Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Larry F. Mazza
Name of the Holding Company Director and Official

President & CEO
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Larry F. Mazza
Signature of Holding Company Director and Official

05/10/2017
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- ☐ is included with the FR Y-6 report
- ☐ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2016
Month / Day / Year

549300KSUQ2FUU1X2074
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

MVB Financial Corp.
Legal Title of Holding Company

301 Virginia Avenue
(Mailing Address of the Holding Company) Street / P.O. Box

Fairmont	WV	26554
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Eric L. Tichenor	CFO - MVB Bank, Inc.
Name	Title

304-367-8686
Area Code / Phone Number / Extension

304-367-8686
Area Code / FAX Number

etichenor@mvbbanking.com
E-mail Address

www.mvbbanking.com
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes: 0

In accordance with the General Instructions for this report (check only one),

1. **a letter justifying this request is being provided along with the report** .... ☐
2. **a letter justifying this request has been provided separately** .... ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

Form FR Y-6

MVB Financial Corp.
301 Virginia Avenue
Fairmont, West Virginia 26554
Fiscal Year Ending December 31, 2016

Report Item

1: The holding company prepares an annual report for its shareholders.
Copies are enclosed.

2a: Organizational Chart

MVB Financial Corp.
LEI # 549300KSUQ2FUU1X2074
301 Virginia Avenue
Fairmont, WV, USA
100% ownership
Incorporated in West Virginia

MVB Statutory Trust I
301 Virginia Avenue
Fairmont, WV, USA
0.0% ownership of MVB Bank, Inc.
Incorporated in West Virginia

MVB Bank, Inc.
LEI # 549300LBYGRKZX1SD516
301 Virginia Avenue
Fairmont, WV, USA
100% ownership
Incorporated in West Virginia

Potomac Mortgage Group, Inc.
(DBA MVB Mortgage)
LEI # 549300PGT5K5GACK2444
4035 Ridge Top Road
Fairfax, VA, USA
100% ownership
Incorporated in Virginia

MVB Insurance, LLC
LEI # 549300IWN4LVSZ10VP45
301 Virginia Avenue
Fairmont, WV, USA
Managing member
Organized in West Virginia

Lender Service Provider LLC.
4035 Ridge Top Road
Fairfax, VA, USA
Non-managing member
Organized in Virginia

2b.: Domestic Branch Listing

ok		Full Service (Head Office)	2757205	301 VIRGINIA AVE	FAIRMONT	WV	MARION	UNITED STATES	60768	0	MVB BANK, INC.	2757205	
ok		Full Service	3678606	1000 JOHNSON AVE	BRIDGEPORT	WV	HARRISON	UNITED STATES	444151	2	MVB BANK, INC.	2757205	
ok		Full Service	3736047	88 SOMERSET BOULEVARD	CHARLES TOWN	WV	JEFFERSON	UNITED STATES	422528	3	MVB BANK, INC.	2757205	
ok		Full Service	4840455	400 WASHINGTON STREET EAST	CHARLESTON	WV	KANAWHA	UNITED STATES	Not Required	Not Required	MVB BANK, INC.	2757205	
ok		Full Service	4457424	406 WEST MAIN STREET	CLARKSBURG	WV	HARRISON	UNITED STATES	540728	6	MVB BANK, INC.	2757205	
ok		Full Service	4803049	100 NASA BOULEVARD	FAIRMONT	WV	MARION	UNITED STATES	Not Required	Not Required	MVB BANK, INC.	2757205	
ok		Full Service	765831	5091 GERRARDSTOWN RD	INWOOD	WV	BERKELEY	UNITED STATES	Not Required	Not Required	MVB BANK, INC.	2757205	
ok		Full Service	4522836	231 AIKENS CENTER	MARTINSBURG	WV	BERKELEY	UNITED STATES	540730	8	MVB BANK, INC.	2757205	
ok		Full Service	2635004	704 FOXCROFT AVE	MARTINSBURG	WV	BERKELEY	UNITED STATES	Not Required	Not Required	MVB BANK, INC.	2757205	
ok		Full Service	3736056	651 FOXCROFT AVENUE	MARTINSBURG	WV	BERKELEY	UNITED STATES	465515	4	MVB BANK, INC.	2757205	
ok		Full Service	4392187	2400 CRANBERRY SQUARE	MORGANTOWN	WV	MONONGALIA	UNITED STATES	521332	5	MVB BANK, INC.	2757205	
ok		Full Service	4497475	10 STERLING DRIVE	MORGANTOWN	WV	MONONGALIA	UNITED STATES	540729	7	MVB BANK, INC.	2757205	
ok		Full Service	4973997	1801 OLD RESTON AVENUE SUITE 103	RESTON	VA	FAIRFAX	UNITED STATES	Not Required	Not Required	MVB BANK, INC.	2757205	

