CHURCH & DWIGHT CO INC /DE/
Form 424B5
July 20, 2017
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-200721

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION,

PRELIMINARY PROSPECTUS SUPPLEMENT DATED JULY 20, 2017

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus Dated December 4, 2014)

$

CHURCH & DWIGHT CO., INC.

$ Floating Rate Senior Notes due

$ % Senior Notes due

$ % Senior Notes due

$ % Senior Notes due

We are offering $ aggregate principal amount of our Floating Rate Senior Notes due (the Floating Rate Notes), $ aggregate principal amount of % Senior Notes due (the 20 Notes), $ aggregate principal amount of % Senior Notes due (the 20 Notes), and $ aggregate principal amount of % Senior Notes due (the 20 Notes and, together with the 20 Notes and the 20 Notes, the Fixed Rate Notes, and the Fixed Rate Notes, together with the Floating Rate Notes, the notes). The Floating Rate Notes will bear interest at a floating rate equal to the 3-month LIBOR rate plus basis points per year, payable on , , and of each year, beginning , 2017. The 20 Notes will bear interest at a rate of % per year, the 20 Notes will bear interest at a rate of % per year, and the 20 Notes will bear interest at a rate of % per year, payable on and of each year, beginning , 2018. The Floating Rate Notes will mature on , , the 20 Notes will mature on , , the 20 Notes will mature on , , and the 20 Notes will mature on , . The notes will be issued only in minimum denominations of $2,000 and integral multiples of $1,000 above that amount.

The Floating Rate Notes, the 20 Notes and the 20 Notes (together, the Special Mandatory Redemption Notes) are being issued in part to fund the Waterpik Acquisition (as defined herein). This offering is not conditioned upon, and will be consummated before, the closing of the Waterpik Acquisition. If the Waterpik Acquisition is not consummated on or before October 16, 2017 or the Waterpik Stock Purchase Agreement (as defined herein) is terminated prior to such date, we will be required to redeem each series of Special Mandatory Redemption Notes at a redemption price equal to 101% of the principal amount of the applicable series of Special Mandatory Redemption Notes, plus accrued and unpaid interest to, but excluding, the Special Mandatory Redemption Date (as defined herein). See Description of the Notes Special Mandatory Redemption.

We may redeem some or all of the Fixed Rate Notes of any series at any time or from time to time at the redemption prices described under Description of the Notes Optional Redemption. The Floating Rate Notes will not be redeemable prior to their maturity except as described above. If a Change of Control Triggering Event (as defined herein) occurs, unless we have previously exercised or, contemporaneously with a Change of Control Triggering Event, exercise our option to redeem the notes, we will be required to offer to repurchase the notes as described under Description of the Notes Offer to Repurchase Upon Change of Control Triggering Event.

The notes will be our senior unsecured obligations and will rank equally with all our other senior unsecured debt outstanding from time to time.

The notes will not be listed on any securities exchange. Currently, there is no public market for the notes.

Investing in the notes involves risks. See Risk Factors beginning on page S-9 for a discussion of certain risks that you should consider in connection with an investment in the notes.

	Per Floating Rate Note	Total	Per 20 Note	Total	Per 20 Note	Total	Per 20 Note	Total
Public offering price (1)	%	$	%	$	%	$	%	$
Underwriting discount	%	$	%	$	%	$	%	$
Proceeds, before expenses, to us (1)	%	$	%	$	%	$	%	$

(1) Plus accrued interest, if any, from , 2017 if settlement occurs after that date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the notes or determined if this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the notes to purchasers through the book-entry delivery system of The Depository Trust Company for the accounts of its participants, including Clearstream Banking, S.A., and Euroclear Bank SA/NV, on or about , 2017, against payment in immediately available funds.

Joint Book-Running Managers

BofA Merrill Lynch **MUFG** **Wells Fargo Securities** **SunTrust Robinson Humphrey**

The date of this prospectus supplement is , 2017

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You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any related free writing prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information that is different. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale of these securities is not permitted. This document may only be used where it is legal to sell these securities. You should assume that the information in this prospectus supplement, the accompanying prospectus and any related free writing prospectus is accurate only as of the date on the cover page of such document and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference.

Unless otherwise specified or the context otherwise requires, all references in this prospectus supplement to Church & Dwight, we, us, our and Company refer to Church & Dwight Co., Inc. and its consolidated subsidiaries. If we use do not define a capitalized term in this prospectus supplement, it is defined in the accompanying prospectus.

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Prospectus Supplement

Prospectus

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering. The second part, the accompanying prospectus dated December 4, 2014, gives more general information about securities we offer from time to time, some of which may not apply to this offering.

This prospectus supplement and the information incorporated by reference in this prospectus supplement may add to, update or change the information in the accompanying prospectus. If information in this prospectus supplement is inconsistent with information in the accompanying prospectus, this prospectus supplement will apply and will supersede that information in the accompanying prospectus.

It is important for you to read and consider all information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the information in the documents to which we have referred you in Where You Can Find More Information in the accompanying prospectus.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus that we prepare and distribute. We have not, and the underwriters have not, authorized any other person to provide you with different or additional information. If you receive any other information, you should not rely on it. You should not assume that the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus or any free writing prospectus that we prepare and distribute is accurate as of any date other than the respective dates of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates. We are not, and the underwriters are not, offering to sell these securities and are not soliciting any offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SPECIAL NOTE ON FORWARD-LOOKING INFORMATION

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein contain certain estimates, predictions and other forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Exchange Act. Forward-looking statements are all statements, other than statements of historical fact, that may be made by us from time to time. In some cases, you can identify forward-looking statements by terminology such as anticipates, believes, estimates, expects, intends, may, plans, projects, continu could, would and other similar expressions or expressions of the negative of these terms.

Forward-looking statements are based upon certain underlying assumptions, including any assumptions mentioned with the specific statements, as of the date such statements were made. Such assumptions are in turn based upon internal estimates and analyses of market conditions and trends, management plans and strategies, economic conditions and other factors. Forward-looking statements and the assumptions underlying them are necessarily subject to risks and uncertainties inherent in projecting future conditions and results. We undertake no obligation to publicly update or provide revisions to any forward-looking statement in response to changing circumstances, except as required by law. Forward-looking statements, and the risks and uncertainties related thereto, are further described under the heading Risk Factors in this prospectus supplement and under the headings Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Cautionary Note on Forward-Looking Information in our periodic reports filed with the Securities and Exchange Commission (the SEC) that are incorporated by reference in this prospectus supplement, and should be reviewed carefully. Please consider our forward-looking statements in light of those risks.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus and does not contain all of the information you should consider when making your investment decision. We urge you to read all of this prospectus supplement, the accompanying prospectus and the documents incorporated by reference, including our consolidated financial statements and accompanying notes, carefully to gain a fuller understanding of our business and the terms of the notes, as well as some of the other considerations that may be important to you, before making your investment decision. You should pay special attention to the Risk Factors section of this prospectus supplement and the information under the heading Risk Factors contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017.

Church & Dwight Co., Inc.

Our company, founded in 1846, develops, manufactures and markets a broad range of household, personal care and specialty products. We sell our consumer products under a variety of brands through a broad distribution platform that includes supermarkets, mass merchandisers, wholesale clubs, drugstores, convenience stores, home stores, dollar, pet and other specialty stores and websites, all of which sell the products to consumers. We also sell specialty products to industrial customers and distributors. We focus our consumer products marketing efforts principally on our ten power brands. These well-recognized brand names include ARM & HAMMER, used in multiple product categories such as baking soda, cat litter, carpet deodorization and laundry detergent; TROJAN condoms, lubricants and vibrators; OXICLEAN stain removers, cleaning solutions, laundry detergents, dishwashing detergent and bleach alternatives; SPINBRUSH battery-operated and manual toothbrushes; FIRST RESPONSE home pregnancy and ovulation test kits; NAIR depilatories; ORAJEL oral analgesic; XTRA laundry detergent; the combination of the L IL CRITTERS and VITAFUSION brand names for our gummy dietary supplement business and BATISTE dry shampoo. Our business is divided into three primary segments: Consumer Domestic, Consumer International and Specialty Products Division (SPD). The Consumer Domestic segment includes the power brands noted previously as well as other household and personal care products such as KABOOM cleaning products; ARRID antiperspirant; CLOSE-UP and AIM toothpastes and SIMPLY SALINE nasal saline moisturizer. The Consumer International segment primarily sells a variety of personal care products, some of which use the same brands as our domestic product lines, in international markets, including Canada, Europe, Australia, the United Kingdom, Mexico and Brazil. The SPD segment has a growing global animal productivity business with more than a dozen products designed to help improve the productivity and wellness of animals in animal agriculture. The segment is also the largest U.S. producer of sodium bicarbonate, which it sells together with other specialty inorganic chemicals for a variety of industrial, institutional, medical, and specialty cleaning applications. In 2016, the Consumer Domestic, Consumer International and SPD segments represented approximately 77%, 15% and 8%, respectively, of the Company s net sales.

We have our principal executive offices at 500 Charles Ewing Boulevard, Ewing, New Jersey 08628. Our telephone number is (609) 806-1200.

We maintain a web site at http://www.churchdwight.com. The information on and contents of our web site do not constitute a part of, and are not incorporated by reference in, this prospectus supplement or the accompanying prospectus.

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The Acquisition

On July 17, 2017, we entered into a Stock Purchase Agreement (the Waterpik Stock Purchase Agreement) with PIK Holdings, Inc. (Waterpik), the stockholders of Waterpik (the Waterpik Stockholders) and MidOcean Partners III, L.P. in its capacity as a Waterpik Stockholder and as the representative of the Waterpik Stockholders (the Representative), pursuant to which the Company agreed to acquire all of the issued and outstanding shares of capital stock of Waterpik (the Waterpik Acquisition). Waterpik is a water-jet technology company that designs and sells both oral water flossers and shower heads. Pursuant to the terms of the Waterpik Stock Purchase Agreement, the total purchase price of Waterpik s outstanding shares of capital stock, which is subject to adjustment based on the closing working capital of Waterpik and its subsidiaries, consists of total cash consideration of $1.033 billion.

The closing of the Waterpik Acquisition is expected to occur in the third quarter of 2017 and is subject to the expiration or termination of any waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the accuracy of the representations and warranties of Waterpik and the Waterpik Stockholders contained in the Waterpik Stock Purchase Agreement (subject to certain materiality standards), including the absence of any material adverse effect on Waterpik, and other customary closing conditions. If the Waterpik Acquisition is not consummated on or before October 16, 2017 (the Outside Date) or the Waterpik Stock Purchase Agreement is terminated prior to the Outside Date, we will be required to redeem the Special Mandatory Redemption Notes at a redemption price equal to 101% of the principal amount of the applicable series of Special Mandatory Redemption Notes, plus accrued and unpaid interest to, but excluding, the Special Mandatory Redemption Date (as defined herein). See Description of Notes Special Mandatory Redemption.

For further information on the Waterpik Acquisition, please refer to our Current Report on Form 8-K filed on July 17, 2017. The foregoing description of the Waterpik Acquisition does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Waterpik Stock Purchase Agreement and related documents and agreements.

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The Offering

The summary below describes the principal terms and conditions of the notes and is not intended to be complete. Certain of the terms and conditions described below are subject to important limitations and exceptions. For a more detailed description of the terms and conditions of the notes, please refer to the section in this prospectus supplement entitled Description of the Notes and the section in the accompanying prospectus entitled Description of Debt Securities. Unless otherwise specified or the context otherwise requires, all references in this Prospective Supplement Summary The Offering section to we, us and our refer to Church & Dwight Co., Inc. and not its subsidiaries.

Issuer Church & Dwight Co., Inc.

Securities Offered $ principal amount of Floating Rate Notes due .

$ principal amount of Notes due .

$ principal amount of Notes due .

$ principal amount of Notes due .

Maturity The Floating Rate Notes will mature on , .

The 20 Notes will mature on , .

The 20 Notes will mature on , .

The 20 Notes will mature on , .

Interest Rate The Floating Rate Notes will have an interest rate equal to the 3-month LIBOR rate plus basis points per year.

The 20 Notes will bear interest at a rate of % per annum.

The 20 Notes will bear interest at a rate of % per annum.

The 20 Notes will bear interest at a rate of % per annum.

Interest on the Floating Rate Notes will accrue from , 2017 and will be payable on , , and of each year, beginning on , 2017.

Interest on the Fixed Rate Notes will accrue from , 2017 and will be payable on and of each year, beginning on , 2018.

Ranking

The notes will be our senior unsecured obligations and will rank equal in right of payment to our other senior unsecured debt from time to time outstanding. The notes will be effectively subordinated to any secured debt we incur to the extent of the collateral securing such indebtedness, and will be structurally subordinated to all future and existing indebtedness and other liabilities of our subsidiaries.

As of March 31, 2017, on a pro forma basis after giving effect to the Waterpik Acquisition, the issuance of the notes and application of the net proceeds therefrom as described under Use of Proceeds , we had:

- no secured indebtedness outstanding; and

$ billion of senior unsecured indebtedness outstanding, all of which rank equal in right of payment.

In addition, as of March 31, 2017, our subsidiaries had $3.5 million of indebtedness outstanding for borrowed money (other than intercompany indebtedness).

Use of Proceeds

We intend to use the net proceeds from this offering to fund the Waterpik Acquisition and related fees and expenses, to repay outstanding borrowings under our $200 million term loan (the Term Loan Facility) in their entirety and any remaining proceeds to repay a portion of our commercial paper borrowings. See Use of Proceeds.

