MVB FINANCIAL CORP
Form 10-Q
July 31, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
or
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

MVB Financial Corp.
(Exact name of registrant as specified in its charter)

West Virginia	20-0034461
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
301 Virginia Avenue, Fairmont, WV	26554
(Address of principal executive offices)	(Zip Code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If a 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 if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

As of July 30, 2017, the Registrant had 10,443,273 shares of common stock outstanding with a par value of $1.00 per share.

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PART I – FINANCIAL INFORMATION
Item 1 – Financial Statements
MVB Financial Corp. and Subsidiaries
Consolidated Balance Sheets
(Unaudited) (Dollars in thousands except per share data)

	June 30, 2017 (Unaudited)	December 31, 2016 (Note 1)
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 17,026	$ 14,846
Interest bearing balances with banks	779	2,494
Total cash and cash equivalents	17,805	17,340
Certificates of deposit with other banks	14,527	14,527
Investment Securities:		
Securities available-for-sale	175,110	162,368
Loans held for sale	107,825	90,174
Loans:	1,102,378	1,052,865
Less: Allowance for loan losses	(9,748)	(9,101)
Net Loans	1,092,630	1,043,764
Premises and equipment	27,462	25,081
Bank owned life insurance	23,322	22,970
Accrued interest receivable and other assets	29,892	24,100
Goodwill	18,480	18,480
TOTAL ASSETS	$ 1,507,053	$ 1,418,804
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$ 121,355	$ 115,692
Interest bearing	978,253	991,325
Total deposits	1,099,608	1,107,017
Accrued interest payable and other liabilities	15,509	16,557
Repurchase agreements	22,194	25,160
FHLB and other borrowings	189,384	90,921
Subordinated debt	33,524	33,524
Total liabilities	1,360,219	1,273,179
STOCKHOLDERS' EQUITY		
Preferred stock, par value $1,000; 20,000 authorized; 783 and 9,283 issued in 2017 and 2016, respectively (See Footnote 7)	7,834	16,334
Common stock, par value $1; 20,000,000 shares authorized; 10,494,350 shares issued and 10,443,273 shares outstanding in 2017; 10,047,621 shares issued and 9,996,544 shares outstanding in 2016	10,494	10,048
Additional paid-in capital	98,216	93,412
Retained earnings	34,264	31,192
Accumulated other comprehensive loss	(2,890)	(4,277)
Treasury stock, 51,077 shares, at cost	(1,084)	(1,084)
Total stockholders' equity	146,834	145,625

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,507,053	$ 1,418,804

See accompanying notes to unaudited consolidated financial statements.

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MVB Financial Corp. and Subsidiaries
Consolidated Statements of Income
(Unaudited) (Dollars in thousands except per share data)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2017	2016	2017	2016
INTEREST INCOME				
Interest and fees on loans	$24,420	$25,018	$12,538	$12,587
Interest on deposits with other banks	161	170	82	82
Interest on investment securities - taxable	1,191	642	645	332
Interest on tax exempt loans and securities	1,110	1,132	549	579
Total interest income	26,882	26,962	13,814	13,580
INTEREST EXPENSE				
Interest on deposits	3,869	3,837	1,963	1,949
Interest on repurchase agreements	36	38	19	17
Interest on FHLB and other borrowings	668	545	380	319
Interest on subordinated debt	1,109	1,105	558	553
Total interest expense	5,682	5,525	2,920	2,838
NET INTEREST INCOME	21,200	21,437	10,894	10,742
Provision for loan losses	1,041	1,900	523	1,275
Net interest income after provision for loan losses	20,159	19,537	10,371	9,467
NONINTEREST INCOME				
Service charges on deposit accounts	352	358	165	185
Income on bank owned life insurance	302	319	155	158
Visa debit card and interchange income	613	601	318	309
Mortgage fee income	18,586	16,182	8,952	9,397
Gain on sale of portfolio loans	212	600	203	451
Insurance and investment services income	248	175	124	122
Gain on sale of securities	350	603	167	222
(Loss) gain on derivatives	(910)	1,432	1,037	1,031
Other operating income	638	343	446	126
Total noninterest income	20,391	20,613	11,567	12,001
NONINTEREST EXPENSES				
Salary and employee benefits	21,760	22,044	11,798	11,735
Occupancy expense	2,041	1,839	1,047	901
Equipment depreciation and maintenance	1,431	1,146	742	586
Data processing and communications	2,694	2,381	1,480	1,256
Mortgage processing	1,637	1,654	743	793
Marketing, contributions and sponsorships	604	647	277	350
Professional fees	1,413	1,543	736	838
Printing, postage and supplies	463	417	246	202
Insurance, tax and assessment expense	928	732	467	359
Travel, entertainment, dues and subscriptions	1,059	819	558	451
Other operating expenses	790	434	409	285

Total noninterest expense	34,820	33,656	18,503	17,756
Income from continuing operations, before income taxes	5,730	6,494	3,435	3,712
Income tax expense - continuing operations	1,896	2,134	1,175	1,254
Net income from continuing operations	3,834	4,360	2,260	2,458
Loss from discontinued operations, before income taxes	—	6,346	—	6,516
Income tax benefit - discontinued operations	—	2,411	—	2,475
Net loss from discontinued operations	—	3,935	—	4,041
Net income	$3,834	$8,295	$2,260	$6,499
Preferred dividends	251	500	122	314
Net income available to common shareholders	$3,583	$7,795	$2,138	$6,185

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Earnings per share from continuing operations - basic	$ 0.35	$ 0.48	$ 0.21	$ 0.27
Earnings per share from discontinued operations - basic	$ —	$ 0.49	$ —	$ 0.50
Earnings per common shareholder - basic	$ 0.35	$ 0.97	$ 0.21	$ 0.77
Earnings per share from continuing operations - diluted	$ 0.35	$ 0.45	$ 0.20	$ 0.25
Earnings per share from discontinued operations - diluted	$ —	$ 0.40	$ —	$ 0.38
Earnings per common shareholder - diluted	$ 0.35	$ 0.85	$ 0.20	$ 0.63
Cash dividends declared	$ 0.05	$ 0.04	$ 0.025	$ 0.02
Weighted average shares outstanding - basic	10,171,198	8,070,082	10,343,933	8,078,000
Weighted average shares outstanding - diluted	10,172,254	9,925,573	12,181,433	10,433,120

See accompanying notes to unaudited consolidated financial statements.

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MVB Financial Corp. and Subsidiaries
Consolidated Statements of Comprehensive Income
(Unaudited) (Dollars in thousands)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2017	2016	2017	2016
Net Income	$3,834	$8,295	$2,260	$6,499
Other comprehensive income:				
Unrealized holding gains on securities available-for-sale	2,997	2,220	2,549	1,802
Unrealized holding gains during the year related to reclassified held-to maturity securities	—	1,825	—	—
Income tax effect	(1,198)	(1,618)	(1,019)	(721)
Reclassification adjustment for gain recognized in income	(350)	(334)	(167)	(222)
Reclassification adjustment for gain recognized in income related to reclassified held-to-maturity securities	—	(269)	—	—
Income tax effect	140	241	67	89
Change in defined benefit pension plan	(336)	(817)	(500)	(300)
Income tax effect	134	327	200	120
Total other comprehensive income	1,387	1,575	1,130	768
Comprehensive income	$5,221	$9,870	$3,390	$7,267

See accompanying notes to unaudited consolidated financial statements.

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MVB Financial Corp. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
(Unaudited) (Dollars in thousands except per share data)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2015	$16,334	$8,113	$74,228	$20,054	$ (2,933)	$(1,084)	$ 114,712
Net Income	—	—	—	8,295	—	—	8,295
Other comprehensive income	—	—	—	—	1,575	—	1,575
Cash dividends paid ($0.04 per share)	—	—	—	(323)	—	—	(323)
Dividends on preferred stock	—	—	—	(500)	—	—	(500)
Stock based compensation	—	—	268	—	—	—	268
Common stock options exercised	—	16	(24)	—	—	—	(8)
Balance June 30, 2016	$16,334	$8,129	$74,472	$27,526	$ (1,358)	$(1,084)	$ 124,019
Balance December 31, 2016	16,334	10,048	93,412	31,192	(4,277)	(1,084)	145,625
Net Income	$—	$—	$—	$3,834	$ —	$—	$ 3,834
Other comprehensive income	—	—	—	—	1,387	—	1,387
Cash dividends paid ($0.05 per share)	—	—	—	(511)	—	—	(511)
Dividends on preferred stock	—	—	—	(251)	—	—	(251)
Common stock issuance, net of issuance costs	—	444	4,487	—	—	—	4,931
Stock based compensation	—	—	327	—	—	—	327
Common stock options exercised	—	2	(10)	—	—	—	(8)
Redemption of preferred stock	(8,500)	—	—	—	—	—	(8,500)
Balance June 30, 2017	$7,834	$10,494	$98,216	$34,264	$ (2,890)	$(1,084)	$ 146,834

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2017	2016
OPERATING ACTIVITIES		
Net Income	$3,834	$8,295
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net amortization and accretion of investments	620	395
Net amortization of deferred loan (fees) costs	54	1
Provision for loan losses	1,041	1,900
Depreciation and amortization	1,292	1,665
Stock based compensation	327	268
Loans originated for sale	(702,136)	(757,377)
Proceeds of loans sold	703,071	744,511
Mortgage fee income	(18,586)	(16,182)
Gain on sale of securities	(716)	(605)
Loss on sale of securities	366	2
Gain on sale of portfolio loans	(212)	(600)
Gain on sale of subsidiary	—	(6,926)
Income on bank owned life insurance	(302)	(319)
Deferred taxes	178	(656)
Other, net	(5,008)	5,364
Net cash used in operating activities	(16,177)	(20,264)
INVESTING ACTIVITIES		
Purchases of investment securities available-for-sale	(51,026)	(61,072)
Maturities/paydowns of investment securities available-for-sale	7,587	9,065
Maturities/paydowns of investment securities held-to-maturity	—	400
Sales of investment securities available-for-sale	33,075	39,527
Purchases of premises and equipment	(3,619)	(1,274)
Disposals of premises and equipment from sale of subsidiary	—	581
Net increase in loans	(49,749)	(55,552)
Purchases of restricted bank stock	(12,257)	(14,114)
Redemptions of restricted bank stock	8,932	12,752
Proceeds from sale of certificates of deposit with banks	1,733	—
Purchases of certificates of deposit with banks	(1,733)	—
Proceeds from sale of other real estate owned	—	15
Purchase of bank owned life insurance	(50)	—
Proceeds from sale of subsidiary	—	7,047
Net cash used in investing activities	(67,107)	(62,625)
FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(7,409)	54,928
Net decrease in repurchase agreements	(2,966)	(1,389)
Net change in short-term FHLB borrowings	72,357	29,856
Principal payments on FHLB borrowings	(576)	(46)
Proceeds from new FHLB borrowings	26,682	—
Proceeds from stock offering, net of issuance costs	4,931	—
Preferred stock redemption	(8,500)	—

Common stock options exercised	(8)	(8)
Cash dividends paid on common stock	(511)	(323)
Cash dividends paid on preferred stock	(251)	(500)
Net cash provided by financing activities	83,749	82,518
Increase (decrease) in cash and cash equivalents	465	(371)
Cash and cash equivalents at beginning of period	17,340	29,133
Cash and cash equivalents at end of period	$17,805	$28,762
Supplemental disclosure of cash flow information:		
Loans transferred to other real estate owned	$709	$127
Cashless stock options exercised	$2	$16
Cash payments for:		
Interest on deposits, repurchase agreements and borrowings	$5,895	$5,404
Income taxes	$4,977	$1,382

See accompanying notes to unaudited consolidated financial statements.

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Notes to the Consolidated Financial Statements

Note 1 – Basis of Presentation

These consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with instructions to Form 10 Q. Accordingly, they do not include all the information and footnotes required by GAAP for annual year-end financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. The consolidated balance sheet as of December 31, 2016 has been derived from audited financial statements included in the Company’s 2016 filing on Form 10-K. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

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

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the company’s December 31, 2016, Form 10-K filed with the Securities and Exchange Commission (the “SEC”).

In certain instances, amounts reported in prior periods’ consolidated financial statements have been reclassified to conform to the current presentation.

All financial information is reported on a continuing operations basis, unless otherwise noted. For a discussion regarding discontinued operations, see Note 12, "Discontinued Operations" of the Notes to the Consolidated Financial Statements, included in Item 1, Financial Statements, of this Quarterly Report on Form 10-Q.

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

Note 2 – Recent Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-09, Compensation–Stock Compensation (Topic 718): Scope of Modification Accounting. This update provides clarity and reduces both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award.The amendments in this Update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. For public companies, this update will be effective for fiscal years beginning after December 15, 2017, including all interim periods within those fiscal years. The adoption of this guidance is not expected to be material to the consolidated financial statements.

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 will be effective for fiscal years effective for fiscal years beginning after December 15, 2018, including all interim periods within those fiscal years. The adoption of this guidance is not expected to be material to the consolidated financial statements, as it is our current policy to amortize premiums of investment securities to the earliest call date.

In March 2017, the FASB issued ASU 2017-07, Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Topic 715, Compensation–Retirement Benefits, requires an entity to present net periodic pension cost and net periodic postretirement benefit cost as a net amount that may be capitalized as part of an asset where appropriate.Users have communicated that the service cost component generally is analyzed differently from the other components

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of net periodic pension cost and net periodic postretirement benefit cost. To improve the consistency, transparency, and usefulness of financial information for users, the amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Additionally, only the service cost component is eligible for capitalization, when applicable. For public companies, this update will be effective for fiscal years effective for fiscal years beginning after December 15, 2017, including all interim periods within those fiscal years. The adoption of this guidance is not expected to be material to the consolidated financial statements.

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 will be effective for fiscal years effective for fiscal years beginning after December 15, 2019, including all interim periods within those fiscal years. The Company is currently evaluating the provisions of this ASU to determine the potential impact to the Company's consolidated financial statements.