Report item # 3

1.) SBLF
Washington, D.C.
USA

8,500 preferred stock
100.0% ownership

EJF Capital LLC.
Arlington, VA.
USA

652,174 common stock
6.52% ownership

2.) None

MVB Financial Corp.
Ownership of securities by Directors
31-Dec-16
Report item 4: Insiders
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

1 Name, City, State, Country	2 Principal Occupation if other than with Holding Company	3.a. Title & Position with Holding Company	3.b. Title & Position with Subsidiaries	3.c. Title & Position with Other Businesses	4.a. Percent of Voting Shares in Holding Company	4.b. Percent of Voting Shares in Subsidiaries	4.c. Names of other companies holding 25% of voting securities
David B. Alvarez Bridgeport, WV, USA	President of Energy Transportation, LLC	Director	Director, MVB Bank, Inc.	Alvarez Farms (Partner) Applied Construction Solutions, Inc. - (Partner) Applied Home Solutions (Partner) Bear Contracting (Partner) Bear Holdings, LLC (Partner) Blue Onyx Properties Inc. (Partner) Buffalo Oake (Partner) Oil & Gas Investment (Partner) Energy Transportation, LLC (Owner) GPO Energy (Partner) Johnson Place (Partner) LIG (Owner) Mountaineer Wireline (Partner) Park Properties (Partner) Quantum Environmental (Partner) Wonder Bar, LLC (Partner) XPS (Owner)	2.66%	N/A	Alvarez Farms - 25% Applied Construction Solutions, Inc. - 50% Applied Home Solutions - 30% Bear Holdings, LLC - 33.3% Oil & Gas Investment - 45% Energy Transportation, LLC - 100% GPO Energy - 50% Johnson Place - 50% LIG - 100% Mountaineer Wireline - 25% Park Properties - 25% Quantum Environmental - 50% Wonder Bar, LLC - 25% XPS - 100%
Stephen R. Brooks Morgantown, WV, USA	Attorney, Flaherty, Sensabaugh & Bonasso	Director & Chairman	Director & Chairman MVB Bank, Inc.	N/A	0.42%	N/A	N/A
James. J. Cava, Jr. Bridgeport, WV, USA	Cava & Banko, PLLC Managing Member	Director	Director, MVB Bank, Inc.	Best Care Pharmacy Mgmt Group, LLC (Member) Watchtower Insurance, PLLC (Member) Centurion Wealth Mgmt, LLC (Member) Cava Brothers, LLC (Member) Cava & Banko, PLLC (Member - Manager) Ryan Environmental, LLC (CFO & Member) Ryan Environmental Transport, LLC (CFO & Member)	0.90%	N/A	Best Care Pharmacy Mgmt Group, LLC - 34.16% Watchtower Insurance, PLLC - 52% Centurion Wealth Mgmt, LLC - 100% Cava Brothers, LLC - 100% Cava & Banko, PLLC - 72% Ryan Environmental Transport, LLC - 40%
H. Edward Dean, III Fairfax, VA	N/A	Director	President & Chief Executive Officer MVB Mortgage	N/A	2.03%	N/A	ELG, LLC - 100% Dean Real Property, LLC - 74% GLE, LLC - 100%
John W. Ebert Bridgeport, WV, USA	President, J.W. Ebert Corporation	Director	Director, MVB Bank, Inc.	President, J.W. Ebert Corp.	0.70%	N/A	J.W. Ebert Corp. - 100%
Gary A. LeDonne Morgantown, WV, USA	Executive in Residence, West Virginia University (WVU) College of Business and Economics	Director	Director, MVB Bank, Inc.	The LeDonne Company, LLC (Managing Member)	0.20%	N/A	The LeDonne Company, LLC - 100%
Gayle C. Manchin Charleston, WV, USA	(Retired) President, West Virginia Board of Education	Director	N/A	N/A	0.22%	N/A	N/A
Larry F. Mazza Clarksburg, WV, USA	N/A	Director/ President & CEO	Director/ President & CEO, MVB Bank, Inc.	Football Talk, LLC (Member) PDC Energy, Inc. (Director)	1.52%	N/A	Football Talk, LLC - 50%
Dr. Kelly R. Nelson Bridgeport, WV, USA	Physician	Director	Director, MVB Bank, Inc.	N/A	0.61%	N/A	D Nelson, LLC - 100%
J. Christopher Pallotta Fairmont, WV, USA	General Manager, Bond Insurance Co.	Director	Director, MVB Bank, Inc.	General Manager, Bond Insurance Agency, Inc.	1.16%	N/A	Bond Insurance Agency, Inc. - 33% Country Club Bakery - 49% Chris Properties, LLC - 50% CAC, LLC - 80% JCM Properties - 33%
Nitesh S. Patel Dayton, OH, USA	Business Consultant (Former President & CEO of D.N. American, Inc.)	Director	Director, MVB Bank, Inc.	N/A	1.53%	N/A	N/A
Jimmy D. Staton Morgantown, WV, USA	Business Consultant (Former EVP & Group CEO for Nisource Gas Transmission and Storage)	Director	Director, MVB Bank, Inc.	N/A	1.18%	N/A	N/A
Donald T. Robinson Morgantown, WV, USA	N/A	Executive Vice President, Chief Financial Officer/ Treasurer	Executive Vice President, MVB Bank, Inc.	Robinson August Investments, LLC (Member-Manager) Paxsanus, LLC (Member-Manager)	0.13%	N/A	Robinson August Investments, LLC - 40%