Conflicts of Interest

Certain of the underwriters or their affiliates act as lenders our Term Loan Facility or may own our outstanding commercial paper and, accordingly, may receive an amount in excess of 5% of the net proceeds from this offering. Such payments constitute a conflict of interest under Rule 5121 of the Financial Industry Regulatory Authority (FINRA). As required by FINRA Rule 5121, no sale of the notes offered hereby will be made by any affected underwriter to an account over which it exercises discretion without the prior specific written consent of the account holder. See Use of Proceeds and Underwriting (Conflicts of Interest).

Optional Redemption

The Floating Rate Notes will not be redeemable prior to their maturity except as described under Description of the Notes Special Mandatory Redemption. We may redeem some or all of the Fixed Rate Notes of any series, at any time or from time to time prior to their respective Par Call Dates (as defined below) at a redemption price equal to the greater of:

100% of the principal amount of notes being redeemed; and

the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption), discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined under Description of the Notes Optional Redemption), plus basis points in the case of the 20 Notes, basis points in the case of the 20 Notes, and basis points in the case of the 20 Notes;

plus, in each case, accrued and unpaid interest on the Fixed Rate Notes to be redeemed to the redemption date.

In addition, at any time on or after , (prior to the maturity date of the 20 Notes), on or after , (prior to the maturity date of the 20 Notes), and on or after , (prior to the maturity date of the 20

Notes) (each such date, a Par Call Date), we may redeem the 20 Notes, the 20 Notes or the 20 Notes, as the case may be, in whole or in part, at our option, at a redemption price equal to 100% of the principal amount of the Fixed Rate Notes being redeemed, plus accrued and unpaid interest thereon to, but excluding, the redemption date.

Special Mandatory Redemption

The completion of this offering is not contingent upon the consummation of the Waterpik Acquisition. If the Waterpik Acquisition is not consummated on or before the Outside Date or the Waterpik Stock Purchase Agreement is terminated prior to the Outside Date, we will be required to redeem the Special Mandatory Redemption Notes at a redemption price equal to 101% of the principal amount of the applicable series of Special Mandatory Redemption Notes, plus accrued and unpaid interest to, but excluding, the Special Mandatory Redemption Date. See Description of the Notes Special Mandatory Redemption.

Repurchase at the Option of Holders Upon Change of Control Triggering Event

Upon a Change of Control Triggering Event (as defined in Description of the Notes Change of Control Triggering Event), unless we have previously exercised or, contemporaneously with a Change of Control Triggering Event exercise our option to redeem the notes, we will be required to offer to repurchase each series of notes at a repurchase price equal to 101% of the principal amount of the applicable series of notes repurchased, plus accrued and unpaid interest to, but excluding, the repurchase date. See Description of the Notes Offer to Repurchase Upon Change of Control Triggering Event.

Covenants

The indenture under which the notes will be issued contains covenants for your benefit. These covenants restrict our ability to:

- incur liens;
- engage in sale/leaseback transactions; and
- merge or consolidate with another entity.

These covenants will be subject to significant exceptions. For a further description of these covenants and the exceptions thereto, see Description of the Notes Certain Covenants.

Issuance of Additional Notes

We may from time to time, without notice to or the consent of the holders of any series of notes, create and issue additional debt securities ranking equally and ratably with, and having the same terms and conditions as, the notes of a series (other than the original issuance date and, under certain circumstances, the issue price and the initial interest payment date), so that such additional debt securities

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	will be consolidated and form a single series with the applicable series of notes, including for purposes of voting and redemptions.
Form and Denomination	We will issue each series of notes in the form of one or more fully registered global notes registered in the name of the nominee of The Depository Trust Company (DTC). Beneficial interests in the notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Clearstream Banking, S.A., and Euroclear Bank SA/NV, will hold interests on behalf of their participants through their respective U.S. depositaries, which in turn will hold such interests in accounts as participants of DTC. Except in the limited circumstances described in this prospectus supplement and in the accompanying prospectus, owners of beneficial interests in the notes will not be entitled to have notes registered in their names, will not receive or be entitled to receive notes in definitive form and will not be considered holders of notes under the indenture. The notes will be issued in registered form in denominations of $2,000 and integral multiples of $1,000 above that amount.
Certain U.S. Federal Income Tax Considerations	See Certain U.S. Federal Income Tax Considerations.
Risk Factors	Investing in the notes involves risk. See Risk Factors in this prospectus supplement and the accompanying prospectus and other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of factors you should consider carefully before deciding whether to invest in the notes.
Governing Law	The notes and the indenture will be governed by the laws of the State of New York.
Trustee	Wells Fargo Bank, National Association.

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Summary Consolidated Financial Data

Set forth below is a summary of our consolidated financial data for the periods indicated. The operating data for the periods ended December 31, 2016, 2015 and 2014 and the financial position data as of December 31, 2016 and 2015 have been derived from our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which is incorporated by reference in this prospectus supplement and the accompanying prospectus. The operating data for the fiscal years ended December 31, 2013 and 2012 and the financial position data as of December 31, 2014, 2013 and 2012 have been derived from our audited consolidated financial statements which are not incorporated by reference in this prospectus supplement and the accompanying prospectus. The operating data for the three months ended March 31, 2017 and March 31, 2016, and the financial position data as of March 31, 2017 have been derived from our unaudited condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017, which is incorporated by reference in this prospectus supplement and the accompanying prospectus, and include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of this information. Results presented for the three months ended March 31, 2017 are not necessarily indicative of results to be expected for any full year or future period. You should read the following summary consolidated historical financial data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical financial statements and related notes incorporated by reference in this prospectus supplement.

	Three Months Ended March 31,		Year Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
				(in millions)			
Operating Results							
Net Sales	$ 877.2	$ 849.0	$ 3,493.1	$ 3,394.8	$ 3,297.6	$ 3,194.3	$ 2,921.9
Cost of sales	477.9	470.0	1,902.5	1,883.0	1,844.7	1,756.3	1,630.6
Gross Profit	399.3	379.0	1,590.6	1,511.8	1,452.9	1,438.0	1,291.4
Marketing expenses	90.8	92.5	427.2	417.5	416.9	399.8	357.3
Selling, general and administrative expenses	112.4	107.0	439.2	420.1	394.8	416.0	389.0
Income from Operations	196.1	179.5	724.2	674.2	641.2	622.2	545.1
Equity in earnings (losses) of affiliates	2.1	1.7	9.2	(5.8)	11.6	2.8	8.9
Investment earnings	0.4	0.3	1.7	1.5	2.3	2.6	1.7
Other income (expense), net	(0.2)	(1.7)	(1.5)	(4.0)	(2.8)	(2.1)	0.8)
Interest expense	(8.2)	(6.8)	(27.7)	(30.5)	(27.4)	(27.7)	(14.0)
Income before Income Taxes	190.2	173.0	705.9	635.4	624.9	597.8	542.5
Income taxes	58.7	60.0	246.9	225.0	211.0	203.4	192.7
Net Income	$ 131.5	$ 113.0	$ 459.0	$ 410.4	$ 413.9	$ 394.4	$ 349.8

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	At March 31, 2017	At December 31, 2016	2015	2014	2013	2012
	(Dollars in millions)					
Financial Position						
Assets						
Total current assets	$ 754.5	$ 756.8	$ 906.0	$ 1,018.1	$ 1,099.4	$ 915.8
Property, plant and equipment, net	578.9	588.6	609.6	616.2	594.1	586.0
Equity investment in affiliates	8.2	8.5	8.4	24.8	24.5	23.0
Tradenames and other intangibles	1,538.1	1,431.8	1,269.5	1,272.4	1,204.3	1,254.9
Goodwill	1,481.3	1,444.1	1,354.9	1,325.0	1,222.2	1,213.8
Other assets	126.8	124.3	108.5	102.7	92.8	79.0
			$15,122	$12,538		
Interest on deposits with other banks	181	161	91	82		
Interest on investment securities - taxable	1,786	1,191	891	645		
Interest on tax exempt loans and securities	1,618	1,110	840	549		
Total interest income	31,998	26,882	16,944	13,814		
INTEREST EXPENSE						
Interest on deposits	4,828	3,869	2,530	1,963		
Interest on repurchase agreements	39	36	20	19		
Interest on FHLB and other borrowings	1,911	668	1,197	380		
Interest on subordinated debt	1,100	1,109	542	558		
Total interest expense	7,878	5,682	4,289	2,920		
NET INTEREST INCOME	24,120	21,200	12,655	10,894		
Provision for loan losses	1,079	1,041	605	523		
Net interest income after provision for loan losses	23,041	20,159	12,050	10,371		
NONINTEREST INCOME						
Service charges on deposit accounts	466	352	281	165		
Income on bank owned life insurance	438	302	220	155		
Interchange and debit card transaction fees	292	613	142	318		
Mortgage fee income	15,626	18,586	9,063	8,952		
Gain on sale of portfolio loans	212	212	—	203		
Insurance and investment services income	341	248	177	124		

Gain on sale of securities, net	326	350	—	167
Gain (loss) on derivatives, net	1,237	(910)	653	1,037
Commercial swap fee income	413	270	—	270
Other operating income	483	368	259	176
Total noninterest income	19,834	20,391	10,795	11,567
NONINTEREST EXPENSES				
Salary and employee benefits	22,967	21,760	12,494	11,798
Occupancy expense	2,129	2,041	1,080	1,047
Equipment depreciation and maintenance	1,605	1,431	821	742
Data processing and communications	1,797	2,694	962	1,480
Mortgage processing	1,884	1,637	992	743
Marketing, contributions, and sponsorships	695	604	348	277
Professional fees	1,533	1,413	788	736
Printing, postage, and supplies	399	463	234	246
Insurance, tax, and assessment expense	846	928	456	467
Travel, entertainment, dues, and subscriptions	1,279	1,059	631	558
Other operating expenses	854	790	443	409
Total noninterest expense	35,988	34,820	19,249	18,503
Income before income taxes	6,887	5,730	3,596	3,435
Income tax expense	1,462	1,896	765	1,175
Net income	$5,425	$3,834	$2,831	$2,260
Preferred dividends	243	251	122	122
Net income available to common shareholders	$5,182	$3,583	$2,709	$2,138
Earnings per share - basic	$0.49	$0.35	$0.25	$0.21
Earnings per share - diluted	$0.47	$0.35	$0.25	$0.20
Cash dividends declared	$0.050	$0.050	$0.025	$0.025
Weighted average shares outstanding - basic	10,554,916	10,171,198	10,634,805	10,343,933
Weighted average shares outstanding - diluted	10,941,671	10,172,254	11,502,148	12,181,433

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	2018	2017	2018	2017
Net Income	$5,425	$3,834	$2,831	$2,260
Other comprehensive income (loss):				
Unrealized holding gains (losses) on securities available-for-sale	(5,336)	2,997	(887)	2,549
Income tax effect	1,441	(1,198)	239	(1,019)
Reclassification adjustment for gain recognized in income	(326)	(350)	—	(167)
Income tax effect	88	140	—	67
Change in defined benefit pension plan	772	(336)	772	(500)
Income tax effect	(208)	134	(208)	200
Total other comprehensive income (loss)	(3,569)	1,387	(84)	1,130
Comprehensive income (loss)	$1,856	$5,221	$2,747	$3,390

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	—	—	—	3,834	—	—	3,834
Other comprehensive income	—	—	—	—	1,387	—	1,387
Cash dividends paid ($0.05 per share)	—	—	—	(511)	—	—	(511)
Dividends on preferred stock	—	—	—	(251)	—	—	(251)
Common stock issuance, net of issuance costs	—	444	4,487	—	—	—	4,931
Stock based compensation	—	—	327	—	—	—	327
Common stock options exercised	—	2	(10)	—	—	—	(8)
Redemption of preferred stock	(8,500)	—	—	—	—	—	(8,500)
Balance June 30, 2017	$7,834	$10,494	$98,216	$34,264	$ (2,890)	$(1,084)	$ 146,834
Balance December 31, 2017	7,834	10,496	98,698	37,236	(2,988)	(1,084)	150,192
Net Income	$—	$—	$—	$5,425	$ —	$—	$ 5,425
Other comprehensive loss	—	—	—	—	(3,569)	—	(3,569)
Cash dividends paid ($0.05 per share)	—	—	—	(526)	—	—	(526)
Dividends on preferred stock	—	—	—	(243)	—	—	(243)
Stock based compensation	—	—	526	—	—	—	526
Common stock options exercised	—	97	1,200	—	—	—	1,297
Stranded AOCI (See Footnote 2)	—	—	—	646	(646)	—	—
Mark to Market on equity positions held at December 31, 2017 (See Footnote 2)	—	—	—	98	(98)	—	—
Common stock issued from subordinated debt conversion, net of costs	—	796	11,897	—	—	—	12,693
Balance June 30, 2018	$7,834	$11,389	$112,321	$42,636	$ (7,301)	$(1,084)	$ 165,795

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30,	
	2018	2017
OPERATING ACTIVITIES		
Net Income	$5,425	$3,834
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization and accretion of investments	694	620
Net amortization of deferred loan costs	(14)	54
Provision for loan losses	1,079	1,041
Depreciation and amortization	1,483	1,292
Stock based compensation	526	327
Loans originated for sale	(619,884)	(702,136)
Proceeds of loans sold	603,505	703,071
Mortgage fee income	(15,626)	(18,586)
Gain on sale of securities	(326)	(716)
Loss on sale of securities	—	366
Gain on sale of portfolio loans	(212)	(212)
Income on bank owned life insurance	(438)	(302)
Deferred taxes	(118)	178
Other, net	(2,859)	(5,008)
Net cash used in operating activities	(26,765)	(16,177)
INVESTING ACTIVITIES		
Purchases of investment securities available-for-sale	(15,981)	(51,026)
Maturities/paydowns of investment securities available-for-sale	11,685	7,587
Sales of investment securities available-for-sale	680	33,075
Purchases of premises and equipment	(1,163)	(3,619)
Net increase in loans	(109,209)	(49,749)
Purchases of restricted bank stock	(13,315)	(12,257)
Redemptions of restricted bank stock	8,074	8,932
Proceeds from sale of certificates of deposit with banks	—	1,733
Purchases of certificates of deposit with banks	—	(1,733)
Proceeds from sale of other real estate owned	360	—
Purchase of bank owned life insurance	—	(50)
Net cash used in investing activities	(118,869)	(67,107)
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	36,288	(7,409)
Net decrease in repurchase agreements	(2,163)	(2,966)
Net change in short-term FHLB borrowings	76,900	72,357
Principal payments on FHLB borrowings	(12,239)	(576)
Proceeds from new FHLB borrowings	50,000	26,682
Subordinated debt conversion costs	(35)	—
Proceeds from stock offering	—	4,931
Preferred stock redemption	—	(8,500)
Common stock options exercised	1,297	(8)
Cash dividends paid on common stock	(526)	(511)
Cash dividends paid on preferred stock	(243)	(251)

Net cash provided by financing activities	149,279	83,749
Increase in cash and cash equivalents	3,645	465
Cash and cash equivalents at beginning of period	20,305	17,340
Cash and cash equivalents at end of period	$23,950	$17,805
Supplemental disclosure of cash flow information:		
Loans transferred to other real estate owned	$720	$709
Cashless stock options exercised	$93	$2
Common stock converted from subordinated debt	$12.728	$—
Cash payments for:		
Interest on deposits, repurchase agreements and borrowings	$7,833	$5,895
Income taxes	$87	$4,977

See accompanying notes to unaudited consolidated financial statements.