In January 2017, the FASB Issued ASU 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments–Equity Method and Joint Ventures (Topic 323). This Accounting Standards Update adds and amends SEC paragraphs pursuant to the SEC Staff Announcements at the September 22, 2016 and November 17, 2016 Emerging Issues Task Force (EITF) meetings. The September announcement is about the Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of a Registrant When Such Standards are Adopted in a Future Period. The November announcement made amendments to conform the SEC Observer Comment on Accounting for Tax Benefits Resulting from Investments in Qualified Affordable Housing Projects to the guidance issued in Accounting Standards Update No. 2014-01,Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. The adoption of this guidance is not expected to be material to the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments in this Update clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. The amendments in this Update provide a screen to determine when a set is not a business. If the screen is not met, it (1) requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) removes the evaluation of whether a market participant could replace the missing elements. For public companies, this update will be effective for fiscal years effective for fiscal years beginning after December 15, 2017, including all interim periods within those fiscal years. The adoption of this guidance is not expected to be material to 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. 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 is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company's project management team and Management Loan Committee ("MLC") are in the process of developing an understanding of this pronouncement, evaluating the impact of this pronouncement and researching additional software resources that could assist with the implementation.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). 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

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(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. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. While we are currently evaluating the impact of the new standard, we expect an increase to the Consolidated Balance Sheets for right-of-use assets and associated lease liabilities, as well as resulting depreciation expense of the right-of-use assets and interest expense of the lease liabilities in the Consolidated Statements of Income, for arrangements previously accounted for as operating leases.

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 to be measured at fair value with changes in fair value recognized in net income; 2) simplify the impairment assessment of equity investments without readily-determinable fair values by requiring a qualitative assessment to identify impairment; 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 has performed a preliminary evaluation of these amendments. Based on this evaluation, the Company has determined that this new standard is not expected to have a material impact on the Company's consolidated financial statements as it relates to accounting for financial instruments. However, the Company will continue to monitor developments and additional guidance up to the effective date of these amendments.

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. On July 9, 2015, the FASB approved a one-year deferral of the effective date of the update. The update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption is now permitted as of the original effective date for interim and annual reporting periods in fiscal years beginning after December 15, 2016. In March 2016, the FASB issued ASU 2016-08, which amends the principle versus agent guidance in the revenue standard. In April 2016, the FASB issued ASU 2016-10, which clarifies when promised goods or services are separately identifiable in the revenue standard. In May 2016, FASB issued ASU 2016-12, which provides narrow-scope improvements and practical expedients to the revenue standard. While the Company is currently evaluating the impact of this standard on individual customer contracts, management has evaluated the impact of this standard on the broad categories of its customer contracts and revenue streams. The Company currently anticipates this standard will 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 plans to adopt the revenue recognition standard as of January 1, 2018. The Company is currently reviewing all streams of revenue that may be subject to this revised guidance. While we have not yet identified any material changes to the timing of revenue recognition, the Company's review is ongoing.

Note 3 – Investment Securities

Prior to the final determination of Basel III, investments were recorded as held-to-maturity due to the uncertainty of the capital treatment of available-for-sale investments. Upon the issuance of the final ruling, the Company opted out of the Other Comprehensive Income treatment of available-for-sale investments permitted under Basel III. Due to the change in capital treatment under the final

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ruling of Basel III, the Company's purpose of recording investments as held-to-maturity changed; therefore, during the period ended March 31, 2016, the Company reclassified $52.4 million, with unrealized holding gains of $1.8 million, of the remaining held-to-maturity investments into available-for-sale investments.

There were no held-to-maturity securities at June 30, 2017 or December 31, 2016.

Amortized cost and fair values of investment securities available-for-sale at June 30, 2017 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U. S. Agency securities	$47,627	$ 148	$ (221)	$47,554
U.S. Sponsored Mortgage-backed securities	59,094	84	(931)	58,247
Municipal securities	53,454	960	(492)	53,922
Total debt securities	160,175	1,192	(1,644)	159,723
Equity and other securities	14,952	435	—	15,387
Total investment securities available-for-sale	$175,127	$ 1,627	$ (1,644)	$175,110

Amortized cost and fair values of investment securities available-for-sale at December 31, 2016 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U. S. Agency securities	$29,234	$ 7	$ (425)	$28,816
U.S. Sponsored Mortgage-backed securities	56,080	14	(1,362)	54,732
Municipal securities	72,075	744	(2,023)	70,796
Total debt securities	157,389	765	(3,810)	154,344
Equity and other securities	7,643	381	—	8,024
Total investment securities available-for-sale	$165,032	$ 1,146	$ (3,810)	$162,368

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

	June 30, 2017	
	Available for sale	
(Dollars in thousands)	Amortized Cost	Fair Value
Within one year	$200	$201
After one year, but within five	15,523	15,770
After five years, but within ten	18,087	18,020
After ten years	126,365	125,732
Total	$160,175	$159,723

Investment securities with a carrying value of $59.7 million at June 30, 2017, were pledged to secure public funds, repurchase agreements, and potential borrowings at the Federal Reserve discount window.

The Company's investment portfolio includes securities that are in an unrealized loss position as of June 30, 2017, the details of which are included in the following table. Although these securities, if sold at June 30, 2017 would result in a pretax loss of $1.6 million, 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. Management does not intend to sell these securities and it is unlikely that the Company will be required to sell these securities before recovery of their amortized cost basis. 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

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the security has been downgraded by a rating agency, and whether or not the financial condition of the security issuer has severely deteriorated. As of June 30, 2017, 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 June 30, 2017:

(Dollars in thousands)	Less than 12 months		12 months or more	
Description and number of positions	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Agency securities (10)	$ 16,764	$ (196)	$ 1,975	$ (25)
U.S. Sponsored Mortgage-backed securities (33)	28,772	(479)	19,909	(452)
Municipal securities (47)	23,827	(472)	858	(20)
Equity and other securities (0)	$ —	$ —	$ —	$ —
	$ 69,363	$ (1,147)	$ 22,742	$ (497)

The following table discloses investments in an unrealized loss position at December 31, 2016:

(Dollars in thousands)	Less than 12 months		12 months or more	
Description and number of positions	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Agency securities (16)	$ 28,814	$ (425)	$ —	$ —
U.S. Sponsored Mortgage-backed securities (29)	33,209	(1,040)	13,919	(322)
Municipal securities (86)	42,727	(2,023)	—	—
	$ 104,750	$ (3,488)	$ 13,919	$ (322)

For the three month period ended June 30, 2017 and 2016, the Company sold investments available-for-sale of $10.1 million and$18.3 million, respectively. These sales resulted in gross gains of $167 thousand and $224 thousand and gross losses of $0 and $2 thousand, respectively.

For the six month period ended June 30, 2017 and 2016, the Company sold investments available-for-sale of $33.1 million and $39.5 million, respectively. These sales resulted in gross gains of $716 thousand and $605 thousand and gross losses of $366 thousand and $2 thousand, respectively.

For the three and six month periods ended June 30, 2017 and 2016, the Company sold no investments held-to-maturity.

Note 4 – Loans and Allowance for Loan Losses

All loan origination fees and direct loan origination costs are deferred and recognized over the life of the loan. As of June 30, 2017 and 2016, net deferred fees of $859 thousand and $845 thousand, respectively, were included in the carrying value of loans.

An allowance for loan losses is maintained to absorb losses from the loan portfolio. The allowance for loan losses 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.

The Bank’s methodology for determining the allowance for loan losses 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 allowance for loan losses.

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.

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The segments described above, which are based on the Federal call code assigned to each loan, provide the starting point for the allowance for loan losses analysis. Company and bank management tracks the historical net charge-off activity at the call code level. A historical charge-off factor is calculated utilizing a defined number of consecutive historical quarters. All pools currently utilize a rolling 12 quarters.

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

Company and Bank management have identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; trends in volume and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry and/or geographic standpoint. The combination of historical charge-off and qualitative factors are then weighted for each risk grade. These weightings are determined internally based upon the likelihood of loss as a loan 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. For the three and six months ended June 30, 2017 and 2016, the liability for unfunded commitments was $284 thousand and $224 thousand, 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 allowance for loan losses. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the allowance for loan losses.

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 allowance for loan losses that is representative of the risk found in the components of the portfolio at any given date.

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The following tables summarize the primary segments of the allowance for loan losses, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of June 30, 2017:

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
Allowance for loan losses balance at March 31, 2017	$ 7,285	$ 1,085	$ 790	$ 212	$ 9,372
Charge-offs	(150)	—	—	(13)	(163)
Recoveries	12	2	1	1	16
Provision	576	(95)	(14)	56	523
Allowance for loan losses balance at June 30, 2017	$ 7,723	$ 992	$ 777	$ 256	$ 9,748

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
Allowance for loan losses balance at December 31, 2016	$ 7,181	$ 990	$ 728	$ 202	$ 9,101
Charge-offs	(263)	(141)	(33)	(16)	(453)
Recoveries	21	34	2	2	59
Provision	784	109	80	68	1,041
Allowance for loan losses balance at June 30, 2017	$ 7,723	$ 992	$ 777	$ 256	$ 9,748
Individually evaluated for impairment	$ 265	$ 14	$ 36	$ 71	$ 386
Collectively evaluated for impairment	$ 7,458	$ 978	$ 741	$ 185	$ 9,362

The following table summarizes the primary segments of the Company loan portfolio as of June 30, 2017:

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
Individually evaluated for impairment	$ 9,369	$ 1,051	$ 643	$ 267	$ 11,330
Collectively evaluated for impairment	772,901	241,121	63,679	13,347	1,091,048
Total Loans	$ 782,270	$ 242,172	$ 64,322	$ 13,614	$ 1,102,378

The following tables summarize the primary segments of the allowance for loan losses, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of June 30, 2016:

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
Allowance for loan losses balance at March 31, 2016	$ 6,221	$ 1,157	$ 747	$ 322	$ 8,447
Charge-offs	(578)	(57)	—	—	(635)
Recoveries	—	—	—	4	4
Provision	1,313	(89)	11	40	1,275
Allowance for loan losses balance at June 30, 2016	$ 6,956	$ 1,011	$ 758	$ 366	$ 9,091

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
Allowance for loan losses balance at December 31, 2015	$ 6,066	$ 1,095	$ 715	$ 130	$ 8,006
Charge-offs	(680)	(124)	—	(22)	(826)
Recoveries	—	—	—	11	11
Provision	1,570	40	43	247	1,900
Allowance for loan losses balance at June 30, 2016	$ 6,956	$ 1,011	$ 758	$ 366	$ 9,091
Individually evaluated for impairment	$ 1,338	$ —	$ —	$ 258	$ 1,596
Collectively evaluated for impairment	$ 5,618	$ 1,011	$ 758	$ 108	$ 7,495

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The following table summarizes the primary segments of the Company loan portfolio as of June 30, 2016:

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
Individually evaluated for impairment	$ 12,101	$ 763	$ 28	$ 379	$ 13,271
Collectively evaluated for impairment	749,201	241,157	68,526	15,351	1,074,235
Total Loans	$ 761,302	$ 241,920	$ 68,554	$ 15,730	$ 1,087,506

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.

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

At June 30, 2017 and December 31, 2016, these balances totaled $20.0 million and $20.5 million, respectively. Of the $54.3 million decrease since originally purchased, MVB refinanced $19.6 million and sold participations totaling $10.5 million and sold $9.7 million back to the institution from which the loans were originally purchased in December 2013. The remainder of the decrease was the result of $6.8 million in loan amortization and $7.7 million in principal paydowns and/or loan payoffs. The weighted average yield on the remaining portfolio is 5.46%.

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 June 30, 2017 and December 31, 2016:

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(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
June 30, 2017					
Commercial					
Commercial Business	$ 3,313	$ 14	$ 177	$ 3,490	$ 3,491
Commercial Real Estate	1,237	177	1,437	2,674	2,701
Acquisition & Development	262	74	2,943	3,205	5,474
Total Commercial	4,812	265	4,557	9,369	11,666
Residential	113	14	938	1,051	1,112
Home Equity	573	36	70	643	655
Consumer	205	71	62	267	474
Total Impaired Loans	$ 5,703	$ 386	$ 5,627	$ 11,330	$ 13,907
December 31, 2016					
Commercial					
Commercial Business	$ —	$ —	$ 3,342	$ 3,342	$ 4,102
Commercial Real Estate	2,757	302	892	3,649	3,676
Acquisition & Development	264	74	3,526	3,790	6,059
Total Commercial	3,021	376	7,760	10,781	13,837
Residential	783	122	378	1,161	1,166
Home Equity	62	36	70	132	135
Consumer	16	9	62	78	285
Total Impaired Loans	$ 3,882	$ 543	$ 8,270	$ 12,152	$ 15,423

Impaired loans have decreased by $822 thousand, or 6.8%, during 2017. This change is the net effect of multiple factors, including the identification of $946 thousand of impaired loans, principal curtailments of $645 thousand, partial charge-offs of $269 thousand, foreclosure and reclassification to other real estate owned of $713 thousand, reclassification of $45 thousand of previously reported impaired loans to performing loans, and normal loan amortization.

The following tables presents the average recorded investment in impaired loans and related interest income recognized for the periods indicated:

(Dollars in thousands)	Six Months Ended June 30, 2017			Three Months Ended June 30, 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
Commercial						
Commercial Business	$3,358	$ 78	$ 59	$3,368	$ 34	$ 46
Commercial Real Estate	2,718	50	50	2,632	50	24

Acquisition & Development	3,673	4	6	3,571	4	3
Total Commercial	9,749	132	115	9,571	88	73
Residential	1,336	4	24	1,256	4	7
Home Equity	649	1	1	644	1	—
Consumer	163	—	—	184	—	—
Total	$11,897	$ 137	$ 140	$11,655	$ 93	$ 80

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(Dollars in thousands)	Six Months Ended June 30, 2016 Average Investment in Impaired Loans	Interest Income Recognized on Accrual Basis	Interest Income Recognized on Cash Basis	Three Months Ended June 30, 2016 Average Investment in Impaired Loans	Interest Income Recognized on Accrual Basis	Interest Income Recognized on Cash Basis
Commercial						
Commercial Business	$3,553	$ 78	$ 65	$3,843	$ 39	$ 39
Commercial Real Estate	4,542	56	50	6,526	28	25
Acquisition & Development	2,686	4	6	2,651	2	3
Total Commercial	10,781	138	121	13,020	69	67
Residential	962	10	14	865	5	9
Home Equity	28	1	1	28	—	—
Consumer	283	—	—	368	—	—
Total	$12,054	$ 149	$ 136	$14,281	$ 74	$ 76

As of June 30, 2017, the Bank held six foreclosed residential real estate properties representing $513 thousand, or 46%, of the total balance of other real estate owned. There are five additional consumer mortgage loans collateralized by residential real estate properties in the process of foreclosure. The total recorded investment in these loans was $402 thousand as of June 30, 2017. These loans are included in the table above and have a total of $12 thousand 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.