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
MVB Financial Corp. and Subsidiary
Consolidated Balance Sheets
(Dollars in thousands except per share data)
December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 14,846	$ 14,302
Interest bearing balances with banks	2,494	14,831
Total cash and cash equivalents	17,340	29,133
Certificates of deposit with other banks	14,527	13,150
Investment Securities:		
Securities available-for-sale	162,368	70,256
Securities held-to-maturity (fair value of $0 for 2016 and $54,470 for 2015)	—	52,859
Loans held for sale	90,174	102,623
Loans:	1,052,865	1,032,170
Less: Allowance for loan losses	(9,101)	(8,006)
Net Loans	1,043,764	1,024,164
Premises and equipment	25,081	26,275
Bank owned life insurance	22,970	22,332
Accrued interest receivable and other assets	24,100	25,204
Goodwill	18,480	18,480
TOTAL ASSETS	$ 1,418,804	$ 1,384,476
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$ 115,692	$ 80,423
Interest bearing	991,325	931,891
Total deposits	1,107,017	1,012,314
Accrued interest payable and other liabilities	16,557	13,291
Repurchase agreements	25,160	27,437
FHLB and other borrowings	90,921	183,198
Subordinated debt	33,524	33,524
Total liabilities	1,273,179	1,269,764
STOCKHOLDERS' EQUITY		
Preferred stock, par value $1,000; 20,000 authorized and 9,283 issued in 2016 and 2015, respectively (See Footnote 12)	16,334	16,334
Common stock, par value $1; 20,000,000 shares authorized; 10,047,621 and 8,112,998 issued; and 9,996,544 and 8,061,921 outstanding in 2016 and 2015, respectively	10,048	8,113
Additional paid-in capital	93,412	74,228
Retained earnings	31,192	20,054
Accumulated other comprehensive loss	(4,277)	(2,933)
Treasury Stock, 51,077 shares, at cost	(1,084)	(1,084)
Total stockholders' equity	145,625	114,712
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,418,804	$ 1,384,476