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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 and six months ended June 30, 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.

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.

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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, 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

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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.

Note 3 – Investment Securities

There were no held-to-maturity securities at June 30, 2018 or December 31, 2017.

Amortized cost and fair values of investment securities available-for-sale at June 30, 2018 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U. S. Agency securities	$ 81,180	$ 4	$ (2,284)	$ 78,900
U.S. Sponsored Mortgage-backed securities	56,342	—	(2,616)	53,726
Municipal securities	80,970	678	(1,607)	80,041
Total debt securities	218,492	682	(6,507)	212,667
Other securities	9,394	76	(52)	9,418
Total investment securities available-for-sale	$ 227,886	$ 758	$ (6,559)	$ 222,085

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

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

(Dollars in thousands)	June 30, 2018 Available for sale Amortized Cost	Fair Value
Within one year	$525	$528
After one year, but within five	48,810	47,901
After five years, but within ten	23,140	22,150
After ten years	146,017	142,088
Total	$218,492	$212,667

Investment securities with a carrying value of $69.2 million at June 30, 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 June 30, 2018, the details of which are included in the following table. Although these securities, if sold at June 30, 2018 would result in a pretax loss of $6.6 million, the Company has no intent to sell the applicable securities at such fair values, and maintains the Company has the ability to hold these securities until all principal has been recovered. Management does not intend to sell these securities and it is unlikely that the Company will be required to sell these securities before recovery of their amortized cost basis. Declines in the fair values of these securities can be traced to general market conditions which reflect the prospect for the economy as a whole. When determining other-than-temporary impairment on securities, the Company considers such factors as adverse conditions specifically related to a certain security or to specific conditions in an industry or geographic area, the time frame securities have been in an unrealized loss position, the Company's ability to hold the security for a period of time sufficient to allow for anticipated recovery in value, whether or not the security has been downgraded by a rating agency, and whether or not the financial condition of the security issuer has severely deteriorated. As of June 30, 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.

The following table discloses investments in an unrealized loss position at June 30, 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 (54)	$59,528	$(1,570)	$16,626	$(714)
U.S. Sponsored Mortgage-backed securities (42)	17,490	(555)	36,236	(2,061)
Municipal securities (86)	27,811	(703)	17,588	(904)
Other securities (3)	$2,493	$(52)	$—	$—
	$107,322	$(2,880)	$70,450	$(3,679)

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 June 30, 2018 and 2017, the Company sold investments available-for-sale of $0 and $10.1 million, respectively. These sales resulted in gross gains of $0 and $167 thousand and gross losses of $0 and $0, respectively.

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For the six-month periods ended June 30, 2018 and 2017, the Company sold investments available-for-sale of $680 thousand and $33.1 million, respectively. These sales resulted in gross gains of $326 thousand and $716 thousand and gross losses of $0 and $366 thousand, respectively.

For the three and six months ended June 30, 2018, the Company recognized an unrealized loss of $11 thousand and $40 thousand, respectively, on equity securities held as of June 30, 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 June 30, 2018 and December 31, 2017, were as follows:

(Dollars in thousands)	June 30, 2018	December 31, 2017
Commercial and Non-Residential Real Estate	$884,067	$ 783,909
Residential Real Estate	260,842	246,214
Home Equity	58,399	62,400
Consumer	11,380	12,783
Total Loans	$1,214,688	$ 1,105,306
Deferred loan origination fees and costs, net	384	635
Loans receivable	$1,215,072	$ 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 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 $1.9 million and $1.3 million, while the related reserves were $201 thousand and $169 thousand as of June 30, 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 June 30, 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.

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 June 30, 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)	—	(50)	(385)
Recoveries	10	9	56	4	79
Provision (recovery)	1,174	55	(159)	9	1,079
ALL balance at June 30, 2018	$ 8,664	$ 1,172	$ 602	$ 213	$ 10,651
Individually evaluated for impairment	$ 1,049	$ —	$ —	$ —	$ 1,049
Collectively evaluated for impairment	$ 7,615	$ 1,172	$ 602	$ 213	$ 9,602

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
ALL balance at March 31, 2018	$ 7,998	$ 1,177	$ 693	$ 199	$ 10,067
Charge-offs	—	—	—	(29)	(29)
Recoveries	8	—	—	—	8
Provision (recovery)	658	(5)	(91)	43	605

ALL balance at June 30, 2018	$ 8,664	$ 1,172	$ 602	$ 213	$ 10,651

The following table summarizes the primary segments of the Company loan portfolio as of June 30, 2018:

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
Individually evaluated for impairment	$ 12,072	$ 3,096	$ 39	$ 39	$ 15,246
Collectively evaluated for impairment	871,995	257,746	58,360	11,341	1,199,442
Total Loans	$ 884,067	$ 260,842	$ 58,399	$ 11,380	$ 1,214,688

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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 June 30, 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	(263)	(141)	(33)	(16)	(453)
Recoveries	21	34	2	2	59
Provision	784	109	80	68	1,041
ALL balance at June 30, 2017	$ 7,723	$ 992	$ 777	$ 256	$ 9,748
Individually evaluated for impairment	$ 265	$ 14	$ 36	$ 71	$ 386
Collectively evaluated for impairment	$ 7,458	$ 978	$ 741	$ 185	$ 9,362

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

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

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

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.

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.

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The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of June 30, 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
June 30, 2018					
Commercial					
Commercial Business	$ 3,486	$ 145	$ 681	$ 4,167	$ 4,192
Commercial Real Estate	5,138	905	1,610	6,748	7,560
Acquisition & Development	—	—	1,157	1,157	3,437
Total Commercial	8,624	1,050	3,448	12,072	15,189
Residential	—	—	3,096	3,096	3,144
Home Equity	—	—	39	39	39
Consumer	—	—	39	39	40
Total Impaired Loans	$ 8,624	$ 1,050	$ 6,622	$ 15,246	$ 18,412
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 $310 thousand, or 2%, during 2018. This change is the net effect of multiple factors, including the identification of $2.0 million of impaired loans, principal curtailments of $796 thousand, partial charge-offs of $362 thousand, the foreclosure of a commercial development loan which required the reclassification of $720 thousand to other real estate owned, the classification of $293 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:

	Six Months Ended June 30, 2018			Three Months Ended June 30, 2018		
(Dollars in thousands)	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	$4,329	$ 76	$ 51	$4,132	$ 38	$ 51
Commercial Real Estate	7,173	48	22	6,915	24	22

Acquisition & Development	1,520	—	—	1,203	—	—
Total Commercial	13,022	124	73	12,250	62	73
Residential	1,973	10	3	2,200	5	3
Home Equity	79	—	—	93	—	—
Consumer	93	—	—	53	—	—
Total	$15,167	$ 134	$ 76	$14,596	$ 67	$ 76

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(Dollars in thousands)	Six Months Ended June 30, 2017			Three Months Ended June 30, 2017		
	Average Investment in Impaired Loans	Interest Income Recognized on Accrual Basis	Interest Income Recognized on Cash Basis	Average Investment in Impaired Loans	Interest Income Recognized on Accrual Basis	Interest Income Recognized on Cash Basis
Commercial						
Commercial Business	$3,358	$ 78	$ 59	$3,368	$ 34	$ 46
Commercial Real Estate	2,718	50	50	2,632	50	24
Acquisition & Development	3,673	4	6	3,571	4	3
Total Commercial	9,749	132	115	9,571	88	73
Residential	1,336	4	24	1,256	4	7
Home Equity	649	1	1	644	1	—
Consumer	163	—	—	184	—	—
Total	$11,897	$ 137	$ 140	$11,655	$ 93	$ 80

As of June 30, 2018, the Bank's other real estate owned balance totaled $1.8 million. The Bank held eight foreclosed residential real estate properties representing $775 thousand, or 43%, 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 two remaining residential real estate properties, totaling $182 thousand, were result of the foreclosure of two unrelated borrowers. The remaining $1.0 million, or 57%, of other real estate owned is the result of the foreclosure of three unrelated commercial development loans. There are four additional consumer mortgage loans collateralized by residential real estate properties in the process of foreclosure. The total recorded investment in these loans was $407 thousand as of June 30, 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.

The following table represents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system as of June 30, 2018 and December 31, 2017:

(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
June 30, 2018					
Commercial					
Commercial Business	$413,053	$5,561	$ 4,313	$ —	$422,927
Commercial Real Estate	323,450	14,515	2,373	4,224	344,562
Acquisition & Development	112,594	987	2,140	857	116,578
Total Commercial	849,097	21,063	8,826	5,081	884,067
Residential	256,375	2,617	1,729	121	260,842
Home Equity	57,564	796	39	—	58,399
Consumer	11,188	178	14	—	11,380
Total Loans	$1,174,224	$24,654	$ 10,608	$ 5,202	$1,214,688
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 been paying slowly in recent months. This loan is classified as a troubled debt restructured loan based on multiple interest only periods being provided in the past. As of June 30, 2018, this loan is matured and as such is reported as past due, despite accrued interest being paid, while the renewal terms are being negotiated. 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 June 30, 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
June 30, 2018								
Commercial								
Commercial Business	$419,486	$39	$3,304	$98	$3,441	$422,927	$ 899	$ —
Commercial Real Estate	339,818	28	141	4,575	4,744	344,562	4,638	—
Acquisition & Development	115,421	—	—	1,157	1,157	116,578	1,157	—
Total Commercial	874,725	67	3,445	5,830	9,342	884,067	6,694	—
Residential	258,847	25	247	1,723	1,995	260,842	2,696	—
Home Equity	58,140	145	114	—	259	58,399	—	—
Consumer	11,048	313	1	18	332	11,380	29	—
Total Loans	$1,202,760	$550	$3,807	$7,571	$11,928	$1,214,688	$ 9,419	$ —
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 June 30, 2018 and December 31, 2017, the Bank had specific reserve allocations for TDR’s of $454 thousand and $439 thousand, respectively.

Loans considered to be troubled debt restructured loans totaled $6.4 million and $6.4 million as of June 30, 2018 and December 31, 2017, respectively. Of these totals, $5.8 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 June 30, 2018 and December 31, 2017. There were no previously restructured loans that defaulted during the three months ended June 30, 2018.

A commercial loan in the amount of $144 thousand was classified as a TDR in the second quarter of 2018. There were two additional loans to one borrower, a home equity line of credit and a consumer loan, totaling $49 thousand, that were classified as TDR's in the second quarter of 2018. These three loans, totaling $193 thousand, represent the only new TDR's for the three months ended June 30, 2018. There were no new TDR's for the three and six months ended

June 30, 2017.

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	New TDR's [1]					
	Six Months Ended June 30, 2018			Three Months Ended June 30, 2018		
(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	2	$ 272	$ 272	1	$ 144	$ 144
Commercial Real Estate	—	—	—	—	—	—
Acquisition & Development	—	—	—	—	—	—
Total Commercial	2	272	272	1	144	144
Residential	—	—	—	—	—	—
Home Equity	1	39	39	1	39	39
Consumer	1	10	10	1	10	10
Total	4	$ 321	$ 321	3	$ 193	$ 193

[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 $264.3 million at June 30, 2018, compared to $149.6 million at December 31, 2017.

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

(Dollars in thousands)	June 30, 2018	December 31, 2017
Balance at end of period	$264,297	$ 149,596
Average balance during the period	227,615	100,969
Maximum month-end balance	264,297	220,097
Weighted-average rate during the year	1.90 %	1.16 %
Weighted-average rate at end of period	2.10 %	1.61 %

Repurchase agreements

Along with traditional deposits, the Bank has access to securities sold under agreements to repurchase “repurchase agreements” with customers representing 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 June 30, 2018 and December 31, 2017. These borrowings were collateralized with investment securities with a carrying value of $20.8 million and $23.1 million at June 30, 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 $20.2 million at June 30, 2018, compared to $22.4 million in December 31, 2017. Information related to repurchase agreements is summarized as follows:

(Dollars in thousands)	June 30, 2018	December 31, 2017
Balance at end of period	$20,240	$ 22,403
Average balance during the period	20,118	25,160
Maximum month-end balance	20,676	25,972

Weighted-average rate during the year	0.38	%	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)	June 30, 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	$ 1,770	$ 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%	763	775
	$ 2,533	$ 2,573

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Subordinated Debt

Information related to subordinated debt is summarized as follows:

(Dollars in thousands)	June 30, 2018	December 31, 2017
Balance at end of period	$20,796	$ 33,524
Average balance during the period	32,015	33,524
Maximum month-end balance	33,524	33,524
Weighted-average rate during the year	6.77 %	6.69 %
Weighted-average rate at end of period	6.73 %	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. In June 2018, subordinated debt in the amount of $12.7 million was converted into 795,500 shares of common stock.

