MVB FINANCIAL CORP
Form 10-Q
May 07, 2018
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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 March 31, 2018
or
¨ TRANSITION REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________.

Commission File Number: 000-50567

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

West Virginia	20-0034461
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
301 Virginia Avenue, Fairmont, 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 an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark 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 May 6, 2018, the Registrant had 10,540,827 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)

		March 31, 2018 (Unaudited)	December 31, 2017 (Note 1)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks		$17,088	$16,345
Interest bearing balances with banks		6,542	3,960
Total cash and cash equivalents		23,630	20,305
Certificates of deposit with other banks		14,778	14,778
Investment Securities:			
Securities available-for-sale		226,504	231,507
Equity securities	16,265,000	6,979	—
Loans held for sale		51,280	66,794
Loans:		1,157,173	1,105,941
Less: Allowance for loan losses		(10,067)	(9,878)
Net Loans		1,147,106	1,096,063
Premises and equipment		26,477	26,686
Bank owned life insurance		32,885	32,666
Accrued interest receivable and other assets		33,399	27,023
Goodwill		18,480	18,480
TOTAL ASSETS		$1,581,518	$1,534,302
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits:			
Noninterest bearing		$142,826	$125,963
Interest bearing		1,011,081	1,033,617
Total deposits		1,153,907	1,159,580
Accrued interest payable and other liabilities		15,620	16,434
Repurchase agreements		20,676	22,403
FHLB and other borrowings		207,370	152,169
Subordinated debt		33,524	33,524
Total liabilities		1,431,097	1,384,110
STOCKHOLDERS' EQUITY			
Preferred stock, par value $1,000; 20,000 authorized; 783 issued in 2018 and 2017, respectively (See Footnote 7)		7,834	7,834
Common stock, par value $1; 20,000,000 shares authorized; 10,589,704 shares issued and 10,538,627 shares outstanding in 2018 and 10,495,704 shares issued and 10,444,627 shares outstanding in 2017		10,590	10,496
Additional paid-in capital		100,108	98,698
Retained earnings		40,190	37,236
Accumulated other comprehensive loss		(7,217)	(2,988)
Treasury stock, 51,077 shares, at cost		(1,084)	(1,084)

Total stockholders’ equity	150,421	150,192
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$1,581,518	$1,534,302

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)

	Three Months Ended March 31,	
	2018	2017
INTEREST INCOME		
Interest and fees on loans	$13,291	$ 11,882
Interest on deposits with other banks	90	79
Interest on investment securities - taxable	895	546
Interest on tax exempt loans and securities	778	561
Total interest income	15,054	13,068
INTEREST EXPENSE		
Interest on deposits	2,298	1,906
Interest on repurchase agreements	19	17
Interest on FHLB and other borrowings	714	288
Interest on subordinated debt	558	551
Total interest expense	3,589	2,762
NET INTEREST INCOME	11,465	10,306
Provision for loan losses	474	518
Net interest income after provision for loan losses	10,991	9,788
NONINTEREST INCOME		
Service charges on deposit accounts	185	187
Income on bank owned life insurance	218	147
Interchange and debit card transaction fees	150	295
Mortgage fee income	6,563	9,634
Gain on sale of portfolio loans	212	9
Insurance and investment services income	164	124
Gain on sale of securities	326	183
Gain (loss) on derivatives	584	(1,947)
Commercial swap fee income	413	—
Other operating income	224	192
Total noninterest income	9,039	8,824
NONINTEREST EXPENSES		
Salary and employee benefits	10,473	9,962
Occupancy expense	1,049	994
Equipment depreciation and maintenance	784	689
Data processing and communications	835	1,214
Mortgage processing	892	894
Marketing, contributions, and sponsorships	347	327
Professional fees	745	677
Printing, postage, and supplies	165	217
Insurance, tax, and assessment expense	390	461
Travel, entertainment, dues, and subscriptions	648	501
Other operating expenses	411	381

Total noninterest expense	16,739	16,317
Income before income taxes	3,291	2,295
Income tax expense	697	721
Net income	$2,594	$ 1,574
Preferred dividends	121	129
Net income available to common shareholders	$2,473	$ 1,445
Earnings per share - basic	$0.24	$ 0.14
Earnings per share - diluted	$0.23	$ 0.14
Cash dividends declared	$0.025	$ 0.025
Weighted average shares outstanding - basic	10,474,138	9,996,544
Weighted average shares outstanding - diluted	12,714,351	10,009,341

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)

	Three Months Ended March 31,	
	2018	2017
Net Income	$2,594	$1,574
Other comprehensive income (loss):		
Unrealized holding gains (losses) on securities available-for-sale	(4,448)	448
Income tax effect	1,201	(179)
Reclassification adjustment for gain recognized in income	(326)	(183)
Income tax effect	88	73
Change in defined benefit pension plan	—	164
Income tax effect	—	(66)
Total other comprehensive income (loss)	(3,485)	257
Comprehensive income (loss)	$(891)	$1,832