See Notes to Consolidated Financial Statements

MVB Financial Corp. and Subsidiary
Consolidated Statements of Income
(Dollars in thousands except per share data)
Years ended December 31, 2016, 2015 and 2014

	2016	2015	2014
INTEREST INCOME			
Interest and fees on loans	$ 50,018	$ 40,642	$ 31,949
Interest on deposits with other banks	322	274	223
Interest on investment securities - taxable	1,366	958	1,272
Interest on tax exempt loans and securities	2,417	2,226	2,724
Total interest income	54,123	44,100	36,168
INTEREST EXPENSE			
Interest on deposits	7,748	6,246	5,563
Interest on repurchase agreements	72	83	291
Interest on FHLB and other borrowings	1,086	692	515
Interest on subordinated debt	2,226	2,204	1,142
Total interest expense	11,132	9,225	7,511
NET INTEREST INCOME	42,991	34,875	28,657
Provision for loan losses	3,632	2,493	2,582
Net interest income after provision for loan losses	39,359	32,382	26,075
NONINTEREST INCOME			
Service charges on deposit accounts	764	646	677
Income on bank owned life insurance	638	653	588
Visa debit card and interchange income	1,185	987	778
Mortgage fee income	35,673	29,472	17,557
Gain on sale of portfolio loans	1,042	1,413	1,550
Insurance and investment services income	420	338	328
Gain on sale of securities	1,082	130	413
Gain (loss) on derivatives	1,467	675	(2)
Other operating income	934	641	133
Total noninterest income	43,205	34,955	22,022
NONINTEREST EXPENSES			
Salary and employee benefits	45,225	36,073	27,774
Occupancy expense	3,686	3,390	2,704
Equipment depreciation and maintenance	2,452	2,013	1,479
Data processing and communications	4,964	4,010	2,768
Mortgage processing	3,355	3,158	2,514
Marketing, contributions and sponsorships	1,253	1,352	1,137
Professional fees	2,720	3,232	2,237
Printing, postage and supplies	767	762	709
Insurance, tax and assessment expense	1,528	1,394	1,478
Travel, entertainment, dues and subscriptions	1,725	1,579	1,299
Other operating expenses	1,534	885	1,095
Total noninterest expense	69,209	57,848	45,194
Income from continuing operations, before income taxes	13,355	9,489	2,903
Income tax expense - continuing operations	4,378	2,886	248
Net Income from continuing operations	8,977	6,603	2,655
Income (loss) from discontinued operations, before income taxes	6,346	353	(920)
Income tax expense (benefit) - discontinued operations	2,411	140	(344)
Net Income (loss) from discontinued operations	3,935	213	(576)
Net Income	$ 12,912	$ 6,816	$ 2,079
Preferred dividends	1,128	575	332
Net Income available to common shareholders	$ 11,784	$ 6,241	$ 1,747

Earnings per share from continuing operations - basic	$ 0.96	$ 0.75	$ 0.29
Earnings per share from discontinued operations - basic	$ 0.48	$ 0.03	$ (0.07)
Earnings per common shareholder - basic	$ 1.44	$ 0.78	$ 0.22
Earnings per share from continuing operations - diluted	$ 0.92	$ 0.74	$ 0.29
Earnings per share from discontinued operations - diluted	$ 0.39	$ 0.03	$ (0.07)
Earnings per common shareholder - diluted	$ 1.31	$ 0.77	$ 0.22
Cash dividends declared	$ 0.08	$ 0.08	$ 0.08
Weighted average shares outstanding - basic	8,212,021	8,014,316	7,905,468
Weighted average shares outstanding - diluted	10,068,733	8,140,116	8,102,117

See Notes to Consolidated Financial Statements

MVB Financial Corp. and Subsidiary
Consolidated Statements of Comprehensive Income
(Dollars in thousands)
Years ended December 31, 2016, 2015 and 2014