The Company reflects subordinated debt in the amount of $20.8 million and $33.5 million as of June 30, 2018 and December 31, 2017 and interest expense of $542 thousand and $558 thousand for the six months ended June 30, 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	264,338
2019	85
2020	90
2021	886
2022	1,431
Thereafter	20,796
	$287,626

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 and equity 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 June 30, 2018. Valuation techniques are consistent with techniques used in prior periods. Certain local municipal securities related to tax increment financing ("TIF") are independently valued and classified as Level III instruments.

- Loans held for sale – The fair value of mortgage loans held for sale is determined, when possible, using quoted secondary-market prices or investor commitments. If no such quoted price exists, the fair value of a loan is determined using quoted prices for a similar asset or assets, adjusted for the specific attributes of that loan, which would be used by other market participants.

- Interest rate lock commitment – The Company estimates the fair value of interest rate lock commitments based on the value of the underlying mortgage loan, quoted mortgage-backed security prices, and estimates of the fair value of the mortgage servicing rights and the probability that the mortgage loan will fund within the terms of the interest rate lock commitments.

- Mortgage-backed security hedges – MBS hedges are considered derivatives and are recorded at fair value based on observable market data of the individual mortgage-backed security.

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

- Interest rate swap – Interest rate swaps are recorded at fair value based on third party vendors who compile prices from various sources and may determine fair value of identical or similar instruments by using pricing models that consider observable market data.

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

	June 30, 2018			
(Dollars in thousands)	Level I	Level II	Level III	Total
Assets:				
U.S. Government Agency securities	$ —	$ 78,900	$ —	$ 78,900
U.S. Sponsored Mortgage backed securities	—	53,726	—	53,726
Municipal securities	—	51,868	28,173	80,041
Other securities	—	9,418	—	9,418
Equity securities	6,069	—	900	6,969
Loans held for sale	—	98,799	—	98,799
Interest rate lock commitment	—	—	2,375	2,375
Interest rate swap	—	290	—	290
Interest rate cap	—	50	—	50
Liabilities:				
Interest rate swap	—	290	—	290
Mortgage-backed security hedges	—	362	—	362

	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	14,059	900	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

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The following table represents recurring level III assets:

(Dollars in thousands)	Interest Rate Lock Commitments	Municipal Securities	Equity Securities	Total
Balance at December 31, 2017	$ 1,426	$ 22,909	$ 900	$ 25,235
Realized and unrealized gains included in earnings	949	—	—	949
Purchase of securities	—	6,232	—	6,232
Unrealized gain included in other comprehensive income (loss)	—	—	—	—
Unrealized loss included in other comprehensive income (loss)	—	(968)	—	(968)
Balance at June 30, 2018	$ 2,375	$ 28,173	$ 900	$ 31,448
Balance at March 31, 2018	$ 2,312	$ 22,571	$ 900	$ 25,783
Realized and unrealized gains included in earnings	63	—	—	63
Purchase of securities	—	6,232	—	6,232
Unrealized gain included in other comprehensive income (loss)	—	29	—	29
Unrealized loss included in other comprehensive income (loss)	—	(659)	—	(659)
Balance at June 30, 2018	$ 2,375	$ 28,173	$ 900	$ 31,448
Balance at December 31, 2016	$ 1,546	$ 6,135	$ 300	$ 7,981
Realized and unrealized gains included in earnings	548	—	—	548
Unrealized gain included in other comprehensive income (loss)	—	54	—	54
Balance at June 30, 2017	$ 2,094	$ 6,189	$ 300	$ 8,583
Balance at March 31, 2017	$ 2,855	$ 6,189	$ 300	$ 9,344
Realized and unrealized losses included in earnings	(761)	—	—	(761)
Unrealized gain included in other comprehensive income (loss)	—	—	—	—
Balance at June 30, 2017	$ 2,094	$ 6,189	$ 300	$ 8,583

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.

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- Other real estate owned – Other real estate owned, which is obtained through the Bank’s foreclosure process is valued utilizing the appraised collateral value. Collateral values are estimated using Level II inputs based on observable market data or Level III inputs based on customized discounting criteria. At the time, the foreclosure is completed, the Company obtains a current external appraisal.

Assets measured at fair value on a nonrecurring basis as of June 30, 2018 and December 31, 2017 are included in the table below:

	June 30, 2018			
(Dollars in thousands)	Level I	Level II	Level III	Total
Impaired loans	$—	$—	$14,196	$14,196
Other real estate owned	—	—	1,775	1,775
	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

The following tables presents quantitative information about the Level III significant unobservable inputs for assets and liabilities measured at fair value at June 30, 2018 and December 31, 2017.

	Quantitative Information about Level III Fair Value Measurements			
(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range
June 30, 2018				
Nonrecurring measurements:				
Impaired loans	$14,196	Appraisal of collateral [1]	Appraisal adjustments [2]	20% - 62%
			Liquidation expense [3]	5% - 10%
Other real estate owned	$1,775	Appraisal of collateral [1]	Appraisal adjustments [2]	20% - 30%
			Liquidation expense [3]	5% - 10%
Recurring measurements:				
Municipal securities	$28,173	Appraisal of bond [3]	Bond appraisal adjustment [4]	5% - 15%
Interest rate lock commitments	$2,375	Pricing model	Pull through rates	76% - 87%

	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.

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[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.

- Securities available-for-sale and equity 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.

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- Accrued interest receivable and payable and repurchase agreements – The carrying values of accrued interest receivable and payable approximate their fair values.

- Deposits – The fair values of demand deposits (i.e., noninterest bearing checking, NOW and money market), savings accounts and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

- FHLB and other borrowings – The fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms of borrowers of similar credit quality. No prepayments of principal are assumed.

- Subordinated debt – The fair values for debt are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for debt with similar terms of borrowers of similar credit quality. No prepayments of principal are assumed.

- Off-balance sheet instruments – The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of agreements and the present credit standing of the counterparties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown.

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

Fair Value Measurements at:

(Dollars in thousands)	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
June 30, 2018					
Financial assets:					
Cash and cash equivalents	$23,950	$23,950	$23,950	$—	$ —
Certificates of deposits with other banks	14,778	14,407	—	14,407	—
Securities available-for-sale	222,085	222,085	—	193,912	28,173
Equity securities	6,969	6,969	6,069	—	900
Loans held for sale	98,799	98,799	—	98,799	—
Loans, net	1,204,421	1,192,317	—	—	1,192,317
Mortgage servicing rights	177	177	—	—	177
Interest rate lock commitment	2,375	2,375	—	—	2,375
Interest rate swap	290	290	—	290	—
Interest rate cap	50	50	—	50	—
Accrued interest receivable	6,267	6,267	—	1,453	4,814
Financial liabilities:					
Deposits	$1,195,868	$1,146,746	$—	$1,146,746	$ —
Repurchase agreements	20,240	20,240	—	20,240	—
FHLB and other borrowings	266,830	266,857	—	266,857	—
Mortgage-backed security hedges	362	362	—	362	—
Interest rate swap	290	290	—	290	—
Accrued interest payable	687	687	—	687	—
Subordinated debt	20,796	21,700	—	21,700	—
December 31, 2017					
Financial assets:					
Cash and cash equivalents	$20,305	$20,305	$20,305	$—	$ —
Certificates of deposits with other banks	14,778	14,695	—	14,695	—
Securities available-for-sale	231,507	231,507	1,607	206,091	23,809
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 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 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 terminated 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.

	Six Months Ended June 30,		Three Months Ended June 30,	
(Dollars in thousands except shares and per share data)	2018	2017	2018	2017
Numerator for basic earnings per share:				
Net income	$5,425	$ 3,834	$2,831	$ 2,260
Less: Dividends on preferred stock	243	251	122	122
Net income available to common shareholders - basic	$5,182	$ 3,583	$2,709	$ 2,138
Numerator for diluted earnings per share:				
Net income available to common shareholders - basic	$5,182	$ 3,583	$2,709	$ 2,138
Add: Dividends on convertible preferred stock	—	—	122	—
Add: Interest on subordinated debt (tax effected)	—	—	—	349
Net income available to common shareholders - diluted	$5,182	$ 3,583	$2,831	$ 2,487
Denominator:				
Total average shares outstanding	10,554,916	10,171,198	10,634,805	10,343,933
Effect of dilutive convertible preferred stock	—	—	489,625	—
Effect of dilutive convertible subordinated debt	—	—	—	1,837,500
Effect of dilutive stock options and restrictive stock units	386,755	1,056	377,718	—
Total diluted average shares outstanding	10,941,671	10,172,254	11,502,148	12,181,433
Earnings per share - basic	$0.49	$ 0.35	$0.25	$ 0.21
Earnings per share - diluted	$0.47	$ 0.35	$0.25	$ 0.20

For the six months ended June 30, 2018 and 2017, approximately 1.5 million 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 June 30, 2018 and 2017, approximately 1.0 million and 490 thousand, 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 six and three months ended June 30, 2018, approximately 31 thousand shares and 37 thousand shares, respectively, 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 and six-month periods ended June 30, 2018 and June 30, 2017 are as follows:

Three Months Ended June 30, 2018 (Dollars in thousands)	Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Intercompany Eliminations	Consolidated
Revenues:					
Interest income	$ 15,426	$ 1,772	$ 1	$ (255)	$ 16,944
Mortgage fee income	154	9,152	—	(243)	9,063
Other income	1,068	706	1,489	(1,531)	1,732
Total operating income	16,648	11,630	1,490	(2,029)	27,739
Expenses:					
Interest expense	3,164	1,081	542	(498)	4,289
Salaries and employee benefits	3,884	6,826	1,784	—	12,494
Provision for loan losses	625	(20)	—	—	605
Other expense	4,968	2,296	1,022	(1,531)	6,755
Total operating expenses	12,641	10,183	3,348	(2,029)	24,143
Income (loss) before income taxes	4,007	1,447	(1,858)	—	3,596
Income tax expense (benefit)	832	373	(440)	—	765
Net income (loss)	$ 3,175	$ 1,074	$ (1,418)	$ —	$ 2,831
Preferred stock dividends	—	—	122	—	122
Net income (loss) available to common shareholders	3,175	1,074	(1,540)	—	2,709
Capital Expenditures for the three-month period ended June 30, 2018	$ 609	$ 29	$ 19	$ —	$ 657
Total Assets as of June 30, 2018	1,681,115	191,933	187,917	(375,546)	1,685,419
Total Assets as of December 31, 2017	1,531,496	149,323	184,599	(331,116)	1,534,302
Goodwill as of June 30, 2018	1,598	16,882	—	—	18,480
Goodwill as of December 31, 2017	1,598	16,882	—	—	18,480

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Three Months Ended June 30, 2017 (Dollars in thousands)	Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Intercompany Eliminations	Consolidated
Revenues:					
Interest income	$ 12,907	$ 1,073	$ 1	$ (167)	$ 13,814
Mortgage fee income	188	8,937	—	(173)	8,952
Other income	1,529	1,137	1,307	(1,358)	2,615
Total operating income	14,624	11,147	1,308	(1,698)	25,381
Expenses:					
Interest expense	2,168	534	558	(340)	2,920
Salaries and employee benefits	3,267	7,147	1,384	—	11,798
Provision for loan losses	467	56	—	—	523
Other expense	5,065	2,044	954	(1,358)	6,705
Total operating expenses	10,967	9,781	2,896	(1,698)	21,946
Income (loss) before income taxes	3,657	1,366	(1,588)	—	3,435
Income tax expense (benefit)	1,165	540	(530)	—	1,175
Net income (loss)	$ 2,492	$ 826	$ (1,058)	$ —	$ 2,260
Preferred stock dividends	—	—	122	—	122
Net income (loss) available to common shareholders	2,492	826	(1,180)	—	2,138
Capital Expenditures for the three-month period ended June 30, 2017	$ 1,732	$ 282	$ 17	$ —	$ 2,031
Total Assets as of June 30, 2017	1,503,809	157,197	181,235	(335,188)	1,507,053
Total Assets as of December 31, 2016	1,415,735	122,242	180,335	(299,508)	1,418,804
Goodwill as of June 30, 2017	1,598	16,882	—	—	18,480
Goodwill as of December 31, 2016	1,598	16,882	—	—	18,480

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Six Months Ended June 30, 2018 (Dollars in thousands)	Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Intercompany Eliminations	Consolidated
Revenues:					
Interest income	$ 29,265	$ 3,107	$ 2	$ (376)	$ 31,998
Mortgage fee income	292	15,825	—	(491)	15,626
Other income	2,848	1,223	3,043	(2,906)	4,208
Total operating income	32,405	20,155	3,045	(3,773)	51,832
Expenses:					
Interest expense	5,838	1,808	1,100	(868)	7,878
Salaries and employee benefits	7,453	12,242	3,272	—	22,967
Provision for loan losses	1,042	37	—	—	1,079
Other expense	9,527	4,418	1,981	(2,905)	13,021
Total operating expenses	23,860	18,505	6,353	(3,773)	44,945
Income (loss) before income taxes	8,545	1,650	(3,308)	—	6,887
Income tax expense (benefit)	1,810	426	(774)	—	1,462
Net income (loss)	$ 6,735	$ 1,224	$ (2,534)	$ —	$ 5,425
Preferred stock dividends	—	—	243	—	243
Net income (loss) available to common shareholders	6,735	1,224	(2,777)	—	5,182
Capital Expenditures for the six-month period ended June 30, 2018	$ 1,012	$ 107	$ 44	$ —	$ 1,163
Total Assets as of June 30, 2018	1,681,115	191,933	187,917	(375,546)	1,685,419
Total Assets as of December 31, 2017	1,531,496	149,323	184,599	(331,116)	1,534,302
Goodwill as of June 30, 2018	1,598	16,882	—	—	18,480
Goodwill as of December 31, 2017	1,598	16,882	—	—	18,480