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, 2016	$16,334	$10,048	$93,412	$31,192	$ (4,277)	$(1,084)	$ 145,625
Net Income	—	—	—	1,574	—	—	1,574
Other comprehensive income	—	—	—	—	257	—	257
Cash dividends paid ($0.025 per share)	—	—	—	(250)	—	—	(250)
Dividends on preferred stock	—	—	—	(129)	—	—	(129)
Stock based compensation	—	—	148	—	—	—	148
Redemption of preferred stock	(8,500)	—	—	—	—	—	(8,500)
Balance March 31, 2017	$7,834	$10,048	$93,560	$32,387	$ (4,020)	$(1,084)	$ 138,725
Balance December 31, 2017	7,834	10,496	98,698	37,236	(2,988)	(1,084)	150,192
Net Income	$—	$—	$—	$2,594	$ —	$—	$ 2,594
Other comprehensive loss	—	—	—	—	(3,485)	—	(3,485)
Cash dividends paid ($0.025 per share)	—	—	—	(263)	—	—	(263)
Dividends on preferred stock	—	—	—	(121)	—	—	(121)
Stock based compensation	—	—	244	—	—	—	244
Common stock options exercised	—	94	1,166	—	—	—	1,260
Stranded AOCI (See Footnote 2)	—	—	—	646	(646)	—	—
Mark to Market on equity positions held at December 31, 2017 (See Footnote 2)	—	—	—	98	(98)	—	—
Balance March 31, 2018	$7,834	$10,590	$100,108	$40,190	$ (7,217)	$(1,084)	$ 150,421

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)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
OPERATING ACTIVITIES		
Net Income	$2,594	$1,574
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization and accretion of investments	361	319
Net amortization of deferred loan costs	16	90
Provision for loan losses	474	518
Depreciation and amortization	741	617
Stock based compensation	244	148
Loans originated for sale	(238,935)	(313,263)
Proceeds of loans sold	261,012	341,150
Mortgage fee income	(6,563)	(9,634)
Gain on sale of securities	(326)	(549)
Loss on sale of securities	—	366
Gain on sale of portfolio loans	(212)	(9)
Income on bank owned life insurance	(218)	(147)
Deferred taxes	(51)	(25)
Other, net	(3,924)	(1,414)
Net cash provided by operating activities	15,213	19,741
INVESTING ACTIVITIES		
Purchases of investment securities available-for-sale	(14,859)	(37,919)
Maturities/paydowns of investment securities available-for-sale	7,364	4,717
Sales of investment securities available-for-sale	680	22,945
Purchases of premises and equipment	(506)	(1,588)
Net increase in loans	(51,321)	(24,245)
Purchases of restricted bank stock	(5,901)	(4,276)
Redemptions of restricted bank stock	3,797	4,818
Proceeds from sale of other real estate owned	181	—
Purchase of bank owned life insurance	—	(50)
Net cash used in investing activities	(60,565)	(35,598)
FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(5,673)	29,449
Net decrease in repurchase agreements	(1,727)	(3,465)
Net change in short-term FHLB borrowings	67,421	(14,769)
Principal payments on FHLB borrowings	(12,220)	(24)
Proceeds from new FHLB borrowings	—	14,483
Preferred stock redemption	—	(8,500)
Common stock options exercised	1,260	—
Cash dividends paid on common stock	(263)	(250)
Cash dividends paid on preferred stock	(121)	(129)
Net cash provided by financing activities	48,677	16,795
Increase in cash and cash equivalents	3,325	938
Cash and cash equivalents at beginning of period	20,305	17,340
Cash and cash equivalents at end of period	$23,630	$18,278

Supplemental disclosure of cash flow information:		
Loans transferred to other real estate owned	$720	$—
Cash payments for:		
Interest on deposits, repurchase agreements and borrowings	$3,635	$2,943

See accompanying notes to unaudited consolidated financial statements.

Notes to the Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

MVB Financial Corp. ("the Company") is a financial holding company and was organized in 2003. MVB operates principally through its wholly-owned subsidiary, MVB Bank, Inc. ("MVB Bank"). MVB Bank's operating subsidiaries include MVB Mortgage, MVB Insurance, LLC ("MVB Insurance"), and MVB Community Development Corporation ("CDC").

Principles of Consolidation and 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, 2017 has been derived from audited financial statements included in the Company's 2017 filing on Form 10-K. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The accounting and reporting policies of the Company 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, 2017, 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.

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

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Company's primary sources of revenue are derived from interest and fees earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

The Company also completed its evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contract-revenue (i.e. gross versus net). Based on the evaluation, the Company determined that the classification of certain debit and credit card processing related costs should change (i.e. costs previously recorded as expense in now recorded as contract-revenue). These classification changes resulted in immaterial changes to both revenue and expense. Since

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there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to beginning retained earnings was not deemed necessary. Consistent with the modified retrospective approach, the Company did not adjust prior period amounts related to the debit and credit card related cost reclassifications discussed above.

Note 2 – Recent Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This update requires a reclassification from accumulated other comprehensive income ("AOCI") to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate in the Tax Reform Act, which was enacted on December 22, 2017. The Tax Reform Act included a reduction to the corporate income tax rate from 34 percent to 21 percent effective January 1, 2018. The amendments in the ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company elected to early adopt ASU 2018-02 during the first quarter of 2018, and elected to reclassify the income tax effects of the Tax Reform Act from AOCI to retained earnings. The amount of the reclassification is the difference between the historical corporate income tax rate and the newly enacted 21 percent corporate income tax rate, which amounted to $646 thousand.

In 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 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 adoption of this guidance did not have a material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business," ("ASU 2017-01") to improve such definition and, as a result, assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or as business combinations. The definition of a business impacts many areas of accounting including acquisitions, disposals, goodwill and consolidation. ASU 2017-01 was effective for the Company on January 1, 2018 and is to be applied under a

prospective approach. The Company expects the adoption of this new guidance to impact the determination of whether future acquisitions are considered business combinations.

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") engaged a third party to assist with a data gap analysis and will utilize the data to determine the impact of the pronouncement. Additionally, the Company has researched and acquired software to assist with implementation that will be tested throughout 2018.