	2016	2015	2014
Net Income	$ 12,912	$ 6,816	$ 2,079
Other comprehensive income (loss):			
Unrealized holding gains (losses) on securities available-for-sale	(2,802)	202	2,196
Unrealized holding gains during the year related to reclassified held-to-maturity securities	1,825	—	—
Income tax effect	391	(81)	(878)
Reclassification adjustment for gain recognized in income	(813)	(130)	(413)
Reclassification adjustment for gain recognized in income related to reclassified held-to-maturity securities	(269)	—	—
Income tax effect	433	52	165
Change in defined benefit pension plan	(181)	(556)	(1,252)
Income tax effect	72	222	501
Total other comprehensive income (loss)	(1,344)	(291)	319
Comprehensive income	$ 11,568	$ 6,525	$ 2,398

See Notes to Consolidated Financial Statements

MVB Financial Corp. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
(Dollars in thousands except per share data)
Years ended December 31, 2016, 2015 and 2014

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2013	$ 8,500	$ 7,706	$ 68,518	$ 13,343	$ (2,961)	$ (1,084)	$ 94,022
Net Income	—	—	—	2,079	—	—	2,079
Other comprehensive income	—	—	—	—	319	—	319
Cash dividends paid ($0.08 per share)	—	—	—	(636)	—	—	(636)
Dividends on preferred stock	—	—	—	(332)	—	—	(332)
Preferred stock issuance	7,834	—	—	—	—	—	7,834
Common stock issuance, net of issuance costs	—	311	5,277	—	—	—	5,588
Dividend reinvestment plan proceeds	—	11	169	—	—	—	180
Stock based compensation	—	—	321	—	—	—	321
Common stock options exercised	—	6	57	—	—	—	63
Balance December 31, 2014	16,334	8,034	74,342	14,454	(2,642)	(1,084)	109,438
Net Income	—	—	—	6,816	—	—	6,816
Other comprehensive loss	—	—	—	—	(291)	—	(291)
Cash dividends paid ($0.08 per share)	—	—	—	(641)	—	—	(641)
Dividends on preferred stock	—	—	—	(575)	—	—	(575)
Stock based compensation	—	—	413	—	—	—	413
Common stock options exercised	—	79	(527)	—	—	—	(448)
Balance December 31, 2015	16,334	8,113	74,228	20,054	(2,933)	(1,084)	114,712
Net Income	—	—	—	12,912	—	—	12,912
Other comprehensive loss	—	—	—	—	(1,344)	—	(1,344)
Cash dividends paid ($0.08 per share)	—	—	—	(646)	—	—	(646)
Dividends on preferred stock	—	—	—	(1,128)	—	—	(1,128)
Common stock issuance, net of issuance costs	—	1,913	18,606	—	—	—	20,519
Stock based compensation	—	—	568	—	—	—	568
Common stock options exercised	—	22	10	—	—	—	32
Balance December 31, 2016	$ 16,334	$ 10,048	93,412	31,192	$ (4,277)	$ (1,084)	$ 145,625

See Notes to Consolidated Financial Statements

MVB Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
(Dollars in thousands)
Years ended December 31, 2016, 2015 and 2014

