standby letters of credit, and commercial letters of credit do not necessarily represent future cash requirements, in that these commitments often expire without being drawn upon.

Fourth Quarter

Fourth quarter 2019 net income was \$4.1 million compared to \$3.0 million in the fourth quarter of 2018. This equated to basic earnings per share, on a quarterly basis, of \$0.34 in 2019 and \$0.25 in 2018. Diluted earnings per share for the fourth quarter of 2019 and 2018 were \$0.32 and \$0.24, respectively. Net interest income increased during the fourth quarter and was \$15.9 million in the fourth quarter of 2019 compared to \$14.4 million in 2018. Noninterest income was \$14.8 million in the fourth quarter of 2019 compared to \$8.3 million in 2018. Noninterest expense increased to \$25.0 million for the fourth quarter of 2019 from \$18.5 million in 2018. Loan loss provision was \$232 thousand for the fourth quarter of 2019, a decrease of \$60 thousand over the fourth quarter of 2018.

The commercial and retail banking segment of the Company had decreased earnings in the fourth quarter of 2019 by \$513 thousand from the same period one year prior due to an increase in noninterest expenses. Net interest income increased \$1.2 million due to the Company’s strong balance sheet growth, namely loan growth of \$147.9 million and deposit growth of \$149.3 million. Noninterest income increased \$2.4 million, primarily as the result of an increase of \$1.0 million in compliance consulting income related to Chartwell, an increase of \$437 thousand in commercial swap fee income, an increase of \$311 thousand in the gain on sale of portfolio loans, and an increase of \$132 thousand in service charges on deposit accounts. Noninterest expenses increased by \$4.5 million, mostly as the result of a \$1.7 million increase in salaries and employee benefits, a \$908 thousand increase in professional fees, a \$552 thousand increase in travel, entertainment, dues, and subscriptions, a \$447 thousand increase in other operating expenses, and \$257 thousand increase in insurance, tax, and assessment expense. Additionally, fourth quarter 2019 income tax expense decreased by \$128 thousand to \$1.2 million versus the fourth quarter 2018.

The mortgage segment of the Company had decreased fourth quarter earnings of \$1.5 million from the same period one year prior due to an increase in mortgage fee income of \$5.2 million and a decrease in the gain on derivatives of \$708 thousand. Salaries and benefits decreased \$2.3 million as a result of decreased commission expense. In addition, there was an increase in income tax expense of \$558 thousand due to the increase in fourth quarter 2019 earnings versus the prior year.

The financial holding company segment of the Company had decreased earnings of \$97 thousand in the fourth quarter of 2019 compared to the same period in 2018. The earnings decrease was primarily related to a \$53 thousand increase in salaries and employee benefits and a \$44 thousand increase in professional fees. Additionally, the fourth quarter income tax benefit increased \$61 thousand in 2019.

Future Outlook

The Company has invested in the infrastructure to support anticipated future growth in each key area, including personnel, technology, and processes to meet the growing compliance requirements in the industry. The Company believes it is well positioned in some of the finest markets in the State of West Virginia and the Commonwealth of Virginia and will continue to focus on the following: margin improvement; leveraging capital; organic portfolio loan growth; and operating efficiency. The key challenge for the Company in the future is to attract core deposits to fund growth in the new markets through continued delivery of outstanding customer service coupled with the highest quality products and technology. The Company is expanding the treasury services function to support the banking needs of financial and emerging technology companies, which will further enhance core deposits.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risk is composed primarily of interest rate risk. The ALCO is responsible for reviewing the interest rate sensitivity position and establishes policies to monitor and coordinate the Company's sources, uses, and pricing of funds.

Interest Rate Sensitivity Management

The Company uses a simulation model to analyze, manage and formulate operating strategies that address net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a twenty-four month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities. The model incorporates certain assumptions which management believes to be reasonable regarding the impact of changing interest rates and the prepayment assumption of certain assets and liabilities as of December 31, 2019. The model assumes changes in interest rates without any management intervention to change the composition of the balance sheet. According to the model run for the period ended December 31, 2019, over a twelve-month period, an immediate 100-basis point increase in interest rates would result in an increase in net interest income by 0.3%. An immediate 200-basis point increase in interest rates would result in an increase in net interest income by 1.3%. A 100-basis point decrease in interest rates would result in a decrease in net interest income of 6.9%. While management carefully monitors the exposure to changes in interest rates and takes actions as warranted to decrease any adverse impact, there can be no assurance about the actual effect of interest rate changes on net interest income.

The Company's net interest income and the fair value of its financial instruments are influenced by changes in the level of interest rates. The Company manages its exposure to fluctuations in interest rates through policies established by its ALCO. The ALCO meets quarterly and has responsibility for formulating and implementing strategies to improve balance sheet positioning and reviewing interest rate sensitivity.

We also have counter-party risk which may arise from the possible inability of the Company's third-party investors to meet the terms of their forward sales contracts. The Company works with third-party investors that are generally well capitalized, are investment grade and exhibit strong financial performance to mitigate this risk. We do not expect any third-party investor to fail to meet its obligation. We monitor the financial condition of these third parties on an annual basis.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**MVB Financial Corp. and Subsidiaries****Consolidated Balance Sheets**

(Dollars in thousands except per share data)

December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 18,430	\$ 14,747
Interest bearing balances with banks	9,572	7,474
Total cash and cash equivalents	<u>28,002</u>	<u>22,221</u>
Certificates of deposit with other banks	12,549	14,778
Investment Securities:		
Securities available-for-sale, at fair value	235,821	221,614
Equity securities	18,514	9,599
Loans held for sale	109,788	75,807
Loans receivable:	1,374,541	1,304,366
Less: Allowance for loan losses	(11,775)	(10,939)
Net Loans	<u>1,362,766</u>	<u>1,293,427</u>
Premises and equipment, net	21,974	26,545
Bank owned life insurance	35,374	34,291
Accrued interest receivable and other assets	53,142	34,207
Assets of branches held for sale (See Footnote 1)	46,554	—
Goodwill	19,630	18,480
TOTAL ASSETS	<u>\$ 1,944,114</u>	<u>\$ 1,750,969</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	\$ 278,547	\$ 213,597
Interest bearing	986,495	1,095,557
Total deposits	<u>1,265,042</u>	<u>1,309,154</u>
Deposits of branches held for sale (See Footnote 1)	188,270	—
Accrued interest payable and other liabilities	41,685	17,706
Repurchase agreements	10,172	14,925
FHLB and other borrowings	222,885	214,887
Subordinated debt	4,124	17,524
Total liabilities	<u>1,732,178</u>	<u>1,574,196</u>
STOCKHOLDERS' EQUITY		
Preferred stock, par value \$1,000; 20,000 authorized; 733 issued in 2019 and 783 issued in 2018 (See Footnote 12)	7,334	7,834
Common stock, par value \$1; 20,000,000 shares authorized; 11,995,366 shares issued and 11,944,289 shares outstanding in 2019 and 11,658,370 shares issued and 11,607,293 shares outstanding in 2018	11,995	11,658
Additional paid-in capital	122,516	116,897
Retained earnings	72,496	48,274
Accumulated other comprehensive loss	(1,321)	(6,806)
Treasury Stock, 51,077 shares, at cost	(1,084)	(1,084)
Total stockholders' equity	<u>211,936</u>	<u>176,773</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,944,114</u>	<u>\$ 1,750,969</u>

See Notes to Consolidated Financial Statements

MVB Financial Corp. and Subsidiaries**Consolidated Statements of Income**

(Dollars in thousands except per share data)

Years ended December 31, 2019, 2018 and 2017

	2019	2018	2017
INTEREST INCOME			
Interest and fees on loans	\$ 74,854	\$ 62,468	\$ 51,217
Interest on deposits with other banks	489	403	340
Interest on investment securities - taxable	3,055	3,580	2,658
Interest on tax exempt loans and securities	3,963	3,309	2,383
Total interest income	<u>82,361</u>	<u>69,760</u>	<u>56,598</u>
INTEREST EXPENSE			
Interest on deposits	17,439	11,635	8,294
Interest on repurchase agreements	48	56	75
Interest on FHLB and other borrowings	4,704	4,259	1,690
Interest on subordinated debt	770	1,756	2,242
Total interest expense	<u>22,961</u>	<u>17,706</u>	<u>12,301</u>
NET INTEREST INCOME	59,400	52,054	44,297
Provision for loan losses	1,789	2,440	2,173
Net interest income after provision for loan losses	<u>57,611</u>	<u>49,614</u>	<u>42,124</u>
NONINTEREST INCOME			
Service charges on deposit accounts	1,409	1,033	765
Income on bank owned life insurance	1,197	1,182	646
Visa debit card and interchange income	571	647	1,258
Mortgage fee income	41,045	32,337	37,149
Gain on sale of portfolio loans	520	198	538
Insurance and investment services income	727	716	563
(Loss) gain on sale of available-for-sale securities, net	(166)	327	731
(Loss) on sale of equity securities, net	(7)	—	—
Gain (loss) on derivatives	1,253	(278)	(2,722)
Commercial swap fee income	1,717	552	503
Holding gain on equity securities	13,767	590	—
Compliance consulting income	921	—	—
Other operating income	1,650	1,336	1,275
Total noninterest income	<u>64,604</u>	<u>38,640</u>	<u>40,706</u>
NONINTEREST EXPENSES			
Salary and employee benefits	56,175	46,224	44,108
Occupancy expense	4,816	4,234	4,084
Equipment depreciation and maintenance	3,640	3,239	3,005
Data processing and communications	4,025	3,741	5,116
Mortgage processing	3,041	3,551	3,207
Marketing, contributions and sponsorships	1,290	1,141	1,179
Professional fees	4,999	3,559	3,143
Printing, postage and supplies	674	762	988
Insurance, tax and assessment expense	1,663	1,846	1,797
Travel, entertainment, dues and subscriptions	4,151	2,808	2,221
Other operating expenses	2,727	1,773	1,652
Total noninterest expense	<u>87,201</u>	<u>72,878</u>	<u>70,500</u>
Income from continuing operations, before income taxes	35,014	15,376	12,330
Income tax expense - continuing operations	8,450	3,373	4,755
Net Income from continuing operations	<u>26,564</u>	<u>12,003</u>	<u>7,575</u>
Income from discontinued operations, before income taxes	575	—	—
Income tax expense - discontinued operations	148	—	—
Net Income from discontinued operations	<u>427</u>	<u>—</u>	<u>—</u>
Net Income	<u>\$ 26,991</u>	<u>\$ 12,003</u>	<u>\$ 7,575</u>
Preferred dividends	479	489	498
Net Income available to common shareholders	<u>\$ 26,512</u>	<u>\$ 11,514</u>	<u>\$ 7,077</u>

Earnings per share from continuing operations - basic	\$ 2.22	\$ 1.04	\$ 0.69
Earnings per share from discontinued operations - basic	\$ 0.04	\$ —	\$ —
Earnings per common shareholder - basic	\$ 2.26	\$ 1.04	\$ 0.69
Earnings per share from continuing operations - diluted	\$ 2.16	\$ 1.00	\$ 0.68
Earnings per share from discontinued operations - diluted	\$ 0.04	\$ —	\$ —
Earnings per common shareholder - diluted	\$ 2.20	\$ 1.00	\$ 0.68
Weighted average shares outstanding - basic	11,713,885	11,030,984	10,308,738
Weighted average shares outstanding - diluted	12,044,667	12,722,003	10,440,228

See Notes to Consolidated Financial Statements

MVB Financial Corp. and Subsidiaries
Consolidated Statements of Comprehensive Income
(Dollars in thousands)
Years ended December 31, 2019, 2018 and 2017

	2019	2018	2017
Net Income	\$ 26,991	\$ 12,003	\$ 7,575
Other comprehensive income (loss):			
Unrealized holding gains (losses) on securities available-for-sale	8,498	(4,167)	3,387
Income tax effect	(2,294)	1,125	(1,355)
Reclassification adjustment for (gain) loss recognized in income	166	(327)	(731)
Income tax effect	(44)	88	292
Change in defined benefit pension plan	(1,196)	284	(507)
Income tax effect	323	(77)	203
Carrying value adjustment - investment hedge	44	—	—
Income tax effect	(12)	—	—
Total other comprehensive income (loss)	<u>5,485</u>	<u>(3,074)</u>	<u>1,289</u>
Comprehensive income	<u>\$ 32,476</u>	<u>\$ 8,929</u>	<u>\$ 8,864</u>

See Notes to Consolidated Financial Statements

MVB Financial Corp. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

(Dollars in thousands except per share data)

Years ended December 31, 2019, 2018 and 2017

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Treasury Stock	Total Stockholders' Equity
Balance January 1, 2017	\$ 16,334	\$ 10,048	\$ 93,412	\$ 31,192	\$ (4,277)	\$ (1,084)	\$ 145,625
Net Income	—	—	—	7,575	—	—	7,575
Other comprehensive income	—	—	—	—	1,289	—	1,289
Cash dividends paid (\$0.10 per share)	—	—	—	(1,033)	—	—	(1,033)
Dividends on preferred stock	—	—	—	(498)	—	—	(498)
Redemption of preferred stock	(8,500)	—	—	—	—	—	(8,500)
Common stock issuance, net of issuance costs	—	444	4,487	—	—	—	4,931
Stock based compensation	—	—	813	—	—	—	813
Common stock options exercised	—	4	(14)	—	—	—	(10)
Balance December 31, 2017	7,834	10,496	98,698	37,236	(2,988)	(1,084)	150,192
Net Income	—	—	—	12,003	—	—	12,003
Other comprehensive loss	—	—	—	—	(3,074)	—	(3,074)
Cash dividends paid (\$0.11 per share)	—	—	—	(1,220)	—	—	(1,220)
Dividends on preferred stock	—	—	—	(489)	—	—	(489)
Stock based compensation	—	—	1,267	—	—	—	1,267
Common stock options exercised	—	161	1,968	—	—	—	2,129
Restricted stock units vested	—	1	(1)	—	—	—	—
Stranded AOCI	—	—	—	646	(646)	—	—
Mark to Market on equity positions held at December 31, 2017	—	—	—	98	(98)	—	—
Common stock issued from subordinated debt conversion, net of costs	—	1,000	14,965	—	—	—	15,965
Balance December 31, 2018	7,834	11,658	116,897	48,274	(6,806)	(1,084)	176,773
Net Income	—	—	—	26,991	—	—	26,991
Other comprehensive income	—	—	—	—	5,485	—	5,485
Cash dividends paid (\$0.195 per share)	—	—	—	(2,290)	—	—	(2,290)
Dividends on preferred stock	—	—	—	(479)	—	—	(479)
Stock based compensation	—	—	1,759	—	—	—	1,759
Common stock options exercised	—	210	1,954	—	—	—	2,164
Restricted stock units vested	—	10	(10)	—	—	—	—
Common stock issued from subordinated debt conversion, net of costs	—	62	938	—	—	—	1,000
Common stock issued related to Chartwell acquisition	—	55	978	—	—	—	1,033
Preferred stock redemption	(500)	—	—	—	—	—	(500)
Balance December 31, 2019	\$ 7,334	\$ 11,995	\$ 122,516	\$ 72,496	\$ (1,321)	\$ (1,084)	\$ 211,936

See Notes to Consolidated Financial Statements

MVB Financial Corp. and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in thousands)

Years ended December 31, 2019, 2018 and 2017

	2019	2018	2017
OPERATING ACTIVITIES			
Net Income	\$ 26,991	\$ 12,003	\$ 7,575
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Net amortization and accretion of investments	1,258	1,293	1,166
Net amortization of deferred loan (fees) costs	(448)	(324)	26
Provision for loan losses	1,789	2,440	2,173
Depreciation and amortization	3,260	2,938	2,691
Stock based compensation	1,759	1,267	813
Loans originated for sale	(1,604,825)	(1,214,078)	(1,367,531)
Proceeds of loans sold	1,611,889	1,237,402	1,428,060
Mortgage fee income	(41,045)	(32,337)	(37,149)
Gain on sale of available-for-sale securities	(105)	(352)	(1,103)
Loss on sale of available-for-sale securities	271	25	372
Loss on sale of equity securities	7	—	—
Holding gain on equity securities	(13,767)	(590)	—
Gain on sale of portfolio loans	(520)	(198)	(538)
Income on bank owned life insurance, including death benefit proceeds in excess of cash surrender value	(1,197)	(1,182)	(646)
Deferred taxes	(3,953)	139	1,349
Amortization of operating lease right-of-use asset	10	—	—
Other, net	10,564	(1,752)	(4,137)
Net cash (used in) provided by operating activities	<u>(8,062)</u>	<u>6,694</u>	<u>33,121</u>
INVESTING ACTIVITIES			
Purchases of investment securities available-for-sale	(70,984)	(31,068)	(139,127)
Maturities/paydowns of investment securities available-for-sale	33,583	25,748	19,011
Sales of investment securities available-for-sale	31,220	2,743	53,198
Purchases of premises and equipment, including premises and equipment included in assets of branches held for sale	(2,042)	(2,693)	(4,496)
Disposals of premises and equipment	—	—	307
Net increase in loans and loans included in assets of branches held for sale	(113,076)	(199,282)	(53,960)
Purchases of restricted bank stock	(49,600)	(29,370)	(20,712)
Redemptions of restricted bank stock	45,853	25,681	18,980
Proceeds from sale of certificates of deposit with banks	2,229	—	1,978
Purchases of certificates of deposit with banks	—	—	(2,229)
Proceeds from sale of other real estate owned	731	707	—
Purchase of bank owned life insurance	(574)	(1,149)	(9,050)
Proceeds from death benefit of bank owned life insurance policies	688	706	—
Purchase of equity securities	(1,400)	(2,000)	—
Sales of equity securities	5,968	—	—
Net cash used in business combination	(2,651)	—	—
Net cash used in investing activities	<u>(120,055)</u>	<u>(209,977)</u>	<u>(136,100)</u>
FINANCING ACTIVITIES			
Net increase in deposits and deposits in branches held for sale	144,158	149,574	52,563
Net decrease in repurchase agreements	(4,753)	(7,478)	(2,757)
Net change in short-term FHLB borrowings	(63,532)	74,999	49,663
Principal payments on FHLB borrowings	(1,670)	(62,281)	(15,097)
Proceeds from new FHLB borrowings	73,200	50,000	26,682
Subordinated debt redemption	(12,400)	—	—
Subordinated debt conversion costs	—	(35)	—
Proceeds from stock offering, net of issuance costs	—	—	4,931
Preferred stock redemption	(500)	—	(8,500)
Common stock options exercised	2,164	2,129	(10)
Cash dividends paid on common stock	(2,290)	(1,220)	(1,033)
Cash dividends paid on preferred stock	(479)	(489)	(498)
Net cash provided by financing activities	<u>133,898</u>	<u>205,199</u>	<u>105,944</u>
Increase in cash and cash equivalents	5,781	1,916	2,965
Cash and cash equivalents at beginning of period	22,221	20,305	17,340
Cash and cash equivalents at end of period	<u>\$ 28,002</u>	<u>\$ 22,221</u>	<u>\$ 20,305</u>

Business combination non-cash disclosures:

Assets acquired in business combinations (net of cash received)	\$	3,389	\$	—	\$	—
Liabilities assumed in business combination		855		—		—
Supplemental disclosure of cash flow information:						
Loans transferred to other real estate owned	\$	115	\$	1,369	\$	1,164
Cashless stock options exercised		57		161		4
Restricted stock units vested		10		1		—
Common stock converted from subordinated debt		1,000		15,965		—
Initial recognition of operating lease right-of-use assets		12,935		—		—
Initial recognition of operating lease liabilities		15,659		—		—
Cash payments for:						
Interest on deposits, repurchase agreements and borrowings	\$	22,970	\$	17,277	\$	12,399
Income taxes		3,962		191		6,026

See Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Organization

MVB Financial Corp. (the “Company”) is a financial holding company and was organized in 2003. MVB operates principally through its wholly-owned subsidiary, MVB Bank, Inc. (“MVB Bank” or the “Bank”). MVB Bank’s operating subsidiaries include Potomac Mortgage Group (“PMG” which began doing business under the registered trade name “MVB Mortgage”), MVB Insurance, LLC (“MVB Insurance”), MVB Community Development Corporation (“MVB CDC”), and ProCo Global, Inc. (“ProCo” which began doing business under the registered trade name Chartwell Compliance “Chartwell”).