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 (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. The Company established a project management team, which is currently evaluating the impact of the new standard, and expects 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 adopted this guidance in the first quarter of 2018. The adoption of ASU 2016-01 on January 1, 2018 did not have a material impact on the Company's Consolidated Financial Statements. In accordance with (5) above, the Company measured the fair value of its loan portfolio as of March 31, 2018 using an exit price notion. See Note 6 "Fair Value of Financial Instruments" of the Notes to Consolidated Financial Statements for further information.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new revenue pronouncement creates a single source of revenue guidance for all companies in all industries and is more principles-based than current revenue guidance. The pronouncement provides a five-step model for a company to recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The five steps are: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations and (5) recognize revenue when each performance obligation is satisfied. The Company evaluated the impact of this standard on individual

customer contracts, while management evaluated the impact of this standard on the broad categories of its customer contracts and revenue streams. The Company determined that this standard did not have a material impact on its consolidated financial statements because revenue related to financial instruments, including loans and investment securities are not in scope of these updates. Loan interest income, investment interest income, insurance services revenue and BOLI are accounted for under other U.S. GAAP standards and out of scope of ASC 606 revenue standard. The Company evaluated the impact of this standard on individual customer contracts, while management evaluated the impact of this standard on the broad categories of its customer contracts and revenue streams. The Company adopted the revenue recognition standard as of January 1, 2018 and it did not have a material effect on the consolidated financial statements. See Note 1 "Summary of Significant Policies" of the Notes to the Consolidated Financial Statements for further information.

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Note 3 – Investment Securities

There were no held-to-maturity securities at March 31, 2018 or December 31, 2017.

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

(Dollars in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U. S. Agency securities	$ 82,518	$ 91	$ (1,814)	$ 80,795
U.S. Sponsored Mortgage-backed securities	58,827	—	(2,509)	56,318
Municipal securities	80,839	996	(1,730)	80,105
Total debt securities	222,184	1,087	(6,053)	217,218
Other securities	9,235	87	(36)	9,286
Total investment securities available-for-sale	$ 231,419	$ 1,174	$ (6,089)	$ 226,504

Amortized cost and fair values of investment securities available-for-sale at December 31, 2017 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U. S. Agency securities	$ 81,705	$ 81	$ (841)	$ 80,945
U.S. Sponsored Mortgage-backed securities	59,387	31	(1,264)	58,154
Municipal securities	74,482	1,733	(373)	75,842
Total debt securities	215,574	1,845	(2,478)	214,941
Equity and other securities	15,940	644	(18)	16,566
Total investment securities available-for-sale	$ 231,514	$ 2,489	$ (2,496)	$ 231,507

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

	March 31, 2018	
	Available for sale	
(Dollars in thousands)	Amortized Cost	Fair Value
Within one year	$ 524	$ 528
After one year, but within five	46,954	46,525
After five years, but within ten	23,841	22,947
After ten years	150,865	147,218
Total	$ 222,184	$ 217,218

Investment securities with a carrying value of $117.4 million at March 31, 2018, 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 March 31, 2018, the details of which are included in the following table. Although these securities, if sold at March 31, 2018 would result in a pretax loss of $6.1 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 the security has been downgraded by a rating agency, and whether or not the financial condition of the security issuer has severely deteriorated. As of March 31, 2018, 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.

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

(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 (45)	$62,984	$(1,471)	$7,789	$(343)
U.S. Sponsored Mortgage-backed securities (42)	19,632	(541)	39,196	(1,968)
Municipal securities (86)	28,748	(827)	18,100	(903)
Other securities (3)	$2,549	$(36)	$—	$—
	$113,913	$(2,875)	$65,085	$(3,214)

The following table discloses investments in an unrealized loss position at December 31, 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 (45)	$ 61,834	$ (659)	$7,709	$(182)
U.S. Sponsored Mortgage-backed securities (39)	16,825	(159)	37,427	(1,105)
Municipal securities (47)	8,826	(48)	16,781	(325)
Equity and other securities (2)	1,034	(18)	—	—
	$ 88,519	$ (884)	$61,917	$(1,612)

For the three month periods ended March 31, 2018 and 2017, the Company sold investments available-for-sale of $680 thousand, $22.9 million, respectively. These sales resulted in gross gains of $326 thousand and $549 thousand and gross losses of $0 and $366 thousand, respectively.

For the three months ended March 31, 2018, the Company recognized an unrealized loss of $30 thousand on equity securities held as of March 31, 2018, which was recorded in noninterest income in the consolidated statements of income.

Note 4 – Loans and Allowance for Loan Losses

The components of loans in the Consolidated Balance Sheet at March 31, 2018 and December 31, 2017, were as follows:

(Dollars in thousands)	March 31, 2018	December 31, 2017
Commercial and Non-Residential Real Estate	$824,625	$ 783,909
Residential Real Estate	260,513	246,214
Home Equity	59,526	62,400
Consumer	11,909	12,783
Total Loans	$1,156,573	$ 1,105,306
Deferred loan origination fees and costs, net	600	635
Loans receivable	$1,157,173	$ 1,105,941

All loan origination fees and direct loan origination costs are deferred and recognized over the life of the loan.