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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 June 30, 2017 and December 31, 2016:

(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
June 30, 2017					
Commercial					
Commercial Business	$369,367	$3,394	$ 5,809	$ —	$378,570
Commercial Real Estate	258,398	21,281	4,281	40	284,000
Acquisition & Development	107,316	7,159	2,582	2,643	119,700
Total Commercial	735,081	31,834	12,672	2,683	782,270
Residential	239,660	1,916	316	280	242,172
Home Equity	62,955	1,230	137	—	64,322
Consumer	13,173	205	174	62	13,614
Total Loans	$1,050,869	$35,185	$ 13,299	$ 3,025	$1,102,378
December 31, 2016					
Commercial					
Commercial Business	$377,631	$2,933	$ 6,833	$ 69	$387,466
Commercial Real Estate	240,851	26,340	3,532	737	271,460
Acquisition & Development	90,875	1,905	2,584	3,226	98,590
Total Commercial	709,357	31,178	12,949	4,032	757,516
Residential	212,869	1,664	787	132	215,452
Home Equity	64,706	582	98	—	65,386
Consumer	14,134	302	13	62	14,511
Total Loans	$1,001,066	$33,726	$ 13,847	$ 4,226	$1,052,865

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 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.

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The following table presents the classes of the loan portfolio summarized by aging categories of performing loans and nonaccrual loans as of June 30, 2017 and December 31, 2016:

(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
June 30, 2017								
Commercial								
Commercial Business	$377,188	$770	$435	$177	$1,382	$378,570	$ 177	$ —
Commercial Real Estate	283,290	241	—	469	710	284,000	469	—
Acquisition & Development	117,670	—	—	2,030	2,030	119,700	2,943	—
Total Commercial	778,148	1,011	435	2,676	4,122	782,270	3,589	—
Residential	240,686	—	1,066	420	1,486	242,172	630	—
Home Equity	64,141	35	76	70	181	64,322	616	—
Consumer	13,336	62	—	216	278	13,614	267	—
Total Loans	$1,096,311	$1,108	$1,577	$3,382	$6,067	$1,102,378	$ 5,102	$ —
December 31, 2016								
Commercial								
Commercial Business	$387,208	$15	$169	$74	$258	$387,466	$ 74	$ —
Commercial Real Estate	270,339	229	—	892	1,121	271,460	1,375	—
Acquisition & Development	96,014	—	—	2,576	2,576	98,590	3,526	—
Total Commercial	753,561	244	169	3,542	3,955	757,516	4,975	—
Residential	212,502	2,067	419	464	2,950	215,452	1,072	—
Home Equity	64,791	525	—	70	595	65,386	104	—
Consumer	14,354	55	34	68	157	14,511	78	—
Total Loans	$1,045,208	$2,891	$622	$4,144	$7,657	$1,052,865	$ 6,229	$ —

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 June 30, 2017 and December 31, 2016, the Bank had specific reserve allocations for TDR’s of $282 thousand and $348 thousand, respectively.

Loans considered to be troubled debt restructured loans totaled $8.0 million and $8.8 million as of June 30, 2017 and December 31, 2016, respectively. Of these totals, $6.2 million and $5.9 million, respectively, represent accruing troubled debt restructured loans and represent 55% and 48%, respectively of total impaired loans. Meanwhile, $1.7 million and $1.7 million, respectively, represent two loans to a single borrower that has defaulted under the restructured terms. Both loans 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. This borrower has experienced continued financial difficulty and are considered non-performing loans as of June 30, 2017 and December 31, 2016. There were no previously restructured loans that defaulted during the three months ended June 30, 2017.

There were no new TDR's for the three and six months ended June 30, 2017 and 2016.

Note 5 – Borrowed Funds

Short-term borrowings

Along with traditional deposits, the Bank has access to short-term borrowings from FHLB to fund its operations and investments. Short-term borrowings from FHLB totaled $186.8 million at June 30, 2017, compared to $87.7 million at December 31, 2016.

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

(Dollars in thousands)	June 30, 2017		December 31, 2016	
Balance at end of period	$186,772		$ 87,733	
Average balance during the period	89,631		137,822	
Maximum month-end balance	186,772		210,600	
Weighted-average rate during the year	1.10	%	0.51	%
Weighted-average rate at end of period	1.24	%	0.74	%

Repurchase agreements

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

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 June 30, 2017 and December 31, 2016. These borrowings were collateralized with investment securities with a carrying value of $23.9 million and $26.0 million at June 30, 2017 and December 31, 2016, 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 $22.2 million at June 30, 2017, compared to $25.2 million in December 31, 2016. Information related to repurchase agreements is summarized as follows:

(Dollars in thousands)	June 30, 2017		December 31, 2016	
Balance at end of period	$22,194		$ 25,160	
Average balance during the period	21,268		27,066	
Maximum month-end balance	24,126		29,561	
Weighted-average rate during the year	0.34	%	0.27	%
Weighted-average rate at end of period	0.33	%	0.28	%

Long-term notes from the FHLB were as follows:

(Dollars in thousands)	June 30, 2017	December 31, 2016

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	$ 1,825	$ 2,390
Amortizing fixed interest rate note, originating February 2007, due February 2022, payable in monthly installments of $5 thousand, including interest of 5.22%	787	798
	$ 2,612	$ 3,188

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Subordinated Debt
Information related to subordinated debt is summarized as follows:

(Dollars in thousands)	June 30, 2017	December 31, 2016
Balance at end of period	$33,524	$ 33,524
Average balance during the period	33,524	33,524
Maximum month-end balance	33,524	33,524
Weighted-average rate during the year	6.66 %	6.64 %
Weighted-average rate at end of period	6.66 %	6.63 %

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 expire 10 years after the initial issuance date of the Notes (the “Maturity Date”).

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

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

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

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

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

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

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

The Company reflects subordinated debt in the amount of $33.5 million and $33.5 million as of June 30, 2017 and December 31, 2016 and interest expense of $1.1 million and $1.1 million for the six months ended June 30, 2017 and 2016.

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

Year	Amount
2017	186,830
2018	81
2019	85
2020	90
2021	879
Thereafter	34,943
	$222,908

Note 6 – Fair Value of Financial Instruments

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.

Accounting standards establish a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by these standards are as follows:

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

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

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

Assets Measured on a Recurring Basis

As required by accounting standards, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company classified investments in government securities as Level II instruments and valued them using the market approach. The following measurements are made on a recurring basis.

- Available-for-sale investment securities – Available-for-sale investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

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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 three and six months ended June 30, 2017. Valuation techniques are consistent with techniques used in prior periods.

- 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.

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The following tables present the assets reported on the consolidated statements of financial condition at their fair value on a recurring basis as of June 30, 2017 and December 31, 2016 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.

	June 30, 2017			
(Dollars in thousands)	Level I	Level II	Level III	Total
Assets:				
U.S. Government Agency securities	$ —	$ 47,554	$ —	$ 47,554
U.S. Sponsored Mortgage backed securities	—	58,247	—	58,247
Municipal securities	—	53,922	—	53,922
Equity and other securities	2,206	13,181	—	15,387
Loans held for sale	—	107,825	—	107,825
Interest rate lock commitment	—	—	2,094	2,094
Mortgage-backed security hedges	—	449	—	449
Interest rate swap	—	58	—	58
Interest rate cap	—	58	—	58
Liabilities:				
Interest rate swap	—	58	—	58

	December 31, 2016			
(Dollars in thousands)	Level I	Level II	Level III	Total
Assets:				
U.S. Government Agency securities	$ —	$ 28,816	$ —	$ 28,816
U.S. Sponsored Mortgage backed securities	—	54,732	—	54,732
Municipal securities	—	70,796	—	70,796
Equity and other securities	897	7,127	—	8,024
Loans held for sale	—	90,174	—	90,174
Interest rate lock commitment	—	—	1,546	1,546
Mortgage-backed security hedges	—	372	—	372
Interest rate swap	—	250	—	250
Interest rate cap	—	268	—	268
Liabilities:				
Interest rate swap	—	250	—	250

The following table represents recurring level III assets:

Interest Rate Lock Commitments (Dollars in thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Balance, beginning of period	$ 2,855	$ 2,769	$ 1,546	$ 1,583
Realized and unrealized gains included in earnings	(761)	856	548	2,042
Balance, end of period	$ 2,094	$ 3,625	$ 2,094	$ 3,625

Assets Measured on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain financial assets, financial liabilities, non-financial assets and non-financial liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market value that were recognized at fair value below cost at the end of the

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period. Certain non-financial assets measured at fair value on a nonrecurring 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 2017 and 2016 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.

Assets measured at fair value on a nonrecurring basis as of June 30, 2017 and December 31, 2016 are included in the table below:

	June 30, 2017			
(Dollars in thousands)	Level I	Level II	Level III	Total
Impaired loans	$ —	$ —	$ 10,944	$ 10,944
Other real estate owned	—	—	1,119	1,119
	December 31, 2016			
(Dollars in thousands)	Level I	Level II	Level III	Total
Impaired loans	$ —	$ —	$ 11,609	$ 11,609
Other real estate owned	—	—	414	414

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The following tables presents quantitative information about the Level III significant unobservable inputs for assets and liabilities measured at fair value at June 30, 2017 and December 31, 2016.

	Quantitative Information about Level III Fair Value Measurements			
(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range
June 30, 2017				
Nonrecurring measurements:				
Impaired loans	$10,944	Appraisal of collateral [1]	Appraisal adjustments [2]	20% - 62%
			Liquidation expense [2]	5% - 10%
Other real estate owned	$1,119	Appraisal of collateral [1]	Appraisal adjustments [2]	20% - 30%
			Liquidation expense [2]	5% - 10%
Recurring measurements:				
Interest rate lock commitments	$2,094	Pricing model	Pull through rates	73% - 80%

	Quantitative Information about Level III Fair Value Measurements			
(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range
December 31, 2016				
Nonrecurring measurements:				
Impaired loans	$11,609	Appraisal of collateral [1]	Appraisal adjustments [2]	20% - 62%
			Liquidation expense [2]	5% - 10%
Other real estate owned	$414	Appraisal of collateral [1]	Appraisal adjustments [2]	20% - 30%
			Liquidation expense [2]	5% - 10%
Recurring measurements:				
Interest rate lock commitments	$1,546	Pricing model	Pull through rates	73% - 85%

[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.

Estimated fair values have been determined by the Company using historical data, as generally provided in the Company's regulatory reports, and an estimation methodology suitable for each category of financial instruments. The Company's fair value estimates, methods and assumptions are set forth below for the Company's other financial instruments.

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

- Certificates of deposits – The fair values for certificates of deposits are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for certificates of deposits with similar terms of investors. No prepayments of principal are assumed.

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

- Loans held for sale – Loans held for sale are reported at fair value. These loans currently consist of one-to-four-family residential loans originated for sale in the secondary market. Fair value is based on committed market rates or the price secondary markets are currently offering for similar loans using observable market data. (Level II)

- Loans – The fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms of borrowers of similar credit quality. No prepayments of principal are assumed.
- Mortgage servicing rights – The carrying value of mortgage servicing rights approximates their fair value.
- Interest rate lock commitment – For mortgage interest rate locks, the fair value is based on either (i) the price of the underlying loans obtained from an investor for loans that will be delivered on a best efforts basis or (ii) the observable price for individual loans traded in the secondary market for loans that will be delivered on a mandatory basis less (iii) expected costs to deliver the interest rate locks, any expected "pull through rate" is multiplied by this calculation to estimate the derivative value.
- Mortgage-backed security hedges – MBS hedges are used to mitigate interest rate risk for residential mortgage loans held for sale and interest rate locks and manage expected funding percentages. These instruments are considered derivatives and are recorded at fair value based on observable market data of the individual mortgage-backed securities.
- 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.
- Accrued interest receivable and payable and repurchase agreements – The carrying values of accrued interest receivable and payable approximate their fair values.
- Deposits – The fair values of demand deposits (i.e., noninterest bearing checking, NOW and money market), savings accounts and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.
- FHLB and other borrowings – The fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms of borrowers of similar credit quality. No prepayments of principal are assumed.
- Subordinated debt – The fair values for debt are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for debt with similar terms of borrowers of similar credit quality. No prepayments of principal are assumed.
- Off-balance sheet instruments – The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of agreements and the present credit standing of the counterparties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown.