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Six Months Ended June 30, 2017 (Dollars in thousands)	Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Intercompany Eliminations	Consolidated
Revenues:					
Interest income	$ 25,218	$ 1,854	$ 2	$ (192)	$ 26,882
Mortgage fee income	373	18,574	—	(361)	18,586
Other income	2,609	(694)	2,518	(2,628)	1,805
Total operating income	28,200	19,734	2,520	(3,181)	47,273
Expenses:					
Interest expense	4,288	838	1,109	(553)	5,682
Salaries and employee benefits	5,924	13,101	2,735	—	21,760
Provision for loan losses	967	74	—	—	1,041
Other expense	9,716	4,143	1,829	(2,628)	13,060
Total operating expenses	20,895	18,156	5,673	(3,181)	41,543
Income (loss) before income taxes	7,305	1,578	(3,153)	—	5,730
Income tax expense (benefit)	2,326	636	(1,066)	—	1,896
Net income (loss)	$ 4,979	$ 942	$ (2,087)	$ —	$ 3,834
Preferred stock dividends	—	—	251	—	251
Net income (loss) available to common shareholders	4,979	942	(2,338)	—	3,583
Capital Expenditures for the six-month period ended June 30, 2017	$ 2,600	$ 973	$ 46	$ —	$ 3,619
Total Assets as of June 30, 2017	1,503,809	157,197	181,235	(335,188)	1,507,053
Total Assets as of December 31, 2016	1,415,735	122,242	180,335	(299,508)	1,418,804
Goodwill as of June 30, 2017	1,598	16,882	—	—	18,480
Goodwill as of December 31, 2016	1,598	16,882	—	—	18,480

Commercial & Retail Banking

For the three months ended June 30, 2018, the Commercial & Retail Banking segment earned $3.2 million compared to $2.5 million in 2017. Net interest income increased by $1.5 million, primarily the result of an increase of $2.0 million in interest and fees on loans. This increase in interest income was partially offset by an increase of $567 thousand in interest on deposits. Noninterest income decreased by $495 thousand which was the result of a decrease of $270 thousand in commercial swap fee income and a decrease of $203 thousand in gain on sale of portfolio loans. Noninterest expense increased by $520 thousand, primarily the result of an increase of $617 thousand in salaries and employee benefits expense and an increase of $174 thousand in other operating expenses. These increases were partially offset by a decrease of $280 thousand in data processing and communications expense. In addition, provision expense increased by $158 thousand due to increased loan volume in the second quarter of 2018 versus the same quarter in 2017, significantly reduced historical loan loss rates, increased specific loan loss allocations, and a lower level of charge-offs in the second quarter of 2018 versus 2017.

For the six months ended June 30, 2018, the Commercial & Retail Banking segment earned $6.7 million compared to $5.0 million in 2017. Net interest income increased by $2.5 million, primarily the result of an increase of $2.9 million in interest and fees on loans, an increase of $595 thousand in interest on taxable investment securities, and an increase of $505 thousand in interest on tax exempt loans and securities. This increase in interest income was partially offset by an increase of $960 thousand in interest on deposits and an increase of $589 thousand in interest on FHLB and other borrowings. Noninterest income increased by $158 thousand which was the result of an increase of $228 thousand in the performance of the interest rate cap and an increase of $148 thousand in Visa debit card and interchange income, partially offset by a decrease of$210 thousand in the gain on sale of securities. Noninterest expense increased by $1.3 million, primarily the result of an increase of $1.5 million in salaries and employee benefits expense and an increase of $377 thousand in other operating expenses. These increases were partially offset by a decrease of $412 thousand in data processing and communications expense. In addition, provision expense increased $75 thousand due to increased loan volume in the first half of 2018 versus the same time period in 2017, significantly reduced historical loan loss rates, decreased specific loan loss allocations, and a lower level of charge-offs in the six months ended June 30, 2018 versus the same time frame in 2017.

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Mortgage Banking

For the three months ended June 30, 2018, the Mortgage Banking segment earned $1.1 million compared to $826 thousand in 2017. Net interest income increased $152 thousand, which was the result of an increase of $699 thousand in interest and fees on loans, offset by an increase of $547 thousand in interest on FHLB and other borrowings due to an increase in short-term borrowing rates. Noninterest income decreased by $216 thousand, primarily the result of a decrease of $429 thousand in the gain on derivative, which was partially offset by an increase of $215 thousand in mortgage fee income. The decrease in gain on derivatives was largely the result of a decrease of $1.4 million in the valuation of the open trades used to hedge the derivative asset during the three months ended June 30, 2018 compared to the valuation of the open trades used to hedge the derivative asset during the three months ended June 30, 2017. This was partially offset by a $900 thousand increase in the derivative asset as the locked pipeline related to the derivative asset increase of 8.0% in the second quarter of 2018 compared to a decrease of 3.0% in the second quarter of 2017. Noninterest expense decreased by $69 thousand, which was the result of a decrease of $321 thousand in salaries and employee benefits expense, which was partially offset by an increase of $249 thousand in mortgage processing expense. The decrease in salaries and employee benefits expense was primarily the result of a decrease in the overall contractual commissions to loan officers and management, as well as a decrease of $205 thousand in the earn out paid to management of the mortgage company related to the 2012 acquisition.

For the six months ended June 30, 2018, the Mortgage Banking segment earned $1.2 million compared to $942 thousand in 2017. Net interest income increased by $283 thousand, primarily the result of an increase of $1.3 million in interest and fees on loans, offset by an increase of $970 thousand in interest on FHLB and other borrowings due to an increase in short-term borrowing rates. Noninterest income decreased by $832 thousand, primarily the result of a decrease of $2.7 million in mortgage fee income, partially offset by an increase of $1.9 million in gain on derivatives. The decrease in mortgage fee income was driven by the decrease of mortgage production volume, which decreased by $34.2 million or 4.4% for the six months ended June 30, 2018 compared to the six months ended June 30, 2017. This was offset by the increase in gain on derivatives of $2.1 million, which was largely the result of a 66.8% increase in the locked mortgage pipeline for the six months ended June 30, 2018 compared to a 3.3% increase in the locked mortgage pipeline for the six months ended June 30, 2017. Noninterest expense decreased by $584 thousand, which was the result of a decrease of $859 thousand in salaries and employee benefits expense, which was partially offset by an increase of $247 thousand in mortgage processing expense. The decrease in salaries and employee benefits expense was primarily the result of lower commissions paid due to a 4.4% decrease in mortgage closed loan volume and a decrease of $329 thousand in the earn out paid to management of the mortgage company related to the 2012 acquisition.

Financial Holding Company

For the three months ended June 30, 2018, the Financial Holding Company segment lost $1.4 million compared to a loss of $1.1 million in 2017. Interest expense decreased $16 thousand, noninterest income increased $182 thousand, and noninterest expense increased $468 thousand. In addition, the income tax benefit decreased $90 thousand. The increase in noninterest income was primarily the result of an $18 thousand holding gain on equity securities and an increase of $172 thousand in intercompany services income related to Regulation W. The increase in noninterest expense was primarily the result of an increase of $400 thousand in salaries and employee benefits expense and an increase of $121 thousand in travel, entertainment, dues, and subscriptions.

For the six months ended June 30, 2018, the Financial Holding Company segment lost $2.5 million compared to a loss of $2.1 million in 2017. Interest expense decreased $9 thousand, noninterest income increased $525 thousand, and noninterest expense increased $689 thousand. In addition, the income tax benefit decreased $292 thousand. The increase in noninterest income was primarily the result of a $70 thousand holding gain on equity securities, an increase of $278 thousand in intercompany services income related to Regulation W, and an increase of $186 thousand in gain on sale of securities. The increase in noninterest expense was primarily the result of an increase of $537 thousand in salaries and employee benefits expense and an increase of $252 thousand in travel, entertainment, dues, and subscriptions.

Note 10 – Pension and Supplemental Executive Retirement Plans

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

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Information pertaining to the activity in the Company's defined benefit plan, using the latest available actuarial valuations with a measurement date of June 30, 2018 and 2017 is as follows:

(Dollars in thousands)	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
Service cost	$ —	$ —	$ —	$ —
Interest cost	176	180	88	90
Expected Return on Plan Assets	(186)	(172)	(93)	(86)
Amortization of Net Actuarial Loss	153	120	77	60
Amortization of Prior Service Cost	—	—	—	—
Net Periodic Benefit Cost	$ 143	$ 128	$ 72	$ 64
Contributions Paid	$ 158	$ 116	$ 79	$ 58

On June 19, 2017, the Company and MVB Mortgage approved a Supplemental Executive Retirement Plan ("SERP"), pursuant to which the Chief Executive Officer of MVB Mortgage is entitled to receive certain supplemental nonqualified retirement benefits. The SERP took effect on December 31, 2017. If executive completes three years of continuous employment with MVB Mortgage prior to retirement date (which shall be no earlier than the date he attains age 55) he will, upon retirement, be entitled to receive $1.8 million payable in 180 equal consecutive installments of $10 thousand. The liability is calculated by discounting the anticipated future cash flows at 4.0%. The liability accrued for this obligation was $189 thousand and $1 thousand as of June 30, 2018 and December 31, 2017, respectively. Service cost was $94 thousand and $188 thousand for the three and six-month periods ended June 30, 2018, respectively.

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Note 11 – Comprehensive Income

The following tables present the components of accumulated other comprehensive income ("AOCI") six months ended June 30, 2018 and 2017:

(Dollars in thousands)	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	
Details about AOCI Components	Amount Reclassified from AOCI	Amount Reclassified from AOCI	Amount Reclassified from AOCI	Amount Reclassified from AOCI	Affected line item in the Statement where Net Income is presented
Available-for-sale securities					
Unrealized holding gains	$ 326	$ 350	$ —	$ 167	Gain on sale of securities
	326	350	—	167	Total before tax
	(88)	(140)	—	(67)	Income tax expense
	238	210	—	100	Net of tax
Defined benefit pension plan items					
Amortization of net actuarial loss	(153)	(120)	(77)	(60)	Salaries and benefits
	(153)	(120)	(77)	(60)	Total before tax
	41	48	21	24	Income tax expense
	(112)	(72)	(56)	(36)	Net of tax
Total reclassifications	$ 126	$ 138	$ (56)	$ 64	

(Dollars in thousands)	Unrealized gains (losses) on available for-sale securities	Defined benefit pension plan items	Total
Balance at December 31, 2017	$ (5)	$ (2,983)	$ (2,988)
Other comprehensive loss before reclassification	(3,895)	452	(3,443)
Amounts reclassified from AOCI	(238)	112	(126)
Net current period OCI	(4,133)	564	(3,569)
Stranded AOCI	—	(646)	(646)
Mark to Market on equity positions held at December 31, 2017	(98)	—	(98)
Balance at June 30, 2018	$ (4,236)	$ (3,065)	$ (7,301)
Balance at March 31, 2018	$ (3,588)	$ (3,629)	$ (7,217)
Other comprehensive loss before reclassification	(648)	508	(140)
Amounts reclassified from AOCI	—	56	56
Net current period OCI	(648)	564	(84)
Balance at June 30, 2018	$ (4,236)	$ (3,065)	$ (7,301)
Balance at December 31, 2016	(1,598)	(2,679)	(4,277)
Other comprehensive loss before reclassification	1,799	(274)	1,525

Amounts reclassified from AOCI	(210)	72	(138)
Net current period OCI	1,589	(202)	1,387
Balance at June 30, 2017	$ (9)	$ (2,881)	$ (2,890)
Balance at March 31, 2017	$ (1,439)	$ (2,581)	$ (4,020)
Other comprehensive loss before reclassification	1,530	(336)	1,194
Amounts reclassified from AOCI	(100)	36	(64)
Net current period OCI	1,430	(300)	1,130
Balance at June 30, 2017	$ (9)	$ (2,881)	$ (2,890)

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

The following presents management's discussion and analysis of our consolidated financial condition at June 30, 2018 and December 31, 2017 and the results of our operations for the six months ended June 30, 2018 and 2017. This discussion should be read in conjunction with our unaudited consolidated financial statements and the notes thereto appearing elsewhere in this report and the audited consolidated financial statements and the notes to consolidated financial statements included in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2017.