An allowance for loan losses ("ALL") is maintained to absorb losses from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

The Bank's methodology for determining the ALL is based on the requirements of ASC Section 310-10-35 for loans individually evaluated for impairment (discussed above) and ASC Subtopic 450-20 for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the two components represents the Bank's ALL. The Bank's methodology allows for the analysis of certain impaired loans in homogeneous pools, rather than on an individual basis, when those loans are below specific thresholds based on outstanding principal balance. More specifically, residential mortgage loans, home equity lines of credit, and consumer loans, when considered impaired, are

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evaluated collectively for impairment by applying allocation rates derived from the Bank's historical losses specific to impaired loans. Total collectively evaluated impaired loans were $1.4 million and $1.3 million, while the related reserves were $173 thousand and $169 thousand as of March 31, 2018 and December 31, 2017.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by qualified factors.

The segments described below in the impaired loans by class table, which are based on the Federal call code assigned to each loan, provide the starting point for the ALL 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: lending policies and procedures, nature and volume of the portfolio, experience and ability of lending management and staff, volume and severity of problem credits, conclusion of loan reviews, audits, and exams, changes in the value of underlying collateral, effect of concentrations of credit from a loan type, industry and/or geographic standpoint, changes in economic and business conditions consumer sentiment, and other external factors. The combination of historical charge-off and qualitative factors are then weighted for each risk grade. These weightings are determined internally based upon the likelihood of loss as a loan risk grading deteriorates.

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

Once the estimated future advances were calculated, an allocation rate, which was derived from the Bank's historical losses and qualitative environmental factors, was applied in the similar manner as those used for the allowance for loan loss calculation. The resulting estimated loss allocations were totaled to determine the liability for unfunded commitments related to these loans, which Management considers necessary to anticipate potential losses on those commitments that have a reasonable probability of funding. As of March 31, 2018 and December 31, 2017, the liability for unfunded commitments related to loans held for investment was $284 thousand.

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

The ALL is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date.

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The following tables summarize the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of March 31, 2018:

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
ALL balance at December 31, 2017	$ 7,804	$ 1,119	$ 705	$ 250	$ 9,878
Charge-offs	(324)	(11)	—	(21)	(356)
Recoveries	2	9	56	4	71
Provision	516	60	(68)	(34)	474
ALL balance at March 31, 2018	$ 7,998	$ 1,177	$ 693	$ 199	$ 10,067
Individually evaluated for impairment	$ 915	$ —	$ —	$ —	$ 915
Collectively evaluated for impairment	$ 7,083	$ 1,177	$ 693	$ 199	$ 9,152

The following table summarizes the primary segments of the Company loan portfolio as of March 31, 2018:

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
Individually evaluated for impairment	$ 12,957	$ 1,707	$ 44	$ 43	$ 14,751
Collectively evaluated for impairment	811,668	258,806	59,482	11,866	1,141,822
Total Loans	$ 824,625	$ 260,513	$ 59,526	$ 11,909	$ 1,156,573

The following tables summarize the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of March 31, 2017:

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
ALL balance at December 31, 2016	$ 7,181	$ 990	$ 728	$ 202	$ 9,101
Charge-offs	(113)	(141)	(33)	(3)	(290)
Recoveries	9	32	1	1	43
Provision	208	204	94	12	518
ALL balance at March 31, 2017	$ 7,285	$ 1,085	$ 790	$ 212	$ 9,372
Individually evaluated for impairment	$ 279	$ 46	$ 36	$ 25	$ 386
Collectively evaluated for impairment	$ 7,006	$ 1,039	$ 754	$ 187	$ 8,986

The following table summarizes the primary segments of the Company loan portfolio as of March 31, 2017:

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
Individually evaluated for impairment	$ 10,300	$ 1,356	$ 647	$ 125	$ 12,428
Collectively evaluated for impairment	742,031	243,250	64,523	13,636	1,063,440
Total Loans	$ 752,331	$ 244,606	$ 65,170	$ 13,761	$ 1,075,868

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 evaluates residential mortgage loans, home equity lines of credit, and consumer loans in homogeneous pools, rather than on an individual basis, when each of those loans are below specific thresholds based on outstanding

principal balance. Such loans that individually exceed these thresholds are evaluated individually 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.

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Once the determination has been made that a loan is impaired, the amount of the impairment is measured using one of three valuation methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. The method is selected on a loan-by-loan basis, with management primarily utilizing the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis.

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of March 31, 2018 and December 31, 2017:

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
(Dollars in thousands)	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
March 31, 2018					
Commercial					
Commercial Business	$ 139	$ 76	$ 4,738	$ 4,877	$ 4,898
Commercial Real Estate	4,026	839	2,762	6,788	7,596
Acquisition & Development	—	—	1,292	1,292	3,572
Total Commercial	4,165	915	8,792	12,957	16,066
Residential	—	—	1,707	1,707	1,755
Home Equity	—	—	44	44	44
Consumer	—	—	43	43	49
Total Impaired Loans	$ 4,165	$ 915	$ 10,586	$ 14,751	$ 17,914
December 31, 2017					
Commercial					
Commercial Business	$ 3,283	$ 22	$ 979	$ 4,262	$ 4,275
Commercial Real Estate	4,603	1,150	2,814	7,417	7,921
Acquisition & Development	—	—	2,117	2,117	4,090
Total Commercial	7,886	1,172	5,910	13,796	16,286
Residential	—	—	1,569	1,569	1,601
Home Equity	—	—	13	13	13
Consumer	69	16	109	178	475
Total Impaired Loans	$ 7,955	$ 1,188	$ 7,601	$ 15,556	$ 18,375

Impaired loans have decreased by $805 thousand, or 5.2%, during the first quarter of 2018. This change is the net effect of multiple factors, including the identification of $1.0 million of impaired loans, principal curtailments of $307 thousand, partial charge-offs of $335 thousand, the foreclosure of a commercial development loan which required the reclassification of $720 thousand to other real estate owned, the classification of $292 thousand to performing loans based on improved repayment performance, and normal loan amortization.