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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)
June 30, 2017					
Financial assets:					
Cash and cash equivalents	$17,805	$17,805	$17,805	$—	$ —
Certificates of deposits with other banks	14,527	14,422	—	14,422	—
Securities available-for-sale	175,110	175,110	2,206	172,904	—
Loans held for sale	107,825	107,825	—	107,825	—
Loans, net	1,092,630	1,086,534	—	—	1,086,534
Mortgage servicing rights	186	186	—	—	186
Interest rate lock commitment	2,094	2,094	—	—	2,094
Mortgage-backed security hedges	449	449	—	449	—
Interest rate swap	58	58	—	58	—
Interest rate cap	58	58	—	58	—
Accrued interest receivable	4,357	4,357	—	992	3,365
Financial liabilities:					
Deposits	$1,099,608	$1,058,544	$—	$1,058,544	$ —
Repurchase agreements	22,194	22,194	—	22,194	—
FHLB and other borrowings	189,384	189,450	—	189,450	—
Mortgage-backed security hedges	—	—	—	—	—
Interest rate swap	58	58	—	58	—
Accrued interest payable	529	529	—	529	—
Subordinated debt	33,524	32,275	—	32,275	—
December 31, 2016					
Financial assets:					
Cash and cash equivalents	$17,340	$17,340	$17,340	$—	$ —
Certificates of deposits with other banks	14,527	14,985	—	14,985	—
Securities available-for-sale	162,368	162,368	897	161,471	—
Loans held for sale	90,174	90,174	—	90,174	—
Loans, net	1,043,764	1,035,437	—	—	1,035,437
Mortgage servicing rights	190	190	—	—	190
Interest rate lock commitment	1,546	1,546	—	—	1,546
Mortgage-backed security hedges	372	372	—	372	—
Interest rate swap	250	250	—	250	—
Interest rate cap	268	268	—	268	—
Accrued interest receivable	3,951	3,951	—	1,002	2,949
Financial liabilities:					

Deposits	$1,107,017	$1,116,174	$—	$1,116,174	$ —
Repurchase agreements	25,160	25,160	—	25,160	—
FHLB and other borrowings	90,921	90,919	—	90,919	—
Interest rate swap	250	250	—	250	—
Accrued interest payable	741	741	—	741	—
Subordinated debt	33,524	32,275	—	32,275	—

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

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estimates. Fair value estimates are based on existing on-and-off balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

Note 7 – Stock Offerings

On 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 December 5, 2016, the Company entered into Securities Purchase Agreements with certain accredited investors. Pursuant to the Purchase Agreements, the Investors agreed to purchase an aggregate of 1,913,044 shares of the Company's common stock, par value $1.00 per share, at a price of $11.50 per share, as part of a private placement (the "Private Placement"). The Private Placement closed on December 6, 2016. The gross proceeds to the Company from the Private Placement were approximately $22 million or $20.5 million after stock issuance costs. The proceeds from the Private Placement were used by the Company to pay related transaction fees and expenses and for general corporate purposes. A portion of the proceeds were used for the redemption of the preferred stock issued to the United States Department of Treasury in connection with the Company's participation in the Small Business Lending Fund, as discussed below.

The Purchase Agreements contain representations and warranties and covenants of the Company and the Investors that are customary in private placement transactions. The provisions of the Purchase Agreements also include an agreement by the Company to indemnify the Investors against certain liabilities.

The Purchase Agreements required the Company to file a registration statement with the SEC to register for resale the 1,913,044 shares of common stock issued to the Investors in the Private Placement. The registration statement was declared effective by the SEC on December 27, 2016.

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

The Class C Preferred Certificate designated 383.4 shares of preferred stock as Class C Preferred shares. The Class C Preferred shares carry an annual dividend rate of 6.5% and are convertible into shares of Company common stock within 30 days after the

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

On September 8, 2011 MVB received $8.5 million in Small Business Lending Fund (SBLF) capital. MVB issued 8,500 shares of $1,000 per share preferred stock with dividends payable in arrears on January 1, April 1, July 1 and October 1 each year. MVB's loan production qualified for the lowest dividend rate possible of 1%. MVB may continue to utilize the SBLF capital through March 8, 2016 at the 1% dividend rate. After that time, if the SBLF is not retired, the dividend rate increases to 9%. On January 5, 2017, the Company redeemed all of the 8,500 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series A, liquidation amount $1,000 per share (“Series A Preferred Stock”). The aggregate redemption price of the Series A Preferred Stock was $8,508,500, including dividends accrued, but unpaid through, but not including the redemption date. The Series A Preferred Stock was redeemed from the Company’s surplus capital and approved by the Company’s primary federal regulator. The redemption terminates the Company’s participation in the SBLF program. After the redemption, the Company’s capital ratios remained well in excess of those required for well capitalized status.

Note 8 – Net Income Per Common 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.

Prior year dilutive earnings per share has been modified with the calculation of continuing and discontinued operations to use the denominator of shares from continuing operations for continuing, discontinuing, and total earnings per share.

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(Dollars in thousands except shares and per share data)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016
Numerator for basic earnings per share:				
Net income from continuing operations	$3,834	$ 4,360	$2,260	$ 2,458
Less: Dividends on preferred stock	251	500	122	314
Net income from continuing operations available to common shareholders - basic	3,583	3,860	2,138	2,144
Net income from discontinued operations available to common shareholders - basic and diluted	—	3,935	—	4,041
Net income available to common shareholders	$3,583	$ 7,795	$2,138	$ 6,185
Numerator for diluted earnings per share:				
Net income from continuing operations available to common shareholders - basic	$3,583	$ 3,860	$2,138	$ 2,144
Add: Dividends on convertible preferred stock	—	—	—	122
Add: Interest on subordinated debt (tax effected)	—	622	349	312
Net income available to common shareholders from continuing operations - diluted	$3,583	$ 4,482	$2,487	$ 2,578
Denominator:				
Total average shares outstanding	10,171,198	8,070,082	10,343,933	8,078,000
Effect of dilutive convertible preferred stock	—	—	—	489,625
Effect of dilutive convertible subordinated debt	—	1,837,500	1,837,500	1,837,500
Effect of dilutive stock options	1,056	17,991	—	27,995
Total diluted average shares outstanding	10,172,254	9,925,573	12,181,433	10,433,120
Earnings per share from continuing operations - basic	$0.35	$ 0.48	$0.21	$ 0.27
Earnings per share from discontinued operations - basic	$—	$ 0.49	$—	$ 0.50
Earnings per common shareholder - basic	$0.35	$ 0.97	$0.21	$ 0.77
Earnings per share from continuing operations - diluted	$0.35	$ 0.45	$0.20	$ 0.25
Earnings per share from discontinued operations - diluted	$—	$ 0.40	$—	$ 0.38
Earnings per common shareholder - diluted	$0.35	$ 0.85	$0.20	$ 0.63

Note 9 – 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 12, "Discontinued Operations" of the Notes to the Consolidated Financial Statements, included in Item 1, Financial Statements, of this Quarterly Report on Form 10-Q. 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 was 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 12, "Discontinued Operations" of the Notes to the Consolidated Financial Statements, included in Item 1, Financial Statements, of this Quarterly Report on Form 10-Q. 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.

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Information about the reportable segments and reconciliation to the consolidated financial statements for the three and six month periods ended June 30, 2017 and 2016 are as follows:

Three Months Ended June 30, 2017 (Dollars in thousands)	Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Intercompany Eliminations	Consolidated
Revenues:					
Interest income	$ 12,907	$ 1,073	$ 1	$ (167)	$ 13,814
Mortgage fee income	188	8,937	—	(173)	8,952
Insurance and investment services income	124	—	—	—	124
Other income	1,405	1,137	1,307	(1,358)	2,491
Total operating income	14,624	11,147	1,308	(1,698)	25,381
Expenses:					
Interest expense	2,168	534	558	(340)	2,920
Salaries and employee benefits	3,267	7,147	1,384	—	11,798
Provision for loan losses	467	56	—	—	523
Other expense	5,065	2,044	954	(1,358)	6,705
Total operating expenses	10,967	9,781	2,896	(1,698)	21,946
Income (loss) from continuing operations, before income taxes	3,657	1,366	(1,588)	—	3,435
Income tax expense (benefit) - continuing operations	1,165	540	(530)	—	1,175
Net income (loss) from continuing operations	2,492	826	(1,058)	—	2,260
Net income (loss)	$ 2,492	$ 826	$ (1,058)	$ —	$ 2,260
Preferred stock dividends	—	—	122	—	122
Net income (loss) available to common shareholders	$ 2,492	$ 826	$ (1,180)	$ —	$ 2,138
Capital Expenditures for the three-month period ended June 30, 2017	$ 1,732	$ 282	$ 17	$ —	$ 2,031
Total Assets as of June 30, 2017	1,503,809	157,197	181,235	(335,188)	1,507,053
Total Assets as of December 31, 2016	1,415,735	122,242	180,335	(299,508)	1,418,804
Goodwill as of June 30, 2017	1,598	16,882	—	—	18,480
Goodwill as of December 31, 2016	1,598	16,882	—	—	18,480

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Three Months Ended June 30, 2016 (Dollars in thousands)	Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Insurance	Intercompany Eliminations	Consolidated
Revenues:						
Interest income	$ 12,591	$ 1,154	$ 1	$ —	$ (166)	$ 13,580
Mortgage fee income	(73)	9,750	—	—	(280)	9,397
Insurance and investment services income	122	—	—	—	—	122
Other income	1,404	1,157	1,252	—	(1,332)	2,481
Total operating income	14,044	12,061	1,253	—	(1,778)	25,580
Expenses:						
Interest expense	2,159	572	553	—	(446)	2,838
Salaries and employee benefits	2,899	7,430	1,406	—	—	11,735
Provision for loan losses	1,275	—	—	—	—	1,275
Other expense	4,431	1,982	939	—	(1,332)	6,020
Total operating expenses	10,764	9,984	2,898	—	(1,778)	21,868
Income (loss) from continuing operations, before income taxes	3,280	2,077	(1,645)	—	—	3,712
Income tax expense (benefit) - continuing operations	1,012	800	(558)	—	—	1,254
Net income (loss) from continuing operations	2,268	1,277	(1,087)	—	—	2,458
Income (loss) from discontinued operations	—	—	6,926	(410)	—	6,516
Income tax expense (benefit) - discontinued operations	$ —	$ —	$ 2,629	$ (154)	$ —	$ 2,475
Net income (loss) from discontinued operations	$ —	$ —	$ 4,297	$ (256)	$ —	$ 4,041
Net income (loss)	$ 2,268	$ 1,277	$ 3,210	$ (256)	$ —	$ 6,499
Preferred stock dividends	—	—	314	—	—	314
Net income (loss) available to common shareholders	$ 2,268	$ 1,277	$ 2,896	$ (256)	$ —	$ 6,185
Capital Expenditures for the three-month period ended June 30, 2016	$ 404	$ 114	$ 106	$ —	$ —	$ 624
Total Assets as of June 30, 2016	1,477,737	156,334	160,168	—	(309,277)	1,484,962
Total Assets as of December 31, 2015	1,378,988	125,227	151,441	5,017	(276,197)	1,384,476
Goodwill as of June 30, 2016	1,598	16,882	—	—	—	18,480
Goodwill as of December 31, 2015	1,598	16,882	—	—	—	18,480

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Six Months Ended June 30, 2017 (Dollars in thousands)	Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Intercompany Eliminations	Consolidated
Revenues:					
Interest income	$ 25,218	$ 1,854	$ 2	$ (192)	$ 26,882
Mortgage fee income	373	18,574	—	(361)	18,586
Insurance and investment services income	248	—	—	—	248
Other income	2,361	(694)	2,518	(2,628)	1,557
Total operating income	28,200	19,734	2,520	(3,181)	47,273
Expenses:					
Interest expense	4,288	838	1,109	(553)	5,682
Salaries and employee benefits	5,924	13,101	2,735	—	21,760
Provision for loan losses	967	74	—	—	1,041
Other expense	9,716	4,143	1,829	(2,628)	13,060
Total operating expenses	20,895	18,156	5,673	(3,181)	41,543
Income (loss) from continuing operations, before income taxes	7,305	1,578	(3,153)	—	5,730
Income tax expense (benefit) - continuing operations	2,326	636	(1,066)	—	1,896
Net income (loss) from continuing operations	4,979	942	(2,087)	—	3,834
Income (loss) from discontinued operations	—	—	—	—	—
Income tax expense (benefit) - discontinued operations	$ —	$ —	$ —	$ —	$ —
Net income (loss) from discontinued operations	$ —	$ —	$ —	$ —	$ —
Net income (loss)	$ 4,979	$ 942	$ (2,087)	$ —	$ 3,834
Preferred stock dividends	—	—	251	—	251
Net income (loss) available to common shareholders	$ 4,979	$ 942	$ (2,338)	$ —	$ 3,583
Capital Expenditures for the year ended June 30, 2017	$ 2,600	$ 973	$ 46	$ —	$ 3,619
Total Assets as of June 30, 2017	1,503,809	157,197	181,235	(335,188)	1,507,053
Total Assets as of December 31, 2016	1,415,735	122,242	180,335	(299,508)	1,418,804
Goodwill as of June 30, 2017	1,598	16,882	—	—	18,480
Goodwill as of December 31, 2016	1,598	16,882	—	—	18,480

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Six Months Ended June 30, 2016 (Dollars in thousands)	Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Insurance	Intercompany Eliminations	Consolidated
Revenues:						
Interest income	$ 25,055	$ 2,095	$ 1	$ —	$ (189)	$ 26,962
Mortgage fee income	(95)	16,859	—	—	(582)	16,182
Insurance and investment services income	175	—	—	—	—	175
Other income	2,474	1,835	2,866	—	(2,921)	4,254
Total operating income	27,609	20,789	2,867	—	(3,692)	47,573
Expenses:						
Interest expense	4,199	991	1,105	—	(770)	5,525
Salaries and employee benefits	5,730	13,142	3,172	—	—	22,044
Provision for loan losses	1,900	—	—	—	—	1,900
Other expense	8,904	3,925	1,703	—	(2,922)	11,610
Total operating expenses	20,733	18,058	5,980	—	(3,692)	41,079
Income (loss) from continuing operations, before income taxes	6,876	2,731	(3,113)	—	—	6,494
Income tax expense (benefit) - continuing operations	2,150	1,058	(1,074)	—	—	2,134
Net income (loss) from continuing operations	4,726	1,673	(2,039)	—	—	4,360
Income (loss) from discontinued operations	—	—	6,926	(580)	—	6,346
Income tax expense (benefit) - discontinued operations	$ —	$ —	$ 2,629	$ (218)	$ —	$ 2,411
Net income (loss) from discontinued operations	$ —	$ —	$ 4,297	$ (362)	$ —	$ 3,935
Net income (loss)	$ 4,726	$ 1,673	$ 2,258	$ (362)	$ —	$ 8,295
Preferred stock dividends			500			500
Net income (loss) available to common shareholders	$ 4,726	$ 1,673	$ 1,758	$ (362)	$ —	$ 7,795
Capital Expenditures for the year ended June 30, 2016	$ 952	$ 155	$ 167	$ —	$ —	$ 1,274
Total Assets as of June 30, 2016	1,477,737	156,334	160,168	—	(309,277)	1,484,962
Total Assets as of December 31, 2015	1,378,988	125,227	151,441	5,017	(276,197)	1,384,476
Goodwill as of June 30, 2016	1,598	16,882	—	—	—	18,480
Goodwill as of December 31, 2015	1,598	16,882	—	—	—	18,480

Commercial & Retail Banking

For the three months ended June 30, 2017, the Commercial & Retail Banking segment earned $2.5 million compared to $2.3 million in 2016. Net interest income increased by $307 thousand, primarily the result of interest on taxable securities increasing by $313 thousand and interest on FHLB and other borrowings decreasing by $6 thousand. The decrease in interest expense on FHLB and other borrowings was due to a decrease in the average balance of FHLB and other borrowings of $63.4 million and offset by a 63 basis point increase in cost. The increase in interest income on taxable investment securities was due to an increase in the average balance of taxable investment securities of $44.6 million. Noninterest income increased by $264 thousand which was the result of a $261 thousand increase in mortgage fee income and a $319 thousand increase in other operating income, which was offset by a $55 thousand decrease in gain on sale of securities, and a $247 thousand decrease in gain on sale of portfolio loans. Noninterest expense increased by $1.0 million, primarily the result of the following: a $368 thousand increase in salaries and employee benefits expense, a $249 thousand increase in data processing and communications expense, a $111 thousand increase in other operating expenses, a $107 thousand increase in insurance, tax, and assessment expense, a $72 thousand increase in equipment depreciation and maintenance, a $63 thousand increase in occupancy and equipment expense, and a $38 thousand increase in travel, entertainment, dues, and subscriptions expense.