MVB Bank was chartered in 1997 and commenced operations in 1999.

In 2012, MVB Bank acquired Potomac Mortgage Group, Inc. (“PMG” which 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 2013, this fifty percent interest (50%) in LSP was reduced to a twenty-five percent (25%) interest and in 2017, a forfeiture of a partial interest occurred, which increased the interest owned to thirty-three percent (33%). At this time, LSP began doing business as Lenderworks.

MVB Insurance was originally formed in 2000. In 2013, MVB Insurance became a direct subsidiary of the Company. MVB Insurance continues to operate its title insurance business, which is immaterial in terms of revenue. The Company reorganized MVB Insurance as a subsidiary of the Bank in 2016.

MVB CDC was formed in 2017 and was created as a means to provide opportunities for loans and investments that help to increase access to equity capital in under-served urban and rural areas of West Virginia and our market areas in Virginia. MVB CDC promotes specific bank-driven economic development strategies, provides for effective support for its CRA compliance strategy, and helps to support positive local reputation of the Bank through marketing and visible activities in the communities where we live and work.

Chartwell Compliance, based from Bethesda, Maryland, was acquired by MVB on September 13, 2019. Chartwell Compliance provides integrated regulatory compliance, state licensing, financial crimes prevention and enterprise risk management services that include consulting, outsourcing, testing and training solutions. Chartwell has expanded its services to both Fintech clients and banks, in coordination with MVB Bank’s current compliance officers, to help create and implement strategy and provide expert compliance resources to aid MVB in carrying out stringent and faster new client due diligence.

A summary of significant accounting and reporting policies applied in the presentation of the accompanying consolidated financial statements follows:

Basis of Presentation

The financial statements are consolidated to include the accounts of the Company, its subsidiary, MVB Bank, and the Bank’s wholly-owned subsidiaries, MVB Mortgage, MVB Insurance, MVB CDC, and Chartwell. These statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements.

In preparing the consolidated financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change relate to determination of the allowance for loan losses, derivative instruments, goodwill and deferred tax assets and liabilities.

Operating Segments

An operating segment is defined as a component of an enterprise that engages in business activities that generates revenue and incurs expense, and the operating results of which are reviewed by the chief operating decision maker in the determination of resource allocation and performance. While the Company’s chief decision makers monitor the revenue streams of the various Company’s products and services, operations are managed and financial performance is evaluated on a Company-wide basis. The Company has identified three reportable segments: commercial and retail banking; mortgage banking; and financial holding company. Insurance services was previously identified as a reportable segment until entering into an Asset Purchase Agreement,

as discussed below and in Note 21, “Discontinued Operations” of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Cash and Cash Equivalents

Cash equivalents include cash on hand, deposits in banks and interest-earning deposits. Interest-earning deposits with original maturities of 90 days or less are considered cash equivalents. Net cash flows are reported for loans, deposits and short term borrowing transactions.

Management Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. 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 these estimates.

Investment Securities

Investment securities at the time of purchase are classified as one of the following:

Available-for-Sale Securities - Includes debt that will be held for indefinite periods of time. These securities may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and yield of alternative investments. Such securities are reported at fair value, with unrealized holding gains and losses excluded from earnings and reported as a separate component of stockholders’ equity, net of estimated income tax effect.

Equity Securities - Includes equity securities that are adjusted to fair value on a monthly basis, with the change in value recorded directly on the income statement. The Company has chosen to measure the equity securities without readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes for underlying transactions for identical or similar investments of new issues.

The amortized cost of investment in debt securities is adjusted for amortization of premiums and accretion of discounts, computed by a method that results in a level yield. Gains and losses on the sale of investment securities are computed on the basis of specific identification of the adjusted cost of each security.

Securities are periodically reviewed for other-than-temporary impairment. For debt securities, management considers whether the present value of future cash flows expected to be collected are less than the security’s amortized cost basis (the difference defined as the credit loss), the magnitude and duration of the decline, the reasons underlying the decline and the Company’s intent to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value, to determine whether the loss in value is other than temporary. If a decline in value is determined to be other than temporary, if the Company does not intend to sell the security, and it is more-likely-than-not that it will not be required to sell the security, before recovery of the security’s amortized cost basis, the charge to earnings is limited to the amount of credit loss. Any remaining difference between fair value and amortized cost (the difference defined as the non-credit portion) is recognized in other comprehensive income, net of applicable taxes. A decline in value that is considered to be other-than-temporary is recorded as a loss within noninterest income in the consolidated statement of income.

Common stock of the Federal Home Loan Bank (“FHLB”) represents ownership in an institution which is wholly owned by other financial institutions. These equity securities are accounted for at cost, less impairment and are classified as other assets.

Loans Held for Sale

Through multiple secondary market investors, MVB Mortgage has the ability to offer customers long-term fixed rate and variable rate mortgage products without holding these instruments in the Bank’s loan portfolio. MVB Mortgage elected the fair value option and therefore records loans held for sale at fair value. Occasionally the Bank will sell portfolio loans and have them classified as loans held for sale. These loans are recorded at lower of cost or market.

The Company has a loan indemnification reserve for loans sold that may be subject to repurchase in the event of specific default

by the borrower or subsequent discovery that underwriting standards were not met. The reserve amount was \$200 thousand as of December 31, 2019 and 2018.

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal reduced by an allowance for loan losses. Loans are considered non-accrual when scheduled principal or interest payments are 90 days past due. Interest income on loans is recognized on an accrual basis. The allowance for loan losses is maintained at a level deemed adequate to absorb probable losses inherent in the loan portfolio. The Company consistently applies a quarterly loan review process to continually evaluate loans for changes in credit risk. This process serves as the primary means by which the Company evaluates the adequacy of the allowance for loan losses, and is based upon periodic review of the collectability of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are impaired. The general component covers all loans that are not impaired, and is based upon historical loss experience adjusted for qualitative factors.

The Company allocates the allowance based on the factors described below, which conform to the Company's loan classification policy. In reviewing risk within the Bank and Mortgage Company's loan portfolio, management has determined there to be several different risk categories within the loan portfolio. The allowance for loan losses consists of amounts applicable to: (i) residential real estate loans; (ii) commercial and commercial real estate secured loans; (iii) home equity loans; (iv) consumer and other loans. Factors considered in this process include general loan terms, collateral, and availability of historical data to support the analysis. Historical loss percentages for each loan category are calculated and used as the basis for calculating allowance allocations. Certain qualitative factors are evaluated to determine additional inherent risks in the loan portfolio, which are not necessarily reflected in the historical loss percentages. These factors are then added to the historical allocation percentages to get the adjusted factor to be applied to non-classified loans on a weighted basis, by risk grade. The following qualitative factors are analyzed:

- Lending policies and procedures
- Nature and volume of the portfolio
- Experience and ability of lending management and staff
- Volume and severity of problem credits
- Conclusions of loan reviews, audits and exams
- National, state, regional and local economic trends and business conditions
- General economic conditions
- Unemployment rates
- Inflation / CPI
- Value of underlying collateral
- Existence and effect of any credit concentrations
- Consumer sentiment
- Other external factors

The Company analyzes its loan portfolio each quarter to determine the appropriateness of its allowance for loan losses.

A loan that has deteriorated and requires additional collection efforts by the Bank could warrant non-accrual status. A thorough review is 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 is subject to applicable regulatory restrictions and guidelines. Generally, loans should be placed in non-accrual status when the loan reaches 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 is charged off when a loan is placed in non-accrual status, unless Management believes it is likely the accrued interest will be collected. Any payments subsequently received are 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.

A loan is considered impaired when, based upon current information and events, it is probable that the Company will be unable to

collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and shortages generally are not classified as impaired. Generally, the Company considers impaired loans to include loans classified as non-accrual loans, loans past due for longer than 90 days and troubled debt restructurings.

The Company defers loan origination and commitment fees and direct loan origination costs and the net amount is amortized as an adjustment of the related loan's yield.

Troubled Debt Restructurings (TDRs)

A restructuring of debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The determination of whether a concession has been granted includes an evaluation of the debtor's ability to access funds at a market rate for debt with similar risk characteristics and among other things, the significance of the modification relative to unpaid principal or collateral value of the debt, and/or the significance of a delay in the timing of payments relative to the frequency of payments, original maturity date or the expected duration of the loan. The most common concessions granted generally include one or more modifications to the terms of the debt such as a reduction in the interest rate for the remaining life of the debt, an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or reduction of the unpaid principal or interest. All TDRs are considered impaired loans.

Assets and Liabilities of Branches Held for Sale

On November 21, 2019, the Company entered into a Purchase and Assumption Agreement with Summit Community Bank, Inc., a subsidiary of Summit Financial Group, Inc. pursuant to which Summit will purchase certain assets and assume certain liabilities of three branch locations in Berkeley County, WV and one branch location in Jefferson County, WV. Pursuant to the terms of the Purchase Agreement, Summit has agreed to assume certain deposit liabilities and to acquire certain loans, as well as cash, real property, personal property, and other fixed assets associated with the branch locations.

Assets to be acquired and liabilities to be assumed are summarized as follows:

(Dollars in thousands)	As of December 31, 2019	
Loans	\$	42,916
Premises and equipment, net		3,638
Assets of branches held for sale	\$	46,554
Noninterest-bearing deposits	\$	19,251
Interest-bearing deposits		169,019
Deposits of branches held for sale	\$	188,270

Derivative Instruments

Interest Rate Lock Commitments and Hedges

The Company enters into commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 30 days to 120 days. The Company protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the Company commits to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan. The correlation between the rate lock commitments and hedges is very high due to their similarity. As a result of these strategies, the Company limits the exposure of losses with these arrangements and will not realize significant gains related to its rate lock commitments due to changes in interest rates. For loans not originated on a best effort basis, the Company also uses mortgage-backed security hedges and pair-offs to mitigate interest rate risk by entering into securities and mortgage-backed securities trades with brokers.

The fair value of rate lock commitments and hedges is not readily ascertainable with precision because rate lock commitments and hedges are not actively traded in stand-alone-markets. The Company determines the fair value of rate lock commitments and hedges by measuring the change in the value of the underlying asset while taking into consideration the probability that the rate

lock commitments will close. Fair value changes are recorded in noninterest income in the Company's consolidated statement of income. At December 31, 2019 and 2018, the balance of interest rate lock commitments was \$1.7 million and \$1.8 million, respectively. There were no forward sales commitments as of December 31, 2019 and 2018.

Interest Rate Cap

The Company entered into a rate protection transaction through SMBC Capital Markets, Inc. covering the period November 26, 2014 through December 1, 2019. The notional amount is \$100 million and 3 month LIBOR is the underlying rate and the strike price is 3%. The 5 year coverage is broken into 20 quarterly caps. The Company's fixed cost in the interest rate cap was \$1.5 million. The credit support provider must maintain a long-term senior unsecured debt rating of A or better by S&P and A2 or better by Moody's. The interest rate cap agreement is a free-standing derivative and is recorded at fair value on the Company's consolidated balance sheet. Fair value changes are recorded in noninterest income in the Company's consolidated net income statement. At December 31, 2019 and 2018, the fair value of the interest rate cap was \$0 and \$8 thousand, respectively.

Interest Rate Swap

Beginning in 2015, the Company entered into interest rate swap agreements to facilitate the risk management strategies of a small number of commercial banking clients. The Company mitigates this risk by entering into equal and offsetting interest rate swap agreements with highly rated third-party financial institutions. The interest rate swap agreements are free-standing derivatives and are recorded at fair value on the Company's consolidated balance sheet. Fair value changes are recorded in noninterest income in the Company's consolidated net income statement. At December 31, 2019 and 2018, the fair value of interest rate swap agreements was \$5.7 million and \$1.4 million, respectively.

Fair Value Hedge

The Company entered into an interest rate swap designated as a fair value hedge to mitigate the effect of changing interest rates on the fair values of certain designated fixed-rate loans and available for sale securities. This involves the receipt of variable amounts from a counterparty in exchange for the Company making fixed payments over the life of the agreements without the exchange of the underlying notional amount. The gain or loss on the derivative as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in earnings. The Company entered into a pay-fixed/receive-variable interest rate swap in January 2019 with a notional amount of \$30.0 million and \$45.0 million at December 31, 2019 and 2018, respectively, which was designated as a fair value hedge associated with the Company's fixed-rate loan program and certain available for sale securities. At December 31, 2019 and 2018, the fair value of interest rate swap hedge was \$352 thousand and \$343 thousand, respectively.

Mortgage Servicing Rights

Mortgage servicing rights (MSRs) are recorded when the Bank sells mortgage loans and retains the servicing on those loans. On a monthly basis, MVB tracks the amount of mortgage loans that are sold with servicing retained. A valuation is done to determine the MSR's value, which is then recorded as an asset and amortized over the period of estimated net servicing revenues. The balance of MSR's is evaluated for impairment quarterly, and was determined not to be impaired at December 31, 2019 or 2018. Servicing loans for others generally consists of collecting mortgage payments from borrowers, maintaining escrow accounts, remitting payments to third party investors and when necessary, foreclosure processing. Serviced loans are not included in the Consolidated Balance Sheets. At December 31, 2019 and 2018, the MSR's value was \$348 thousand and \$173 thousand, respectively.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation expense is computed for financial reporting by the straight-line-method based on the estimated useful lives of assets, which range from 7 to 40 years on buildings and leasehold improvements and 3 to 10 years on furniture, fixtures and equipment.

Intangible Assets and Goodwill

Goodwill is reviewed for potential impairment at least annually at the reporting unit level. In addition to the annual impairment evaluation, the Company evaluates for impairment when events or circumstances indicate that it is more likely than not an impairment loss has occurred. The Company performs its annual impairment test during the fourth quarter. The Company first assesses qualitative factors to determine whether it is necessary to perform the two-step goodwill impairment test discussed

below. The Company assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. Examples of qualitative factors include: economic conditions; industry and market considerations; increases in raw materials, labor, or other costs; overall financial performance such as negative or declining cash flows; relevant entity-specific events such as changes in management, key personnel, strategy, or customers; and regulatory or political developments.

If, based on its assessment of the qualitative factors, the Company determines that it is *not* more likely than not that the fair value of a reporting unit is less than its carrying amount, then the first and second steps of the goodwill impairment test are *not* necessary. If determined to be necessary, a two-step impairment test is performed to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any). The first step requires the estimation of the reporting unit's fair value. If the fair value of the reporting unit exceeds the carrying value, including goodwill, no further testing is required. If the carrying value exceeds the fair value, a second step is performed to determine whether an impairment charge must be recorded, and if so, the amount of such charge.

It was decided that the Company would early adopt ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. Topic 350, *Intangibles—Goodwill and Other (Topic 350)* and did so for the period ended December 31, 2019. As such, the Company began using the one-step process for the annual impairment evaluation.

The Company's assessment of qualitative factors determined that it is not more likely than not that the fair value of each reporting unit is less than its carrying amount and therefore, goodwill is not impaired as of December 31, 2019 and 2018. As of December 31, 2019 and 2018, the Company had goodwill of \$19.6 million and \$18.5 million, respectively.

Intangible assets include core deposit intangibles which are amortized over their useful life of ten years using the double-declining balance method and have been reviewed for impairment. Net core deposit intangibles are included in accrued interest receivable and other assets on the consolidated balance sheet and totaled \$457 thousand and \$550 thousand as of December 31, 2019 and 2018, respectively. Intangibles also include the intangibles resulting from the Chartwell acquisition and are related to their customer relationships, backlog, a trademark, and a non-competition agreement. These items are amortized over 5 years, 5.3 years, 15 years, and 4 years, respectively. Intangibles resulting from the Chartwell acquisition are included in accrued interest receivable and other assets on the consolidated balance sheet and totaled \$3.0 million and \$0 as of December 31, 2019 and 2018, respectively.

Restricted Bank Stock

The Bank is a member of the FHLB of Pittsburgh and as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. As of December 31, 2019 and 2018, the Bank holds \$15.0 million and \$11.3 million, respectively. The stock is bought from and sold to the FHLB based upon its \$100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) a significant decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance (c) the impact of legislative and regulatory changes on the customer base of the FHLB and (d) the liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

Management considered that the FHLB's regulatory capital ratios have improved in the most recent quarters, liquidity appears adequate, new shares of FHLB stock continue to exchange hands at the \$100 par value and the FHLB has repurchased shares of excess capital stock from its members during 2019 and 2018.

Foreclosed Assets Held for Resale

Foreclosed assets held for resale acquired in satisfaction of mortgage obligations and in foreclosure proceedings are recorded at fair value less estimated selling costs at the time of foreclosure, with any valuation adjustments charged to the allowance for loan losses. In subsequent periods, foreclosed assets are recorded at the lower of cost or fair value less any costs to sell. Subsequent declines in fair value and gains or losses on sale are recorded in other noninterest expense. At December 31, 2019 and 2018, the Company held other real estate of \$1.4 million and \$2.1 million.

Bank-Owned Life Insurance

Bank-owned life insurance (“BOLI”) represents life insurance on the lives of certain Company employees who have provided positive consent allowing the Company to be the beneficiary of such policies. These policies are recorded at their cash surrender value, or the amount that can be realized upon surrender of the policy. Income from these policies is not subject to income taxes and is recorded as noninterest income.

Income Taxes

The Company and the Bank file a consolidated federal income tax return. Deferred tax assets and liabilities are computed based on the difference between the financial statement basis and income tax bases of assets and liabilities using the enacted marginal tax rates. Deferred income tax expenses or benefits are based on the changes in the net deferred tax asset or liability from period to period.

Stock Based Compensation

Compensation cost is recognized for stock options and restricted stock units (“RSU’s”) issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Earnings Per Share

The Company determines basic earnings per share by dividing net income less preferred stock dividends by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by dividing net income less dividends on convertible preferred stock plus interest on convertible subordinated debt 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 under the Company’s 2003 and 2013 Stock Incentive Plans and the conversion of preferred stock and subordinated debt, if dilutive.