Forward-looking Statements:

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

- statements with respect to the beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operations and performance of the Company and its subsidiaries (collectively “we,” “our,” or “us), including the Bank; and

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

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

- the ability of the Company, the Bank, and MVB Mortgage to successfully execute business plans, manage risks, and achieve objectives;

- changes in local, national and international political and economic conditions, including without limitation changes in the political and economic climate, continued recovery from the recent economic crisis, delay of recovery from that crisis, economic conditions and fiscal imbalances in the United States and other countries, potential or actual downgrades in rating of sovereign debt issued by the United States and other countries, and other major developments, including wars, natural disasters, military actions, and terrorist attacks;

- changes in financial market conditions, either internationally, nationally, or locally in areas in which the Company, the Bank, and MVB Mortgage conduct operations, including without limitation, reduced rates of business formation and growth, commercial and residential real estate development, and real estate prices;

- fluctuations in markets for equity, fixed-income, commercial paper, and other securities, including availability, market liquidity levels, and pricing; changes in interest rates, the quality and composition of the loan and securities portfolios, demand for loan products, deposit flows and competition;

- the ability of the Company, the Bank, and MVB Mortgage to successfully conduct acquisitions and integrate acquired businesses;

-

potential difficulties in expanding the businesses of the Company, the Bank, and MVB Mortgage in existing and new markets;

- increases in the levels of losses, customer bankruptcies, bank failures, claims, and assessments;

- changes in fiscal, monetary, regulatory, trade and tax policies and laws, including the recently enacted Tax Reform Act, and regulatory assessments and fees, including policies of the U.S. Department of Treasury, the (Federal Reserve, and the FDIC);

- the impact of executive compensation rules under the Dodd-Frank Act and banking regulations which may impact the ability of the Company and its subsidiaries, and other American financial institutions to retain and recruit executives and other personnel necessary for their businesses and competitiveness;

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- the impact of the Dodd-Frank Act and of new international standards known as Basel III, and rules and regulations thereunder, many of which have not yet been promulgated, on our required regulatory capital and liquidity levels, governmental assessments on us, the scope of business activities in which we may engage, the manner in which the Company, the Bank, and MVB Mortgage engage in such activities, the fees that the Company's subsidiaries may charge for certain products and services, and other matters affected by the Dodd-Frank Act and these international standards;
- continuing consolidation in the financial services industry; new legal claims against the Company, the Bank, and MVB Mortgage, including litigation, arbitration and proceedings brought by governmental or self-regulatory agencies, or changes in existing legal matters;
- success in gaining regulatory approvals, when required, including for proposed mergers or acquisitions;
- changes in consumer spending and savings habits;
- increased competitive challenges and expanding product and pricing pressures among financial institutions;
- inflation and deflation;
- technological changes and the implementation of new technologies by the Company and its subsidiaries;
- the ability of the Company, the Bank, and MVB Mortgage to develop and maintain secure and reliable information technology systems;
- legislation or regulatory changes which adversely affect the operations or business of the Company, the Bank, and MVB Mortgage;
- the ability of the Company, the Bank, and MVB Mortgage to comply with applicable laws and regulations; changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies;
- costs of deposit insurance and changes with respect to FDIC insurance coverage levels; and
- other risks and uncertainties detailed in Part I, Item 1A, Risk Factors in the Annual Report to Shareholders on Form 10-K for the year ended December 31, 2017

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

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Summary of Results of Operations

As of June 30, 2018 and 2017 and for the six months ended June 30, 2018 and 2017:

(Dollars in thousands, except per share data)	Six Months Ended June 30, 2018	2017	Three Months Ended June 30, 2018	2017
Earnings and Per Share Data:				
Net income	$5,425	$3,834	$2,831	$2,260
Net income available to common shareholders	$5,182	$3,583	$2,709	$2,138
Earnings per share - basic	$0.49	$0.35	$0.25	$0.21
Earnings per share - diluted	$0.47	$0.35	$0.25	$0.20
Cash dividends paid per common share	$0.05	$0.05	$0.025	$0.025
Book value per common share	$13.93	$13.31	$13.93	$13.31
Weighted average shares outstanding - basic	10,554,916	10,171,198	10,634,805	10,343,933
Weighted average shares outstanding - diluted	10,941,671	10,172,254	11,502,148	12,181,433
Performance Ratios:				
Return on average assets [1]	0.69 %	0.54 %	0.70 %	0.63 %
Return on average equity [1]	7.17 %	5.45 %	7.40 %	6.30 %
Net interest margin [2]	3.34 %	3.25 %	3.38 %	3.31 %
Efficiency ratio [3]	81.88 %	83.72 %	82.09 %	82.38 %
Overhead ratio [1 4]	4.59 %	4.93 %	4.76 %	5.19 %
Asset Quality Data and Ratios:				
Charge-offs	$385	$453	$29	$163
Recoveries	$79	$59	$8	$16
Net loan charge-offs to total loans [1 5]	0.05 %	0.07 %	0.01 %	0.05 %
Allowance for loan losses	$10,651	$9,748	$10,651	$9,748
Allowance for loan losses to total loans [6]	0.88 %	0.88 %	0.88 %	0.88 %
Nonperforming loans	$9,419	$5,103	$9,419	$5,103
Nonperforming loans to total loans	0.78 %	0.46 %	0.78 %	0.46 %
Capital Ratios:				
Equity to assets	9.84 %	9.74 %	9.84 %	9.74 %
Leverage ratio	9.90 %	9.59 %	9.90 %	9.59 %
Common equity Tier 1 capital ratio	11.28 %	10.32 %	11.28 %	10.32 %
Tier 1 risk-based capital ratio	12.20 %	11.33 %	12.20 %	11.33 %
Total risk-based capital ratio	14.34 %	14.66 %	14.34 %	14.66 %

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

Introduction

Corporate Overview

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

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

In 2012, MVB Bank acquired Potomac Mortgage Group, Inc. (“PMG” which began doing business under the registered trade name “MVB Mortgage”), a mortgage company in the northern Virginia area, and fifty percent (50%) interest in a mortgage services company, Lender Service Provider, LLC (“LSP”). In 2013, this fifty percent interest (50%) in LSP was reduced to a twenty-five percent (25%) interest. In 2017, a forfeiture of a partial interest occurred, which increased the interest owned to thirty-three percent (33%). At this time, LSP began doing business as Lenderworks.

MVB Community Development Corporation was formed in 2017 to house significant CRA investments that the Bank participates in to better the communities it serves.

Business Overview

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

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

The Company is also involved in new innovative strategies to provide independent banking to corporate clients throughout the United States by leveraging recent investments in Fintech.

The Bank’s financial products and services are offered through its financial service locations and automated teller machines (“ATMs”) in West Virginia and Virginia, as well as telephone and internet-based banking through both personal computers and mobile devices. Non-deposit investment services are offered through an association with a broker-dealer.

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

This discussion and analysis should be read in conjunction with the prior year-end audited consolidated financial statements and footnotes thereto included in the Company’s 2017 filing on Form 10-K and the unaudited financial statements, ratios, statistics, and discussions contained elsewhere in this Form 10-Q.

At June 30, 2018, the Company had 398 full-time equivalent employees.

The Company’s principal office is located at 301 Virginia Avenue, Fairmont, West Virginia 26554, and its telephone number is (304) 363-4800. The Company’s Internet web site is www.mvbbanking.com.

Application of Critical Accounting Policies

The Company’s consolidated financial statements are prepared in accordance with U. S. generally accepted accounting principles and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements; accordingly, as this information changes, the consolidated financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the consolidated financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal forecasting techniques.

The most significant accounting policies followed by the Company are presented in Note 1, "Summary of Significant Accounting Policies" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of the Company's 2017 Annual Report on Form 10-K. These policies, along with the disclosures presented in the other financial statement notes and in management’s discussion and analysis of operations, provide information on how significant assets and liabilities are valued in the consolidated financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses to be the accounting area that requires the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

The allowance for loan losses represents management’s estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of losses inherent in classifications of homogeneous loans based on the Bank’s historical loss experience and consideration of current economic trends and conditions, all of which may be susceptible to significant change. Non-homogeneous loans are specifically evaluated due to the increased risks inherent in those loans. The loan portfolio also represents the largest asset type in the consolidated balance sheet. Note 1, "Summary of Significant Accounting Policies" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of the Company's 2017 Annual Report on Form 10-K, describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in the "Allowance for Loan Losses" section of Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this Quarterly Report on Form 10-Q.

Results of Operations

Overview of the Statements of Income

For the three months ended June 30, 2018, the Company earned $2.8 million compared to $2.3 million in the second quarter of 2017. Net interest income increased by $1.8 million, noninterest income decreased by $772 thousand, and noninterest expenses increased by $746 thousand. The increase in net interest income was driven by an increase of $3.1 million in interest income. The increase in interest income was partially offset by an increase of $1.4 million in interest expense. The increase in interest income was due to average loan growth of $123.9 million with the yield on loans and loans held for sale increasing by 38 basis points, primarily due to an increase in commercial loan yield of 46 basis points, a 32-basis point increase in yield on investment securities, and a 22-basis point increase in real estate loans. The $148.8 million increase in average interest-bearing liabilities generated the increase in interest expense of $1.4 million; $817 thousand of the increase was related to an increase in borrowings and an increase in interest rates on FHLB and other borrowings. FHLB and other borrowings increased by $114.1 million, while the cost of funds on

FHLB and other borrowings increased by 76 basis points due to multiple interest rate increases since June 30, 2017.

The provision for loan losses, which is a product of management's formal quarterly analysis, is recorded in response to inherent losses in the loan portfolio. Loan loss provisions of $605 thousand and $523 thousand were made for the three months ended June 30, 2018 and 2017, respectively. The increase in loan loss provision is most attributable to increased loan volume in the second quarter of 2018 versus the same time period in 2017. Most notably, the commercial loan portfolio increased by $59.4 million for the three months ended June 30, 2018, in comparison to $29.0 million for the three months ended June 30, 2017. Meanwhile, historical loss rates were significantly lower in the second quarter of 2018 versus same time period in 2017, which resulted in a need for relatively less provision per dollar of new loan growth in the second quarter of 2018 versus the second quarter of 2017. Specific loan loss allocations increased by $135 thousand in the second quarter of 2018, relative to no increase in the second quarter of 2017. However, total charge offs of $29 thousand in the second quarter of 2018 were $134 thousand less for the three months ended June 30, 2018 versus the same time period in 2017.

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For the six months ended June 30, 2018, the Company earned $5.4 million compared to $3.8 million for the six months ended June 30, 2017. Net interest income increased by $2.9 million, noninterest income decreased by $557 thousand, and noninterest expenses increased by $1.2 million. The increase in net interest income was driven by an increase of $5.1 million in interest income, which was partially offset by an increase of $2.2 million in interest expense. The increase in interest income was due to average loan growth of $80.1 million, with the yield on loans and loans held for sale increasing by 37 basis points, primarily due to an increase in commercial loan yield of 42 basis points, a 32-basis point increase in yield on investment securities, and a 29-basis point increase in real estate loans. The $119.9 million increase in average interest-bearing liabilities generated the increase in interest expense of $2.2 million; $1.2 million of the increase was related to an increase in borrowings and an increase in interest rates on FHLB and other borrowings. FHLB and other borrowings increased by $85.3 million, while the cost of funds on FHLB and other borrowings increased by 75 basis points due to multiple interest rate increases since June 30, 2017.

The provision for loan losses, which is a product of management's formal quarterly analysis, is recorded in response to inherent losses in the loan portfolio. Loan loss provisions of $1.1 million and $1.0 million were made for the six months ended June 30, 2018 and 2017, respectively. The slight increase in loan loss provision is most attributable to increased loan volume in the six months ended June 30, 2018 versus the same time period in 2017. Most notably, the commercial loan portfolio increased by $100.2 million in the six months ended June 30, 2018, in comparison to $24.8 million for the six months ended June 30, 2017. Meanwhile, significantly reduced historical loan loss rates resulted in a need for relatively less provision per dollar of new loan growth in six months ended June 30, 2018 versus the same time period in 2017. The reduction in historical loss rates is the result of the rolling quarter loss rate calculation, which no longer includes certain historical quarters which reported some of the Bank's most significant commercial loan losses. The historical loan loss rates have also decreased in the six months ended June 30, 2018 as a result of the inclusion of the Bank’s actual loss rates for its Northern Virginia commercial loan portfolio, rather than using only peer loss rates in the historical loan loss rate calculations. Peer loss rates have been used exclusively until such time as the Northern Virginia commercial loan portfolio had accumulated at least twelve quarters of loss history. Specific loan loss allocations decreased in the six months ended June 30, 2018 and in the six months ended June 30, 2017, creating very little variance in the provision required in each of these two periods. Lastly, the Company charged off $385 thousand in loans during the six months ended June 30, 2018 versus $453 thousand for the same time period in 2017.

Interest Income and Expense

Net interest income is the amount by which interest income on earning assets exceeds interest expense on interest-bearing liabilities. Interest-earning assets include loans, investment securities, and certificates of deposits in other banks. Interest-bearing liabilities include interest-bearing deposits and repurchase agreements, subordinated debt, and Federal Home Loan Bank ("FHLB") and other borrowings. Net interest income is a primary source of revenue for the bank. Changes in market interest rates, as well as changes in the mix and volume of interest-earning assets and interest-bearing liabilities impact net interest income.

Net interest margin is calculated by dividing net interest income by average interest-earning assets. This ratio serves as a performance measurement of the net interest revenue stream generated by the Company’s balance sheet. The net interest margin continues to face considerable pressure due to rising interest rates and competitive pricing of loans and deposits in the Bank’s markets. In June 2018, the Federal Reserve raised its key interest rate from a range of 1.50% to 1.75% to a range of 1.75% to 2.00%.

For the three months ended June 30, 2018 versus 2017, the Company was able to grow average investment securities by $59.1 million to $232.4 million and average loans and loans held for sale balances by $123.9 million to $1.3 billion. Average interest-bearing liabilities increased by $148.8 million, primarily the result of a $114.1 million increase in average FHLB and other borrowing balances. An increase in the Company's average non-interest balances of $31.2 million helped to sustain a 18-basis point favorable spread on net interest margin.

The net interest margin for the three months ended June 30, 2018 and 2017 was 3.38% and 3.31%, respectively. The 7-basis point increase in the net interest margin for the three months ended June 30, 2018 was the result of a 32-basis point increase in yield on average earning assets, primarily the result of a 38-basis point increase in yield on loans and loans held for sale. More specifically, the increase was due to an increase in commercial loan yield of 46 basis points, a 32-basis point increase in yield on investment securities, and a 22-basis point increase in real estate loans. Cost of interest-bearing liabilities for the three months ended June 30, 2018 versus 2017 increased by 31 basis points. The cost of interest-bearing liabilities increase was mainly the result of a 76-basis point increase in FHLB and other borrowings and a 20-basis point increase in interest-bearing deposits. More specifically, the increase in interest-bearing deposits was as follows: a 31-basis point increase in certificates of deposit, a 23-basis point increase in IRAs, an 18-basis point increase in NOW, an 12-basis point increase in money market checking, which was offset by a 11-basis point decrease in savings.