	2016	2015	2014
OPERATING ACTIVITIES			
Net Income	$ 12,912	$ 6,816	$ 2,079
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Net amortization and accretion of investments	1,001	765	820
Net amortization of deferred loan fees	55	203	405
Provision for loan losses	3,632	2,493	2,582
Depreciation and amortization	3,407	2,908	1,245
Stock based compensation	568	413	321
Loans originated for sale	(1,643,450)	(1,341,965)	(843,233)
Proceeds of loans sold	1,691,572	1,338,341	881,323
Mortgage fee income	(35,673)	(29,472)	(17,557)
Gain on sale of securities	(1,084)	(130)	(553)
Loss on sale of securities	2	—	140
Gain on sale of portfolio loans	(1,042)	(1,413)	(702)
Gain on sale of subsidiary	(6,926)	—	—
Income on bank owned life insurance	(638)	(653)	(588)
Deferred taxes	707	(395)	(1,082)
Other, net	221	(812)	(779)
Net cash provided by (used in) operating activities	25,264	(22,901)	24,421
INVESTING ACTIVITIES			
Purchases of investment securities available-for-sale	(114,612)	(39,552)	(29,573)
Purchases of investment securities held-to-maturity	—	(700)	(250)
Maturities/paydowns of investment securities available-for-sale	17,790	24,412	8,230
Maturities/paydowns of investment securities held-to-maturity	400	1,580	2,000
Sales of investment securities available-for-sale	55,191	12,912	61,299
Sales of investment securities held-to-maturity	—	421	—
Purchases of premises and equipment	(1,668)	(2,153)	(9,798)
Disposals of premises and equipment from sale of subsidiary	581	—	—
Net increase in loans	(22,245)	(215,173)	(176,989)
Purchases of restricted bank stock	(23,933)	(24,344)	(13,975)
Redemptions of restricted bank stock	26,684	20,972	15,024
Proceeds from sale of certificates of deposit with banks	6,717	248	1,234
Purchases of certificates of deposit with banks	(8,094)	(1,491)	(3,714)
Proceeds from sale of other real estate owned	159	1,132	76
Proceeds from sale of subsidiary	7,047	—	—
Branch acquisition, net cash acquired	—	48,292	—
Purchase of bank owned life insurance	—	—	(5,000)
Net cash used in investing activities	(55,983)	(173,444)	(151,436)
FINANCING ACTIVITIES			
Net increase in deposits	94,703	120,390	127,416
Net decrease in repurchase agreements	(2,277)	(5,236)	(48,905)
Net change in short-term FHLB borrowings	(92,184)	84,088	(2,199)
Principal payments on FHLB borrowings	(93)	(2,177)	(1,160)
Proceeds from subordinated debt	—	—	29,400
Proceeds from stock offering, net of issuance costs	20,519	—	5,588
Preferred stock issuance	—	—	7,834
Common stock options exercised	32	(448)	63
Dividend reinvestment plan proceeds	—	—	180
Cash dividends paid on common stock	(646)	(641)	(636)
Cash dividends paid on preferred stock	(1,128)	(575)	(332)
Net cash provided by financing activities	18,926	195,401	117,249
(Decrease) increase in cash and cash equivalents	(11,793)	(944)	(9,766)
Cash and cash equivalents at beginning of period	29,133	30,077	39,843
Cash and cash equivalents at end of period	$ 17,340	$ 29,133	$ 30,077
Supplemental disclosure of cash flow information:			
Loans transferred to other real estate owned	$ 332	$ 174	$ 346
Cashless stock options exercised	$ 16	$ 1,180	$ —
Cash payments for			
Interest on deposits, repurchase agreements and borrowings	$ 10,890	$ 11,124	$ 8,953
Income taxes	$ 6,922	$ 2,400	$ 1,729

See Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Organization

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

The Bank was formed on October 30, 1997 and chartered under the laws of the State of West Virginia. The Bank commenced operations on January 4, 1999.

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

MVB Insurance, LLC was originally formed in 2000 and reinstated in 2005, as a Bank subsidiary. Effective June 1, 2013, MVB Insurance became a direct subsidiary of the Company. MVB Insurance offered select insurance products such as title insurance, individual insurance, commercial insurance, employee benefits insurance, and professional liability insurance. On June 30, 2016, the Company entered into an Asset Purchase agreement with USI Insurance Services ("USI"), in which USI purchased substantially all of the assets and assumed certain liabilities of MVB Insurance, which resulted in a pre-tax gain of $6.9 million, and was reported in discontinued operations, as discussed in Note 23, "Discontinued Operations" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. MVB Insurance retained the assets related to, and continues to operate, its title insurance business. The title insurance business is immaterial in terms of revenue and the Company has reorganized MVB Insurance as a subsidiary of the Bank.