(Dollars in thousands except shares and per share data)	For the years ended		
	December 31,		
	2019	2018	2017
Numerator for basic earnings per share:			
Net Income from continuing operations	\$ 26,564	\$ 12,003	\$ 7,575
Less: Dividends on preferred stock	479	489	498
Net Income from continuing operations available to common shareholders - basic	26,085	11,514	7,077
Net Income from discontinued operations available to common shareholders - basic and diluted	427	—	—
Net Income available to common shareholders	<u>\$ 26,512</u>	<u>\$ 11,514</u>	<u>\$ 7,077</u>
Numerator for diluted earnings per share:			
Net Income from continuing operations available to common shareholders - basic	\$ 26,085	\$ 11,514	\$ 7,077
Add: Dividends on preferred stock	—	489	—
Add: Interest on subordinated debt (tax effected)	—	753	—
Net Income available to common shareholders from continuing operations - diluted	<u>\$ 26,085</u>	<u>\$ 12,756</u>	<u>\$ 7,077</u>
Denominator:			
Total average shares outstanding	11,713,885	11,030,984	10,308,738
Effect of dilutive convertible preferred stock	—	489,625	—
Effect of dilutive convertible subordinated debt	—	837,500	—
Effect of dilutive stock options and restricted stock units	330,782	363,894	131,490
Total diluted average shares outstanding	<u>12,044,667</u>	<u>12,722,003</u>	<u>10,440,228</u>
Earnings per share from continuing operations - basic	\$ 2.22	\$ 1.04	\$ 0.69
Earnings per share from discontinued operations - basic	\$ 0.04	\$ —	\$ —
Earnings per common shareholder - basic	\$ 2.26	\$ 1.04	\$ 0.69
Earnings per share from continuing operations - diluted	\$ 2.16	\$ 1.00	\$ 0.68
Earnings per share from discontinued operations - diluted	\$ 0.04	\$ —	\$ —
Earnings per common shareholder - diluted	\$ 2.20	\$ 1.00	\$ 0.68

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and minimum pension liability, are reported as a separate component of the equity section of the Consolidated Balance Sheet, such items, along with net income, are components of comprehensive income.

In 2018, the Company was required to perform a reclassification from AOCI to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate in the Tax Reform Act, which was enacted on December 22, 2017. The Tax Reform Act included a reduction to the corporate income tax rate from 34 percent to 21 percent effective January 1, 2018. The amount of the reclassification is the difference between the historical corporate income tax rate and the newly enacted 21 percent corporate income tax rate, which resulted in a decrease of \$646 thousand.

Marketing Costs

Marketing costs are expensed as incurred. Marketing expense was \$1.3 million, \$1.1 million and \$1.2 million for 2019, 2018 and 2017, respectively.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their

maturity.

Reclassifications

Certain amounts in the 2018 and 2017 consolidated financial statements have been reclassified to conform to the 2019 financial statement presentation.

Recent Accounting Pronouncements and Developments

In August 2018, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirement for Defined Benefit Plans*, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The updates in this ASU are part of the disclosure framework project ASU 2018-14 and modify the disclosure requirements under ASC 715-201 for employers that sponsor defined benefit pension or other postretirement plans. Those modifications include the removal, addition, and of disclosure requirements as well as clarifying specific disclosure requirements. The ASU removed the following disclosures: 1) the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year; 2) the amount and timing of plan assets expected to be returned to the employer; 3) the disclosures related to the June 2001 amendments to the Japanese Welfare Pension Insurance Law; 4) related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan; 5) for nonpublic entities, the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy; however, nonpublic entities will be required to disclose separately the amounts of transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 plan assets and 6) for public entities, the effects of a one-percentage-point change in assumed health care cost trend rates on the (i) aggregate of the service and interest cost components of net periodic benefit costs and (ii) benefit obligation for postretirement health care benefits. The ASU added the following disclosures: 1) the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates and 2) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The ASU then clarified the following disclosures: 1) the projected benefit obligation (“PBO”) and fair value of plan assets for plans with PBOs more than plan assets; and 2) the accumulated benefit obligation (“ABO”) and fair value of plan assets for plans with ABOs more than plan assets. ASU 2018-14 will be effective for public business entities for fiscal years ending after December 15, 2020. The Company is currently evaluating the impact of the pending adoption on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The updates in this ASU are part of the disclosure framework project and modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. The modifications include additions, modification, and removal of disclosure requirements. The ASU removed the following disclosure requirements: 1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, 2) the policy for timing of transfers between levels, 3) the valuation process for Level 3 fair value measurements, and 4) for nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The ASU added the following disclosure requirements: 1) the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and 2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. The ASU also modified the following disclosure requirements: 1) in lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities; 2) for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and 3) clarification that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. ASU 2018-13 is effective for public business entities for fiscal years and interim periods within those years beginning after December 15, 2019. The Company is currently evaluating the impact of the pending adoption on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This update requires a reclassification from accumulated other comprehensive income (“AOCI”) to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate in the Tax Reform Act, which was enacted on December 22, 2017. The Tax Reform Act included a reduction to the corporate income tax rate from 34 percent to 21 percent effective January 1, 2018. The amendments in

the ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company elected to early adopt ASU 2018-02 during the first quarter of 2018 and elected to reclassify the income tax effects of the Tax Reform Act from AOCI to retained earnings. The amount of the reclassification is the difference between the historical corporate income tax rate and the newly enacted 21 percent corporate income tax rate, which amounted to \$646 thousand.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which amends the existing hedge accounting model and expands an entity's ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest-rate risk. The ASU eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The ASU also changes certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. This ASU is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company adopted this ASU in accordance with paragraph ASC 815-20-65-3 subpart C. The adoption of this ASU did not have a significant impact on the Company's financial condition, results of operations and consolidated financial statements. The Company can now employ additional hedging strategies as described above, including the ability to apply fair value hedge accounting to a specified pool of assets by excluding the portion of the hedged items related to prepayments, defaults and other events. This allows the Company to better align its accounting and the financial reporting of its hedging activities with their economic objectives thereby reducing the earnings volatility resulting from these hedging activities.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. This ASU amends guidance on the amortization period of premiums on certain purchased callable debt securities. Specifically, the amendments shorten the amortization period of premiums on certain purchased callable debt securities to the earliest call date. The amendments affect all entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date (that is, at a premium). For public companies, this update is effective for fiscal years beginning after December 15, 2018, including all interim periods within those fiscal years. The adoption of this guidance was not material to the consolidated financial statements, as was always our current policy to amortize premiums of investment securities to the earliest call date.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. Topic 350, *Intangibles – Goodwill and Other (Topic 350)*, currently requires an entity that has not elected the private company alternative for goodwill to perform a two-step test to determine the amount, if any, of goodwill impairment. In Step 1, an entity compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the entity performs Step 2 and compares the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeds the implied fair value of that goodwill is recorded, limited to the amount of goodwill allocated to that reporting unit to address concerns over the cost and complexity of the two-step goodwill impairment test. The amendments in this update remove the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. For public companies, this update is effective for fiscal years beginning after December 15, 2019, including all interim periods within those fiscal years, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company early adopted this guidance effective January 1, 2019 and the adoption of this guidance did not have a material impact on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and subsequent amendments to the initial guidance in November 2018, ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, in April 2019, ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, in May 2019, ASU 2019-05, *Financial Instruments – Credit Losses, Topic 326*, and in November 2019, ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, and ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, all of which clarifies codification and corrects unintended application of the guidance. The new guidance replaces the incurred loss impairment methodology in current GAAP with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit impaired loans will receive an allowance account at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, with such allowance limited to the amount by which fair value is below amortized cost. The guidance was initially effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company has formed an implementation team led by the CFO, that also includes other lines of business and functions within the Company. The Company has also engaged a third party to assist with a data gap analysis and

will utilize the data to determine the impact of the pronouncement. Additionally, the Company has researched and acquired software to assist in the development of models that can meet the requirements of the new guidance. While this standard may potentially have a material impact on the Company's consolidated financial statements, we are still in the process of completing our evaluation. In July 2019, the FASB proposed changes to the effective date for smaller reporting companies, as defined by the SEC, and other non-SEC reporting entities. The proposal would delay the effective date to fiscal years beginning after December 31, 2022, including interim periods within those fiscal periods. As the Company is a smaller reporting company for fiscal year 2019, the proposed delay would be applicable. On November 15, 2019, the FASB issued ASU 2019-10, *Financial Investments – Credit Issues (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which finalizes a delay in the effective date of the standard for smaller reporting companies until January 2023.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* and subsequent amendments to the initial guidance in September 2017, ASU 2017-13, *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments (SEC Update)*, in January 2018, ASU 2018-10, *Codification Improvements to Topic 842, Leases*, in July 2018, ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, in December 2018, ASU 2019-01, *Leases (Topic 842): Codification Improvements* in March 2019, and in November 2019, ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*. Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. ASU 2016-02 initially required transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842) - Targeted Improvements*, which, among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In December 2018, the FASB also issued ASU 2018-20, *Leases (Topic 842) - Narrow Scope Improvements*, for Lessors which provides certain policy elections and changes lessor accounting for sales and similar taxes and certain lessor costs. Upon the adoption of ASU 2016-02, ASU 2018-11, and ASU 2018-20 on January 1, 2019, the Company recognized right-of-use assets and related lease liabilities totaling \$12.9 million and \$15.7 million, respectively. The initial balance sheet gross up upon adoption was primarily related to operating leases of certain real estate properties and financing leases of certain office equipment. The Company has no material subleases or leasing arrangements for which it is the lessor of property or equipment. The Company applied certain practical expedients provided under ASU 2016-02 whereby the Company did reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases, and (iii) initial direct costs for any existing leases. The Company did not apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by related accounting guidance). The Company accounted for lease and non-lease components separately because such amounts are readily determinable under our lease contracts and because this election resulted in a lower impact on our balance sheet. The Company utilized the modified-retrospective transition approach prescribed by ASU 2018-11.

In January 2016, the FASB issued ASU 2016-01, *Accounting for Financial Instruments - Overall: Classification and Measurement (Subtopic 825-10)*. Amendments within ASU 2016-01 that relate to non-public entities have been excluded from this presentation. The amendments in this ASU 2016-01 address the following: 1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; 2) simplify the impairment assessment of equity investments without readily-determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; 3) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 4) require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 5) require separate presentation in other comprehensive income for the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 6) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and 7) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments are effective for public

business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this guidance in the first quarter of 2018. The adoption of ASU 2016-01 on January 1, 2018 did not have a material impact on the Company's Consolidated Financial Statements. In accordance with 4) above, the Company discloses the fair value of its loan portfolio on a quarterly basis using an exit price notion.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new revenue pronouncement creates a single source of revenue guidance for all companies in all industries and is more principles-based than current revenue guidance. The pronouncement provides a five-step model for a company to recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The five steps are: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations and (5) recognize revenue when each performance obligation is satisfied. The Company evaluated the impact of this standard on individual customer contracts, while management evaluated the impact of this standard on the broad categories of its customer contracts and revenue streams. The Company determined that this standard did not have a material impact on its consolidated financial statements because revenue related to financial instruments, including loans and investment securities are not in scope of these updates. Loan interest income, investment interest income, insurance services revenue and BOLI are accounted for under other U.S. GAAP standards and out of scope of ASC 606 revenue standard. The Company also completed an evaluation of certain costs related to customer contracts and revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross versus net). Based on the evaluation, the Company determined that the classification of certain debit and credit card related costs should change (i.e., costs previously recorded as expense are now recorded as contra-revenue). This classification change resulted in immaterial changes to both revenue and expense. The Company adopted the revenue recognition standard and its related amendments as of January 1, 2019 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Consistent with the modified retrospective approach, the Company did not adjust prior period amounts for the debit and credit card related cost reclassifications noted above.

NOTE 2. INVESTMENT SECURITIES

There were no held-to-maturity securities at December 31, 2019 or December 31, 2018.

Amortized cost and fair values of investment securities available-for-sale at December 31, 2019 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U. S. Agency securities	\$ 52,046	\$ 199	\$ (249)	\$ 51,996
U.S. Sponsored Mortgage-backed securities	58,748	188	(624)	58,312
Municipal securities	108,750	4,399	(57)	113,092
Total debt securities	219,544	4,786	(930)	223,400
Other securities	12,247	181	(7)	12,421
Total investment securities available-for-sale	<u>\$ 231,791</u>	<u>\$ 4,967</u>	<u>\$ (937)</u>	<u>\$ 235,821</u>

Amortized cost and fair values of investment securities available-for-sale at December 31, 2018 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U. S. Agency securities	\$ 79,041	\$ 14	\$ (1,625)	\$ 77,430
U.S. Sponsored Mortgage-backed securities	52,154	—	(2,039)	50,115
Municipal securities	84,747	206	(1,192)	83,761
Total debt securities	215,942	220	(4,856)	211,306
Equity and other securities	10,308	68	(68)	10,308
Total investment securities available-for-sale	<u>\$ 226,250</u>	<u>\$ 288</u>	<u>\$ (4,924)</u>	<u>\$ 221,614</u>

The following table summarizes amortized cost and fair values of debt securities by maturity:

(Dollars in thousands)	December 31, 2019	
	Available for sale	
	Amortized Cost	Fair Value
Within one year	\$ 90	\$ 91
After one year, but within five	15,943	16,086
After five years, but within ten	34,460	35,547
After ten years	169,050	171,677
Total	\$ 219,544	\$ 223,400

Investment securities with a carrying value of \$68.0 million and \$50.4 million at December 31, 2019 and 2018, respectively, 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 December 31, 2019, the details of which are included in the following table. Although these securities, if sold at December 31, 2019 would result in a pretax loss of \$937 thousand, the Company has no intent to sell the applicable securities at such fair values, and maintains the Company has the ability to hold these securities until all principal has been recovered. It is more likely than not that the Company will not sell any securities at a loss for liquidity purposes. Declines in the fair values of these securities can be traced to general market conditions which reflect the prospect for the economy as a whole. When determining other-than-temporary impairment on securities, the Company considers such factors as adverse conditions specifically related to a certain security or to specific conditions in an industry or geographic area, the time frame securities have been in an unrealized loss position, the Company's ability to hold the security for a period of time sufficient to allow for anticipated recovery in value, whether or not the security has been downgraded by a rating agency, and whether or not the financial condition of the security issuer has severely deteriorated. As of December 31, 2019, the Company considers all securities with unrealized loss positions to be temporarily impaired, and consequently, does not believe the Company will sustain any material realized losses as a result of the current temporary decline in fair value.

The following table discloses investments in an unrealized loss position at December 31, 2019:

(Dollars in thousands)	Less than 12 months		12 months or more	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Description and number of positions				
U.S. Agency securities (26)	\$ 8,160	\$ (59)	\$ 15,399	\$ (190)
U.S. Sponsored Mortgage-backed securities (40)	16,660	(170)	27,498	(454)
Municipal securities (13)	6,018	(40)	828	(17)
Other securities (2)	1,093	(7)	—	—
	\$ 31,931	\$ (276)	\$ 43,725	\$ (661)

The following table discloses investments in an unrealized loss position at December 31, 2018:

(Dollars in thousands)	Less than 12 months		12 months or more	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Description and number of positions				
U.S. Agency securities (54)	\$ 9,762	\$ (123)	\$ 63,740	\$ (1,502)
U.S. Sponsored Mortgage-backed securities (42)	2,360	(32)	47,755	(2,007)
Municipal securities (78)	5,936	(46)	35,955	(1,146)
Other securities (2)	2,452	(48)	1,018	(20)
	\$ 20,510	\$ (249)	\$ 148,468	\$ (4,675)

The Company sold investments available-for-sale of \$31.2 million, \$2.7 million and \$53.2 million in 2019, 2018 and 2017, respectively. These sales resulted in gross gains of \$105 thousand, \$352 thousand and \$1.1 million and gross losses of \$271 thousand, \$25 thousand, and \$372 thousand in 2019, 2018 and 2017, respectively.

The Company sold equity investments of \$6.0 million, \$0, and \$0 in 2019, 2018 and 2017, respectively. These sales resulted in gross gains of \$0, \$0, and \$0 and gross losses of \$7 thousand, \$0, and \$0, in 2019, 2018 and 2017, respectively.

The Company recognized unrealized holding gains on equity securities of \$13.8 million, \$0, and \$0, respectively, in 2019, 2018 and 2017. The Company recognized holding losses on equity securities of \$0, \$590 thousand, and \$0, respectively, in 2019, 2018 and 2017. These were recorded in noninterest income in the consolidated statements of income. A majority of the 2019 unrealized holding gains on equity securities was the result of the Company recognizing a \$13.5 million pre-tax gain after a valuation on its Fintech investment portfolio in the second quarter of 2019.

The Company sold no held-to-maturity investments during the years of 2019, 2018, or 2017.

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

The Company routinely generates 1-4 family mortgages for sale into the secondary market. During 2019, 2018 and 2017, the Company recognized sales proceeds of \$1.6 billion, \$1.2 billion and \$1.4 billion, resulting in mortgage fee income of \$41.0 million, \$32.3 million and \$37.1 million, respectively.

The components of loans in the Consolidated Balance Sheet at December 31, were as follows:

(Dollars in thousands)	2019	2018
Commercial and Non-Residential Real Estate	\$ 1,063,828	\$ 941,033
Residential	271,604	294,929
Home Equity	35,106	59,015
Consumer	3,697	9,605
Total Loans	1,374,235	1,304,582
Deferred loan origination costs and (fees), net	306	(216)
Loans receivable	\$ 1,374,541	\$ 1,304,366

The following table summarizes the primary segments of the loan portfolio as of December 31, 2019 and 2018:

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
December 31, 2019					
Individually evaluated for impairment	\$ 7,401	\$ 1,953	\$ 95	\$ 34	\$ 9,483
Collectively evaluated for impairment	1,056,427	269,651	35,011	3,663	1,364,752
Total Loans	\$ 1,063,828	\$ 271,604	\$ 35,106	\$ 3,697	\$ 1,374,235
December 31, 2018					
Individually evaluated for impairment	\$ 9,734	\$ 2,831	\$ 123	\$ 90	\$ 12,778
Collectively evaluated for impairment	931,299	292,098	58,892	9,515	1,291,804
Total Loans	\$ 941,033	\$ 294,929	\$ 59,015	\$ 9,605	\$ 1,304,582

On November 21, 2019, the Company entered into a Purchase and Assumption Agreement with Summit Community Bank, Inc., a subsidiary of Summit Financial Group, Inc. pursuant to which Summit will purchase certain assets and assume certain liabilities of three branch locations in Berkeley County, WV and one branch location in Jefferson County, WV. Pursuant to the terms of the Purchase Agreement, Summit has agreed to assume certain deposit liabilities and to acquire certain loans, as well as cash, real property, personal property, and other fixed assets associated with the branch locations. As of December 31, 2019, the balance of loans classified as held for sale as a result of this agreement was \$42.9 million.

Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Company also separately evaluates individual consumer loans for impairment. The Chief Credit Officer identifies these loans individually by monitoring the delinquency status of the Bank's portfolio. Once identified, the Bank's ongoing communications with the borrower allow Management to evaluate the significance of the payment delays and the circumstances surrounding the loan and the borrower.

Once the determination has been made that a loan is impaired, the amount of the impairment is measured using one of three valuation methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. The method is selected on a loan-by-loan

basis, with management primarily utilizing the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis.