In addition, provision expense decreased by $808 thousand due to a significantly lower level of charge-offs in the second quarter

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of 2017 versus the second quarter of 2016, with the overall decrease also being impacted by increased loan volume in the second quarter of 2017 versus the same quarter in 2016; and variations in historical loss rates.

For the six months ended June 30, 2017, the Commercial & Retail Banking segment earned $5.0 million compared to $4.7 million in 2016. Net interest income increased by $74 thousand, primarily the result of interest on taxable investment securities increasing by $548 thousand, which was offset by interest and fees on loans decreasing by $354 thousand. The increase in interest income was further offset by an increase in total interest expense of $89 thousand, primarily the result of a $59 thousand increase in interest on FHLB and other borrowings and a $32 thousand increase in interest on deposits. Noninterest income increased $428 thousand, which was the result of a $468 thousand increase in mortgage fee income, which was partially offset by a $18 thousand decrease in income on bank owned life insurance and a $6 thousand decrease in service charges on deposits. Noninterest expense increased by $1.0 million, primarily the result of a $385 thousand increase in data processing and communications, a $199 thousand increase in insurance, tax, and assessment expense, a $194 thousand increase in salaries and employee benefits expense, a $255 thousand increase in occupancy and equipment, and a $116 thousand increase in travel, entertainment, dues, and subscriptions, which was offset by a $79 thousand decrease in professional fees.

In addition, provision expense decreased by $933 thousand due to a significantly lower level of charge-offs during the six month period ended June 30, 2017 versus the same time period in 2016, with the overall decrease being impacted by a lower level of ASC 310-10 specific loss allocations; increased loan volume in the first six months of 2017 versus the same time period in 2016; and variations in historical loss rates.

Mortgage Banking

For the three months ended June 30, 2017, the Mortgage Banking segment earned $826 thousand compared to $1.3 million in 2016. Net interest income decreased $43 thousand, noninterest income decreased by $833 thousand, and noninterest expense decreased by $221 thousand. The decrease in noninterest income was related to the $813 thousand decrease in mortgage fee income. The $221 thousand decrease in noninterest expense was primarily the result of the following: a $283 thousand decrease in salaries and employee benefits expense, which was primarily due to a 13.2% decrease in origination volume and offset by a $610 thousand decrease in the earn out paid to management of the mortgage company related to the 2012 acquisition. Other items that impacted noninterest expense were as follows: a $50 thousand decrease in mortgage processing expense, a $119 thousand increase in occupancy and equipment expense, a $55 thousand increase in travel, entertainment, dues, and subscriptions expense.

For the six months ended June 30, 2017, the Mortgage Banking segment earned $942 thousand compared to $1.7 million in 2016. Net interest income decreased $88 thousand, noninterest income decreased $814 thousand, and noninterest expense increased $177 thousand. The decrease in noninterest income was related to the decrease of $2.5 million in the gain on derivative, which was offset by the $1.7 million increase in mortgage fee income. The $177 thousand increase in noninterest expense was primarily the result of the following: a $104 thousand increase in travel, entertainment, dues, and subscriptions, a $141 thousand increase in occupancy and equipment expense.

Financial Holding Company

For the three months ended June 30, 2017, the Financial Holding Company segment lost $1.1 million compared to a loss of $1.1 million in 2016, excluding discontinued operations. Interest expense increased $5 thousand, noninterest income increased $55 thousand, and noninterest expense decreased $7 thousand. The increase in noninterest income was due to a $55 thousand increase in other operating income, primarily intercompany services income related to Regulation W. In addition, the income tax benefit decreased $28 thousand. The decrease in noninterest expense was primarily due to a $22 thousand decrease in salaries and employee benefits expense, a $58 thousand decrease in professional fees, which was offset by a $51 thousand increase in occupancy and equipment expense, and a $25 thousand increase in other operating expense.

For the six months ended June 30, 2017, the Financial Holding Company segment lost $2.1 million compared to a loss of $2.0 million in 2016, excluding discontinued operations. Interest expense increased $4 thousand, noninterest income decreased $348 thousand, and noninterest expense decreased $311 thousand. The decrease in noninterest income was due to a $70 thousand decrease in gain on sale of securities and a $278 thousand decrease in other operating income, primarily intercompany services income related to Regulation W. In addition, the income tax benefit increased $8 thousand. The decrease in noninterest expense was primarily due to a $437 thousand decrease in salaries and employee benefits expense, a $42 thousand decrease in data processing and communications expense, and a $40 thousand decrease in professional fees, which was offset by a $97 thousand increase in occupancy and equipment expense, a $79 thousand increase in other operating expense, and a $20 thousand increase in travel, entertainment, dues, and subscriptions.

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Insurance

The discontinued insurance segment lost $256 thousand for the three months ended June 30, 2016 and lost $362 thousand for the six months ended June 30, 2016. In June 2016, primarily all the assets of the Insurance segment were sold and the segment was reorganized as a subsidiary of the Bank. There is no insurance segment in 2017.

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 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%.

Information pertaining to the activity in the Company’s defined benefit plan, using the latest available actuarial valuations with a measurement date of June 30, 2017 and 2016 is as follows:

(Dollars in thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Service cost	$ —	$ —	—	—
Interest cost	90	92	180	184
Expected Return on Plan Assets	(86)	(83)	(172)	(165)
Amortization of Net Actuarial Loss	60	59	120	118
Amortization of Prior Service Cost	—	—	—	—
Net Periodic Benefit Cost	$ 64	$ 68	128	137
Contributions Paid	$ 58	$ 40	116	80

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Note 11 – Comprehensive Income

The following tables present the components of accumulated other comprehensive income (“AOCI”) for the three and six months ended June 30, 2017 and 2016:

(Dollars in thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	
Details about AOCI Components	Amount Reclassified from AOCI	Amount Reclassified from AOCI	Amount Reclassified from AOCI	Amount Reclassified from AOCI	Affected line item in the Statement where Net Income is presented
Available-for-sale securities					
Unrealized holding gains	$ 167	$ 222	$ 350	$ 603	Gain on sale of securities
	167	222	350	603	Total before tax
	(67)	(89)	(140)	(241)	Income tax expense
	100	133	210	362	Net of tax
Defined benefit pension plan items					
Amortization of net actuarial loss	(60)	(59)	(120)	(118)	Salaries and benefits
	(60)	(59)	(120)	(118)	Total before tax
	24	24	48	47	Income tax expense
	(36)	(35)	(72)	(71)	Net of tax
Total reclassifications	$ 64	$ 98	$ 138	$ 291	

(Dollars in thousands)	Unrealized gains (losses) on available for-sale securities	Defined benefit pension plan items	Total
Balance at March 31, 2017	$ (1,439)	$ (2,581)	$ (4,020)
Other comprehensive loss before reclassification	1,530	(336)	1,194
Amounts reclassified from AOCI	(100)	36	(64)
Net current period OCI	1,430	(300)	1,130
Balance at June 30, 2017	$ (9)	$ (2,881)	$ (2,890)
Balance at March 31, 2016	$ 754	$ (2,880)	$ (2,126)
Other comprehensive loss before reclassification	1,081	(215)	866
Amounts reclassified from AOCI	(133)	35	(98)
Net current period OCI	948	(180)	768
Balance at June 30, 2016	$ 1,702	$ (3,060)	$ (1,358)
Balance at December 31, 2016	$ (1,598)	$ (2,679)	$ (4,277)
Other comprehensive loss before reclassification	1,799	(274)	1,525

Amounts reclassified from AOCI	(210)	72	(138)
Net current period OCI	1,589	(202)	1,387
Balance at June 30, 2017	$ (9)	$ (2,881)	$ (2,890)
Balance at December 31, 2015	$ (363)	$ (2,570)	$ (2,933)
Other comprehensive loss before reclassification	2,427	(561)	1,866
Amounts reclassified from AOCI	(362)	71	(291)
Net current period OCI	2,065	(490)	1,575
Balance at June 30, 2016	$ 1,702	$ (3,060)	$ (1,358)

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Note 12 – Discontinued Operations

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. 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.

There were no assets or liabilities related to discontinued operations at June 30, 2017 or December 31, 2016.

Net income from discontinued operations, net of tax, for the six and three months ended June 30, 2017 and June 30, 2016, were as follows:

(Dollars in thousands)	Six months ended June 30, 2017	Six months ended June 30, 2016	Three months ended June 30, 2017	Three months ended June 30, 2016
NONINTEREST INCOME				
Insurance and investment services income	$—	$1,887	$—	$823
Gain on sale of subsidiary	—	6,926	—	6,926
Other operating income	—	2	—	1
Total noninterest income	—	8,815	—	7,750
NONINTEREST EXPENSES				
Salary and employee benefits	—	1,937	—	986
Occupancy expense	—	124	—	52
Equipment depreciation and maintenance	—	29	—	15
Data processing and communications	—	79	—	39
Marketing, contributions and sponsorships	—	7	—	4
Professional fees	—	2	—	2
Printing, postage and supplies	—	12	—	5
Insurance, tax and assessment expense	—	58	—	32
Travel, entertainment, dues and subscriptions	—	67	—	41
Other operating expenses	—	154	—	58
Total noninterest expense	—	2,469	—	1,234
Loss from discontinued operations, before income taxes	—	6,346	—	6,516
Income tax benefit - discontinued operations	—	2,411	—	2,475
Net loss from discontinued operations	$—	$3,935	$—	$4,041

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

The following presents management's discussion and analysis of our consolidated financial condition at June 30, 2017 and December 31, 2016 and the results of our operations for the three and six months ended June 30, 2017 and 2016. This discussion should be read in conjunction with our unaudited consolidated financial statements and the notes thereto appearing elsewhere in this report and the audited consolidated financial statements and the notes to consolidated financial statements included in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2016.

Forward-looking Statements:

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

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- 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;
- statements preceded by, followed by or that include the words “may,” “could,” “should,” “would,” “believe,” “anticipate “estimate,” “expect,” “intend,” “plan,” “projects,” or similar expressions.

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

- the ability of the Company, the Bank, and MVB Mortgage to successfully execute business plans, manage risks, and achieve objectives;
- changes in local, national and international political and economic conditions, including without limitation the political and economic effects of the recent economic crisis, delay of recovery from that crisis, economic conditions and fiscal imbalances in the United States and other countries, potential or actual downgrades in rating of sovereign debt issued by the United States and other countries, and other major developments, including wars, military actions, and terrorist attacks;
- changes in financial market conditions, either internationally, nationally or locally in areas in which the Company, the Bank, and MVB Mortgage conduct operations, including without limitation, reduced rates of business formation and growth, commercial and residential real estate development and real estate prices;
- fluctuations in markets for equity, fixed-income, commercial paper and other securities, including availability, market liquidity levels, and pricing; changes in interest rates, the quality and composition of the loan and securities portfolios, demand for loan products, deposit flows and competition;
- the ability of the Company, the Bank, and MVB Mortgage to successfully conduct acquisitions and integrate acquired businesses;
- potential difficulties in expanding the businesses of the Company, the Bank, and MVB Mortgage in existing and new markets;
- increases in the levels of losses, customer bankruptcies, bank failures, claims, and assessments;
- changes in fiscal, monetary, regulatory, trade and tax policies and laws, and regulatory assessments and fees, including policies of the U.S. Department of Treasury, the (Federal Reserve, and the FDIC);
- the impact of executive compensation rules under the Dodd-Frank Act and banking regulations which may impact the ability of the Company and its subsidiaries, and other American financial institutions to retain and recruit executives and other personnel necessary for their businesses and competitiveness;
- the impact of the Dodd-Frank Act and of new international standards known as Basel III, and rules and regulations thereunder, many of which have not yet been promulgated, on our required regulatory capital and liquidity levels, governmental assessments on us, the scope of business activities in which we may engage, the manner in which the Company, the Bank, and MVB Mortgage engage in such activities, the fees that the Company’s 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 the Company, the Bank, and MVB Mortgage, 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;

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

Except to the extent required by law, the Company specifically disclaims any obligation to update any factors or to publicly announce the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

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Summary of Results of Operations

As of June 30, 2017 and 2016 and for the six and three months ended June 30, 2017 and June 30, 2016:

(Dollars in thousands, except per share data)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016
Earnings and Per Share Data:				
Net income from continuing operations	$3,834	$4,360	$2,260	$2,458
Net income from discontinued operations	$—	$3,935	$—	$4,041
Net income	$3,834	$8,295	$2,260	$6,499
Net income available to common shareholders	$3,583	$7,795	$2,138	$6,185
Earnings per share from continuing operations - basic	$0.35	$0.48	$0.21	$0.27
Earnings per share from discontinued operations - basic	$—	$0.49	$—	$0.50
Earnings per common shareholder - basic	$0.35	$0.97	$0.21	$0.77
Earnings per share from continuing operations - diluted	$0.35	$0.45	$0.20	$0.25
Earnings per share from discontinued operations - diluted	$—	$0.40	$—	$0.38
Earnings per common shareholder - diluted	$0.35	$0.85	$0.20	$0.63
Cash dividends paid per common share	$0.05	$0.04	$0.025	$0.02
Book value per common share	$13.31	$13.33	$13.31	$13.33
Weighted average shares outstanding - basic	10,171,198	8,070,082	10,343,933	8,078,000
Weighted average shares outstanding - diluted	10,172,254	9,925,573	12,181,433	10,433,120
Performance Ratios:				
Return on average assets - continuing operations [1]	0.54 %	0.62 %	0.63 %	0.67 %
Return on average assets - discontinued operations [1]	— %	0.56 %	— %	1.11 %
Return on average equity - continuing operations [1]	5.45 %	7.48 %	6.30 %	8.34 %
Return on average equity - discontinued operations [1]	— %	6.75 %	— %	13.71 %
Net interest margin [2]	3.25 %	3.24 %	3.31 %	3.14 %
Efficiency ratio [3]	83.72 %	80.04 %	82.38 %	78.07 %
Overhead ratio [1 4]	4.93 %	4.76 %	5.19 %	4.86 %
Asset Quality Data and Ratios:				
Charge-offs	$453	$826	$163	$635
Recoveries	$59	$11	$16	$4
Net loan charge-offs to total loans [1 5]	0.07 %	0.15 %	0.05 %	0.23 %
Allowance for loan losses	$9,748	$9,101	$9,748	$9,091
Allowance for loan losses to total loans [6]	0.88 %	0.84 %	0.88 %	0.84 %
Nonperforming loans	$5,103	$8,201	$5,103	$8,201
Nonperforming loans to total loans	0.46 %	0.75 %	0.46 %	0.75 %
Capital Ratios:				
Equity to assets	9.74 %	8.35 %	9.74 %	8.35 %
Leverage ratio	9.59 %	7.67 %	9.59 %	7.67 %
Common equity Tier 1 capital ratio	10.32 %	7.69 %	10.32 %	7.69 %
Tier 1 risk-based capital ratio	11.33 %	9.44 %	11.33 %	9.44 %
Total risk-based capital ratio	14.66 %	12.73 %	14.66 %	12.73 %

[1] annualized for the quarterly periods presented

[2] net interest income as a percentage of average interest earning assets
[3] noninterest expense as a percentage of net interest income and noninterest income
[4] noninterest expense as a percentage of average assets
[5] charge-offs less recoveries
[6] excludes loans held for sale

Introduction

MVB Financial Corp., (the "Company") was formed on May 29, 2003 and became a bank holding company under the laws of West Virginia on January 1, 2004, and, effective December 19, 2012, became a financial holding company. The Company features a subsidiary and multiple affiliated businesses, each of which is described in more detail below, including MVB Bank, Inc. (the "Bank") and its wholly-owned subsidiaries, MVB Mortgage and MVB Insurance, LLC ("MVB Insurance"). On December 31, 2013, three Company subsidiaries, MVB-Central, Inc. (a second-tier level holding company), MVB-East, Inc. (a second tier holding company) and Bank Compliance Solutions, Inc. (an inactive subsidiary) were merged into the Company.

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

During the fourth quarter of 2012, the Bank acquired Potomac Mortgage Group, Inc. (“PMG” which, following July 15, 2013, began doing business under the registered trade name “MVB Mortgage”), a mortgage company in the northern Virginia area, and fifty percent (50%) interest in a mortgage services company, Lender Service Provider, LLC (“LSP”). In the third quarter of 2013, this fifty percent (50%) interest in LSP was reduced to a twenty-five percent (25%) interest through a sale of a partial interest. MVB Mortgage has eleven mortgage only offices, located in Virginia, within the Washington, DC metropolitan area as well as North Carolina and South Carolina, and, in addition, has mortgage loan originators located at select Bank locations throughout West Virginia.

In the first quarter of 2013, the Bank opened its second Monongalia County location in the Sabraton area of Morgantown, West Virginia. In the second quarter of 2013, the Bank opened its second full-service office in Berkeley County, West Virginia, at Edwin Miller Boulevard. In addition, the Bank opened a loan production office at 184 Summers Street, Charleston, Kanawha County, West Virginia, which was subsequently moved to 400 Washington Street East, Charleston, West Virginia and later replaced during March 2015 by a full-service branch at the same location.

In 2014, the Bank opened a loan production office in Reston, Fairfax County, Virginia, which was replaced by a full-service branch in October 2015.

During January 2015, the Bank opened a location at 100 NASA Boulevard, Fairmont, Marion County, West Virginia, which replaced the 9789 Mall Loop, White Hall, Marion County, West Virginia location as the Technology Park location offers a drive-thru facility to better serve customers. During March 2015, the location at 9789 Mall Loop was closed. During August 2015, the Bank purchased two branch locations in Berkeley County, West Virginia, situated in West Virginia’s eastern panhandle at 704 Foxcroft Avenue, Martinsburg, West Virginia and 5091 Gerrardstown Road, Inwood, West Virginia.

During July 2017, the Bank opened its third full-service Monongalia County banking branch in the Suncrest area of Morgantown, West Virginia. Also in July, the Bank opened a full-service banking branch in Leesburg, Loudoun County, Virginia.

Currently, the Bank operates fifteen full-service banking branches in West Virginia and Virginia, which are located at: 301 Virginia Avenue in Fairmont, Marion County; 100 NASA Boulevard in Fairmont, Marion County; 1000 Johnson Avenue in Bridgeport, Harrison County; 406 West Main St. in Clarksburg, Harrison County; 88 Somerset Boulevard in Charles Town, Jefferson County; 651 Foxcroft Avenue in Martinsburg, Berkeley County; 704 Foxcroft Avenue in Martinsburg, Berkeley County; 5091 Gerrardstown Road in Inwood, Berkeley County; 2400 Cranberry Square in Cheat Lake, Monongalia County; 10 Sterling Drive in Morgantown, Monongalia County; 231 Aikens Center in Martinsburg, Berkeley County; 400 Washington Street East in Charleston, Kanawha County; 1801 Old Reston Avenue in Reston, Fairfax County, 51 Donahue Drive, Suite 115, in Morgantown, Monongalia County, and 106 Harrison Street, Leesburg, Loudoun County.

MVB Insurance was originally formed in 2000 and reinstated in 2005, as a Bank subsidiary. Effective June 1, 2013, MVB Insurance became a direct subsidiary of the Company. MVB Insurance offered select insurance products such as title insurance, individual insurance, commercial insurance, employee benefits insurance, and professional liability insurance. 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, and was reported in discontinued operations, as discussed in Note 12, "Discontinued Operations" of the Notes to the Consolidated Financial Statements, included in Item 1, Financial Statements, of this Quarterly Report on Form 10-Q. 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’s primary business activities, through its subsidiary, are currently community banking, and mortgage banking. As a community-based bank, the Bank offers its customers a full range of products through various delivery channels. Such products and services include checking accounts, NOW accounts, money market and savings accounts, time certificates of deposit, commercial, installment, commercial real estate and residential real estate mortgage loans, debit cards, and safe deposit rental facilities. Services are provided through our walk-in offices, automated teller machines (“ATMs”), drive-in facilities, and internet and telephone banking. Additionally, the Bank offers non-deposit investment products through an association with a broker-dealer. Since the opening date of January 4, 1999, the Bank has experienced significant growth in assets, loans, and deposits due to strong community and customer support in the Marion County and Harrison County, West Virginia markets, expansion into Jefferson, Berkeley, Monongalia and Kanawha Counties, West Virginia and, most recently, into Fairfax County, Virginia. With the acquisition of PMG, mortgage banking is now a much more significant focus, which has opened increased market opportunities in the Washington, D.C. metropolitan region and added enough volume to further diversify the Company’s revenue stream.

This discussion and analysis should be read in conjunction with the prior year-end audited consolidated financial statements and footnotes thereto included in the Company’s 2016 filing on Form 10-K and the unaudited financial statements, ratios, statistics, and discussions contained elsewhere in this Form 10-Q. At June 30, 2017, the Company had 386 full-time equivalent employees. The Company’s principal office is located at 301 Virginia Avenue, Fairmont, West Virginia 26554, and its telephone number is (304) 363-4800. The Company’s Internet web site is www.mvbbanking.com.

Application of Critical Accounting Policies

The Company’s consolidated financial statements are prepared in accordance with U. S. generally accepted accounting principles 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 the Company's 2016 Annual Report on Form 10-K. These policies, along with the disclosures presented in the other financial statement notes and in management’s discussion and analysis of operations, provide information on how significant assets and liabilities are valued in the 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.

The allowance for loan losses represents management’s estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of losses inherent in classifications of homogeneous loans based on 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 the Company's 2016 Annual Report on Form 10-K, describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in the "Allowance for Loan Losses" section of Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this Quarterly Report on Form 10-Q.

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Results of Operations

Overview of the Statements of Income

For the three months ended June 30, 2017, the Company earned $2.3 million compared to $2.5 million in the second quarter of 2016, excluding discontinued operations. Net interest income increased by $152 thousand, noninterest income decreased by $434 thousand, and noninterest expenses increased by $747 thousand. The increase in net interest income was driven by an increase of $234 thousand in interest income and a $82 thousand increase in interest expense. Although average loan balances decreased $76.9 million, yield on loans and loans held for sale increased 27 basis points, primarily due to an increase in commercial loan yield of 24 basis points and an increase in real estate loan yield of 38 basis points. Additionally, yield on investment securities increased 19 basis points. Although average interest bearing liabilities decreased $76.1 million, the cost of FHLB and other borrowings increased by 63 basis points due to multiple interest rate increases since June 30, 2016.

Loan loss provisions of $523 thousand and $1.3 million were made for the quarters ended June 30, 2017 and 2016, respectively. The decrease in loan loss provision is most attributable to a significantly lower level of charge-offs in the second quarter of 2017 versus the second quarter of 2016. Meanwhile, the overall decrease in provision was somewhat reduced by the need for additional provision as a result of increased loan volume in the second quarter of 2017 versus the same quarter in 2016; and variations in historical loss rates between June 30, 2017 and June 30, 2016. 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. The Company charged off $163 thousand in loans during the second quarter of 2017 versus $635 thousand for the same time period in 2016. The total loan portfolio increased by $25.6 million in the second quarter of 2017, with the increase being concentrated in the commercial loan portfolio, while increasing by $12.0 million for the same time period in 2016, with the increase being more evenly distributed across the commercial and residential real estate portfolios.

For the six months ended June 30, 2017, the Company earned $3.8 million compared to $4.4 million for the six months ended June 30, 2016, excluding discontinued operations. Net interest income decreased by $237 thousand, non interest income decreased by $222 thousand, and noninterest expenses increased by $1.2 million. The decrease in net interest income was driven by a decrease of $80 thousand in interest income and a $157 thousand increase in interest expense. Although average loan balances decreased $33.2 million, yield on loans and loans held for sale increased 5 basis points. This increase was partially offset by a decrease in yield on commercial loans which was primarily the result of the recovery of non-accrual interest on one loan relationship which contributed $662 thousand to commercial loan interest income for the six months ended June 30, 2016, representing 18 basis point increase in commercial loan yield for the period. Additionally, yield on investment securities increased 15 basis points. Although average interest bearing liabilities decreased $45.7 million, the cost of FHLB and other borrowings increased by 49 basis points due to multiple interest rate increases since June 30, 2016.

Loan loss provisions of $1.0 million and $1.9 million were made for the six months ended June 30, 2017 and 2016, respectively. The decrease in loan loss provision is most attributable to a significantly lower level of charge-offs during the six month period ended June 30, 2017 versus the same time period in 2016, with the overall decrease being impacted by a lower level of ASC 310-10 specific loss allocations. Meanwhile, the overall decrease in provision was somewhat reduced by the need for additional provision as a result of increased loan volume in the first six months of 2017 versus the same time period in 2016; and variations in historical loss rates between June 30, 2017 and June 30, 2016. 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. The Company charged off $453 thousand in loans during the six month period ended June 30, 2017 versus $826 thousand for the same time period in 2016. Additionally, during the six month period ended June 30, 2017, ASC 310-10 specific loss allocations increased by $783 thousand, while in the same time period of 2017, the specific loss allocations decreased by $157 thousand.

Interest Income and Expense

Net interest income is the amount by which interest income on earning assets exceeds interest expense on interest-bearing liabilities. Interest-earning assets include loans, investment securities, and certificates of deposits in other banks. Interest-bearing liabilities include interest-bearing deposits and repurchase agreements, subordinated debt and Federal Home Loan Bank ("FHLB") and other borrowings. Net interest income is a primary source of revenue for the bank. Changes in market interest rates, as well as changes in the mix and volume of interest-earning assets and interest-bearing liabilities impact net interest income. Net interest margin is calculated by dividing net interest income by average interest-earning assets. This ratio serves as a performance measurement of the net interest revenue stream generated by the Company’s balance sheet. In June 2017, the Federal Reserve raised its key interest rate from a range of 0.75% to 1.00% to a range of 1.00% to 1.25%.

For the three months ended June 30, 2017 versus 2016, the Company was able to grow average investment securities by $37.6 million

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to $173.3 million, although average loans and loans held for sale balances declined by $76.9 million to $1.1 billion. In addition, the average balance on interest-bearing deposits in banks decreased by $13.1 million to $3.3 million, primarily due to a deposit reclassification program that was implemented during 2016 and allowed the Company to reduce its requirement of reserve balances on hand in accordance with the Federal Reserve Board's daily Federal Reserve Requirement. Average interest-bearing liabilities decreased by $76.1 million, primarily the result of a $63.4 million decrease in average FHLB and other borrowing balances and a $7.1 million decrease in interest bearing deposits. An increase in the Company’s average non-interest bearing balances of $17.1 million helped to sustain a 12 basis point favorable spread on net interest margin.

The net interest margin for the three months ended June 30,
2017 and 2016 was 3.31% and 3.14% respectively. The 17 basis point increase in the net interest margin for the quarter ended June 30, 2017 was the result of a 24 basis point increase in yield on average earning assets, primarily the result of a 27 basis point increase in yield on loans and loans held for sale. More specifically, an increase of 24 basis points in commercial loan yield and a 38 basis point increase in real estate loan yield. Additionally, yield on investment securities increased 19 basis points. Cost of interest-bearing liabilities for the three months ended June 30, 2017 versus 2016 increased by 9 basis points. The cost of interest-bearing liabilities increase was mainly the result of a 63 basis point increase in FHLB and other borrowings, due to multiple interest rate increases since June 30, 2016, and a 1 basis point increase in interest-bearing deposits. More specifically, the increase in interest-bearing deposits was as follows: a 15 basis point increase in certificates of deposit, a 2 basis point increase in IRAs, and a 1 basis point increase in NOW, offset by a 2 basis point decrease in money market checking, and an 5 basis point decrease in savings.