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

(Dollars in thousands)	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Average Investment in Impaired Loans	Interest Income Recognized on Accrual Basis	Interest Income Recognized on Cash Basis	Average Investment in Impaired Loans	Interest Income Recognized on Accrual Basis	Interest Income Recognized on Cash Basis
Commercial						
Commercial Business	$4,525	$ 38	$ 53	$3,349	$ 39	$ 13
Commercial Real Estate	7,431	21	23	2,803	25	26
Acquisition & Development	1,837	—	—	3,775	2	3
Total Commercial	13,793	59	76	9,927	66	42
Residential	1,747	5	48	1,417	2	17
Home Equity	65	—	—	653	—	—
Consumer	132	—	—	142	—	—
Total	$15,737	$ 64	$ 124	$12,139	$ 68	$ 59

As of March 31, 2018, the Bank's other real estate owned balance totaled $1.9 million. The Bank held nine foreclosed residential real estate properties representing $890 thousand, or 47%, of the total balance of other real estate owned. These properties are held as a result of the foreclosures of primarily two commercial loan relationships, one of which included three properties for a total of $395 thousand, while the other also included three properties for a total of $178 thousand. The three remaining residential real estate properties, totaling $317 thousand, were result of the foreclosure of three unrelated borrowers. The remaining $1.0 million, or 53%, of other real estate owned is the result of the foreclosure of three unrelated commercial development loans. There are two additional consumer mortgage loans collateralized by residential real estate properties in the process of foreclosure. The total recorded investment in these loans was $329 thousand as of March 31, 2018. These loans are included in the table above and have $0 in specific allowance allocated to them.

Bank management uses a nine-point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized and are aggregated as “Pass” rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. Any portion of a loan that has been or is expected to be charged off is placed in the Loss category.

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

Review of the appropriate risk grade is included in both the internal and external loan review process, and on an ongoing basis. The Bank has an experienced Credit Department that continually reviews and assesses loans within the

portfolio. The Bank engages an external consultant to conduct independent loan reviews on at least an annual basis. Generally, the external consultant reviews larger commercial relationships or criticized relationships. The Bank's Credit Department compiles detailed reviews, including plans for resolution, on loans classified as Substandard on a quarterly basis. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

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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 March 31, 2018 and December 31, 2017:

(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
March 31, 2018					
Commercial					
Commercial Business	$380,106	$4,793	$ 4,547	$ —	$389,446
Commercial Real Estate	304,669	14,553	2,394	4,236	325,852
Acquisition & Development	105,111	994	2,230	992	109,327
Total Commercial	789,886	20,340	9,171	5,228	824,625
Residential	257,307	2,879	205	122	260,513
Home Equity	58,413	1,074	39	—	59,526
Consumer	11,695	191	16	7	11,909
Total Loans	$1,117,301	$24,484	$ 9,431	$ 5,357	$1,156,573
December 31, 2017					
Commercial					
Commercial Business	$371,041	$4,816	$ 4,506	$ —	$380,363
Commercial Real Estate	271,751	22,995	5,961	1,149	301,856
Acquisition & Development	96,712	931	2,230	1,817	101,690
Total Commercial	739,504	28,742	12,697	2,966	783,909
Residential	242,823	3,036	223	132	246,214
Home Equity	61,037	1,311	52	—	62,400
Consumer	12,453	174	25	131	12,783
Total Loans	$1,055,817	$33,263	$ 12,997	$ 3,229	$1,105,306

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.

Management is currently monitoring the payment performance of a $3.2 million commercial loan that has paid slow in recent months. This loan is classified as a troubled debt restructured loan based on multiple interest only periods being provided in the past, however, as of March 31, 2018, this loan was paid current. The borrower has continued to work through ongoing litigation, resolution of which is expected in the near future.

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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 March 31, 2018 and December 31, 2017:

(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
March 31, 2018								
Commercial								
Commercial Business	$387,428	$473	$393	$1,152	$2,018	$389,446	$ 1,758	$ —
Commercial Real Estate	321,198	1,188	—	3,466	4,654	325,852	4,664	—
Acquisition & Development	108,035	860	—	432	1,292	109,327	1,292	—
Total Commercial	816,661	2,521	393	5,050	7,964	824,625	7,714	—
Residential	255,659	4,417	108	329	4,854	260,513	1,301	—
Home Equity	59,050	194	282	—	476	59,526	44	—
Consumer	11,831	28	19	31	78	11,909	43	—
Total Loans	$1,143,201	$7,160	$802	$5,410	$13,372	$1,156,573	$ 9,102	$ —
December 31, 2017								
Commercial								
Commercial Business	$377,901	$512	$1,368	$582	$2,462	$380,363	$ 1,027	$ —
Commercial Real Estate	300,282	45	1,149	380	1,574	301,856	5,206	—
Acquisition & Development	99,573	—	874	1,243	2,117	101,690	2,117	—
Total Commercial	777,756	557	3,391	2,205	6,153	783,909	8,350	—
Residential	243,177	1,879	707	451	3,037	246,214	1,157	—
Home Equity	61,907	240	240	13	493	62,400	13	—
Consumer	12,634	11	—	138	149	12,783	179	—
Total Loans	$1,095,474	$2,687	$4,338	$2,807	$9,832	$1,105,306	$ 9,699	$ —

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 March 31, 2018 and December 31, 2017, the Bank had specific reserve allocations for TDR’s of $443 thousand and $439 thousand, respectively.