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2019 and 2018:

(Dollars 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
December 31, 2019					
Commercial					
Commercial Business	\$ 2,606	\$ 249	\$ 644	\$ 3,250	\$ 4,308
Commercial Real Estate	1,786	325	295	2,081	2,171
Acquisition & Development	—	—	2,070	2,070	3,467
Total Commercial	4,392	574	3,009	7,401	9,946
Residential					
Home Equity	—	—	95	95	100
Consumer	—	—	34	34	35
Total Impaired Loans	\$ 4,392	\$ 574	\$ 5,091	\$ 9,483	\$ 12,126
December 31, 2018					
Commercial					
Commercial Business	\$ 4,885	\$ 668	\$ 387	\$ 5,272	\$ 5,292
Commercial Real Estate	1,842	375	396	2,238	2,300
Acquisition & Development	—	—	2,224	2,224	3,601
Total Commercial	6,727	1,043	3,007	9,734	11,193
Residential					
Home Equity	—	—	123	123	123
Consumer	—	—	90	90	316
Total Impaired Loans	\$ 6,727	\$ 1,043	\$ 6,051	\$ 12,778	\$ 14,514

Impaired loans have decreased by \$3.3 million, or 25.8%, during 2019. This change is the net effect of multiple factors, including principal curtailments of \$1.6 million, the reclassification of \$1.4 million of previously reported impaired loans to performing loans, partial charge-offs of \$999 thousand, the identification of \$223 thousand of recently impaired loans, foreclosure and reclassification to other real estate owned of \$135 thousand, and normal loan amortization of \$474 thousand.

The \$1.6 million of principal curtailments were concentrated in one commercial relationship in which the underlying assets were purchased by an unrelated borrower and repurposed in a new business operation, with stronger performance, allowing the new loan to be originated as a performing loan. This relationship represented \$1.4 million, or 88% of the total principal curtailments.

The \$1.4 million included in the reclassification of previously reported impaired loans to performing loans was concentrated in one residential real estate loan that returned to accrual status after the borrower provided six consecutive, on-time payments, thus allowing the loan to be adjusted to accrual status, and allowing the loan to be considered a performing loan.

The following table presents the average recorded investment in impaired loans and related interest income recognized for the years ended:

(Dollars in thousands)	December 31, 2019			December 31, 2018			December 31, 2017		
	Average Investment in Impaired Loans	Interest Income Recognized on Accrual Basis	Interest Income Recognized on Cash Basis	Average Investment in Impaired Loans	Interest Income Recognized on Accrual Basis	Interest Income Recognized on Cash Basis	Average Investment in Impaired Loans	Interest Income Recognized on Accrual Basis	Interest Income Recognized on Cash Basis
Commercial									
Commercial Business	\$ 3,202	\$ —	\$ —	\$ 4,052	\$ 51	\$ 106	\$ 3,718	\$ 155	\$ 113
Commercial Real Estate	3,220	162	140	6,416	159	94	3,199	100	98
Acquisition & Development	2,151	123	131	1,367	106	8	3,429	9	13
Total	8,573	285	271	11,835	316	208	10,346	264	224
Residential	2,719	16	16	2,569	20	14	1,424	13	53
Home Equity	154	2	2	100	2	1	538	1	1
Consumer	45	—	—	149	—	—	187	—	—
Total	\$ 11,491	\$ 303	\$ 289	\$ 14,653	\$ 338	\$ 223	\$ 12,495	\$ 278	\$ 278

As of December 31, 2019, the Bank held eleven foreclosed residential real estate properties representing \$571 thousand, or 40.9%, of the total balance of other real estate owned. These properties are held as a result of the foreclosures of primarily two commercial loan relationships, one of which included two properties for a total of \$294 thousand, while the other included seven properties for a total of \$163 thousand. The three remaining properties, totaling \$115 thousand, were the result of the foreclosure of two unrelated borrowers. There are seven additional consumer mortgage loans collateralized by residential real estate property in the process of foreclosure. The total recorded investment in these loans was \$586 thousand as of December 31, 2019. These loans are included in the table above and have a total of \$0 in specific allowance allocated to them.

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 management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. Any portion of a loan that has been or is expected to be 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 past due status, 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 independent 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 December 31, 2019 and 2018:

(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2019					
Commercial					
Commercial Business	\$ 511,590	\$ 17,398	\$ 11,894	\$ —	\$ 540,882
Commercial Real Estate	406,712	3,564	1,494	—	411,770
Acquisition & Development	106,428	1,869	2,879	—	111,176
Total Commercial	1,024,730	22,831	16,267	—	1,063,828
Residential	267,367	1,946	2,177	114	271,604
Home Equity	34,641	383	82	—	35,106
Consumer	3,613	56	28	—	3,697
Total Loans	\$ 1,330,351	\$ 25,216	\$ 18,554	\$ 114	\$ 1,374,235
December 31, 2018					
Commercial					
Commercial Business	\$ 432,589	\$ 5,290	\$ 5,652	\$ —	\$ 443,531
Commercial Real Estate	371,309	2,071	2,181	—	375,561
Acquisition & Development	118,754	179	2,879	129	121,941
Total Commercial	922,652	7,540	10,712	129	941,033
Residential	290,602	2,608	1,600	119	294,929
Home Equity	58,100	876	39	—	59,015
Consumer	9,359	164	19	63	9,605
Total Loans	\$ 1,280,713	\$ 11,188	\$ 12,370	\$ 311	\$ 1,304,582

Loans classified as Special Mention totaled \$25.2 million and \$11.2 million as of December 31, 2019 and December 31, 2018, respectively. The increase of \$14.0 million, or 125.4%, was concentrated in the commercial loan portfolio. This increase is primarily the result of the risk grade downgrade of six loans to unrelated borrowers, totaling \$19.7 million, offset by the payoff of two existing loans totaling \$3.3 million, and normal loan amortization of the loans in the classification. Of the five loans recently classified as Special Mention, the largest balance of \$8.3 million, or 59.3% of the increase, is a note secured by subordinate bonds related to a sales-tax increment financing district, which have not been refinanced as timely as anticipated due to delays in the reissuance of senior position bonds. Ongoing development of the district is expected to allow for the refinance of the subordinate bonds in 2020. A second loan, in the amount of \$3.4 million, is secured by a senior care facility which has continued to supplement operating results with its liquid assets. Recent changes to its revenue strategy are expected to result in improved performance. A third loan, in the amount of \$2.9 million, is secured by a multifamily rental property that has not performed as intended due to a lack of demand from a nearby university. The property is being remarketed to area professionals and is expected to report improved performance. The fourth loan is a \$1.9 million note secured by residential lots adjacent to a hotel resort property. The loan is amortizing and has paid as agreed, however, the risk grade was adjusted due to potential legal issues associated with the primary guarantor. The fifth loan is a \$1.8 million government lease transaction that has reported potential payment issues, and the last of the six loans is a \$1.6 million commercial real estate loan to a non-profit that has reported less than expected cash flow performance. These matters are being monitored and any significant developments will result in reevaluation of the risk grades.

Loans classified as Substandard totaled \$18.6 million and \$12.4 million as of December 31, 2019 and December 31, 2018, respectively. The increase of \$6.2 million, or 50%, was concentrated in the commercial loan portfolio. The increase is primarily the result of the risk grade downgrade of four loans to two unrelated borrowers, totaling \$8.1 million, offset by the partial charge off of a loan totaling \$989 thousand, the risk grade upgrade of a \$1.0 million loan, and the payoff of two existing loans totaling \$1.4 million. Of the four loans recently classified as Substandard, three loans totaling \$6.1 million were each provided to a single borrower to finance the acquisition of equipment to be used in the coal industry. Repayment performance has been unsatisfactory and there are no significant expectations of improvement within the industry. The fourth loan, in the amount of \$2.0 million, is secured by a senior care facility that has struggled to collect its receivables and government reimbursements in a timely manner, which has placed considerable strain on operating performance, which are not expected to be corrected in the short term. These matters are being monitored and any significant developments will result in reevaluation of the risk grades.

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 requires additional collection efforts by the Bank could warrant non-accrual status. A thorough review is 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 is subject to applicable regulatory restrictions and guidelines. Generally, loans should be placed in non-accrual status when the loan reaches 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 is charged off when a loan is placed in non-accrual status, unless Management believes it is likely the accrued interest will be collected. Any payments subsequently received are 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 aging categories of performing loans and nonaccrual loans as of December 31, 2019 and 2018:

(Dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Total Loans	Non-Accrual	90+ Days Still Accruing
December 31, 2019								
Commercial								
Commercial Business	\$ 537,602	\$ 3,189	\$ 47	\$ 44	\$ 3,280	\$ 540,882	\$ 2,848	\$ —
Commercial Real Estate	411,070	522	178	—	700	411,770	295	—
Acquisition & Development	110,717	180	—	279	459	111,176	390	—
Total Commercial	1,059,389	3,891	225	323	4,439	1,063,828	3,533	—
Residential	267,515	3,003	549	537	4,089	271,604	1,461	—
Home Equity	34,382	545	84	95	724	35,106	95	—
Consumer	3,610	1	58	28	87	3,697	34	—
Total Loans	\$1,364,896	\$ 7,440	\$ 916	\$ 983	\$ 9,339	\$1,374,235	\$ 5,123	\$ —
December 31, 2018								
Commercial								
Commercial Business	\$ 432,097	\$ 6,380	\$ 1,746	\$ 3,308	\$ 11,434	\$ 443,531	\$ 3,684	\$ —
Commercial Real Estate	374,880	681	—	—	681	375,561	385	—
Acquisition & Development	121,644	—	—	297	297	121,941	426	—
Total Commercial	928,621	7,061	1,746	3,605	12,412	941,033	4,495	—
Residential	291,665	1,000	760	1,504	3,264	294,929	2,442	—
Home Equity	58,575	400	40	—	440	59,015	84	—
Consumer	9,485	28	10	82	120	9,605	82	—
Total Loans	\$1,288,346	\$ 8,489	\$ 2,556	\$ 5,191	\$ 16,236	\$1,304,582	\$ 7,103	\$ —

An allowance for loan losses (“ALL”) is maintained to absorb losses from the loan portfolio. The ALL is based on 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.

Interest income on loans would have increased by approximately \$582 thousand, \$771 thousand, and \$423 thousand for 2019, 2018 and 2017, respectively, if loans had performed in accordance with their terms.

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. As of the quarter ended September 30, 2017, the Bank adjusted its methodology to allow for the analysis of certain impaired loans in homogeneous pools, rather than on an individual basis, when those loans are below specific thresholds based on outstanding principal balance. More specifically, residential mortgage loans, home equity lines of credit, and consumer loans, when considered impaired, are evaluated collectively for impairment by applying allocation rates derived from the Bank’s historical losses specific to impaired loans and the reserve totaled \$139 thousand and \$204 thousand as of December 31, 2019 and 2018, respectively.

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 qualified factors.

The segments described above, which are based on the Federal call code assigned to each loan, provide the starting point for the ALL analysis. Company and Bank management track the historical net charge-off activity at the call code level. A historical charge-off factor is calculated utilizing a defined number of consecutive historical quarters. 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: lending policies and procedures, nature and volume of the portfolio, experience and ability of lending management and staff, volume and severity of problem credits, conclusion of loan reviews, audits, and exams, changes in the value of underlying collateral, effect of concentrations of credit from a loan type, industry and/or geographic standpoint, changes in economic and business conditions, consumer sentiment, and other external factors. 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 risk grading deteriorates.

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 liability for unfunded commitments related to these loans, which Management considers necessary to anticipate potential losses on those commitments that have a reasonable probability of funding. The liability for unfunded commitments was \$332 thousand and \$284 thousand as of December 31, 2019 and 2018, respectively.

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.

The following tables summarize the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2019, 2018, and 2017. Activity in the allowance is presented for the periods indicated:

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
ALL balance at December 31, 2018	\$ 8,605	\$ 1,405	\$ 684	\$ 245	\$ 10,939
Charge-offs	(998)	—	—	(10)	(1,008)
Recoveries	1	1	4	49	55
Provision	2,490	(134)	(361)	(206)	1,789
ALL balance at December 31, 2019	\$ 10,098	\$ 1,272	\$ 327	\$ 78	\$ 11,775
Individually evaluated for impairment	\$ 574	\$ —	\$ —	\$ —	\$ 574
Collectively evaluated for impairment	\$ 9,524	\$ 1,272	\$ 327	\$ 78	\$ 11,201

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
ALL balance at December 31, 2017	\$ 7,804	\$ 1,119	\$ 705	\$ 250	\$ 9,878
Charge-offs	(1,024)	(166)	—	(290)	(1,480)
Recoveries	15	22	59	5	101
Provision	1,810	430	(80)	280	2,440
ALL balance at December 31, 2018	\$ 8,605	\$ 1,405	\$ 684	\$ 245	\$ 10,939
Individually evaluated for impairment	\$ 1,043	\$ —	\$ —	\$ —	\$ 1,043
Collectively evaluated for impairment	\$ 7,562	\$ 1,405	\$ 684	\$ 245	\$ 9,896

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
ALL balance at December 31, 2016	\$ 7,181	\$ 990	\$ 728	\$ 202	\$ 9,101
Charge-offs	(1,138)	(141)	(109)	(109)	(1,497)
Recoveries	39	40	4	18	101
Provision	1,722	230	82	139	2,173
ALL balance at December 31, 2017	\$ 7,804	\$ 1,119	\$ 705	\$ 250	\$ 9,878
Individually evaluated for impairment	\$ 1,172	\$ —	\$ —	\$ 16	\$ 1,188
Collectively evaluated for impairment	\$ 6,632	\$ 1,119	\$ 705	\$ 234	\$ 8,690

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.

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 December 31, 2019 and 2018, the Bank had specific reserve allocations for TDR’s of \$527 thousand and \$1.0 million, respectively.

Loans considered to be troubled debt restructured loans totaled \$7.7 million and \$8.0 million as of December 31, 2019 and December 31, 2018, respectively. Of these totals, \$4.4 million and \$4.2 million, respectively, represent accruing troubled debt restructured loans and represent 46% and 33%, respectively, of total impaired loans. Meanwhile, as of December 31, 2019, \$3.0 million represent four loans to two borrowers that have defaulted under the restructured terms. The largest of these loans, at \$2.3 million, is a restructured commercial loan to a company previously dependent on the coal industry, which is now structured as an unsecured loan. The other three of these loans, totaling \$679 thousand, are commercial acquisition and development loans that were considered TDR’s 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 December 31, 2019. These two development loans were also considered non-performing loans as of December 31, 2018.

During the year ended December 31, 2019, no restructured loan defaulted under their modified terms that were not already classified as non-performing for having previously defaulted under their modified terms.

There were no commitments to advance funds to any TDRs as of December 31, 2019.

The following table presents details related to loans identified as Troubled Debt Restructurings during the years ended December 31, 2019 and 2018.

(Dollars in thousands)	New TDR's ¹					
	December 31, 2019			December 31, 2018		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial						
Commercial Business	2	\$ 336	\$ 333	2	\$ 272	\$ 210
Commercial Real Estate	—	—	—	1	11	11
Acquisition & Development	—	—	—	1	1,798	1,798
Total Commercial	2	336	333	4	2,081	2,019
Residential	3	246	323	—	—	—
Home Equity	—	—	—	1	39	39
Consumer	—	—	—	1	10	8
Total	5	\$ 582	\$ 656	6	\$ 2,130	\$ 2,066

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

NOTE 4. PREMISES AND EQUIPMENT

Premises and equipment at December 31, were as follows:

(Dollars in thousands)	2019	2018
Land	\$ 3,257	\$ 3,934
Buildings and improvements	14,574	17,235
Furniture, fixtures and equipment	16,869	14,293
Construction in progress	1,019	2,642
Leasehold improvements	2,207	1,670
	37,926	39,774
Accumulated depreciation	(15,952)	(13,229)
Net premises and equipment	\$ 21,974	\$ 26,545

On November 21, 2019, the Company entered into a Purchase and Assumption Agreement with Summit Community Bank, Inc., a subsidiary of Summit Financial Group, Inc. pursuant to which Summit will purchase certain assets and assume certain liabilities of three branch locations in Berkeley County, WV and one branch location in Jefferson County, WV. Pursuant to the terms of the Purchase Agreement, Summit has agreed to assume certain deposit liabilities and to acquire certain loans, as well as cash, real property, personal property, and other fixed assets associated with the branch locations. As of December 31, 2019, the balance of premises and equipment held for sale as a result of this agreement was \$3.6 million.

In December 2017, the Bank closed and sold the land, building and certain furniture and equipment items from a branch located at 704 Foxcroft Avenue, Martinsburg, WV for a gain on sale of fixed assets of \$343 thousand, which is included in other operating income on the Consolidated Statements of Income.

Depreciation expense amounted to \$3.0 million, \$2.8 million and \$2.6 million for 2019, 2018 and 2017, respectively.

The Company leases certain premises, for the operation of some banking offices, and equipment under operating and finance leases. At December 31, 2019, the Company had lease liabilities totaling \$14.8 million and right-of-use assets totaling \$13.5 million related to these leases. Lease liabilities and right-of-use assets are reflected in other liabilities and other assets, respectively. For the year ended December 31, 2019, the weighted average remaining lease term for finance leases was 2.7 years and the weighted average discount rate used in the measurement of finance lease liabilities was 2.80%. For the year ended December 31, 2019, the weighted average remaining lease term for operating leases was 11.8 years and the weighted average discount rate used in the measurement of operating lease liabilities was 3.54%.

Lease costs were as follows:

(Dollars in thousands)	December 31, 2019	
Amortization of right-of-use assets, finance leases	\$	77
Interest on lease liabilities, finance leases		6
Operating lease cost		2,120
Short-term lease cost		72
Variable lease cost		38
Total lease cost	\$	2,313

Rent expense for the year ended December 31, 2018 and 2017, prior to the adoption of ASU 2016-02, was \$2.0 million and \$2.0 million, respectively.

There were no sale and leaseback transactions, leveraged leases, or lease transactions with related parties during the year ended December 31, 2019. At December 31, 2019, the Company had leases that had not commenced that will create approximately \$2.4 million and \$4.1 million of additional lease liabilities and right-of-use assets, respectively for the Company.

Future minimum payments for finance leases and operating leases with initial or remaining terms of one year or more are as follows:

(Dollars in thousands)	December 31, 2019	
	Finance Leases	Operating Leases
2020	\$ 77	\$ 1,891
2021	77	1,792
2022	51	1,730
2023	—	1,452
2024	—	1,371
2025 and thereafter	—	10,000
Total future minimum lease payments	\$ 205	\$ 18,236
Less: Amounts representing interest	(7)	(3,642)
Present value of net future minimum lease payments	\$ 198	\$ 14,594

NOTE 5. DEPOSITS

Deposits at December 31, were as follows:

(Dollars in thousands)	2019	2018
Demand deposits of individuals, partnerships, and corporations		
Noninterest bearing demand	\$ 278,547	\$ 213,597
Interest bearing demand	351,435	376,398
Savings and money markets	363,026	317,697
Time deposits including CDs and IRAs	272,034	401,462
Total deposits	\$ 1,265,042	\$ 1,309,154
Time deposits that meet or exceed the FDIC insurance limit	\$ 8,955	\$ 15,280

Maturities of time deposits at December 31, 2019 were as follows (Dollars in thousands):

2020	\$	223,633
2021		10,495
2022		19,074
2023		11,947
2024		6,885
Total	\$	272,034

On November 21, 2019, the Company entered into a Purchase and Assumption Agreement with Summit Community Bank, Inc., a subsidiary of Summit Financial Group, Inc. pursuant to which Summit will purchase certain assets and assume certain liabilities of three branch locations in Berkeley County, WV and one branch location in Jefferson County, WV. Pursuant to the terms of the Purchase Agreement, Summit has agreed to assume certain deposit liabilities and to acquire certain loans, as well as cash, real property, personal property, and other fixed assets associated with the branch locations. As of December 31, 2019, the balance of deposits classified as held for sale as a result of this agreement was \$188.3 million.