For the six months ended June 30, 2017 versus 2016, the Company was able to grow average investment securities by $38.8 million to $169.2 million, although average loans and loans held for sale balances decreased by $33.2 million to $1.1 billion. In addition, the average balance on interest-bearing deposits in banks decreased by $14.5 million to $3.0 million, primarily due to a deposit reclassification program that was implemented during 2016 and allowed the Company to reduce its requirement of reserve balances on hand in accordance with the Federal Reserve Board's daily Federal Reserve Requirement. Average interest-bearing liabilities decreased by $45.7 million, primarily the result of a $36.8 million decrease in average FHLB and other borrowing balances and a $5 million decrease in repurchase agreements and federal funds sold. An increase in the Company's average non-interest bearing balances of $22.0 million helped to sustain a 12 basis point favorable spread on net interest margin.

The net interest margin for the six months ended June 30, 2017 and 2016 was 3.25% and 3.24% respectively. The 1 basis point increase in the net interest margin for the six months ended June 30, 2017 was the result of a 4 basis point increase in yield on average earning assets, primarily the result of a 5 basis point increase in yield on loans and loans held for sale. Cost of interest-bearing liabilities for the six months ended June 30, 2017 versus 2016 increased 8 basis points. The cost of interest-bearing liabilities increase was mainly the result of a 49 basis point increase in FHLB and other borrowings, due to multiple interest rate increases since June 30, 2016, and a 2 basis point increase in interest-bearing deposits. More specifically, the increase in interest-bearing deposits was as follows: a 17 basis point increase in certificates of deposit, a 3 basis point increase in money market checking, offset by a 6 basis point decrease in savings, a 3 basis point decrease in IRAs, and a 2 basis point decrease in NOW.

Company and Bank management continuously monitor the effects of net interest margin on the performance of the Bank and, thus, the Company. Growth and mix of the balance sheet will continue to impact net interest margin in future periods.

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MVB Financial Corp. and Subsidiaries
Average Balances and Interest Rates
(Unaudited) (Dollars in thousands)

	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
(Dollars in thousands)	Average Balance	Interest Income/Expense	Yield/Cost	Average Balance	Interest Income/Expense	Yield/Cost
Assets						
Interest-bearing deposits in banks	$3,277	$ 12	1.47 %	$16,369	$ 20	0.49 %
CDs with other banks	14,456	70	1.94	13,150	62	1.89
Investment securities:						
Taxable	119,553	645	2.16	74,999	332	1.77
Tax-exempt	53,733	418	3.12	60,718	437	2.88
Loans and loans held for sale: [1]						
Commercial	725,707	8,170	4.52	755,350	8,089	4.28
Tax exempt	15,263	131	3.44	16,495	142	3.44
Real estate	373,353	4,201	4.51	415,126	4,285	4.13
Consumer	13,817	167	4.85	18,027	213	4.73
Total loans	1,128,140	12,669	4.50	1,204,998	12,729	4.23
Total earning assets	1,319,159	13,814	4.20	1,370,234	13,580	3.96
Less: Allowance for loan losses	(9,734)			(8,688)		
Cash and due from banks	15,407			10,974		
Other assets	100,205			88,287		
Total assets	$1,425,037			$1,460,807		
Liabilities						
Deposits:						
NOW	$432,729	$ 603	0.56 %	$468,074	$ 648	0.55 %
Money market checking	237,173	432	0.73	149,475	280	0.75
Savings	48,590	20	0.17	43,947	24	0.22
IRAs	16,282	53	1.31	16,375	53	1.29
CDs	256,887	855	1.33	320,906	944	1.18
Repurchase agreements and federal funds sold	21,268	19	0.36	26,816	17	0.25
FHLB and other borrowings	112,385	380	1.36	175,834	319	0.73
Subordinated debt	33,524	558	6.68	33,524	553	6.60
Total interest-bearing liabilities	1,158,838	2,920	1.01	1,234,951	2,838	0.92
Noninterest bearing demand deposits	114,974			97,826		
Other liabilities	7,698			10,173		
Total liabilities	1,281,510			1,342,950		
Stockholders’ equity						
Preferred stock	7,834			16,334		
Common stock	10,375			8,129		
Paid-in capital	96,986			74,349		
Treasury stock	(1,084)			(1,084)		
Retained earnings	32,764			22,001		
Accumulated other comprehensive income	(3,348)			(1,872)		

Total stockholders' equity	143,527			117,857			
Total liabilities and stockholders' equity	$1,425,037			$1,460,807			
Net interest spread			3.19			3.04	
Net interest income-margin		$ 10,894	3.31	%	$ 10,742	3.14	%

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

(Dollars in thousands)	Six Months Ended June 30, 2017 Average Balance	Interest Income/Expense	Yield/Cost	Six Months Ended June 30, 2016 Average Balance	Interest Income/Expense	Yield/Cost
Assets						
Interest-bearing deposits in banks	$3,007	$ 21	1.41 %	$17,501	$ 45	0.51 %
CDs with other banks	14,491	140	1.95	13,150	125	1.90
Investment securities:						
Taxable	114,237	1,191	2.10	71,482	642	1.80
Tax-exempt	54,999	848	3.11	58,978	844	2.86
Loans and loans held for sale: [1]						
Commercial	735,979	16,113	4.41	733,806	16,478	4.49
Tax exempt	15,296	262	3.45	16,653	288	3.46
Real estate	362,807	7,965	4.43	392,723	8,119	4.13
Consumer	14,092	342	4.89	18,168	421	4.63
Total loans	1,128,174	24,682	4.41	1,161,350	25,306	4.36
Total earning assets	1,314,908	26,882	4.12	1,322,461	26,962	4.08
Less: Allowance for loan losses	(9,581)			(8,466)		
Cash and due from banks	15,327			13,313		
Other assets	93,248			87,221		
Total assets	$1,413,902			$1,414,529		
Liabilities						
Deposits:						
NOW	$424,225	$ 1,126	0.54 %	$474,045	$ 1,335	0.56 %
Money market checking	237,010	891	0.76	130,235	474	0.73
Savings	48,342	40	0.17	44,405	50	0.23
IRAs	16,426	103	1.26	16,026	103	1.29
CDs	260,735	1,709	1.32	325,555	1,875	1.15
Repurchase agreements and federal funds sold	22,186	36	0.33	27,640	38	0.27
FHLB and other borrowings	108,210	668	1.24	144,962	545	0.75
Subordinated debt	33,524	1,109	6.67	33,524	1,105	6.59
Total interest-bearing liabilities	1,150,658	5,682	1.00	1,196,392	5,525	0.92
Noninterest bearing demand deposits	114,003			92,025		
Other liabilities	8,459			9,511		
Total liabilities	1,273,120			1,297,928		
Stockholders' equity						
Preferred stock	8,022			16,334		
Common stock	10,212			8,120		
Paid-in capital	95,240			74,312		
Treasury stock	(1,084)			(1,084)		
Retained earnings	32,211			21,213		
Accumulated other comprehensive income	(3,819)			(2,294)		
Total stockholders' equity	140,782			116,601		
Total liabilities and stockholders' equity	$1,413,902			$1,414,529		

Net interest spread		3.13			3.15	
Net interest income-margin	$ 21,200	3.25	%	$ 21,437	3.24	%

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

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Noninterest Income

Mortgage fee income generates 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, returned check fees, allowable overdraft fees, and service charges on commercial accounts. Gain on derivatives and interchange income also account for a significant amount of noninterest income.

For the three months ended June 30, 2017, noninterest income totaled $11.6 million compared to $12.0 million for the same time period in 2016. The $434 thousand decrease in noninterest income was primarily the result of a decrease in mortgage fee income of $445 thousand, a $248 thousand decrease in gain on sale of portfolio loans, and a $55 thousand decrease in gain on sale of securities, offset by an increase of $320 thousand in other operating income. Mortgage production volume decreased by $3.4 million or 0.8% in the second quarter of 2017 compared to the second quarter of 2016. In addition, loans held for sale decreased from $131.7 million at June 30, 2016 to $107.8 million at June 30, 2017.

For the six months ended June 30, 2017, noninterest income totaled $20.4 million compared to $20.6 million for the same time period in 2016. The $222 thousand decrease in noninterest income was primarily the result of a $2.3 million decrease in gain on derivatives, and a $388 thousand decrease in gain on sale of portfolio loans, which was offset by an increase in mortgage fee income of $2.4 million. The decrease in gain on derivatives was largely the result of a 3.2% increase in the locked mortgage pipeline for the six months ended June 30, 2017 compared to a 35.6% increase in the locked mortgage pipeline for the six months ended June 30, 2016. This was offset by an increase in mortgage production volume, which increased by $12.7 million or 1.7% in the six months ended June 30, 2017 compared to the same time period in 2016. In addition, loans held for sale decreased from $131.7 million at June 30, 2016 to $107.8 million at June 30, 2017.

Noninterest Expense

The Company had 386 full-time equivalent personnel at June 30, 2017, as noted, compared to 356 full-time equivalent personnel as of June 30, 2016. Company and Bank management will continue to strive to find new ways of increasing efficiencies and leveraging its resources, while effectively optimizing customer service.

Salaries and employee benefits, occupancy and equipment, data processing and communications, mortgage processing and professional fees generate the core of the Company’s noninterest expense. The Company’s efficiency ratio was 82.38% for the second quarter of 2017 compared to 78.07% for the second quarter of 2016. The Company's efficiency ratio was 83.72% for the six months ended June 30, 2016 compared to 80.04% for the same time period in 2016. This ratio measures the efficiency of noninterest expenses incurred in relationship to net interest income plus noninterest income. The increased efficiency ratios are the result of noninterest expense outpacing the growth in net interest income and noninterest income.

For the three months ended June 30, 2017, noninterest expense totaled $18.5 million compared to $17.8 million for the same time period in 2016. The $747 thousand increase in noninterest expense was primarily the result of the following:

Data processing and communication expense increased $224 thousand. This increase was largely driven by increased data processing fees related to the core system conversion that the Bank implemented in the second quarter of 2017 and Visa debit card expense related to overall growth in terms of client base, personnel, and office space, and the usage of new and enhanced products, services, and providers to better serve the client base.

Occupancy and equipment expense increased $302 thousand. This increase was mainly the result of increased utilities, real estate taxes, furniture rental expense, fixtures and equipment expense, and depreciation expense.

Other operating expenses increased $124 thousand, due to increased correspondent service charges, increased training expenses, increased public relations expense, increased bank charges, and increased shareholder's communications expenses.

Insurance, tax, and assessment expense increased $108 thousand, due to increased FDIC assessment expense and increased business and operating tax.

Travel, entertainment, dues, and subscriptions expense increased $107 thousand. This increase was mainly driven by increased meals and entertainment expense, publications and subscriptions expense, and travel expenses. Approximately $89 thousand of this increase was related to the core system conversion that the Bank implemented during the second quarter of 2017.

For the six months ended June 30, 2017, noninterest expense totaled $34.8 million compared to $33.7 million for the same time period in 2016. The $1.2 million increase was primarily the result of the following:

Other operating expenses increased $356 thousand due to increased training expenses and increased bank charges.

Data processing and communications expense increased $313 thousand. This increase was primarily driven by increased data processing fees related to the core system conversion that the Bank implemented in the second quarter of 2017 and Visa debit card expense related to overall growth in terms of client base, personnel, and office space, and the usage of new and enhanced products, services and providers to better serve the client base.

Occupancy and equipment expense increased $487 thousand. This increase was mainly the result of increased utilities, real estate taxes, furniture rental expense, fixtures and equipment expense, and depreciation expense.

Travel, entertainment, dues, and subscriptions expense increased $240 thousand. This increased was mainly driven by meals and entertainment expense, publications and subscriptions expense, and travel expenses. Approximately $132 thousand of this increase was related to the cores system conversion that the Bank implemented during the second quarter of 2017.

Salaries and employee benefits decreased $284 thousand. Approximately $196 thousand of this decrease was related to capitalized payroll costs for certain employees involved in the core system conversion that the Bank implemented during the six months ended June 30, 2017. Additionally, the decrease relates to a $500 thousand reorganization expense during the six months ended June 30, 2016. Also, there were increases related to additional staffing related to organic growth and raises for existing staff.

Insurance, tax, and assessment expense increased $196 thousand, due to increased FDIC assessment expense and increased business and operating tax.

Return on Average Assets (Annualized)

The Company’s return on average assets from continuing operations was 0.63% for the second quarter of 2017, compared to 0.67% for the second quarter of 2016, excluding discontinued operations. The decreased return for the second quarter of 2017 is a direct result of a $198 thousand decrease in earnings from continuing operations, while average total assets decreased by $35.8 million, primarily the result of a $76.9 million decrease in average total loans and loans held for sale and offset by a $37.6 million increase in average investment securities.

The Company's return on average assets from continuing operations was 0.54% for the six months ended June 30, 2017, compared to 0.62% for the six months ended June 30, 2016, excluding discontinued operations. The decreased return for the six months ended June 30, 2017 is a direct result of a $526 thousand decrease in earnings from continuing operations, while average total assets decreased by $627 thousand.

Return on Average Equity (Annualized)

The Company’s return on average stockholders’ equity from continuing operations was 6.30% for the second quarter of 2017, compared to 8.34% for the second quarter of 2016, excluding discontinued operations. The decreased return for the second quarter of 2017 is a direct result of a $198 thousand decrease in earnings, while average stockholders' equity increased by $25.7 million. The increase in average stockholders' equity was due to a $20.5 million Private Placement, a $5.0 million Rights Offering, $8.5 million in earnings since June 30, 2016 and was offset by the redemption of the Company's SBLF preferred stock in the amount of $8.5 million. These events are discussed in Note

7, "Stock Offerings" of the Notes to the Consolidated Financial Statements, included in Item 1, Financial Statements, of this Quarterly Report on Form 10-Q.