Loans considered to be troubled debt restructured loans totaled $6.4 million and $6.4 million as of March 31, 2018 and December 31, 2017, respectively. Of these totals, $5.6 million and $5.9 million, respectively, represent accruing troubled debt restructured loans and represent 38% and 38%, respectively of total impaired loans. Meanwhile, $432 thousand represents two loans to one borrower that have 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. These borrowers have experienced continued financial difficulty and are considered non-performing loans as of March 31, 2018 and December 31, 2017. There were no previously restructured loans that defaulted during the three months ended March 31, 2018.

A commercial loan in the amount of $128 thousand was classified as impaired and as a TDR in the first quarter of 2018. This loan represents the only new TDR for the three months ended March 31, 2018. There were no new TDR's for the three months ended March 31, 2017.

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	New TDR's [1]					
	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial						
Commercial Business	1	$ 128	$ 128	—	$ —	$ —
Commercial Real Estate	—	—	—	—	—	—
Acquisition & Development	—	—	—	—	—	—
Total Commercial	1	128	128	—	—	—
Residential	—	—	—	—	—	—
Home Equity	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	1	$ 128	$ 128	—	$ —	$ —

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

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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 $204.8 million at March 31, 2018, compared to $149.6 million at December 31, 2017.

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

(Dollars in thousands)	March 31, 2018	December 31, 2017
Balance at end of period	$204,817	$ 149,596
Average balance during the period	148,752	100,969
Maximum month-end balance	204,816	220,097
Weighted-average rate during the year	1.64 %	1.16 %
Weighted-average rate at end of period	1.87 %	1.61 %

Repurchase agreements

Along with traditional deposits, the Bank has access to securities sold under agreements to repurchase “repurchase agreements” with customers represent funds deposited by customers, on an overnight basis, that are collateralized by investment securities owned by the Company. Repurchase agreements with customers are 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 the Company's 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 March 31, 2018 and December 31, 2017. These borrowings were collateralized with investment securities with a carrying value of $21.3 million and $23.1 million at March 31, 2018 and December 31, 2017, 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 $20.7 million at March 31, 2018, compared to $22.4 million in December 31, 2017. Information related to repurchase agreements is summarized as follows:

(Dollars in thousands)	March 31, 2018	December 31, 2017
Balance at end of period	$20,676	$ 22,403
Average balance during the period	20,605	25,160
Maximum month-end balance	20,676	25,972

Weighted-average rate during the year	0.37 %	0.30 %
Weighted-average rate at end of period	0.39 %	0.34 %

Long-term notes from the FHLB were as follows:

(Dollars in thousands)	March 31, 2018	December 31, 2017
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	$ 1,784	$ 1,798
Amortizing fixed interest rate note, originating February 2007, due February 2022, payable in monthly installments of $5 thousand, including interest of 5.22%	769	775
	$ 2,553	$ 2,573

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Subordinated Debt

Information related to subordinated debt is summarized as follows:

(Dollars in thousands)	March 31, 2018	December 31, 2017
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 %	6.69 %
Weighted-average rate at end of period	6.77 %	6.70 %

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

The Trust Preferred Securities and the Debentures mature in 2037 and have been redeemable by the Company since 2012. Interest payments are due in March, June, September, and December and are adjusted at the interest due dates at a rate of 1.62% over the three-month LIBOR Rate. The obligations of the Company with respect to the issuance of the trust preferred securities constitute a full and unconditional guarantee by the Company of the Trust's obligations with respect to the trust preferred securities to the extent set forth in the related guarantees.

On June 30, 2014, the Company issued its Convertible Subordinated Promissory Notes Due 2024 (the “Notes”) to various investors in the aggregate principal amount of $29,400,000. The Notes were issued in $100,000 increments per Note subject to a minimum investment of $1,000,000. The Notes 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. On December 28, 2017, the Company distributed notices to the holders of the Notes that provide that the Company has elected to waive the timing requirements associated with when a conversion may occur and, instead, the Company will accept notices of conversion at any time prior to July 1, 2019, which is the final conversion date for the Notes. 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

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would make, and a holder would receive and retain for the holder's account, regularly scheduled payments of accrued interest and principal pursuant to the terms of the Notes.

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

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 March 31, 2018 and December 31, 2017 and interest expense of $558 thousand and $551 thousand for the three months ended March 31, 2018 and 2017.

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

Year	Amount
2018	204,877
2019	85
2020	90
2021	886
2022	1,431
Thereafter	33,524
	$240,894

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.

The methods of determining the fair value of assets and liabilities presented in this footnote are consistent with our methodologies disclosed in Note 17, "Fair Value of Financial Instruments" and Note 18, "Fair Value Measurement" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of the Company's 2017 Annual Report on Form 10-K, except for the valuation of loans held for investment which was impact by the adoption of ASU 2016-01. In accordance with ASU 2016-01, the fair value of loans held for investment is estimated using a discounted cash flow analysis. The discount rates used to determine fair value use interest rate spreads that reflect factors such as liquidity, credit, and nonperformance risk of the loans. Loans are considered a Level 3 classification.

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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. 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 months ended March 31, 2018. 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 March 31, 2018 and December 31, 2017 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.