NOTE 6. BORROWED FUNDS

The Bank is a member of the FHLB of Pittsburgh, Pennsylvania. The remaining maximum borrowing capacity with the FHLB at December 31, 2019 was approximately \$162.4 million. At December 31, 2019 and 2018 the Bank had borrowed \$222.9 million and \$214.9 million. As of December 31, 2019, our maximum borrowing capacity with the FHLB was \$547.2 million.

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 \$192.1 million at December 31, 2019, compared to \$212.4 million at year-end 2018.

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

(Dollars in thousands)	2019	2018	2017
Balance at end of year	\$ 192,063	\$ 212,395	\$ 149,596
Average balance during the year	187,226	171,117	100,969
Maximum month-end balance	240,811	264,297	220,097
Weighted-average rate during the year	2.24 %	2.27 %	1.16 %
Weighted-average rate at December 31	1.81 %	2.62 %	1.61 %

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 presented as an individual line item 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.

The Company monitors the fair value of the underlying securities on a monthly basis. Repurchase agreements are reflected at the amount of cash received in connection with the transaction and included in securities sold under agreements to repurchase on the consolidated balance sheets. The primary risk with our repurchase agreements is market risk associated with the investments securing the transactions, as we may be required to provide additional collateral based on fair value changes of the underlying investments. Securities pledged as collateral under repurchase agreements are maintained with our safekeeping agents.

All of the Company’s repurchase agreements were overnight agreements at December 31, 2019 and December 31, 2018. These borrowings were collateralized with investment securities with a carrying value of \$10.5 million and \$15.4 million at December 31, 2019 and December 31, 2018, respectively, and were comprised of U.S. Government Agencies and Mortgage backed securities. Declines in the value of the collateral would require the Company to increase the amounts of securities pledged.

Repurchase agreements totaled \$10.2 million at December 31, 2019, compared to \$14.9 million at December 31, 2018.

Information related to repurchase agreements is summarized as follows:

(Dollars in thousands)	2019	2018	2017
Balance at end of year	\$ 10,172	\$ 14,925	\$ 22,403
Average balance during the year	11,252	18,536	25,160
Maximum month-end balance	14,655	20,903	25,972
Weighted-average rate during the year	0.43 %	0.30 %	0.30 %
Weighted-average rate at December 31	0.44 %	0.16 %	0.34 %

Long-term notes from the FHLB as of December 31, were as follows:

(Dollars in thousands)	2019	2018
Fixed interest rate notes, originating between October 2006 and April 2007, due between October 2021 and April 2022, interest of between 5.18% and 5.20% payable monthly	\$ 822	\$ 1,741
Amortizing fixed interest rate note, originating February 2007, due February 2022, payable in monthly installments of \$5 thousand, including interest of 5.22%	—	751
Fixed interest rate notes, originating in November 2019, due between November 2022 and November 2024, with interest of between 1.74% and 1.81% payable monthly	30,000	—
	<u>\$ 30,822</u>	<u>\$ 2,492</u>

Subordinated Debt

Information related to subordinated debt is summarized as follows:

(Dollars in thousands)	2019	2018	2017
Balance at end of year	\$ 4,124	\$ 17,524	\$ 33,524
Average balance during the year	12,125	25,774	33,524
Maximum month-end balance	17,524	33,524	33,524
Weighted-average rate during the year	6.35 %	6.81 %	6.69 %
Weighted-average rate at December 31	3.51 %	6.57 %	6.70 %

In March 2007, the Company completed the private placement of \$4 million Floating Rate, Trust Preferred Securities through its MVB Financial Statutory Trust I subsidiary (the “Trust”). The Company established the Trust for the sole purpose of issuing the Trust Preferred Securities pursuant to an Amended and Restated Declaration of Trust. The proceeds from the sale of the Trust Preferred Securities will be loaned to the Company under subordinated Debentures (the “Debentures”) issued to the Trust pursuant to an Indenture. The Debentures are the only asset of the Trust. The Trust Preferred Securities have been issued to a pooling vehicle that will use the distributions on the Trust Preferred Securities to securitize note obligations. The securities issued by the Trust are includable for regulatory purposes as a component of the Company’s Tier 1 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, 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 expired 10 years after the initial issuance date of the Notes (the “Maturity Date”).

Interest on the Notes accrued 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 was 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 was 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 was 7.5% per annum. For investments of \$10,000,000 or greater, the interest rate on the Notes was 7% per annum, regardless of whether the holder owns or acquires MVB common stock. The principal on the Notes was to be paid in full at the Maturity Date. On the fifth anniversary of the issuance of the Notes, a holder was able to 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 were unsecured and subject to the terms and conditions of any senior debt and after consultation with the Federal

Board, the Company was able, 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 were to be made pro rata among the holders of all outstanding Notes.

At the election of a holder, any or all of the Notes were convertible 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. On December 28, 2017, the Company distributed notices to the holders of the Notes that provide that the Company had elected to waive the timing requirements associated with when a conversion may occur and, instead, the Company would accept notices of conversion at any time prior to July 1, 2019, which was the final conversion date for the Notes. The Notes converted into common stock based on \$16 per share of the Company’s common stock. The conversion price was 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 was required to 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.

The Notes were 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. On July 10, 2019, the Federal Reserve Board provided the Company with its approval for the Company to redeem all of the outstanding Notes. On or about August 1, 2019, the Company provided notice to the holders of the outstanding Notes that it would redeem the outstanding Notes on September 30, 2019.

The Company reflects subordinated debt in the amount of \$4.1 million and \$17.5 million as of December 31, 2019 and December 31, 2018 and interest expense of \$770 thousand, \$1.8 million, and \$2.2 million for the years ended December 31, 2019, 2018 and 2017, respectively.

In 2018, \$16.0 million of subordinated debt was converted into common stock, which resulted in the issuance of 1,000,000 new shares and will provide an annual interest expense savings of \$1.1 million.

In 2019, \$1.0 million of subordinated debt was converted into common stock, which resulted in the issuance of 62,500 new shares, and \$12.4 million of subordinated debt was redeemed. These transactions provided an annual interest expense savings of \$970 thousand.

A summary of maturities of borrowings and subordinated debt over the next five years is as follows (dollars in thousands):

Year	Amount
2020	192,092
2021	32
2022	10,761
2023	10,000
2024	10,000
Thereafter	4,124
	\$ 227,009

NOTE 7. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statements of financial condition.

The Company’s exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in

the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Company upon extension of credit, varies and is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

Specifically, the Bank has entered into agreements to extend credit or provide conditional payments pursuant to standby and commercial letters of credit. In addition, the Bank utilizes letters of credit issued by the FHLB to collateralize certain public funds deposits.

Total contractual amounts of the commitments as of December 31, were as follows:

(Dollars in thousands)	2019	2018
Available on lines of credit	\$ 385,871	\$ 329,229
Stand-by letters of credit	18,145	22,156
Other loan commitments	24,821	28,852
	<u>\$ 428,837</u>	<u>\$ 380,237</u>

Concentration of Credit Risk

The Company grants a majority of its commercial, financial, agricultural, real estate and installment loans to customers throughout the Marion, Harrison, Monongalia, Kanawha, Jefferson and Berkeley County areas of West Virginia as well as the Northern Virginia area and adjacent counties. Collateral for loans is primarily residential and commercial real estate, personal property, and business equipment. The Company evaluates the credit worthiness of each of its customers on a case-by-case basis, and the amount of collateral it obtains is based upon management's credit evaluation.

Regulatory

The Company is required to maintain certain reserve balances on hand in accordance with the Federal Reserve Board requirements. The average balance maintained in accordance with such requirements was \$0 on December 31, 2019 and 2018.

Contingent Liability

The subsidiary Bank is involved in various legal actions arising in the ordinary course of business. In the opinion of management and counsel, the outcome of these matters will not have a significant adverse effect on the consolidated financial statements.

NOTE 8. INCOME TAXES

The amount reflected as income taxes represents federal and state income taxes on financial statement income. Certain items of income and expense, primarily the provision for possible loan losses, allowance for losses on foreclosed assets held for resale, depreciation, and accretion of discounts on investment securities are reported in different accounting periods for income tax purposes.

The provisions for income taxes for the years ended December 31, were as follows:

(Dollars in thousands)	2019	2018	2017
Current:			
Federal	\$ 10,450	\$ 2,203	\$ 2,635
State	2,101	1,031	771
	<u>\$ 12,551</u>	<u>\$ 3,234</u>	<u>\$ 3,406</u>
Deferred expense (benefit)			
Federal	\$ (3,716)	\$ 117	\$ 1,268
State	(237)	22	81
	<u>(3,953)</u>	<u>139</u>	<u>1,349</u>
Income tax expense	<u><u>\$ 8,598</u></u>	<u><u>\$ 3,373</u></u>	<u><u>\$ 4,755</u></u>

Income tax expense for 2017 was impacted by the adjustment of the Company's deferred tax asset related to the reduction in U.S. federal statutory income tax rate to 21% under the Tax Reform Act, which was signed into law on December 22, 2017. The Company was required to revalue its net deferred tax asset to this lower rate, resulting in an income tax charge of \$646 thousand.

Following is a reconciliation of income taxes at federal statutory rates to recorded income taxes for the year ended December 31:

(Dollars in thousands)	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
Tax at Federal tax rate	\$ 7,353	21 %	\$ 3,229	21 %	\$ 4,369	34 %
Tax effect of:						
State income tax	2,101	6.0 %	738	4.8 %	771	6.0 %
Tax exempt earnings	(856)	(2.8)%	(594)	(3.9)%	(1,031)	(6.4)%
Impact of deferred tax rate change	\$ —	—%	\$ —	—%	\$ 646	5.0 %
	<u>\$ 8,598</u>	<u>24.2 %</u>	<u>\$ 3,373</u>	<u>21.9 %</u>	<u>\$ 4,755</u>	<u>38.6 %</u>

Deferred tax assets and liabilities are the result of timing differences in recognition of revenue and expense for income tax and financial statement purposes. As a result of the Tax Reform Act signed into law on December 22, 2017, deferred taxes as of December 31, 2017 and after are based on the newly enacted U.S. statutory federal income tax rate of 21%.

Deferred income tax assets and (liabilities) were comprised of the following at December 31:

(Dollars in thousands)	2019	2018
Allowance for loan losses	\$ 3,310	\$ 3,084
Minimum pension liability	1,589	1,266
Unrealized loss on securities available-for-sale	—	1,252
SERP/RSU	652	—
Other	10	1
Gross deferred tax assets	<u>5,561</u>	<u>5,603</u>
Depreciation	(1,505)	(1,143)
Pension	(164)	(138)
Unrealized gain on securities available-for-sale	(1,088)	—
Holding gain on equity securities	(3,838)	—
Goodwill	(2,134)	(1,827)
Gross deferred tax liabilities	<u>(8,729)</u>	<u>(3,108)</u>
Net deferred tax (liability) asset	<u><u>\$ (3,168)</u></u>	<u><u>\$ 2,495</u></u>

No deferred income tax valuation allowance is provided since it is more likely than not that realization of the deferred income tax asset will occur in future years.

Among other things, the new tax law (i) establishes a new, flat corporate federal statutory income tax rate of 21%, (ii) eliminates the corporate alternative minimum tax and allows the use of any such carryforwards to offset regular tax liability for any taxable year, (iii) limits the deduction for net interest expense incurred by U.S. corporations, (iv) allows businesses to immediately expense, for tax purposes, the cost of new investments in certain qualified depreciable assets, (v) eliminates or reduces certain

deductions related to meals and entertainment expenses, (vi) modifies the limitation on excessive employee remuneration to eliminate the exception for performance-based compensation and clarifies the definition of a covered employee and (vii) limits the deductibility of deposit insurance premiums.

As stated above, as a result of the enactment of the Tax Reform Act on December 22, 2017, the Company remeasured its net deferred tax asset based upon the newly enacted U.S. statutory federal income tax rate of 21%, which is the tax rate at which this asset is expected to reverse in the future. As such, the Company recognized an income tax charge of \$646 thousand in 2017. The remeasurement of the deferred tax asset related to items that are charged or credited directly to AOCI was a component of 2017 income tax expense and recognized in continuing operations as required by ASC Topic 740.

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. With limited exception, the Company’s federal and state income tax returns for taxable years through 2015 have been closed for purposes of examination by the federal and state taxing jurisdictions.

MVB has invested, as a limited partner, in three Section 42 affordable housing investment funds. In exchange for these investments, MVB receives its pro rata share of income, expense, gains, and losses, including tax credits, that are received by the projects. As of December 31, 2018, MVB has recognized, as an investment, \$3.0 million in the aggregate between the three affordable housing investment funds. In addition, MVB has recognized no gains or losses from the three affordable housing investment funds.

NOTE 9. RELATED PARTY TRANSACTIONS

The Company has granted loans to officers and directors of the Company and to their immediate family members as well as loans to related companies. These related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk of collectability. Set forth below is a summary of the related loan activity.

(Dollars in thousands)	Balance at Beginning of Year	Borrowings	Executive Officer and Director Retirements	Repayments	Balance at End of Year
December 31, 2019	\$ 27,971	\$ 13,897	\$ —	\$ (29,584)	\$ 12,284
December 31, 2018	\$ 25,199	\$ 48,269	\$ —	\$ (45,497)	\$ 27,971

The Company held related party deposits of \$35.5 million and \$25.2 million at December 31, 2019 and December 31, 2018, respectively.

The Company held no related party repurchase agreements at December 31, 2019 and December 31, 2018.

NOTE 10. PENSION PLAN

The Company participates in a trusteed 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 this 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%.

On June 19, 2017, the Company and MVB Mortgage approved a Supplemental Executive Retirement Plan (“SERP”), pursuant to which the Chief Executive Office of MVB Mortgage is entitled to receive certain supplemental nonqualified retirement benefits.

The SERP took effect on December 31, 2017. If the executive completes three years of continuous employment with MVB Mortgage prior to retirement date (which shall be no earlier than the date he attains age 55) he will, upon retirement, be entitled to receive \$1.8 million payable in 180 equal consecutive installments of \$10 thousand. The liability is calculated by discounting the anticipated future cash flows at 4.0%. The liability accrued for this obligation was \$783 thousand and \$377 thousand as of December 31, 2019 and 2018, respectively. Service cost was \$406 thousand and \$376 thousand in 2019 and 2018, respectively.

Pension expense was \$256 thousand, \$286 thousand and \$256 thousand in 2019, 2018 and 2017, respectively.

Information pertaining to the activity in the Company's defined benefit plan, using the latest available actuarial valuations with a measurement date of December 31, 2019 and 2018 is as follows:

(Dollars in thousands)	2019	2018
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 9,416	\$ 10,058
Service cost	—	—
Interest cost	392	352
Actuarial loss	99	348
Assumption changes	1,769	(1,127)
Curtailment impact	—	—
Benefits paid	(241)	(215)
Benefit obligation at end of year	<u>\$ 11,435</u>	<u>\$ 9,416</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 5,238	\$ 5,166
Actual return on plan assets	808	(429)
Employer contribution	360	716
Benefits paid	(241)	(215)
Fair value of plan assets at end of year	<u>\$ 6,165</u>	<u>\$ 5,238</u>
Funded status	\$ (5,270)	\$ (4,179)
Unrecognized net actuarial loss	5,883	4,687
Unrecognized prior service cost	—	—
Prepaid pension cost recognized	<u>\$ 613</u>	<u>\$ 508</u>
Accumulated benefit obligation	<u>\$ 11,435</u>	<u>\$ 9,416</u>

At December 31, 2019, 2018 and 2017, the weighted average assumptions used to determine the benefit obligation are as follows:

	2019	2018	2017
Discount rate	3.24 %	4.23 %	3.55 %
Rate of compensation increase	N/A	N/A	N/A

The components of net periodic pension cost are as follows:

(Dollars in thousands)	2019	2018	2017
Service cost	\$ —	\$ —	\$ —
Interest cost	392	352	360
Expected return on plan assets	(407)	(372)	(345)
Amortization of prior service costs	—	—	—
Amortization of net actuarial loss	271	306	241
Net periodic pension cost	<u>\$ 256</u>	<u>\$ 286</u>	<u>\$ 256</u>

For the years December 31, 2019, 2018 and 2017, the weighted average assumptions used to determine net periodic pension cost are as follows:

	2019	2018	2017
Discount rate	3.24 %	3.55 %	4.05 %
Expected long-term rate of return on plan assets	6.75 %	6.75 %	6.75 %
Rate of compensation increase	N/A	N/A	N/A

The Company's pension plan asset allocations at December 31, 2019 and 2018 are as follows:

	12/31/2019	12/31/2018
Plan Assets		
Cash	4 %	5 %
Fixed income	23 %	24 %
Alternative investments	15 %	17 %
Domestic equities	33 %	31 %
Foreign equities	24 %	23 %
Real estate investment trusts	1 %	— %
Total	100 %	100 %

The estimated net loss for the plan that is expected to be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$460 thousand.

The following table sets forth by level, within the fair value hierarchy, as defined in Note 17, "Fair Value Measurements," the Pension Plan's assets at fair value as of December 31, 2019.

(Dollars in thousands)	Level I	Level II	Level III	Total
Assets:				
Cash	\$ 247	\$ —	\$ —	\$ 247
Fixed income	1,418	—	—	1,418
Alternative investments	—	—	925	925
Domestic equities	2,034	—	—	2,034
Foreign equities	1,480	—	—	1,480
Real estate investment trusts	—	—	61	61
Total assets at fair value	\$ 5,179	\$ —	\$ 986	\$ 6,165

The following table sets forth by level, within the fair value hierarchy, as defined in Note 17, "Fair Value Measurements," the Pension Plan's assets at fair value as of December 31, 2018.

(Dollars in thousands)	Level I	Level II	Level III	Total
Assets:				
Cash	\$ 262	\$ —	\$ —	\$ 262
Fixed income	1,257	—	—	1,257
Alternative investments	—	—	890	890
Domestic equities	1,624	—	—	1,624
Foreign equities	1,205	—	—	1,205
Total assets at fair value	\$ 4,348	\$ —	\$ 890	\$ 5,238

Investment in government securities and short-term investments are valued at the closing price reported on the active market on which the individual securities are traded. Alternative investments and investment in debt securities are valued at quoted prices which are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while this plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Below we show the best estimate of the plan contribution for next fiscal year. We also show the benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter.