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For the six months ended June 30, 2018 versus 2017, the Company was able to grow average investment securities by $62.0 million to $231.2 million and average loans and loans held for sale balances by $80.1 million to $1.2 billion. In addition, the average balance on interest-bearing deposits in banks increased by $670 thousand to $3.7 million. Average interest-bearing liabilities increased by $119.9 million, primarily the result of a $85.3 million increase in average FHLB and other borrowing balances. An increase in the Company's average non-interest-bearing balances of $23.4 million helped to sustain a 16-basis point favorable spread on net interest margin.

The net interest margin for the six months ended June 30, 2018 and 2017 was 3.34% and 3.25% respectively. The 9-basis point increase in the net interest margin for the six months ended June 30, 2018 was the result of a 31-basis point increase in yield on average earning assets, primarily the result of a 37-basis point increase in yield on loans and loans held for sale. More specifically, the increase was due to an increase in commercial loan yield of 42 basis points, a 32-basis point increase in yield on investment securities, and a 29-basis point increase in real estate loans. Cost of interest-bearing liabilities for the six months ended June 30, 2018 versus 2017 increased by 25 basis points. The cost of interest-bearing liabilities increase was mainly the result of a 75-basis point increase in FHLB and other borrowings and a 16-basis point increase in interest-bearing deposits. More specifically, the increase in interest-bearing deposits was as follows: a 26-basis point increase in certificates of deposit, a 22-basis point increase in IRAs, an 18-basis point increase in NOW, a 3-basis point increase in money market checking, which was offset by a 5-basis point decrease in savings.

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

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

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
(Dollars in thousands)	Average Balance	Interest Income/Expense	Yield/Cost	Average Balance	Interest Income/Expense	Yield/Cost
Assets						
Interest-bearing deposits in banks	$3,473	$ 17	1.96 %	$3,277	$ 12	1.47 %
CDs with other banks	14,778	74	2.02	14,456	70	1.94
Investment securities:						
Taxable	151,224	891	2.36	119,553	645	2.16
Tax-exempt	81,164	717	3.54	53,733	418	3.12
Loans and loans held for sale: [1]						
Commercial	831,118	10,318	4.98	725,707	8,170	4.52
Tax exempt	14,260	123	3.46	15,263	131	3.44
Real estate	394,814	4,656	4.73	373,353	4,201	4.51
Consumer	11,850	148	5.00	13,817	167	4.85
Total loans	1,252,042	15,245	4.88	1,128,140	12,669	4.50
Total earning assets	1,502,681	16,944	4.52	1,319,159	13,814	4.20
Less: Allowance for loan losses	(10,132)			(9,734)		
Cash and due from banks	16,792			15,407		
Other assets	107,421			100,205		
Total assets	$1,616,762			$1,425,037		
Liabilities						
Deposits:						
NOW	$459,784	$ 846	0.74	$432,729	$ 603	0.56
Money market checking	229,763	484	0.85	237,173	432	0.73
Savings	46,478	7	0.06	48,590	20	0.17
IRAs	17,997	69	1.54	16,282	53	1.31
CDs	275,004	1,124	1.64	256,887	855	1.33
Repurchase agreements and federal funds sold	20,118	20	0.39	21,268	19	0.36
FHLB and other borrowings	226,487	1,197	2.12	112,385	380	1.36
Subordinated debt	32,015	542	6.79	33,524	558	6.68
Total interest-bearing liabilities	1,307,646	4,289	1.32	1,158,838	2,920	1.01
Noninterest bearing demand deposits	146,135			114,974		
Other liabilities	9,890			7,698		
Total liabilities	1,463,671			1,281,510		
Stockholders’ equity						
Preferred stock	7,834			7,834		
Common stock	10,686			10,375		
Paid-in capital	101,577			96,986		
Treasury stock	(1,084)			(1,084)		
Retained earnings	41,277			32,764		
Accumulated other comprehensive income	(7,199)			(3,348)		
Total stockholders’ equity	153,091			143,527		

Total liabilities and stockholders' equity	$1,616,762			$1,425,037			
Net interest spread			3.20			3.19	
Net interest income-margin		$ 12,655	3.38	%	$ 10,894	3.31	%

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

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(Dollars in thousands)	Six Months Ended June 30, 2018 Average Balance	Interest Income/Expense	Yield/Cost	Six Months Ended June 30, 2017 Average Balance	Interest Income/Expense	Yield/Cost
Assets						
Interest-bearing deposits in banks	$3,677	$ 35	1.94 %	$3,007	$ 21	1.41 %
CDs with other banks	14,778	146	1.99	14,491	140	1.95
Investment securities:						
Taxable	152,818	1,786	2.36	114,237	1,191	2.10
Tax-exempt	78,375	1,372	3.53	54,999	848	3.11
Loans and loans held for sale: [1]						
Commercial	803,593	19,261	4.83	735,979	16,113	4.41
Tax exempt	14,362	246	3.46	15,296	262	3.45
Real estate	378,095	8,846	4.72	362,807	7,965	4.43
Consumer	12,182	306	5.07	14,092	342	4.89
Total loans	1,208,232	28,659	4.78	1,128,174	24,682	4.41
Total earning assets	1,457,880	31,998	4.43	1,314,908	26,882	4.12
Less: Allowance for loan losses	(10,059)			(9,581)		
Cash and due from banks	16,381			15,327		
Other assets	104,401			93,248		
Total assets	$1,568,603			$1,413,902		
Liabilities						
Deposits:						
NOW	$451,828	$ 1,608	0.72	$424,225	$ 1,126	0.54
Money market checking	235,586	927	0.79	237,010	891	0.76
Savings	46,511	27	0.12	48,342	40	0.17
IRAs	17,845	131	1.48	16,426	103	1.26
CDs	272,160	2,135	1.58	260,735	1,709	1.32
Repurchase agreements and federal funds sold	20,360	39	0.38	22,186	36	0.33
FHLB and other borrowings	193,529	1,911	1.99	108,210	668	1.24
Subordinated debt	32,766	1,100	6.77	33,524	1,109	6.67
Total interest-bearing liabilities	1,270,585	7,878	1.25	1,150,658	5,682	1.00
Noninterest bearing demand deposits	137,383			114,003		
Other liabilities	9,284			8,459		
Total liabilities	1,417,252			1,273,120		
Stockholders' equity						
Preferred stock	7,834			8,022		
Common stock	10,606			10,212		
Paid-in capital	100,350			95,240		
Treasury stock	(1,084)			(1,084)		
Retained earnings	39,650			32,211		
Accumulated other comprehensive income	(6,005)			(3,819)		
Total stockholders' equity	151,351			140,782		
Total liabilities and stockholders' equity	$1,568,603			$1,413,902		

Net interest spread		3.18			3.13	
Net interest income-margin	$ 24,120	3.34	%	$ 21,200	3.25	%

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

Noninterest Income

Mortgage fee income, gain (loss) on derivatives,net, interchange income, security sale gains, income on bank owned life insurance and portfolio loan sales generate the core of the Company’s noninterest income. Also, service charges on deposit accounts continue to be part of the core of the Company’s noninterest income and include mainly non-sufficient funds and returned check fees, allowable overdraft fees and service charges on commercial accounts.

For the three months ended June 30, 2018, noninterest income totaled $10.8 million compared to $11.6 million for the same time period in 2017. The $772 thousand decrease in noninterest income was primarily the result of a decrease in gain on derivatives of $384 thousand and a decrease in commercial swap fee income of $270 thousand. The decrease in gain on derivatives was largely the result of a decrease of $1.4 million in the valuation of the open trades used to hedge the derivative asset during the three months ended June 30, 2018 compared to the valuation of the open trades used to hedge the derivative asset during the three months ended June 30, 2017. This was partially offset by a $900 thousand increase in the derivative asset as the locked pipeline related to the derivative asset increase of 8.0% in the second quarter of 2018 compared to a decrease of 3.0% in the second quarter of 2017. The decrease of $270 thousand in commercial swap fee income was the result of $0 of commercial swap fee income for the second quarter of 2018 compared to $270 thousand of commercial swap fee income for the second quarter of 2017. The loan swaps are agreements where MVB receives a floating, 1-month LIBOR plus spread and pays a fixed rate to a counterparty.

For the six months ended June 30, 2018, noninterest income totaled $19.8 million compared to $20.4 million for the same time period in 2017. The $557 thousand decrease in noninterest income was primarily the result of a decrease in mortgage fee income of $3.0 million, offset by an increase of $2.1 million in gain on derivatives. The decrease in mortgage fee income was driven by the decrease of mortgage production volume, which decreased by $34.2 million or 4.4% for the six months ended June 30, 2018 compared to the six months ended June 30, 2017. In addition, loans held for sale decreased from $107.8 million at June 30, 2017 to $98.8 million at June 30, 2018. This was offset by the increase in gain on derivatives of $2.1 million, which was largely the result of a 66.8% increase in the locked mortgage pipeline for the six months ended June 30, 2018 compared to a 3.3% increase in the locked mortgage pipeline for the six months ended June 30, 2017.

Noninterest Expense

The Company had 398 full-time equivalent personnel at June 30, 2018, as noted, compared to 386 full-time equivalent personnel as of June 30, 2017. Company and Bank management will continue to strive to find new ways of increasing efficiencies and leveraging its resources, while effectively optimizing customer service.

Salaries and employee benefits, occupancy and equipment, data processing and communications, mortgage processing and professional fees generate the core of the Company’s noninterest expense. The Company’s efficiency ratio was 82.09% for the second quarter of 2018 compared to 82.38% for the second quarter of 2017. The Company's efficiency ratio was 81.88% for the six months ended June 30, 2018 compared to 83.72% for the same time period in 2017. This ratio measures the efficiency of noninterest expenses incurred in relationship to net interest income plus noninterest income. The decreased efficiency ratio is the result of net interest income and noninterest income outpacing the growth in noninterest expense.

For the three months ended June 30, 2018, noninterest expense totaled $19.2 million compared to $18.5 million for the same time period in 2017. The $746 thousand increase in noninterest expense was primarily the result of the following:

Salaries and employee benefits expense increased by $696 thousand. The increase was largely driven by the addition of senior management, lenders, a treasury team, and the opening of two new branches in 2017.

Mortgage processing expense increased by $249 thousand. The increase was largely driven by an increase in shared costs related to MVB Mortgage's ownership interest of Lenderworks increasing from 25% in 2017 to 33% in 2018.

Data processing and communication expense decreased $518 thousand. This decrease was largely driven by decreased data processing fees in 2018 compared to data processing fees in 2017, which were increased due to the core system conversion that the Bank implemented during 2017 and the exclusion of debit and credit card processing costs for the three months ended June 30, 2018. Beginning in 2018 and in connection with the adoption of ASU 2014-09, debit and credit card processing costs are being reported net of the related revenue in noninterest income. For further information, see Note 1, "Summary of Significant Accounting Policies" of the Notes to the Consolidated Financial Statements, included in Item 1, Financial Statements, of this Quarterly Report on Form 10-Q. Previously, such debit and credit card processing costs were reported as a component of data processing and communications expense.

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For the six months ended June 30, 2018, noninterest expense totaled $36.0 million compared to $34.8 million for the same time period in 2017. The $1.2 million increase in noninterest expense was primarily the result of the following:

Salaries and employee benefits expense increased $1.2 million. This increase was largely driven by the addition of senior management, lenders, a treasury team, and the opening of two new branches in 2017.

Occupancy and equipment expense increased $262 thousand. This increase was mainly the result of increased utilities, real estate taxes, furniture rental expense, fixtures and equipment expense, and depreciation expense, primarily driven by the branch expansion and additional personnel.

Mortgage processing expense increased by $247 thousand. The increase was largely driven by an increase in shared costs related to MVB Mortgage's ownership interest of Lenderworks increasing from 25% in 2017 to 33% in 2018.

Travel, entertainment, dues, and subscriptions expense increased $220 thousand. This increase was mainly driven by increased meals and entertainment expense, publications and subscriptions expense, and travel expenses.

Data processing and communication expense decreased $897 thousand. This decrease was largely driven by decreased data processing fees in 2018 compared to data processing fees in 2017, which were increased due to the core system conversion that the Bank implemented during 2017 and the exclusion of debit and credit card processing costs for the six months ended June 30, 2018. Beginning in 2018 and in connection with the adoption of ASU 2014-09, debit and credit card processing costs are being reported net of the related revenue in noninterest income. For further information, see Note 1, "Summary of Significant Accounting Policies" of the Notes to the Consolidated Financial Statements, included in Item 1, Financial Statements, of this Quarterly Report on Form 10-Q. Previously, such debit and credit card processing costs were reported as a component of data processing and communications expense.

Return on Average Assets (Annualized)

The Company's return on average assets was 0.69% for the second quarter of 2018, compared to 0.54% for the second quarter of 2017. The increased return for the second quarter of 2018 is a direct result of a $1.6 million increase in earnings, while average total assets increased by $191.7 million, primarily the result of a $123.9 million increase in average total loans and loans held for sale and a $59.1 million increase in average investment securities.

The Company’s return on average assets was 0.70% for the six months ended June 30, 2018, compared to 0.63% for the six months ended June 30, 2017. The increased return for the six months ended June 30, 2018 is a direct result of a $571 thousand increase in earnings, while average total assets increased by $154.7 million, primarily the result of a $80.1 million increase in average total loans and loans held for sale and a $62.0 million increase in average investment securities.