Subsequent to the sale of MVB Insurance, the Company's primary business activities, through its subsidiary, are currently community banking, and mortgage banking. As a community-based bank, the Bank offers its customers a full range of products through various delivery channels. Such products and services include checking accounts, NOW accounts, money market and savings accounts, time certificates of deposit, commercial, installment, commercial real estate and residential real estate mortgage loans, debit cards, and safe deposit rental facilities. Services are provided through our walk-in offices, automated teller machines ("ATMs"), drive-in facilities, and internet and telephone banking. Additionally, the Bank offers non-deposit investment products through an association with a broker-dealer. Since the opening date of January 4, 1999, the Bank has experienced significant growth in assets, loans, and deposits due to strong community and customer support in the Marion County and Harrison County, West Virginia markets, expansion into Jefferson, Berkeley, Monongalia and Kanawha Counties, West Virginia and, most recently, into Fairfax County, Virginia. With the acquisition of PMG, mortgage banking is now a much more significant focus, which has opened increased market opportunities in the Washington, D.C. metropolitan region and added enough volume to further diversify the Company's revenue stream.

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

Basis of Presentation

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

In preparing the consolidated financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change relate to determination of the allowance for loan losses, derivative instruments, goodwill and deferred tax assets and liabilities.

Operating Segments

An operating segment is defined as a component of an enterprise that engages in business activities that generates revenue and incurs expense, and the operating results of which are reviewed by the chief operating decision maker in the determination of resource allocation and performance. While the Company's chief decision makers monitor the revenue streams of the various Company's products and services, operations are managed and financial performance is evaluated on a Company-wide basis. The Company has identified three reportable segments: commercial and retail banking; mortgage banking; and financial holding company. Insurance services was previously identified as a reportable segment until entering into an Asset Purchase Agreement, as discussed below and in Note 23, "Discontinued Operations" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Cash and Cash Equivalents

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

Management Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates, such as the allowance for loan losses, are based upon known facts and circumstances. Estimates are revised by management in the period such facts and circumstances change. Actual results could differ from these estimates.

Loans Held for Sale

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

The Company has a loan indemnification reserve for loans sold that may be subject to repurchase in the event of specific default by the borrower or subsequent discovery that underwriting standards were not met. The reserve amounts were $200 thousand and $150 thousand respectively as of December 31, 2016 and 2015.

Loans and Allowance for Loan Losses

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

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

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

- Lending policies and procedures
- Change in volume and severity of past due loans
- Nature and volume of the portfolio
- Experience and ability of management
- Volume and severity of problem credits
- Results of loan reviews, audits and exams
- National, state, regional and local economic trends and business conditions
    - General economic conditions
    - Unemployment rates
    - Inflation / CPI
    - Changes in values of underlying collateral for collateral-dependent loans
- Value of underlying collateral
- Existence and effect of any credit concentrations, and changes in the level of such concentrations

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

A loan that has deteriorated and requires additional collection efforts by the Bank could warrant non-accrual status. A thorough review is presented to the Chief Credit Officer and or the Management Loan Committee ("MLC"), as required with respect to any loan which is in a collection process and to make a determination as to whether the loan should be placed on non-accrual status. The placement of loans on non-accrual status is subject to applicable regulatory restrictions and guidelines. Generally, loans should be placed in non-accrual status when the loan reaches 90 days past due, when it becomes likely the borrower cannot or will not make scheduled principal or interest payments, when full repayment of principal and interest is not expected, or when the loan displays potential loss characteristics. Normally, all accrued interest is charged off when a loan is placed in non-accrual status, unless Management believes it is likely the accrued interest will be collected. Any payments subsequently received are applied to principal. To remove a loan from non-accrual status, all principal and interest due must be paid up to date and the Bank is reasonably sure of future satisfactory payment performance. Usually, this requires a six-month recent history of payments due. Removal of a loan from non-accrual status requires the approval of the Chief Credit Officer and or MLC.