(Dollars in thousands)	Cash Flow
Contributions for the period of January 1, 2019 through December 31, 2019	\$ 360
Estimated future benefit payments reflecting expected future service	
2020	\$ 323
2021	\$ 331
2022	\$ 386
2023	\$ 429
2024	\$ 450
2025 through 2028	\$ 2,652

NOTE 11. GOODWILL AND OTHER INTANGIBLE ASSETS

The table below summarizes the changes in carrying amounts of goodwill and other intangibles, including core deposit intangibles, for the periods presented:

(Dollars in thousands)	Goodwill	Intangibles		
		Gross	Accumulated Depreciation	Net
Balance at January 1, 2019	\$ 18,480	\$ 1,006	\$ (456)	\$ 550
Goodwill and intangibles resulting from Chartwell acquisition	1,150	3,220	—	3,220
Amortization expense	—	—	(297)	(297)
Balance at December 31, 2019	<u>\$ 19,630</u>	<u>\$ 4,226</u>	<u>\$ (753)</u>	<u>\$ 3,473</u>
Balance at January 1, 2018	\$ 18,480	\$ 1,006	\$ (360)	\$ 646
Amortization expense	—	—	(96)	(96)
Balance at December 31, 2018	<u>\$ 18,480</u>	<u>\$ 1,006</u>	<u>\$ (456)</u>	<u>\$ 550</u>
Balance at January 1, 2017	\$ 18,480	\$ 1,006	\$ (262)	\$ 744
Amortization expense	—	—	(98)	(98)
Balance at December 31, 2017	<u>\$ 18,480</u>	<u>\$ 1,006</u>	<u>\$ (360)</u>	<u>\$ 646</u>

Goodwill represents the excess of the purchase price over the fair value of acquired net assets under the acquisition method of accounting. Intangibles include the core deposit intangibles from the 2015 branch acquisition and the intangibles resulting from the Chartwell acquisition. The value of the acquired core deposit relationships was determined using the present value of the difference between a market participant's cost of obtaining alternative funds and the cost to maintain the acquired deposit base. The core deposit intangibles are being amortized over a ten-year period using an accelerated method. The intangibles resulting from the Chartwell acquisition are related to their customer relationships, backlog, a trademark, and a non-competition agreement. These items are amortized over 5 years, 5.3 years, 15 years, and 4 years, respectively.

The table below presents estimated amortization expense for the Company's other intangible assets (dollars in thousands):

2020	\$ 706
2021	703
2022	699
2023	612
2024	328
Thereafter	425
	<u>\$ 3,473</u>

The Company's assessment of qualitative factors determined that it is not more likely than not that the fair value of each reporting unit is less than its carrying amount and therefore, goodwill is not impaired as of December 31, 2019 and 2018. The Company has not identified any triggering events since the impairment evaluation that would indicate potential impairment.

Intangibles, including core deposit intangibles are evaluated for impairment if events and circumstances indicate a potential for impairment. Such an evaluation of other intangible assets is based on undiscounted cash flow projections. No impairment charges were recorded for other intangible assets in any of the periods presented.

NOTE 12. STOCK OFFERINGS

On March 13, 2017, the Company entered into an Investment Agreement (the “Investment Agreement”) with its Chief Executive Officer, Larry F. Mazza (“Mazza”). Pursuant to the Investment Agreement, Mazza committed to subscribe for and purchase, at the Subscription Price, upon expiration of the Rights Offering, the number of shares of the Company’s common stock, if any, equal to the amount by which 100,000 exceeds the number of shares purchased by Mazza in the Rights Offering. Pursuant to the Investment Agreement, Mazza agreed not to sell or otherwise transfer any shares acquired in connection with the Investment Agreement for a period of six months following the closing of the Rights Offering.

Larry F. Mazza purchased 100,000 shares of the Company’s common stock: 90,999 under the rights offering and 9,001 shares under the Investment Agreement.

On March 13, 2017, the Company filed with the SEC a prospectus supplement and accompanying base prospectus (collectively, the “Prospectus”) relating to the commencement of the Company’s rights offering (the “Rights Offering”), pursuant to which the Company distributed, at no charge, non-transferable subscription rights to the holders of its common stock as of 5:00 p.m., Eastern time, on March 10, 2017. The subscription rights were exercisable for up to a total of 434,783 shares of the Company’s common stock, subject to such terms and conditions as further described in the Prospectus.

On April 20, 2017, the Company announced the completion of the rights offering, which expired at 5:00 p.m. Eastern time on April 14, 2017. All 434,783 shares offered in the rights offering were subscribed for, resulting in new capital of approximately \$5.0 million. Computershare, who served as subscription agent, completed its review and tabulation of subscriptions on April 19, 2017. Computershare issued the shares acquired in the rights offering by book entry in the Company’s stock ownership records, which are maintained by Computershare, as transfer agent, on or about April 20, 2017.

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. On December 28, 2017, the Company distributed a notice to each of the holders of the Class B Preferred Stock regarding the Company’s agreement to waive the timing requirements associated with when a conversion may occur and, instead, the Company will accept notices of conversion at any time prior to July 30, 2019, which is the final conversion date for the Preferred Stock. The Class B Preferred shares are redeemable by the Company on or after the fifth anniversary of the original issue date for the liquidation amount of \$10,000, 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 30 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. On December 28, 2017, the Company distributed a notice to each of the holders of the Class C Preferred Stock regarding the Company’s agreement to waive the timing requirements associated with when a conversion may occur and, instead, the Company will accept notices of conversion at any time prior to July 30, 2019, which is the final conversion date for the Preferred Stock. The Class C Preferred shares are redeemable by the Company on or after the fifth anniversary of the original issue date for the liquidation amount of \$10,000, 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 August 27, 2019, the Company redeemed preferred stock in the amount of \$500 thousand.

NOTE 13. STOCK OPTIONS AND OTHER EQUITY AWARDS

The MVB Financial Corp. Incentive Stock Plan (the “Plan”) provides for the issuance of stock options, restricted stock awards, and RSU’s to selected employees and directors. During 2017, the Company’s shareholders amended the Plan to increase the total number of shares of stock available for grant of awards by 1.0 million. As of December 31, 2019, the Plan had 3.2 million shares authorized and 715,517 shares remaining available for issuance. To date, the Company has awarded both stock options and RSU’s to selected employees and directors.

Total compensation expense recorded on stock options and RSU’s during 2019, 2018 and 2017 was \$1.8 million, \$1.3 million and \$813 thousand, respectively. Proceeds from stock options exercised were \$2.2 million, \$2.1 million and \$(10) thousand during 2019, 2018 and 2017, respectively. During 2019, 2018 and 2017, certain options were exercised in cashless transactions. Shares were forfeited related to exercise price and tax withholdings and the Company paid tax authorities amounts due resulting in a net cash outflow.

Stock Options

Under the provisions of the Plan, the option price per share shall not be less than the fair market value of the common stock on the date of the grant. Stock options expire 10 years from the date of the grant. With the exception of 22,000 shares granted in 2010 that vest in 3 years and expire 10 years from the date of grant, and 125,000 shares granted in 2017 that vest in 4 years and expire in 10 years, all options granted vest in 5 years and expire 10 years from the date of the grant.

The following summarizes MVB’s stock options as of and for the year ended December 31, 2019, and the changes for the year then ended:

	2019		2018	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,763,491	\$ 14.36	1,681,645	\$ 13.46
Granted	46,250	17.03	256,344	19.50
Exercised	(210,050)	10.30	(161,298)	13.54
Forfeited/expired	(6,450)	17.15	(13,200)	14.97
Outstanding at end of year	<u>1,593,241</u>	<u>\$ 14.96</u>	<u>1,763,491</u>	<u>\$ 14.36</u>
Exercisable at end of year	<u>1,049,516</u>	<u>\$ 14.41</u>	<u>994,598</u>	<u>\$ 13.21</u>
Weighted-average fair value of options granted during 2019		<u>\$ 4.22</u>		
Weighted-average fair value of options granted during 2018		<u>\$ 5.97</u>		
Weighted-average fair value of options granted during 2017		<u>\$ 4.05</u>		

The intrinsic value of options exercised during 2019, 2018 and 2017 was \$1.9 million, \$871 thousand and \$8 thousand, respectively.

The fair value for the options was estimated at the date of grant using a Black-Scholes option-pricing model with average risk-free interest rates of 2.02%, 2.81% and 2.29% for 2019, 2018 and 2017, respectively, and a weighted average expected life of the options of 7 years for all three years. The expected volatility of MVB’s stock price used for 2019 options was 21.80%, while for the 2018 options it was 18.64% and 2017 options it was 22.76%. The expected dividend yield used was 0.84% for 2019, 0.54% for 2018 and 0.60% for 2017.

The following summarizes information related to the total outstanding and exercisable stock options at December 31, 2019:

Options Outstanding				Options Exercisable			
Total Options	Weighted-Average Exercise Price	Intrinsic Value	Weighted-Average Remaining Life	Total Options	Weighted-Average Exercise Price	Intrinsic Value	Weighted-Average Remaining Life
1,593,241	\$14.96	15,586,952	5.90	1,049,516	\$14.41	10,838,239	5.06

Restricted Stock Units

Under the provisions of the Plan, RSU's are similar to restricted stock awards, except the recipient does not receive the stock immediately, but instead receives it according to a vesting plan and distribution schedule after achieving required performance milestones or upon remaining with the Company for a particular length of time. Each RSU that vests entitles the recipient to receive one share of the Company's common stock on a specified issuance date. The recipient does not have any stockholder rights, including voting, dividend, or liquidation rights, with respect to the shares underlying awarded RSU's until the recipient becomes the record holder of those shares.

The Company granted 122,009 RSU's in 2019, 95,250 time-based and 26,759 performance based. In 2018, the Company granted 62,735 RSU's, 53,585 time-based and 9,150 performance-based. Performance-based RSU's vest in one installment at the end of three years based on set criteria. Time-based RSU's granted in 2019 vest in five equal installments per year over a five-year period. Time-based RSU's granted in 2018 vest solely based on time and continued employment in one installment at the end of five years.

A summary of the activity for the Company's RSU's for the period indicated is presented in the following table:

	2019		2018	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Balance at beginning of year	60,345	\$ 19.31	—	\$ —
Granted	122,009	15.50	62,735	19.29
Vested	(9,576)	18.27	(1,368)	18.27
Forfeited	(12,020)	16.72	(1,022)	19.55
Balance at end of year	160,758	\$ 16.67	60,345	\$ 19.31

At December 31, 2019, based on RSU awards outstanding at that time, the total unrecognized pre-tax compensation expense related to unvested RSU awards was \$1.8 million. Based upon the contractual terms, this expense is expected to be recognized as follows:

(Dollars in thousands)	
2020	\$ 778
2021	454
2022	316
2023	173
2024	68
	\$ 1,789

Stock-Based Compensation Expense

Stock-based compensation expense is recognized as salary and employee benefit cost in the consolidated statements of income based on their fair values on the measurement date, which, for the Company, is the date of the grant. Total stock-based compensation expense recorded on stock options and RSU's during 2019, 2018 and 2017 was \$1.8 million, \$1.3 million and \$813 thousand, respectively.

The amount that the Company recognized in stock-based compensation expense related to the issuance of stock options and RSU's is presented in the following table:

(Dollars in thousands)	2019		2018		2017	
Stock Options	\$	873	\$	936	\$	813
RSU's		886		331		—
Total Stock-based compensation	\$	1,759	\$	1,267	\$	813

NOTE 14. REGULATORY CAPITAL REQUIREMENTS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. The Bank is required to comply with applicable capital adequacy standards established by the FDIC. The Company is exempt from the Federal Reserve Board's capital adequacy standards as it believes it meets the requirements of the Small Bank Holding Company Policy Statement. State chartered banks, such as the Bank, are subject to similar capital requirements adopted by the West Virginia Division of Financial Institutions.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total capital, Tier 1 capital and Tier 1 common equity to risk-weighted assets, and of Tier 1 capital to average assets, as defined. As of December 31, 2019 and 2018, the Company and the Bank meet all capital adequacy requirements to which they are subject.

The most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 common equity risk-based and Tier 1 leverage ratios as set forth in the table below. Both the Company's and the Bank's actual capital amounts and ratios are presented in the table below.

(Dollars in thousands)	Actual		Minimum to be Well Capitalized		Minimum for Capital Adequacy Purposes with Capital Buffer ¹		Minimum for Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019								
Total Capital (to risk-weighted assets)								
Subsidiary Bank	\$ 201,672	12.8%	\$ 157,107	10.0%	\$ 155,143	9.88%	\$ 125,686	8.0%
Tier 1 Capital (to risk-weighted assets)								
Subsidiary Bank	\$ 189,365	12.1%	\$ 125,686	8.0%	\$ 123,722	7.88%	\$ 94,264	6.0%
Common Equity Tier 1 Capital (to risk-weighted assets)								
Subsidiary Bank	\$ 189,365	12.1%	\$ 102,120	6.5%	\$ 100,156	6.38%	\$ 70,698	4.5%
Tier 1 Capital (to average assets)								
Subsidiary Bank	\$ 189,365	9.9%	\$ 95,227	5.0%	N/A	N/A	\$ 76,182	4.0%
As of December 31, 2018								
Total Capital (to risk-weighted assets)								
Consolidated	\$ 193,495	13.8%	N/A	N/A	N/A	N/A	\$ 112,299	8.0%
Subsidiary Bank	\$ 186,127	13.3%	\$ 140,065	10.0%	\$ 138,314	9.88%	\$ 112,052	8.0%
Tier 1 Capital (to risk-weighted assets)								
Consolidated	\$ 168,672	12.0%	N/A	N/A	N/A	N/A	\$ 84,224	6.0%
Subsidiary Bank	\$ 174,704	12.5%	\$ 112,052	8.0%	\$ 110,301	7.88%	\$ 84,039	6.0%
Common Equity Tier 1 Capital (to risk-weighted assets)								
Consolidated	\$ 156,714	11.2%	N/A	N/A	N/A	N/A	\$ 63,168	4.5%
Subsidiary Bank	\$ 174,704	12.5%	\$ 91,042	6.5%	\$ 89,292	6.38%	\$ 63,029	4.5%
Tier 1 Capital (to average assets)								
Consolidated	\$ 168,672	9.9%	N/A	N/A	N/A	N/A	\$ 68,375	4.0%
Subsidiary Bank	\$ 174,704	10.2%	\$ 85,315	5.0%	N/A	N/A	\$ 68,252	4.0%

¹ The capital conservation buffer requirement was phased in over three years and was fully phased in on January 1, 2019. The capital buffer requirement effectively raises the minimum required common equity Tier 1 capital ratio to 7.0%, the Tier 1 capital ratio to 8.5% and the total capital to 10.5%.

NOTE 15. REGULATORY RESTRICTION ON DIVIDEND

The approval of the regulatory agencies is required if the total of all dividends declared by the Bank in any calendar year exceeds the Bank's net profits, as defined, for that year combined with its retained net profits for the preceding two calendar years.

NOTE 16. 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.

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

Fair Value Measurements at:

(Dollars in thousands)	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
December 31, 2019					
Financial assets:					
Cash and cash equivalents	\$ 28,002	\$ 28,002	\$ 28,002	\$ —	\$ —
Certificates of deposits with other banks	12,549	12,586	—	12,586	—
Securities available-for-sale	235,821	235,821	—	198,562	37,259
Equity securities	18,514	18,514	—	—	18,514
Loans held for sale	109,788	109,788	—	109,788	—
Loans	1,362,766	1,364,706	—	—	1,364,706
Mortgage servicing rights	348	348	—	—	348
Interest rate lock commitment	1,660	1,660	—	—	1,660
Interest rate swap	5,722	5,722	—	5,722	—
Accrued interest receivable	7,909	7,909	—	1,591	6,317
Fair value hedge	1,770	1,770	—	1,770	—
Financial liabilities:					
Deposits	\$ 1,265,042	\$ 1,249,135	\$ —	\$ 1,249,135	\$ —
Repurchase agreements	10,172	10,172	—	10,172	—
FHLB and other borrowings	222,885	222,891	—	222,891	—
Mortgage-backed security hedges	186	186	—	186	—
Fair value hedge	1,418	1,418	—	1,418	—
Interest rate swap	5,722	5,722	—	5,722	—
Accrued interest payable	1,060	1,060	—	1,060	—
Subordinated debt	4,124	4,124	—	4,124	—
December 31, 2018					
Financial assets:					
Cash and cash equivalents	\$ 22,221	\$ 22,221	\$ 22,221	\$ —	\$ —
Certificates of deposits with other banks	14,778	14,300	—	14,300	—
Securities available-for-sale	221,614	221,614	—	188,492	33,122
Equity securities	9,599	9,599	6,027	3,272	300
Loans held for sale	75,807	75,807	—	75,807	—
Loans	1,293,427	1,276,065	—	—	1,276,065
Mortgage servicing rights	173	173	—	—	173
Interest rate lock commitment	1,750	1,750	—	—	1,750
Interest rate swap	1,375	1,375	—	1,375	—
Interest rate cap	8	8	—	8	—
Fair value hedge	343	343	—	343	—
Accrued interest receivable	7,710	7,710	—	1,368	6,342
Financial liabilities:					
Deposits	\$ 1,309,154	\$ 1,249,164	\$ —	\$ 1,249,164	\$ —
Repurchase agreements	14,925	14,925	—	14,925	—
FHLB and other borrowings	214,887	214,969	—	214,969	—
Mortgage-backed security hedges	853	853	—	853	—
Interest rate swap	1,375	1,375	—	1,375	—
Accrued interest payable	1,064	1,064	—	1,064	—
Subordinated debt	17,524	18,250	—	18,250	—

Transfers of assets and liabilities between levels within the fair value hierarchy are recognized when an event or change in circumstances occurs. During the year ended December 31, 2018, there was a transfer from Level III to Level II in equity securities due to the receipt of a valuation that occurred during 2018.

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

NOTE 17. FAIR VALUE MEASUREMENTS

Accounting standards require that the Company adopt fair value measurement for financial assets and financial liabilities. This enhanced guidance for using fair value to measure assets and liabilities applies whenever other standards require or permit assets or liabilities to be measured at fair value. This guidance does not expand the use of fair value in any new circumstances.

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 II instruments and valued them using the market approach. The following measurements are made on a recurring basis.

- ***Available-for-sale investment*** — 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 I 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 II 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, 2019. Valuation techniques are consistent with techniques used in prior periods. Certain local municipal securities related to tax increment financing ("TIF") are independently valued and classified as Level III instruments.
- ***Equity securities*** — Certain equity securities are recorded at fair value on a nonrecurring 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. The valuation methodologies utilized may include significant unobservable inputs.
- ***Loans held for sale*** — The fair value of mortgage loans held for sale is determined, when possible, using quoted secondary-market prices or investor commitments. If no such quoted price exists, the fair value of a loan is determined using quoted prices for a similar asset or assets, adjusted for the specific attributes of that loan, which would be used by other market participants.
- ***Interest rate lock commitment*** — The Company estimates the fair value of interest rate lock commitments based on the value of the underlying mortgage loan, quoted mortgage-backed security prices and estimates of the fair value of the mortgage servicing rights and the probability that the mortgage loan will fund within the terms of the interest rate lock commitments.
- ***Mortgage-backed security hedges*** — MBS hedges are considered derivatives and are recorded at fair value based on observable market data of the individual mortgage-backed security.
- ***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.

- **Fair value hedge** — Treated like an interest rate swap, fair value hedges 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.

The following tables present the assets reported on the consolidated statements of financial condition at their fair value on a recurring basis as of December 31, 2019 and 2018 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.