	March 31, 2018			
(Dollars in thousands)	Level I	Level II	Level III	Total
Assets:				
U.S. Government Agency securities	$ —	$ 80,795	$ —	$ 80,795
U.S. Sponsored Mortgage backed securities	—	56,318	—	56,318
Municipal securities	—	57,534	22,571	80,105
Other securities	—	9,286	—	9,286
Equity securities	6,079	—	900	6,979
Loans held for sale	—	51,280	—	51,280
Interest rate lock commitment	—	—	2,312	2,312
Interest rate swap	—	765	—	765
Interest rate cap	—	103	—	103
Liabilities:				
Interest rate swap	—	765	—	765
Mortgage-backed security hedges	—	114	—	114

	December 31, 2017			
(Dollars in thousands)	Level I	Level II	Level III	Total
Assets:				
U.S. Government Agency securities	$ —	$ 80,945	$ —	$ 80,945
U.S. Sponsored Mortgage backed securities	—	58,154	—	58,154
Municipal securities	—	52,933	22,909	75,842
Equity securities	1,607	14,959	—	16,566
Loans held for sale	—	66,794	—	66,794
Interest rate lock commitment	—	—	1,426	1,426
Interest rate swap	—	268	—	268
Interest rate cap	—	33	—	33
Liabilities:				
Interest rate swap	—	268	—	268
Mortgage-backed security hedges	—	78	—	78

The following table represents recurring level III assets:

(Dollars in thousands)	Interest Rate Lock Commitments	Municipal Securities	Total
Balance at December 31, 2017	$ 1,426	$ 22,909	$ 24,335
Realized and unrealized gains included in earnings	886	—	886
Unrealized loss included in other comprehensive income (loss)	—	(338)	(338)
Balance at March 31, 2018	$ 2,312	$ 22,571	$ 24,883
Balance at December 31, 2016	$ 1,546	$ 6,135	$ 7,681
Realized and unrealized gains included in earnings	1,309	—	1,309
Unrealized gain included in other comprehensive income (loss)	—	54	54
Balance at March 31, 2017	$ 2,855	$ 6,189	$ 9,044

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Assets Measured on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain financial assets, financial liabilities, non-financial assets, and non-financial liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market value that were recognized at fair value below cost at the end of the period. Certain non-financial assets measured at fair value on a 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 2018 and 2017 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 March 31, 2018 and December 31, 2017 are included in the table below:

	March 31, 2018			
(Dollars in thousands)	Level I	Level II	Level III	Total
Impaired loans	$ —	$ —	$ 13,836	$ 13,836
Other real estate owned	—	—	1,910	1,910

	December 31, 2017			
(Dollars in thousands)	Level I	Level II	Level III	Total
Impaired loans	$ —	$ —	$ 14,368	$ 14,368
Other real estate owned	—	—	1,346	1,346

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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 March 31, 2018 and December 31, 2017.

	Quantitative Information about Level III Fair Value Measurements			
(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range
March 31, 2018				
Nonrecurring measurements:				
Impaired loans	$13,836	Appraisal of collateral [1]	Appraisal adjustments [2]	20% - 62%
			Liquidation expense [3]	5% - 10%
Other real estate owned	$1,910	Appraisal of collateral [1]	Appraisal adjustments [2]	20% - 30%
			Liquidation expense [3]	5% - 10%
Recurring measurements:				
Municipal securities	$22,571	Appraisal of bond [3]	Bond appraisal adjustment [4]	5% - 15%
Interest rate lock commitments	$2,312	Pricing model	Pull through rates	80% - 83%

	Quantitative Information about Level III Fair Value Measurements			
(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range
December 31, 2017				
Nonrecurring measurements:				
Impaired loans	$14,368	Appraisal of collateral [1]	Appraisal adjustments [2]	20% - 62%
			Liquidation expense [3]	5% - 10%
Other real estate owned	$1,346	Appraisal of collateral [1]	Appraisal adjustments [2]	20% - 30%
			Liquidation expense [3]	5% - 10%
Recurring measurements:				
Municipal securities	$22,909	Appraisal of bond [3]	Bond appraisal adjustment [4]	5% - 15%
Interest rate lock commitments	$1,426	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.

[3] Fair value determined through independent analysis of liquidity, rating, yield and duration.

[4] Appraisals may be adjusted for qualitative factors such as local economic conditions.

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 – U.S. treasury, government agency, mortgage-backed securities, certain municipal securities, and corporate bonds are generally measured at fair value using a third-party pricing service or recent comparable market transactions in similar or identical securities and are classified as Level II instruments. Equity securities are measured at fair value using observable closing prices and are classified as Level I instruments if they are traded on a heavily active market and as Level II instruments if the observable closing price is from a less than active market. Certain local municipal securities related to tax increment financing ("TIF") are independently valued and classified as Level III instruments.

- 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. Additionally, to be consistent with the requirements under FASB ASC Topic 820 for Fair Value Measurements and Disclosures, the loans were valued at a price that represents the Company's exit price or the price at which these instruments would be sold or transferred.

- Mortgage servicing rights – The carrying value of mortgage servicing rights approximates their fair value due to the immateriality of the balance.