Return on Average Equity (Annualized)

The Company's return on average stockholders' equity was 7.17% for the second quarter of 2018, compared to 5.45% for the second quarter of 2017. The increased return for the second quarter of 2018 is a direct result of a $1.6 million increase in earnings, while average stockholders' equity increased by $9.6 million. The increase in average stockholders' equity was primarily due to a $4.6 million increase in paid-in capital and a $8.5 million increase in retained earnings.

The Company’s return on average stockholders’ equity was 7.40% for the six months ended June 30, 2018, compared to 6.30% for the six months ended June 30, 2017. The increased return for the six months ended June 30, 2018 is a direct result of a $571 thousand increase in earnings, while average stockholders' equity increased by $10.6 million. The increase in average stockholders' equity was primarily due to a $5.1 million increase in paid-in capital and a $7.4 million increase in retained earnings.

Overview of the Statement of Condition

The greatest balance changes since December 31, 2017 were as follows: total assets increased by $151.1 million, to $1.7 billion, loans increased $109.1 million, to $1.2 billion, investment securities decreased $2.5 million, to $229.1 million, deposits increased $36.3 million, to $1.2 billion, borrowings increased $114.7 million, to $266.8 million, and stockholders' equity increased by $15.6 million, to $165.8 million.

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Cash and Cash Equivalents

Cash and cash equivalents totaled $24.0 million at June 30, 2018, compared to $20.3 million at December 31, 2017.

Management believes the current balance of cash and cash equivalents adequately serves the Company's liquidity and performance needs. Total cash and cash equivalents fluctuate on a daily basis due to transactions in process and other liquidity demands. Management believes liquidity needs are satisfied by the current balance of cash and cash equivalents, readily available access to traditional and non-traditional funding sources, and the portions of the investment and loan portfolios that mature within one year. These sources of funds should enable the Company to meet cash obligations as they come due.

Investment Securities

Investment securities totaled $229.1 million at June 30, 2018, compared to $231.5 million at December 31, 2017. As of June 30, 2018, the investment portfolio is comprised of the following mix of securities:

- 34.9% – Municipal securities
- 34.4% – U.S. Agency securities
- 23.5% – U.S. Sponsored Mortgage-backed securities
- 4.1% – Other securities
- 3.0% – Equity securities

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

Loans

The Company's loan portfolio totaled $1.2 billion as of June 30, 2018 and $1.1 billion as of December 31, 2017. The Bank's lending is primarily focused in the Marion, Harrison, Jefferson, Berkeley, Monongalia, and Kanawha counties of West Virginia, and Fairfax and Loudoun counties of Virginia, with a secondary focus on the adjacent counties. Its extended market is in the adjacent counties. The portfolio consists principally of commercial lending, retail lending, which includes single-family residential mortgages, and consumer lending. The growth in loans is primarily attributable to organic growth within the Bank's primary lending areas and northern Virginia.

Loan Concentration

At June 30, 2018 and December 31, 2017, $884.1 million, or 72.8% and $783.9 million, or 70.9%, respectively, of our loan portfolio consisted of commercial loans. A significant portion of the nonresidential real estate loan portfolio is secured by commercial real estate. The majority of nonresidential real estate loans that are not secured by real estate are lines of credit secured by accounts receivable and equipment and obligations of states and political subdivisions. While the loan concentration is in nonresidential real estate loans, the nonresidential real estate portfolio is comprised of loans to many different borrowers, in numerous different industries but primarily located in our market areas.

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Allowance for Loan Losses

The allowance for loan losses was $10.7 million or 0.88% of total loans at June 30, 2018 compared to $9.9 million or 0.89% of total loans at December 31, 2017. The nominal decrease in this ratio was the direct result of the net effect of loan loss provision, charge-offs, and recoveries; in conjunction with growth in outstanding loan balances in the commercial loan and residential real estate loan portfolios since December 31, 2017. The Bank management continually monitors the risk in the loan portfolio through review of the monthly delinquency reports and the Loan Review Committee. The Loan Review Committee is responsible for the determination of the adequacy of the allowance for loan losses. This analysis involves both experience of the portfolio to date and the makeup of the overall portfolio. Specific loss estimates are derived for individual loans based on specific criteria such as current delinquent status, related deposit account activity, where applicable, and changes in the local and national economy. When appropriate, Management also considers public knowledge and/or verifiable information from the local market to assess risks to specific loans and the loan portfolios as a whole.

Capital Resources

The Bank considers a number of alternatives, including but not limited to deposits, short-term borrowings, and long-term borrowings when evaluating funding sources. Traditional deposits continue to be the most significant source of funds, totaling $1.2 billion at June 30, 2018.

Noninterest-bearing deposits remain a core funding source for the Bank and thus, the Company. At June 30, 2018, noninterest-bearing balances totaled $164.0 million compared to $126.0 million at December 31, 2017. The Company and Bank management intend to continue to focus on finding ways to increase the base of non-interest-bearing sources of the Bank and its subsidiaries.

Interest-bearing deposits totaled $1.0 billion at June 30, 2018 compared to $1.0 billion at December 31, 2017.

Average interest-bearing deposits totaled $1.0 billion during the second quarter of 2018 compared to $991.7 million during the second quarter of 2017, an increase of $37.4 million. Average noninterest bearing deposits totaled $146.1 million during the second quarter of 2018 compared to $115.0 million during the second quarter of 2017, an increase of $31.2 million. Management will continue to emphasize deposit gathering in 2018 by offering outstanding customer service and competitively priced products. The Company and Bank management will also concentrate on balancing deposit growth with adequate net interest margin to meet the Company’s strategic goals.

Along with traditional deposits, the Bank has access to both repurchase agreements, which are corporate deposits secured by pledging securities from the investment portfolio, and FHLB borrowings to fund its operations and investments. At June 30, 2018, repurchase agreements totaled $20.2 million compared to $22.4 million at December 31, 2017. In addition to the aforementioned funds alternatives, the Bank has access to more than $58.0 million through additional advances from the FHLB of Pittsburgh and the ability to readily sell jumbo certificates of deposits to other banks as well as brokered deposit markets.

Liquidity

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

The main source of liquidity for the Bank comes through deposit growth. Liquidity is also provided from cash generated from investment maturities, principal payments from loans, and income from loans and investment securities. During the six months ended June 30, 2018, cash provided by financing activities totaled $149.3 million, while outflows from investing activity totaled $118.9 million. When appropriate, the Bank has the ability to take advantage of external sources of funds such as advances from the FHLB, national market certificate of deposit issuance programs, the Federal Reserve discount window, brokered deposits and CDARS. These external sources often provide attractive interest rates and flexible maturity dates that enable the Bank to match funding with contractual maturity dates of assets. Securities in the investment portfolio are primarily classified as available-for-sale and can be utilized as an additional source of liquidity.

The Company has an effective shelf registration covering $75 million of debt and equity securities, of which approximately $70 million remains available, subject to Board authorization and market conditions, to issue equity or debt securities at our discretion. While we seek to preserve flexibility with respect to cash requirements, there can be no assurance that market conditions would permit us to sell securities on acceptable terms at any given time or at all.

Current Economic Conditions

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

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

The current economic climate in the Company’s primary market areas reflect economic climates that are consistent with the general national climate. Unemployment in the United States was 4.2% and 4.5% in June 2018 and 2017, respectively. The unemployment levels in the Company’s primary market areas were as follows for the periods indicated:

	May 2018	May 2017
Berkeley County, WV	4.2 %	3.3 %
Harrison County, WV	4.5 %	4.4 %
Jefferson County, WV	3.4 %	2.8 %
Marion County, WV	5.5 %	4.5 %
Monongalia County, WV	3.9 %	3.2 %
Kanawha County, WV	5.0 %	4.5 %
Fairfax County, VA	2.4 %	3.0 %
Loudoun County, VA	2.4 %	3.1 %

Capital/Stockholders' Equity

For the six months ended June 30, 2018, stockholders’ equity increased approximately $15.6 million to $165.8 million. This increase consists of net income for the year-to-date of $5.4 million, common stock issued from subordinated debt totaling $12.7 million and common stock options exercised totaling $1.3 million, offset by a $3.6 million other comprehensive loss and dividends paid totaling $769 thousand. As stockholders’ equity increased, the equity to assets ratio increased 0.05% to 9.84% due to the increase in total assets during the six months ended June 30, 2018. The Company paid dividends to common shareholders of $526 thousand in the six months ended June 30, 2018 and $511 thousand in the six months ended June 30, 2017, and earned $5.4 million in the six months ended June 30, 2018 versus $3.8 million in the six months ended June 30, 2017, resulting in the dividend payout ratio decreasing from 12.51% in the six months ended June 30, 2017 to 9.28% in the six months ended June 30, 2018.

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

At June 30, 2018, accumulated other comprehensive loss totaled $7.3 million, an increase in the loss of $4.3 million from December 31, 2017. Total securities available-for-sale in an unrealized loss position increased by $6.2 million to $8.7 million at June 30, 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.

Treasury stock totaled 51,077 shares.

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

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Capital Requirements

The Company's total risk-based capital ratio decreased from 14.87% at December 31, 2017 to 14.34% at June 30, 2018. The decrease in this ratio was largely due to an increase of $98.3 million in risk-weighted assets outpacing the increase in total capital of $7.8 million.

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

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

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

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

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

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

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

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

Prompt Corrective Action

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

A bank will be (i) “well capitalized” if the institution has a total risk-based capital ratio of 10.0% or greater, a CET1 capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure;

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

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

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

The appropriate federal banking agency may, under certain circumstances, reclassify a well-capitalized insured depository institution as adequately capitalized. The FDIA provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice.

The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

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

For further information regarding the capital ratios and leverage ratio of the Company and the Bank see the discussion under the section captioned "Capital/Stockholders' Equity" included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 14, "Regulatory Capital Requirements" of the Notes to the

Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of the Company's December 31, 2017 Annual Report on Form 10-K.

Commitments and Contingent Liabilities

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Company upon extension of credit, varies and is based on management's credit evaluation of the customer.

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

Concentration of Credit Risk

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

Regulatory

The Company is required to maintain certain reserve balances on hand in accordance with the Federal Reserve Board requirements. The average balance maintained in accordance with such requirements was $0 on June 30, 2018 and December 31, 2017, respectively. During 2016, a deposit reclassification program was implemented and allowed the Company to reduce its requirement of reserve balances on hand in accordance with the Federal Reserve Board the daily Federal Reserve Requirement.

Contingent Liability

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

Off-Balance Sheet Commitments

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

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

Market Risk

There have been no material changes in market risks faced by the Company since December 31, 2017. For information regarding the Company’s market risk, refer to the company’s December 31, 2017, Form 10-K filed with the SEC.

Effects of Inflation and Changing Prices

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

Future Outlook

The Company's net income increased in the second quarter of 2018 compared to the second quarter of 2017 mainly due to an increase in net interest income due to a $112.7 million increase in loans and decreased income taxes as a result of the Tax Reform Act that was signed into law in late 2017. The Company has invested in the infrastructure to support anticipated future growth in each key area, including personnel, technology, and processes to meet the growing compliance requirements in the industry. The Company believes it is well positioned in some of the finest markets in the State of West Virginia and the Commonwealth of Virginia and will continue to focus on the following: margin improvement; leveraging capital; organic portfolio loan growth; and operating efficiency. The key challenge for the Company in the future is to attract core deposits to fund growth in the new markets through continued delivery of outstanding customer service coupled with the highest quality products and technology.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Sensitivity Management

The Company uses a simulation model to analyze, manage and formulate operating strategies that address net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a twenty-four-month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities. The model incorporates certain assumptions which management believes to be reasonable regarding the impact of changing interest rates and the prepayment assumption of certain assets and liabilities as of March 31, 2018. The model assumes changes in interest rates without any management intervention to change the composition of the balance sheet. According to the model run for the period ended March 31, 2018, over a twelve-month period, an immediate 100-basis point increase in interest rates would result in an increase in net interest income by 0.4%. An immediate 200-basis point increase in interest rates would result in an increase in net interest income by 1.5%. A 100-basis point decrease in interest rates would result in a decrease in net interest income of 4.0%. While management carefully monitors the exposure to changes in interest rates and takes actions as warranted to decrease any adverse impact, there can be no assurance about the actual effect of interest rate changes on net interest income.

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

The Company has counter-party risk which may arise from the possible inability of third-party investors to meet the terms of their forward sales contracts. The Company works with third-party investors that are generally well-capitalized, are investment grade, and exhibit strong financial performance to mitigate this risk. The Company monitors the financial condition of these third parties on an annual basis and the Company does not expect these third parties to fail to meet their obligations.

Item 4 – Controls and Procedures

The Company, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer, along with the Company's Chief Financial Officer (the Principal

Financial Officer), has evaluated the effectiveness as of June 30, 2018, of the design and operation of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, the Company's President and Chief Executive Officer, along with the Company's Principal Accounting Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2018.

There have been no material changes in the Company's internal control over financial reporting during the second quarter of 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

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

Item 1A – Risk Factors

Our operations are subject to many risks that could adversely affect our future financial condition and performance and, therefore, the market value of our securities, including the risk factors that are described in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2017. There have been no material changes in our risk factors from those disclosed.

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

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 March 13, 2017, the Company also 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 a price of $11.50 per common share, 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. Upon completion of the Rights Offering, on April 14, 2017, Mazza purchased an additional 9,001 shares of common stock under the Investment Agreement, which purchase was exempt from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Mine Safety Disclosures

Not applicable.

Item 5 – Other Information

None.

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Item 6 – Exhibits

The following exhibits are filed herewith:

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

SIGNATURES

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

MVB Financial Corp.

Date: July 30, 2018 By: /s/ Larry F. Mazza
Larry F. Mazza
President, CEO and Director
(Principal Executive Officer)

Date: July 30, 2018 By: /s/ Donald T. Robinson
Donald T. Robinson
Executive Vice President and CFO
(Principal Financial and Accounting Officer)