The company's return on average stockholders' equity from continuing operations was 5.45% for the six months ended June 30, 2017, compared to 7.48% for the six months ended June 30, 2016, excluding discontinued operations. The decreased return for the six months ended June 30, 2017 is a direct result of a $526 thousand decrease in earnings from continuing operations, while average stockholders' equity increased by $24.2 million. The increase in average stockholders' equity was due to a $20.5 million Private Placement, a $5.0 million Rights Offering, $8.5 million in earnings since June 30, 2016 and was offset by the redemption of the Company's SBLF preferred stock in the amount of $8.5 million. These events are discussed in Note 7, "Stock Offerings" of the Notes to the Consolidated Financial Statements, included in Item 1, Financial Statements, of this Quarterly Report on Form 10-Q.

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Overview of the Statement of Condition

The balance sheet did not change significantly since December 31, 2016. Total assets increased by $88.2 million, to $1.5 billion, total liabilities increased by $87.0 million, to $1.4 billion, and stockholders' equity increased by $1.2 million, to $146.8 million.

Total assets at June 30, 2017 were $1.5 billion, or an increase of $88.2 million since December 31, 2016. The greatest areas of increase were $48.9 million in net loan growth and $12.7 million in investment security growth.

Total liabilities at June 30, 2017 were $1.4 billion, or an increase of $87.0 million since December 31, 2016. The greatest area of increase was $98.5 million in FHLB and other borrowings.

Total stockholders' equity at June 30, 2017 was $146.8 million, or an increase of $1.2 million since December 31, 2016. In addition, unrealized gains on available-for-sale securities increased $1.6 million and pension liability was reduced by $202 thousand.

Cash and Cash Equivalents

Cash and cash equivalents totaled $17.8 million at June 30, 2017, compared to $17.3 million at December 31, 2016. 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

Prior to the final determination of Basel III, investments were recorded as held-to-maturity due to the uncertainty of the capital treatment of available-for-sale investments. Upon the issuance of the final ruling, the Company opted out of the Other Comprehensive Income treatment of available-for-sale investments permitted under Basel III. Due to the change in capital treatment under the final ruling of Basel III, the Company's purpose of recording investments as held-to-maturity changed; therefore, during the period ended March 31, 2016, the Company reclassified $52.4 million of the remaining held-to-maturity investments into available-for-sale investments.

Investment securities totaled $175.1 million at June 30, 2017, compared to $162.4 million at December 31, 2016. As of June 30, 2017, the investment portfolio is comprised of the following mix of securities:

- 30.8% – Municipal securities
- 27.2% – U.S. Agency securities
- 33.3% – U.S. Sponsored Mortgage-backed securities
- 8.8% – Equity and other securities

The Company and Bank management monitor the earnings performance and liquidity of the investment portfolio on a regular basis through 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. The Company and Bank management believe the risk characteristics inherent in the investment portfolio are acceptable based on these parameters.

Loans

The Company’s loan portfolio totaled $1.1 billion as of June 30, 2017 and $1.1 billion as of December 31, 2016. The Bank’s lending is primarily focused in the Marion, Harrison, Jefferson, Berkeley, Monongalia, and Kanawha counties of West Virginia, as well as the northern Virginia area for the mortgage and commercial lending business. Its extended market is in the adjacent counties. The portfolio consists principally of commercial lending, retail lending, which includes single-family residential mortgages, and consumer lending. The growth in loans is primarily attributable to organic growth within the Bank’s primary lending areas and northern Virginia.

Loan Concentration

At June 30, 2017 and December 31, 2016, $782.3 million, or 71.0% and $757.5 million, or 71.9%, respectively, of our loan portfolio consisted of commercial loans. A significant portion of the nonresidential real estate loan portfolio is secured by commercial real estate. The majority of nonresidential real estate loans that are not secured by real estate are lines of credit secured by accounts receivable and equipment and obligations of states and political subdivisions. While the loan concentration is in nonresidential real estate loans, the nonresidential real estate portfolio is comprised of loans to many different borrowers, in numerous different industries but primarily located in our market areas.

Allowance for Loan Losses

The allowance for loan losses was $9.7 million or 0.88% of total loans at June 30, 2017 compared to $9.1 million or 0.86% of total loans at December 31, 2016. The nominal increase in this ratio was the result of the net effect of loan loss provision, net charge-offs, and changes in the outstanding balance of the total loan portfolio. The Bank 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 allowance for loan losses. 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.

Capital Resources

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 continue to be the most significant source of funds, totaling $1.1 billion at June 30, 2017.

Non-interest bearing deposits remain a core funding source for the Bank and thus, the Company. At June 30, 2017, noninterest-bearing balances totaled $121.4 million compared to $115.7 million at December 31, 2016. The Company and Bank management intend to continue to focus on finding ways to increase the base of non-interest bearing sources of the Bank and its subsidiaries.

Interest-bearing deposits totaled $978.3 million at June 30, 2017 compared to $991.3 million at December 31, 2016.

Average interest-bearing deposits totaled $991.7 million during the second quarter of 2017 compared to $998.8 million during the second quarter of 2016, a decrease of $7.1 million. Average noninterest bearing deposits totaled $115.0 million during the second quarter of 2017 compared to $97.8 million during the second quarter of 2016. Management will continue to emphasize deposit gathering in 2017 by offering outstanding customer service and competitively priced products. The Company and Bank management will also concentrate on balancing deposit growth with adequate net interest margin to meet the Company’s strategic goals.

Along with traditional deposits, the Bank has access to both repurchase agreements, which are corporate deposits secured by pledging securities from the investment portfolio, and FHLB borrowings to fund its operations and investments. At June 30, 2017, repurchase agreements totaled $22.2 million compared to $25.2 million at December 31, 2016. In addition to the aforementioned funds alternatives, the Bank has access to more than $167.4 million through additional advances from the FHLB of Pittsburgh and the ability to readily sell jumbo certificates of deposits to other banks as well as brokered deposit markets.

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 MVB’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 six months ended June 30, 2017, cash provided by financing activities totaled $83.7 million, while outflows from investing activity totaled $67.1 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 primarily 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 $48 million remains available, subject to Board authorization 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.

Current Economic Conditions

The Company’s primary market areas are the Marion, Harrison, Jefferson, Berkeley, Monongalia, and Kanawha counties of West Virginia and Fairfax county of Virginia. In addition, MVB Mortgage has mortgage only offices located in Virginia, Washington, DC, as well as North Carolina and South Carolina and, in addition, has mortgage loan originators located at select Bank locations throughout West Virginia.

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 4.5% and 5.1% in June 2017 and 2016, respectively. The unemployment levels in the Company’s primary market areas were as follows for the periods indicated:

	May 2017	May 2016
Berkeley County, WV	2.9 %	3.6 %
Harrison County, WV	4.0 %	5.7 %
Jefferson County, WV	2.4 %	3.0 %
Marion County, WV	4.0 %	6.2 %
Monongalia County, WV	2.9 %	4.1 %
Kanawha County, WV	4.1 %	5.1 %
Fairfax County, VA	3.1 %	3.0 %

The numbers from the Company’s primary market areas continue to be slightly better than the national numbers. The Company and the Bank nonperforming loan information supports the fact that the Company’s primary market areas have not suffered as much as that of the nation as a whole. Nonperforming loans to total loans were 0.46% and 0.75% as of June 30, 2017 and 2016, respectively. Annualized net charge-offs to total loans were 0.07% and 0.15% for each period, respectively. The Company and the Bank continue to closely monitor economic and delinquency trends.

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 certain 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 energy industry, consisting of coal and natural gas, which has been negatively impacted by the decline in energy commodity prices, are elements of the West Virginia economy and numerous markets in which the Company operates. The Company has limited exposure in both the coal and natural gas industry. As of June 30, 2017 and December 31, 2016, the outstanding loan balances to coal and natural gas production clients were $6.7 million and $7.3 million, respectively.

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Capital/Stockholders' Equity

For the six months ended June 30, 2017, stockholders’ equity increased approximately $1.2 million to $146.8 million. This increase consists of net income year-to-date of $3.8 million, along with dividends paid totaling $511 thousand, and a 4.9 million rights offering offset by a $8.5 million decrease related to the redemption of SBLF preferred stock. As stockholders’ equity increased, the equity to assets ratio decreased 0.52% to 9.74% due to the increase in total assets during the six months ended June 30, 2017. The Company paid dividends to common shareholders of $511 thousand in the six months ended June 30, 2017 and $323 thousand in the six months ended June 30, 2016 and earned $3.8 million in the six months ended June 30, 2017 versus $8.3 million in the six months ended June 30, 2016, resulting in the dividend payout ratio increasing from 4.14% in the six months ended June 30, 2016 to 14.26% in the six months ended June 30, 2017.

The Company and the Bank have financed operations and growth over the years through the sale of equity. These equity sales have resulted in an effective source of capital. For more information related to equity sales, see Note 7, "Stock Offerings" of the Notes to the Consolidated Financial Statements, included in Item 1, Financial Statements, of this Quarterly Report on Form 10-Q.

At June 30, 2017, accumulated other comprehensive loss totaled $2.9 million, a decrease in the loss of $1.4 million from December 31, 2016.

Treasury stock totaled 51,077 shares.

The primary source of funds for dividends to be paid by the Company are dividends received by the Company from the Bank. Dividends paid by the Bank are subject to restrictions by banking regulations. The most restrictive provision requires regulatory approval if dividends declared in any year exceed that year’s retained net profits, as defined, plus the retained net profits, as defined, of the two preceding years.

Capital Requirements

The Company and the Bank are each required to comply with applicable capital adequacy standards established by the Federal Reserve Board and the FDIC, respectively (“Capital Rules”). State chartered banks, such as the Bank, are subject to similar capital requirements adopted by the West Virginia Division of Financial Institutions.

At June 30, 2017, the Company's consolidated risk-based capital ratios were above the minimum standards for a well capitalized institution. The total risk-based capital ratio of 14.66% at June 30, 2017, is above the well capitalized standard of 10%. The tier 1 risk-based capital ratio of 11.33% also exceeded the well capitalized minimum of 8%. The common equity tier 1 capital ratio of 10.32% is above the well capitalized standard of 6.5%. The leverage ratio at June 30, 2017 was 9.59% and was also above the well capitalized standard of 5%.

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 will increase by 0.625% on each subsequent January 1, until it reaches 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.

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When fully phased in on January 1, 2019, the Capital Rules will require the Company and 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.

With respect to the Bank, the Capital Rules also revise the “prompt corrective action” regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below under “Prompt Corrective Action.”

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.

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 the Company's 2016 Annual Report on Form 10-K.

Commitments and Contingent Liabilities

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.

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 June 30, 2017 and December 31, 2016, respectively. 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.

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.

Off-Balance Sheet Commitments

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.

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.

Market Risk

There have been no material changes in market risks faced by the Company since December 31, 2016. For information regarding the Company's market risk, refer to the Company's Annual Report to Shareholders for the year ended December 31, 2016.

Effects of Inflation and Changing Prices

Substantially all of the Company's assets relate to banking and are monetary in nature. Therefore, they are not impacted by inflation to the same degree as companies in capital-intensive industries in a replacement cost environment. During a period of rising prices, a net monetary asset position results in a decrease in purchasing power and conversely a net monetary liability position results in an increase in purchasing power. In the banking industry, typically monetary assets exceed monetary liabilities. Therefore as prices increase, financial institutions experience a decline in the purchasing power of their net assets.

Future Outlook

The Company's net income from continuing operations decreased in the second quarter of 2017 compared to the second quarter of 2016 mainly due to a decrease in mortgage fee income, a decrease in gain on sale of portfolio loans income, and in increase in noninterest expense, primarily related to increased costs related to the core system conversion. The Company has invested in the infrastructure to support envisioned future growth in each key area, including personnel, technology and processes to meet the growing compliance requirements in the industry. Commercial and retail loan production remains strong and mortgage and insurance have added staff and locations to increase production and improve profitability. 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 focus on doing the things that have made it successful thus far through the following: margin improvement; leveraging capital; organic portfolio loan growth; and operating efficiency. The key challenge for the Company in the future is to attract core deposits to fund growth in the new markets through continued delivery of the most outstanding customer service with the highest quality products and technology.

Item 3 – 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 March 31, 2017. 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 March 31, 2017, over a twelve-month period, an immediate 100 basis point increase in interest rates would result in an increase in net interest income by 1.7%. An immediate 200 basis point increase in interest rates would result in an increase in net interest income by 2.2%. A 100 basis point decrease in interest rates would result in a decrease in net interest income of 4.2%. 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.

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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 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. We do not expect these third parties to fail to meet their obligations.

Item 4 – Controls and Procedures

The Company, under the supervision and with the participation of the Company’s management, including the Company’s President and Chief Executive Officer, along with the Company’s Chief Financial Officer (the Principal Financial Officer), has evaluated the effectiveness as of June 30, 2017, of the design and operation of the Company’s disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon that evaluation, the Company’s President and Chief Executive Officer, along with the Company’s Principal Accounting Officer concluded that the Company’s disclosure controls and procedures were effective as of June 30, 2017.

There have been no material changes in the Company’s internal control over financial reporting during the second quarter of 2017 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

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

Item 1A – Risk Factors

Our operations are subject to many risks that could adversely affect our future financial condition and performance and, therefore, the market value of our securities, including the risk factors that are described in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2016. There have been no material changes in our risk factors from those disclosed.

Item 2 – Unregistered Sales of Equity Proceeds and Use of Proceeds

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

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

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Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Mine Safety Disclosures

Not applicable.

Item 5 – Other Information

None.

Item 6 – Exhibits
The following exhibits are filed herewith:

Exhibit 10.1	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
Exhibit 10.2	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
Exhibit 10.3	Supplemental Executive Retirement Plan (SERP) approved by MVB Financial Corp. and MVB Mortgage
Exhibit 31.1	Certificate of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certificate of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certificate of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certificate of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

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

MVB Financial Corp.

Date: 7/31/2017 By: /s/ Larry F. Mazza

Larry F. Mazza
President, CEO and Director
(Principal Executive Officer)

Date: 7/31/2017 By: /s/ Donald T. Robinson
Donald T. Robinson
Executive Vice President and CFO
(Principal Financial and Accounting Officer)

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