- 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)
March 31, 2018					
Financial assets:					
Cash and cash equivalents	$23,630	$23,630	$23,630	$—	$ —
Certificates of deposits with other banks	14,778	14,695	—	14,695	—
Securities available-for-sale	226,504	226,504	—	203,933	22,571
Equity securities	6,979	6,979	6,079	—	900
Loans held for sale	51,280	51,280	—	51,280	—
Loans, net	1,147,106	1,137,716	—	—	1,137,716
Mortgage servicing rights	179	179	—	—	179
Interest rate lock commitment	2,312	2,312	—	—	2,312
Interest rate swap	765	765	—	765	—
Interest rate cap	103	103	—	103	—
Accrued interest receivable	5,915	5,915	—	1,644	4,271
Financial liabilities:					
Deposits	$1,153,907	$1,114,189	$—	$1,114,189	$ —
Repurchase agreements	20,676	20,676	—	20,676	—
FHLB and other borrowings	207,370	207,372	—	207,372	—
Mortgage-backed security hedges	114	114	—	114	—
Interest rate swap	765	765	—	765	—
Accrued interest payable	908	908	—	908	—
Subordinated debt	33,524	35,117	—	35,117	—
December 31, 2017					
Financial assets:					
Cash and cash equivalents	$20,305	$20,305	$20,305	$—	$ —
Certificates of deposits with other banks	14,778	14,985	—	14,695	—
Securities available-for-sale	231,507	231,507	1,607	206,991	22,909
Loans held for sale	66,794	66,794	—	66,794	—
Loans, net	1,096,063	1,093,824	—	—	1,093,824
Mortgage servicing rights	182	182	—	—	182
Interest rate lock commitment	1,426	1,426	—	—	1,426
Interest rate swap	268	268	—	268	—
Interest rate cap	33	33	—	33	—
Accrued interest receivable	5,296	5,296	—	1,241	4,055
Financial liabilities:					

Deposits	$1,159,580	$1,126,615	$—	$1,126,615	$ —
Repurchase agreements	22,403	22,403	—	22,403	—
FHLB and other borrowings	152,169	152,190	—	152,190	—
Mortgage-backed security hedges	78	78	—	78	—
Interest rate swap	268	268	—	268	—
Accrued interest payable	643	643	—	643	—
Subordinated debt	33,524	35,117	—	35,117	—

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

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significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing on-and-off balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

Note 7 – Stock Offerings

On 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.

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. On December 28, 2017, the Company distributed a notice to each of the holders of the Class B Preferred Stock regarding the Company's agreement to waive the timing requirements associated with when a conversion may occur and, instead, the Company will accept notices of conversion at any time prior to July 30, 2019, which is the final conversion date for the Preferred Stock. The Class B Preferred shares are redeemable by the Company on or after the fifth anniversary of the original issue date for 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

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voting rights, except for authorization of senior shares of stock, amendment to the Class B Preferred shares, share exchanges, reclassifications or changes of control, or as required by law.

The Class C Preferred Certificate designated 383.4 shares of preferred stock as Class C Preferred shares. The Class C Preferred shares carry an annual dividend rate of 6.5% and are convertible into shares of Company common stock within 30 days after the first, second, third, fourth and fifth anniversaries of the original issue date, based on a common stock price of $16 per share, as adjusted for future corporate activities. On December 28, 2017, the Company distributed a notice to each of the holders of the Class C Preferred Stock regarding the Company's agreement to waive the timing requirements associated with when a conversion may occur and, instead, the Company will accept notices of conversion at any time prior to July 30, 2019, which is the final conversion date for the Preferred Stock. The Class C Preferred shares are redeemable by the Company on or after the fifth anniversary of the original issue date for 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.

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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 or restricted stock unit awards under the Company's 2003 and 2013 Stock Incentive Plans and the conversion of preferred stock and subordinated debt if dilutive.

	Three Months Ended March 31,	
(Dollars in thousands except shares and per share data)	2018	2017
Numerator for basic earnings per share:		
Net income	$2,594	$ 1,574
Less: Dividends on preferred stock	121	129
Net income available to common shareholders - basic	$2,473	$ 1,445
Numerator for diluted earnings per share:		
Net income available to common shareholders - basic	$2,473	$ 1,445
Add: Interest on subordinated debt (tax effected)	404	—
Net income available to common shareholders - diluted	$2,877	$ 1,445
Denominator:		
Total average shares outstanding	10,474,135	9,896,544
Effect of dilutive convertible subordinated debt	1,837,500	—
Effect of dilutive stock options and restrictive stock units	402,715	112,797
Total diluted average shares outstanding	12,714,350	10,009,341
Earnings per share - basic	$0.24	$ 0.14
Earnings per share - diluted	$0.23	$ 0.14

For the three months ended March 31, 2018 and 2017, approximately 490 thousand and 2.3 million, respectively, of options to purchase shares of common stock were not included in the computation of diluted earnings per share because the effect would be antidilutive.

For the three months ended March 31, 2018, approximately 3 thousand shares of restricted stock units were not included in the computation of diluted earnings per share because the effect would be antidilutive.

Note 9 – Segment Reporting

The Company has identified three reportable segments: commercial and retail banking; mortgage banking; and financial holding company. 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.

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Information about the reportable segments and reconciliation to the consolidated financial statements for the three-month periods ended March 31, 2018 and March 31, 2017 are as follows:

Three Months Ended March 31, 2018 (Dollars in thousands)	Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Intercompany Eliminations	Consolidated
Revenues:					
Interest income	$ 13,838	$ 1,335	$ 1	$ (120)	$ 15,054
Mortgage fee income	140	6,673	—	(250)	6,563
Other income	1,780	517	1,553	(1,374)	2,476
Total operating income	15,758	8,525	1,554	(1,744)	24,093
Expenses:					
Interest expense	2,674	727	558	(370)	3,589
Salaries and employee benefits	3,569	5,416	1,488	—	10,473
Provision for loan losses	417	57	—	—	474
Other expense	4,559	2,122	959	(1,374)	6,266
Total operating expenses	11,219	8,322	3,005	(1,744)	20,802
Income (loss) before income taxes	4,539				