December 31, 2019				
(Dollars in thousands)	Level I	Level II	Level III	Total
Assets:				
U.S. Government Agency securities	\$ —	\$ 51,996	\$ —	\$ 51,996
U.S. Sponsored Mortgage backed securities	—	58,312	—	58,312
Municipal securities	—	75,833	37,259	113,092
Other securities	—	12,421	—	12,421
Loans held for sale	—	109,788	—	109,788
Interest rate lock commitment	—	—	1,660	1,660
Interest rate swap	—	5,722	—	5,722
Fair value hedge	—	1,770	—	1,770
Liabilities:				
Interest rate swap	—	5,722	—	5,722
Fair value hedge	—	1,418	—	1,418
Mortgage-backed security hedges	—	186	—	186

December 31, 2018				
(Dollars in thousands)	Level I	Level II	Level III	Total
Assets:				
U.S. Government Agency securities	\$ —	\$ 77,430	\$ —	\$ 77,430
U.S. Sponsored Mortgage backed securities	—	50,115	—	50,115
Municipal securities	—	50,639	33,122	83,761
Other securities	—	10,308	—	10,308
Equity securities	6,027	3,272	300	9,599
Loans held for sale	—	75,807	—	75,807
Interest rate lock commitment	—	—	1,750	1,750
Interest rate swap	—	1,375	—	1,375
Interest rate cap	—	8	—	8
Liabilities:				
Interest rate swap	—	1,375	—	1,375
Fair value hedge	—	343	—	343
Mortgage-backed security hedges	—	853	—	853

The following table represents recurring level III assets:

(Dollars in thousands)	Interest Rate Lock Commitments	Municipal Securities	Equity Securities	Total
Balance at December 31, 2018	\$ 1,750	\$ 33,122	\$ 300	\$ 35,172
Realized and unrealized gains included in earnings	(90)	—	—	(90)
Purchase of securities	—	842	—	842
Reclassification to nonrecurring assets	—	—	(300)	(300)
Unrealized gain included in other comprehensive income (loss)	—	18,128	—	18,128
Unrealized loss included in other comprehensive income (loss)	—	(14,833)	—	(14,833)
Balance at December 31, 2019	<u>\$ 1,660</u>	<u>\$ 37,259</u>	<u>\$ —</u>	<u>\$ 38,919</u>
Balance at December 31, 2017	\$ 1,426	\$ 22,909	\$ 900	\$ 25,235
Realized and unrealized losses included in earnings	324	—	—	324
Purchase of securities	—	6,232	—	6,232
Transfer to Level II Assets	—	—	(600)	(600)
Unrealized gain included in other comprehensive income (loss)	—	4,191	—	4,191
Unrealized loss included in other comprehensive income	—	(210)	—	(210)
Balance at December 31, 2018	<u>\$ 1,750</u>	<u>\$ 33,122</u>	<u>\$ 300</u>	<u>\$ 35,172</u>

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 GAAP. 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 2019 and 2018 include certain foreclosed assets which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for possible loan losses and certain foreclosed assets which, subsequent to their initial recognition, were remeasured at fair value through a write-down included in other noninterest 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 II inputs based on observable market data or Level III 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 II inputs based on observable market data or Level III inputs based on customized discounting criteria. At the time the foreclosure is completed, the Company obtains a current external appraisal.
- Equity securities** — Certain equity securities are recorded at fair value on a nonrecurring basis. Equity securities without a readily determinable fair value are measured at cost minus impairment, if any, plus or minus any changes resulting from observable price changes in orderly transactions, as defined, for identical or similar investments of the same issuer.

Assets measured at fair value on a nonrecurring basis as of December 31, 2019 and 2018 are included in the table below:

(Dollars in thousands)	December 31, 2019			
	Level I	Level II	Level III	Total
Impaired loans	\$ —	\$ —	\$ 8,909	\$ 8,909
Other real estate owned	—	—	1,397	1,397
Equity securities	—	—	18,514	18,514

(Dollars in thousands)	December 31, 2018			
	Level I	Level II	Level III	Total
Impaired loans	\$ —	\$ —	\$ 11,735	\$ 11,735
Other real estate owned	—	—	2,145	2,145

The following tables presents quantitative information about the Level III significant unobservable inputs for assets and liabilities measured at fair value at December 31, 2019 and 2018.

(Dollars in thousands)	Quantitative Information about Level III Fair Value Measurements			
	Fair Value	Valuation Technique	Unobservable Input	Range
December 31, 2019				
Nonrecurring measurements:				
Impaired loans	\$ 8,909	Appraisal of collateral ¹	Appraisal adjustments ²	20% - 62%
			Liquidation expense ²	5% - 10%
Other real estate owned	\$ 1,397	Appraisal of collateral ¹	Appraisal adjustments ²	20% - 30%
			Liquidation expense ²	5% - 10%
Equity securities	\$ 18,514	Net asset value	Cost minus impairment	0%
Recurring measurements:				
Municipal securities (Local TIF bonds)	\$ 37,259	Appraisal of bond ³	Bond appraisal adjustment ⁴	5% - 15%
Interest rate lock commitments	\$ 1,660	Pricing model	Pull through rates	77% - 82%

(Dollars in thousands)	Quantitative Information about Level III Fair Value Measurements			
	Fair Value	Valuation Technique	Unobservable Input	Range
December 31, 2018				
Nonrecurring measurements:				
Impaired loans	\$ 11,735	Appraisal of collateral ¹	Appraisal adjustments ²	20% - 62%
			Liquidation expense ²	5% - 10%
Other real estate owned	\$ 2,145	Appraisal of collateral ¹	Appraisal adjustments ²	20% - 30%
			Liquidation expense ²	5% - 10%
Recurring measurements:				
Municipal securities (Local TIF bonds)	\$ 33,122	Appraisal of bond ³	Bond appraisal adjustment ⁴	5% - 15%
Equity securities	\$ 300	Net asset value	Cost minus impairment	0%
Interest rate lock commitments	\$ 1,750	Pricing model	Pull through rates	80% - 88%

¹ Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level III inputs which are not identifiable.

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

³ Fair value determined through independent analysis of liquidity, rating, yield, and duration.

⁴ Appraisals may be adjusted for qualitative factors, such as local economic conditions.

NOTE 18. COMPREHENSIVE INCOME

The following tables present the components of accumulated other comprehensive income (“AOCI”) for the years ended December 31:

Details about AOCI Components	2019	2018	2017	Affected line item in the Statement where Net Income is presented
	Amount Reclassified from AOCI	Amount Reclassified from AOCI	Amount Reclassified from AOCI	
Available-for-sale securities				
Unrealized holding (loss) gain	\$ (166)	\$ 327	\$ 731	(Loss)/ gain on sale of securities
	(166)	327	731	Total before tax
	44	(88)	(292)	Income tax expense
	(122)	239	439	Net of tax
Defined benefit pension plan items				
Amortization of net actuarial loss	(271)	(306)	(241)	Salaries and benefits
	(271)	(306)	(241)	Total before tax
	73	83	96	Income tax expense
	(198)	(223)	(145)	Net of tax
Investment hedge				
Carrying value adjustment	(44)	—	—	Interest on investment securities - taxable
	(44)	—	—	Total before tax
	12	—	—	Income tax expense
	(32)	—	—	Net of tax
Total reclassifications	\$ (352)	\$ 16	\$ 294	

(Dollars in thousands)	Unrealized gains (losses) on available for-sale securities	Defined benefit pension plan items	Investment Hedge	Total
Balance at January 1, 2019	\$ (3,384)	\$ (3,422)	\$ —	\$ (6,806)
Other comprehensive income (loss) before reclassification	6,204	(1,071)	—	5,133
Amounts reclassified from AOCI	122	198	32	352
Net current period OCI	6,326	(873)	32	5,485
Balance at December 31, 2019	<u>\$ 2,942</u>	<u>\$ (4,295)</u>	<u>\$ 32</u>	<u>\$ (1,321)</u>
Balance at January 1, 2018	\$ (5)	\$ (2,983)	\$ —	\$ (2,988)
Other comprehensive income (loss) before reclassification	(3,042)	(16)	—	(3,058)
Amounts reclassified from AOCI	(239)	223	—	(16)
Net current period OCI	(3,281)	207	—	(3,074)
Stranded AOCI	—	(646)	—	(646)
Mark to Market on equity positions held at December 31,	(98)	—	—	(98)
Balance at December 31, 2018	<u>\$ (3,384)</u>	<u>\$ (3,422)</u>	<u>\$ —</u>	<u>\$ (6,806)</u>

NOTE 19. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

Information relative to the parent company's condensed balance sheets at December 31, 2019 and 2018, and the related condensed statements of income and cash flows for the years ended December 31, 2019, 2018 and 2017 are presented below:

Condensed Balance Sheets

(Dollars in thousands)	December 31,	
	2019	2018
Assets		
Cash	\$ 1,058	\$ 4,449
Investment in subsidiaries	211,271	187,052
Other assets	6,397	5,036
Total assets	<u>\$ 218,726</u>	<u>\$ 196,537</u>
Liabilities and stockholders' equity		
Other liabilities	\$ 2,666	\$ 2,240
Long-term debt	4,124	17,524
Total liabilities	6,790	19,764
Total stockholders' equity	211,936	176,773
Total liabilities and stockholders' equity	<u>\$ 218,726</u>	<u>\$ 196,537</u>

Condensed Statements of Income

(Dollars in thousands)	Year ended December 31,		
	2019	2018	2017
Income - dividends from Bank subsidiary	\$ 6,280	\$ 8,906	\$ 13,724
Expenses - operating	14,296	13,439	11,974
(Loss)/ income before income taxes and undistributed earnings - continuing operations	(8,016)	(4,533)	1,750
Income tax (benefit) - continuing operations	(1,880)	(1,569)	(2,147)
(Loss)/ income after tax from continuing operations	(6,136)	(2,964)	3,897
Income from discontinued operations	575	—	—
Income tax - discontinued operations	148	—	—
Income after tax from discontinued operations	427	—	—
Equity in undistributed income earnings of subsidiaries	32,700	14,967	3,678
Net Income	<u>\$ 26,991</u>	<u>\$ 12,003</u>	<u>\$ 7,575</u>
Preferred dividends	\$ 479	\$ 489	\$ 498
Net Income available to common shareholders	\$ 26,512	\$ 11,514	\$ 7,077

Condensed Statements of Cash Flows

(Dollars in thousands)	2019	2018	2017
OPERATING ACTIVITIES			
Net Income	\$ 26,991	\$ 12,003	\$ 7,575
Equity in undistributed earnings of subsidiaries	(32,700)	(14,967)	(3,678)
(Increase) decrease in other assets	(4,104)	1,997	(2,214)
Decrease (increase) in other liabilities	344	1,311	(234)
Stock option expense	1,759	1,267	813
Net cash (used in) provided by operating activities	(7,710)	1,611	2,262
INVESTING ACTIVITIES			
Investment in subsidiaries	16,791	(2,194)	(947)
Net cash provided by (used in) investing activities	16,791	(2,194)	(947)
FINANCING ACTIVITIES			
Proceeds from stock issuance	1,033	—	4,931
AOCI reclassification of pension and available-for-sale investments	—	743	—
Retirement of subordinated debt	(12,400)	(35)	—
Preferred stock redemption	(500)	—	(8,500)
Common stock options exercised	2,164	2,129	(10)
Cash dividends paid on common stock	(2,290)	(1,220)	(1,033)
Cash dividends paid on preferred stock	(479)	(489)	(498)
Net cash (used in) provided by financing activities	(12,472)	1,128	(5,110)
(Decrease) increase in cash	(3,391)	545	(3,795)
Cash at beginning of period	4,449	3,904	7,699
Cash at end of period	\$ 1,058	\$ 4,449	\$ 3,904
Noncash common stock converted from subordinated debt	\$ 1,000	\$ 15,965	\$ —

NOTE 20. SEGMENT REPORTING

The Company has identified three reportable segments: commercial and retail banking; mortgage banking; and financial holding company. Insurance services was previously identified as a reportable segment until entering into an Asset Purchase Agreement, as discussed below and in Note 21, “Discontinued Operations” of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. Revenue from commercial and retail banking activities consists primarily of interest earned on loans and investment securities and service charges on deposit accounts. Revenue from financial holding company activities is mainly comprised of intercompany service income and dividends.

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.

On June 30, 2016, the Company entered into an Asset Purchase Agreement with USI Insurance Services (“USI”), in which USI purchased substantially all of the assets and assumed certain liabilities of MVB Insurance, which resulted in a pre-tax gain of \$6.9 million, as discussed in Note 21, “Discontinued Operations” of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. MVB Insurance retained the assets related to, and continues to operate, its title insurance business. The title insurance business is immaterial in terms of revenue and the Company has reorganized MVB Insurance as a subsidiary of the Bank.

Information about the reportable segments and reconciliation to the consolidated financial statements for the years ended December 31, 2019, 2018, and 2017 are as follows:

(Dollars in thousands)	2019				
	Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Intercompany Eliminations	Consolidated
Interest income	\$ 75,874	\$ 8,342	\$ 13	\$ (1,868)	\$ 82,361
Interest expense	18,698	6,014	769	(2,520)	22,961
Net interest income	57,176	2,328	(756)	652	59,400
Provision for loan losses	1,622	167	—	—	1,789
Net interest income after provision for loan losses	55,554	2,161	(756)	652	57,611
Noninterest Income:					
Mortgage fee income	657	41,040	—	(652)	41,045
Other income	23,033	1,289	6,268	(7,031)	23,559
Total noninterest income	23,690	42,329	6,268	(7,683)	64,604
Noninterest Expenses:					
Salaries and employee benefits	19,067	28,432	8,676	—	56,175
Other expense	25,070	8,136	4,851	(7,031)	31,026
Total noninterest expenses	44,137	36,568	13,527	(7,031)	87,201
Income (loss) from continuing operations, before income taxes	35,107	7,922	(8,015)	—	35,014
Income tax expense (benefit) - continuing operations	8,175	2,155	(1,880)	—	8,450
Net income (loss) from continuing operations	26,932	5,767	(6,135)	—	26,564
Income from discontinued operations	—	—	575	—	575
Income tax expense - discontinued operations	—	—	148	—	148
Net income from discontinued operations	—	—	427	—	427
Net income (loss)	\$ 26,932	\$ 5,767	\$ (5,708)	\$ —	\$ 26,991
Preferred stock dividends	—	—	479	—	479
Net income (loss) available to common shareholders	\$ 26,932	\$ 5,767	\$ (6,187)	\$ —	\$ 26,512
Capital Expenditures for the year ended December 31,	\$ 1,438	\$ 112	\$ 492	\$ —	\$ 2,042
Total Assets as of December 31, 2019	1,953,975	248,382	216,411	(474,654)	1,944,114
Goodwill as of December 31, 2019	2,748	16,882	—	—	19,630

2018

(Dollars in thousands)	Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Intercompany Eliminations	Consolidated
Interest income	\$ 63,762	\$ 6,667	\$ 5	\$ (674)	\$ 69,760
Interest expense	13,667	4,085	1,756	(1,802)	17,706
Net interest income	50,095	2,582	(1,751)	1,128	52,054
Provision for loan losses	2,386	54	—	—	2,440
Net interest income after provision for loan losses	47,709	2,528	(1,751)	1,128	49,614
Noninterest Income:					
Mortgage fee income	585	32,880	—	(1,128)	32,337
Other income	6,479	(243)	6,411	(6,344)	6,303
Total noninterest income	7,064	32,637	6,411	(7,472)	38,640
Noninterest Expenses:					
Salaries and employee benefits	14,924	23,927	7,373	—	46,224
Other expense	20,081	8,608	4,309	(6,344)	26,654
Total noninterest expenses	35,005	32,535	11,682	(6,344)	72,878
Income (loss) before income taxes	19,768	2,630	(7,022)	—	15,376
Income tax expense (benefit)	4,265	677	(1,569)	—	3,373
Net income (loss)	<u>\$ 15,503</u>	<u>\$ 1,953</u>	<u>\$ (5,453)</u>	<u>\$ —</u>	<u>\$ 12,003</u>
Preferred stock dividends	—	—	489	—	489
Net income (loss) available to common shareholders	<u>\$ 15,503</u>	<u>\$ 1,953</u>	<u>\$ (5,942)</u>	<u>\$ —</u>	<u>\$ 11,514</u>
Capital Expenditures for the year ended December 31,	\$ 2,284	\$ 272	\$ 137	\$ —	\$ 2,693
Total Assets as of December 31, 2018	1,753,932	165,430	196,537	(364,930)	1,750,969
Goodwill as of December 31, 2018	1,598	16,882	—	—	18,480

2017

(Dollars in thousands)	Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Intercompany Eliminations	Consolidated
Interest income	\$ 52,423	\$ 4,698	\$ 4	\$ (527)	\$ 56,598
Interest expense	9,118	2,317	2,241	(1,375)	12,301
Net interest income	43,305	2,381	(2,237)	848	44,297
Provision for loan losses	1,967	206	—	—	2,173
Net interest income after provision for loan losses	41,338	2,175	(2,237)	848	42,124
Noninterest Income:					
Mortgage fee income	736	37,262	—	(849)	37,149
Other income	5,866	(2,372)	5,466	(5,403)	3,557
Total noninterest income	6,602	34,890	5,466	(6,252)	40,706
Noninterest Expenses:					
Salaries and employee benefits	12,266	26,196	5,646	—	44,108
Other expense	19,523	8,188	4,085	(5,404)	26,392
Total noninterest expenses	31,789	34,384	9,731	(5,404)	70,500
Income (loss) before income taxes	16,151	2,681	(6,502)	—	12,330
Income tax expense (benefit)	5,820	1,082	(2,147)	—	4,755
Net income (loss)	\$ 10,331	\$ 1,599	\$ (4,355)	\$ —	\$ 7,575
Preferred stock dividends	—	—	498	—	498
Net income (loss) available to common shareholders	\$ 10,331	\$ 1,599	\$ (4,853)	\$ —	\$ 7,077
Capital Expenditures for the year ended December 31, 2017	\$ 3,226	\$ 1,187	\$ 83	\$ —	\$ 4,496
Total Assets as of December 31, 2017	1,533,497	149,323	184,674	(333,192)	1,534,302
Goodwill as of December 31, 2017	1,598	16,882	—	—	18,480

Commercial & Retail Banking

For the year ended December 31, 2019, the Commercial & Retail Banking segment earned \$26.9 million compared to \$15.5 million in 2018. Net interest income increased by \$7.1 million, primarily as the result of a \$11.9 million increase in interest and fees on loans which was offset by a \$5.8 million increase in interest on deposits. Noninterest income increased by \$16.6 million, primarily as the result of a \$13.1 million increase in the holding gain on equity securities and a \$1.2 million increase in commercial swap fee income. Noninterest expense increased by \$9.1 million, primarily as the result of the following: \$4.1 million increase in salaries and employee benefits expense, \$1.1 million increase in occupancy and equipment expense, a \$1.4 million increase in professional fees, a \$928 thousand increase in other operating expenses, and a \$811 thousand increase in travel, entertainment, dues, and subscriptions. The increase in salaries and employee benefits was largely driven by a \$2.0 million increase related to the build-out of other Company administration, a \$1.4 million increase related to the build-out of the Fintech team, and \$623 thousand related to additional team members acquired as a result of the Chartwell acquisition. The increase in professional fees is related to special projects and Fintech product and technology development. The increase in travel, entertainment, dues, and subscriptions is primarily related to the Fintech team. In addition, provision expense decreased by \$764 thousand. Also, income tax expense increased \$3.9 million as a result of increased earnings.

Mortgage Banking

For the year ended December 31, 2019, the Mortgage Banking segment earned \$5.8 million compared to \$2.0 million in 2018. Net interest income decreased \$254 thousand, noninterest income increased by \$9.7 million, and noninterest expense increased by \$4.0 million. The increase in noninterest income was primarily the result of a \$8.2 million increase in mortgage fee income and a \$1.5 million increase in the gain on derivative. The increase in noninterest expense was primarily the result of the following: \$4.5 million increase in salaries and employee benefits expense, which was primarily due to a 30.3% increase in origination volume and a \$516 thousand increase in the earn out paid to management of the mortgage company related to a 2012 acquisition. Other items that impacted noninterest expense were a \$510 thousand decrease in mortgage processing expense and a \$475 thousand increase in travel, entertainment, dues, and subscriptions expense.

Financial Holding Company

For the year ended December 31, 2019, the Financial Holding Company segment lost \$5.7 million compared to a loss of \$5.5 million in 2018. Interest expense decreased \$987 thousand, noninterest income decreased \$143 thousand, and noninterest expense increased \$1.8 million. In addition, the income tax benefit increased \$163 thousand. The increase in noninterest expense was primarily due to a \$1.3 million increase in salaries and employee benefits expense related to increased incentive and stock-based compensation.

NOTE 21. DISCONTINUED OPERATIONS

On June 30, 2016, the Company entered into an Asset Purchase Agreement with USI, in which USI purchased substantially all of the assets and assumed certain liabilities of MVB Insurance, which resulted in a pre-tax gain of \$6.9 million. MVB Insurance retained the assets related to, and continues to operate, its title insurance business. The title insurance business is immaterial in terms of revenue and the Company has reorganized MVB Insurance as a subsidiary of the Bank. The Company retained approximately \$424 thousand in liabilities and received proceeds totaling \$7.0 million related to this transaction.

Based on a measurement period that ended June 30, 2019, the Company earned and was reasonably assured to receive an estimated earn-out payment of \$600 thousand related to the Asset Purchase Agreement with USI. This estimate was recorded as contingent consideration from discontinued operations. On August 27, 2019, the Company adjusted the estimate recorded in the second quarter of 2019 to match the earn-out payment received of \$575 thousand.

There were no assets and liabilities of discontinued operations as of December 31, 2019 or 2018.

Net income from discontinued operations, net of tax, for the years ended December 31, 2019, 2018, and 2017, were as follows:

(Dollars in thousands)	2019	2018	2017
NONINTEREST INCOME			
Other operating income	575	—	—
Total noninterest income	575	—	—
Income from discontinued operations, before income taxes	575	—	—
Income tax expense - discontinued operations	148	—	—
Net Income from discontinued operations	\$ 427	\$ —	\$ —

NOTE 22. QUARTERLY FINANCIAL DATA (UNAUDITED)

(Dollars in thousands)	Interest Income	Net Interest Income	Income Before Taxes	Net Income	Earnings Per Share	
					Basic	Diluted
2019						
First quarter	\$ 19,623	\$ 13,972	\$ 3,989	\$ 3,192	\$ 0.26	\$ 0.26
Second quarter	20,470	14,529	20,526	15,377	1.31	1.18
Third quarter	21,038	15,034	5,668	4,327	0.36	0.35
Fourth quarter	21,230	15,865	5,406	4,095	0.34	0.32

(Dollars in thousands)	Interest Income	Net Interest Income	Income Before Taxes	Net Income	Earnings Per Share	
					Basic	Diluted
2018						
First quarter	\$ 15,054	\$ 11,465	\$ 3,291	\$ 2,594	\$ 0.24	\$ 0.23
Second quarter	16,944	12,655	3,596	2,831	0.25	0.25
Third quarter	18,176	13,524	4,549	3,579	0.30	0.29
Fourth quarter	19,586	14,410	3,940	2,999	0.25	0.24

NOTE 23. REVENUE RECOGNITION

The Company records revenue from contracts with customers in accordance with Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Company’s primary sources of revenue are derived from interest and fees earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

The Company also completed its evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contract-revenue (i.e. gross versus net). Based on the evaluation, the Company determined that the classification of certain debit and credit card processing related costs should change (i.e. costs previously recorded as expense in now recorded as contract-revenue). These classification changes resulted in immaterial changes to both revenue and expense. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to beginning retained earnings was not deemed necessary. Consistent with the modified retrospective approach, the Company did not adjust prior period amounts related to the debit and credit card related cost reclassifications discussed above.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees, monthly service fees, check orders, and other deposit account related fees. The Company’s performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company’s performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers’ accounts.

Debit Card and Interchange Income

Debit card and interchange income is primarily comprised of interchange fees earned whenever the Bank’s debit and credit cards are processed through card payment networks, such as Visa. The Bank’s performance obligation for debit card and interchange income is generally satisfied, and the related revenue recognized, on a transactional basis. Payment is typically received immediately or in the following month.

Consulting Income

Consulting income is comprised of consulting revenue generated by Chartwell. Chartwell provides integrated regulatory compliance, state licensing, financial crimes prevention and enterprise risk management services that include consulting, outsourcing, testing and training solutions. Chartwell accounts for a contract after it has been approved by all parties to the arrangement, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Chartwell evaluates the services promised in each contract at inception to determine whether the contract should be accounted for as having one or more performance obligations. Chartwell’s services included in its contracts are distinct from one another. Chartwell determines the transaction price for each contract based upon the consideration it expects to receive for the distinct services being provided under the contract. Chartwell recognizes revenue as performance obligations are satisfied and the customer obtains control of the goods or services provided. In determining when performance obligations are satisfied, Chartwell considers factors such as contract terms, payment terms, and whether there is an alternative future use of the product or service. Consulting engagements may vary in length and scope, but will generally include the review and/or preparation of regulatory filings, business plans, financial models, and other risk management services to customers within financial industries. Revenue from consulting services is recognized upon completion of deliverables as outlined in the consulting agreement.

Other Operating Income

Other operating income is primarily comprised of ATM fees, wire transfer fees, travelers check fees, revenue streams such as safe deposit box rental fees, and other miscellaneous service charges. ATM fees, wire transfer fees and travelers check fees are primarily generated when a Bank's cardholder uses a non-Bank ATM or a non-Bank cardholder uses a Bank ATM. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Bank determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Bank's performance obligations for fees and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. The Bank's performance obligation for the gains and losses on sales of other real estate owned is satisfied, and the related revenue recognized, after each sale of other real estate owned is closed.

The following presents noninterest income, segregated by revenue streams in scope and out of scope of Topic 606, for the years ended December 31:

(Dollars in thousands)	2019	2018	2017
Service charges on deposit accounts	\$ 1,409	\$ 1,033	\$ 765
Debit card and interchange income	571	647	1,258
Consulting income	921	—	—
Other	499	558	260
Noninterest income in scope of Topic 606	3,400	2,238	2,283
Noninterest income out of scope of Topic 606	61,204	36,402	38,423
Total noninterest income	\$ 64,604	\$ 38,640	\$ 40,706

NOTE 24. BUSINESS COMBINATION

On September 13, 2019 the Bank purchased full equity rights of Chartwell Compliance headquartered in Bethesda, Maryland. Purchase consideration for the acquisition totaled \$4.1 million, including a cash payment of \$3.1 million and the delivery \$1.0 million of MVB common stock. Additionally, contingent consideration will be given to the previous owners if outlined future financial conditions of the company are met. Management estimated the fair value of the earnout utilizing the Black-Scholes option pricing model.

Chartwell Compliance provides integrated regulatory compliance, state licensing, financial crimes prevention and enterprise risk management services that include consulting, outsourcing, testing and training solutions. As a stand-alone subsidiary of MVB Bank, Inc., Chartwell Compliance will expand its services to both Fintech and bank clients. Chartwell will coordinate with MVB Bank's current compliance officers and be charged to help create and implement strategy and provide expert compliance resources to aid MVB in carrying out stringent and faster new client due diligence. Chartwell also will conduct enhanced monitoring and testing of clients.

The Company has accounted for the purchases under the acquisition method of accounting in accordance with FASB ASC topic 805, "Business Combinations," whereby the acquired assets and liabilities were recorded by the Bank at their estimated fair values as of their acquisition date. The acquired assets and assumed liabilities of Chartwell Compliance were measured at estimated fair value. Management made significant estimates and exercised significant judgment in accounting for the acquisition of Chartwell Compliance.

The following table provides the purchase price as of the acquisition date, the identifiable assets acquired and liabilities assumed at their estimated fair values, and the resulting goodwill of \$1.2 million recorded from the acquisition.

(Dollars in thousands)	As of September 13, 2019	
Purchase price consideration:		
Cash consideration	\$	3,077
Closing MVB shares		1,033
Total purchase consideration	\$	4,110
Assets acquired at fair value:		
Cash and cash equivalents	\$	426
Accounts receivable		165
Furniture and equipment, net		4
Intangibles, net		3,220
Total fair value of assets acquired	\$	3,815
Liabilities assumed at fair value:		
Other liabilities	\$	855
Total fair value of liabilities acquired	\$	855
Net assets acquired at fair value:	\$	2,960
Amount of goodwill resulting from acquisition	\$	1,150

NOTE 25. SUBSEQUENT EVENT

On March 2, 2020, the Bank and PMG (dba MVB Mortgage), entered into an Agreement by and among the Bank, PMG, Intercoastal Mortgage Company, a Virginia corporation (“Intercoastal”), and each of H. Edward Dean, III, Tom Pyne and Peter Cameron, providing for the combination of the mortgage origination services businesses of PMG and Intercoastal.

Pursuant to the terms of the Agreement, on the closing date, Intercoastal will convert into a Virginia limited liability company and PMG will contribute substantially all of its assets and liabilities associated with its mortgage operations to Intercoastal as a capital contribution, in exchange for common units of Intercoastal, representing 47% of the common interest of Intercoastal, as well as \$7.5 million in preferred units (the “Transaction”). The completion of the Transaction is subject to certain regulatory approvals, conditions precedent and normal customary closing conditions. Subject to the satisfaction of such conditions, the Transaction is expected to close in the second quarter of 2020. In the Agreement, the Bank, MVB Mortgage, and Intercoastal have made customary representations, warranties, and covenants, including covenants to enter into ancillary agreements related to the Transaction and the operation of the business following the completion of the Transaction. MVB will recognize its ownership as a fair value equity investment and will no longer consolidate MVB Mortgage’s financial results.



Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of MVB Financial Corp.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of MVB Financial Corp. and Subsidiary (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Dixon Hughes Goodman LLP

We have served as the Company's auditor since 2014.

Baltimore, Maryland
March 13, 2020

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer (the Principal Executive Officer), along with the Company's Chief Financial Officer (the Principal Financial and Accounting Officer), has evaluated the effectiveness, as of December 31, 2019, 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 Exchange Act. Based upon that evaluation, the Company's President and Chief Executive Officer, along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2019.

There have been no material changes in the Company's internal control over financial reporting during the fourth quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined under Rule 13a-15(f) promulgated under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency (as defined in Public Company Accounting Oversight Board Auditing Standard No. 5), or a combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by management or employees in the normal course of performing their assigned functions.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. Management's assessment did not identify any material weaknesses in the Company's internal control over financial reporting.

In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework in 2013*. Because there were no material weaknesses discovered, management believes that, as of December 31, 2019, the Company's internal control over financial reporting was effective.

Dixon Hughes Goodman LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report and has issued a report on the effectiveness of our internal control over financial reporting, which report is included in "Item 9A – Controls and Procedures" of this Annual Report on Form 10-K.

Date: March 13, 2020

/s/ Larry F. Mazza

Larry F. Mazza
President, CEO and Director
(Principal Executive Officer)

Date: March 13, 2020

/s/ Donald T. Robinson

Donald T. Robinson
Executive Vice President and CFO
(Principal Financial and Accounting Officer)

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the fourth quarter of 2019 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of MVB Financial Corp.

Opinion on Internal Control Over Financial Reporting

We have audited MVB Financial Corp. and Subsidiary's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, MVB Financial Corp. and Subsidiary (the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of MVB Financial Corp. and Subsidiary as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and our report dated March 13, 2020, expressed an unqualified opinion on those consolidated financial statements

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to

permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Dixon Hughes Goodman LLP

Baltimore, Maryland
March 13, 2020

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as the Company will file with the SEC its definitive Proxy Statement pursuant to Regulation 14A of the Exchange Act for the 2020 Annual Meeting of Shareholders (the "Proxy Statement") not later than 120 days after December 31, 2019. The applicable information appearing in the Proxy Statement is incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as the Company will file with the SEC its definitive Proxy Statement not later than 120 days after December 31, 2019. The applicable information appearing in the Proxy Statement is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

This information is omitted from this report (with the exception of the equity compensation plan information, which is disclosed below) pursuant to General Instruction G.(3) of Form 10-K as the Company will file with the SEC its definitive Proxy Statement not later than 120 days after December 31, 2019. The applicable information appearing in the Proxy Statement is incorporated by reference.

Equity Compensation Plan Information as of December 31, 2019:

Plan Category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,049,516	\$ 14.41	715,517
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	1,049,516	\$ 14.41	715,517

During 2019, 210,050 stock options under the Company's equity compensation plan were exercised.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as the Company will file with the SEC its definitive Proxy Statement not later than 120 days after December 31, 2019. The applicable information appearing in the Proxy Statement is incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as the Company will file with the SEC its definitive Proxy Statement not later than 120 days after December 31, 2019. The applicable information appearing in the Proxy Statement is incorporated by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

Management's Annual Report on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm - Dixon Hughes Goodman LLP

Consolidated Balance Sheets at December 31, 2019 and 2018

Consolidated Statements of Income for the years ended December 31, 2019, 2018, and 2017

Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018, and 2017

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2019, 2018, and 2017

Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018, and 2017

Notes to Consolidated Financial Statements

(b) Exhibits

Exhibits filed with this Annual Report on Form 10-K are attached hereto. For a list of such exhibits, see "Exhibit Index" below. The Exhibit Index specifically identifies each management contract or compensatory plan required to be filed as an exhibit to this Form 10-K.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

MVB Financial Corp.

Date: March 13, 2020

By: /s/ Larry F. Mazza
Larry F. Mazza
President, CEO and Director
(Principal Executive Officer)

POWER OF ATTORNEY AND SIGNATURES

Know all persons by the presents, that each person whose signature appears below constitutes and appoints Larry F. Mazza or Donald T. Robinson or either of them, as attorney-in-fact, with each having the power of substitution, for him or her in any and all capacities, to sign any amendment to this Form 10-K and to file the same, with exhibits thereto, and other documents in connection therewith, with the Federal Deposit Insurance Corporation hereby ratifying and confirming all that each of said attorneys-in-fact or his substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Larry F. Mazza Date: March 13, 2020

Larry F. Mazza, President, CEO and Director
(Principal Executive Officer)

/s/ Donald T. Robinson Date: March 13, 2020

Donald T. Robinson, Executive Vice President and CFO
(Principal Financial and Accounting Officer)

/s/ David B. Alvarez Date: March 13, 2020

David B. Alvarez, Chairman

/s/ James J. Cava, Jr. Date: March 13, 2020

James J. Cava, Jr., Director

/s/ Harry E. Dean III Date: March 13, 2020

Harry E. Dean III, Director

/s/ John W. Ebert Date: March 13, 2020

John W. Ebert, Director

/s/ Daniel W. Holt Date: March 13, 2020

Daniel W. Holt, Director

/s/ Gary A. LeDonne Date: March 13, 2020

Gary A. LeDonne, Director

/s/ Kelly R. Nelson Date: March 13, 2020

Kelly R. Nelson, Director

/s/ J. Christopher Pallotta Date: March 13, 2020

J. Christopher Pallotta, Director

/s/ Cheryl D. Spielman Date: March 13, 2020

Cheryl D. Spielman, Director

EXHIBIT INDEX

Exhibit Number	Description	Exhibit Location
2.1	Membership Interest Purchase Agreement, dated as of December 3, 2012, by and among MVB Bank, Inc., MVB Financial Corp., Potomac Mortgage Group, LLC and the Members of Potomac Mortgage Group, LLC	Form 8-K, File No. 000-50567, filed December 3, 2012, and incorporated by reference herein
3.1	Articles of Incorporation, as amended	Annual Report Form 10-K, File No. 000-50567, filed March 16, 2015, and incorporated by reference herein
3.2	Second Amended and Restated Bylaws, as amended	Form 8-K, File No. 001-38314, filed June 22, 2018, and incorporated by reference herein
4.1	Specimen of Stock Certificate representing MVB Financial Corp. Common Stock	Form S-3 Registration Statement, File No. 333-228688, filed December 6, 2018, and incorporated by reference herein
4.2	Form of Subscription Rights Certificate	Form 8-K, File No. 000-50567, filed March 13, 2017, and incorporated by reference herein
4.3	Description of Securities	Filed herewith
10.1†	MVB Financial Corp. 2003 Stock Incentive Plan	Form SB-2 Registration Statement, File No. 333-120931, filed December 2, 2004, and incorporated by reference herein
10.2†	MVB Financial Corp. 2013 Stock Incentive Plan, as amended	Form 10-K, File No. 001-38314, filed March 8, 2018, and incorporated by reference herein
10.3†	MVB Financial Corp. 2018 Annual Senior Executive Performance Incentive Plan	Form 8-K, File No. 001-38314, filed February 23, 2018, and incorporated by reference herein
10.4	Lease Agreement with Essex Properties, LLC for land occupied by Bridgeport Branch	Form SB-2 Registration Statement, File No. 333-120931, filed December 2, 2004, and incorporated by reference herein
10.5†	Employment Agreement of Larry F. Mazza	Form 8-K/A, File No. 000-50567, filed January 24, 2014, and incorporated by reference herein
10.6†	Employment Agreement of Donald T. Robinson	Form 8-K, File No. 000-50567, filed December 3, 2015, and incorporated by reference herein
10.7†	Offer Letter for Donald T. Robinson	Form 8-K, File No. 000-50567, filed December 3, 2015, and incorporated by reference herein
10.8†	Investment Agreement between MVB Financial Corp. and Larry F. Mazza	Form 8-K, File No. 000-50567, filed March 13, 2017, and incorporated by reference herein
10.9†	Third Addendum to the Employment Agreement with MVB Financial Corp. and MVB Bank, Inc. and H. Edward Dean, III, President and Chief Executive Officer of Potomac Mortgage Group, Inc., doing business as MVB Mortgage	Quarterly Report on Form 10-Q, File No. 000-50567, filed July 31, 2017, and incorporated by reference herein
10.10†	Fourth Addendum to the Employment Agreement with MVB Financial Corp. and MVB Bank, Inc. and H. Edward Dean, III, President and Chief Executive Officer of Potomac Mortgage Group, Inc., doing business as MVB Mortgage	Quarterly Report on Form 10-Q, File No. 000-50567, filed July 31, 2017, and incorporated by reference herein
10.11†	MVB Financial Corp. Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement	Form 8-K, File No. 001-38314, filed March 27, 2018, and incorporated by reference herein
10.12	Purchase and Assumption Agreement, dated November 21, 2019, by and between MVB Bank and Summit Community Bank, Inc.	Form 8-K, File No. 001-38314, filed November 22, 2019, and incorporated by reference herein
14	Code of Ethics	Filed herewith
21	Subsidiaries of Registrant	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
24	Power of Attorney	Contained in signature page to this Annual Report on Form 10-K

31.1	Certificate of Principal Executive Officer pursuant to Section 302 of Sarbanes Oxley Act of 2002	Filed herewith
31.2	Certificate of Principal Financial Officer pursuant to Section 302 of Sarbanes Oxley Act of 2002	Filed herewith
32.1*	Certificate of Principal Executive Officer & Principal Financial Officer pursuant to Section 906 of Sarbanes Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith

(* In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management’s Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 hereto are deemed to accompany this Form 10-K and will not be deemed “filed” for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

(†) Management contract or compensatory plan or arrangement



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