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

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

Troubled Debt Restructurings (TDRs)

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

Derivative Instruments

Interest Rate Lock Commitments and Hedges

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

The fair value of rate lock commitments and hedges is not readily ascertainable with precision because rate lock commitments and hedges are not actively traded in stand-alone-markets. The Company determines the fair value of rate lock commitments and hedges by measuring the change in the value of the underlying asset while taking into consideration the probability that the rate lock commitments will close. During the fourth quarter 2014, management refined their calculation of interest rate locks to include the cost to originate loans, which resulted in a one-time expense of $706 thousand. Fair value changes are recorded in noninterest income in the Company's consolidated statement of income. At December 31, 2016 and 2015, the balance of interest rate lock commitments was $1.5 million, respectively. There were no forward sales commitments as of December 31, 2016 and 2015.

Interest Rate Cap

The Company has entered into a rate protection transaction through SMBC Capital Markets, Inc. covering the period November 26, 2014 through December 1, 2019. The notional amount is $100 million and 3 month LIBOR is the underlying rate and the strike price is 3%. The 5 year coverage is broken into 20 quarterly caps. The Company's fixed cost in the interest rate cap was $1.5 million. The credit support provider must maintain a long-term senior unsecured debt rating of A or better by S&P and A2 or better by Moody's. The interest rate cap agreement is a free-standing derivative and is recorded at fair value on the Company's consolidated balance sheet. Fair value changes are recorded in noninterest income in the Company's consolidated net income statement. At December 31, 2016 and 2015, the fair value of the interest rate cap was $268 thousand and $437 thousand, respectively.

Interest Rate Swap

Beginning in 2015, the Company entered into interest rate swap agreements to facilitate the risk management strategies of a small number of commercial banking clients. The Company mitigates this risk by entering into equal and offsetting interest rate swap agreements with highly rated third-party financial institutions. The interest rate swap agreements are free-standing derivatives and are recorded at fair value on the Company's consolidated balance sheet. Fair value changes are recorded in noninterest income in the Company's consolidated net income statement. At December 31, 2016 and 2015, the fair value of interest rate swap agreements was $250 thousand and $405 thousand, respectively.

Mortgage Servicing Rights

Mortgage servicing rights (MSRs) are recorded when the Bank sells mortgage loans and retains the servicing on those loans. On a monthly basis, MVB tracks the amount of mortgage loans that are sold with servicing retained. A valuation is done to determine the MSR's value, which is then recorded as an asset and amortized over the period of estimated net servicing revenues. The balance of MSR's is evaluated for impairment quarterly, and was determined not to be impaired at December 31, 2016 or 2015. Servicing loans for others generally consists of collecting mortgage payments from borrowers, maintaining escrow accounts, remitting payments to third party investors and when necessary, foreclosure processing. Serviced loans are not included in the Consolidated Balance Sheets. At December 31, 2016 and 2015, the MSR's value was $190 thousand and $956 thousand, respectively. The amortization taken on the servicing asset for the years ended December 31, 2016, 2015 and 2014 was $1.0 million, $915 thousand and $574 thousand, respectively. At December 31, 2016 and 2015, total loans serviced for others totaled $296.4 million and $334.5 million, respectively.

Premises and Equipment

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

Intangible Assets and Goodwill

Goodwill is reviewed for potential impairment at least annually at the reporting unit level. In addition to the annual impairment evaluation, the Company evaluates for impairment when events or circumstances indicate that it is more likely than not an impairment loss has occurred. The Company performs its annual impairment test during the fourth quarter. The Company first assesses qualitative factors to determine whether it is necessary to perform the two-step goodwill impairment test discussed below. The Company assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. Examples of qualitative factors include: economic conditions; industry and market considerations; increases in raw materials, labor, or other costs; overall financial performance such as negative or declining cash flows; relevant entity-specific events such as changes in management, key personnel, strategy, or customers; and regulatory or political developments.

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

The Company's assessment of qualitative factors determined that it is not more likely than not that the fair value of each reporting unit is less than its carrying amount and therefore, goodwill is not impaired as of December 31, 2016 and 2015. As of December 31, 2016 and 2015, the Company had goodwill of $18.5 million, respectively.

Intangible Assets include core deposit intangibles which are amortized over their useful life of ten years using the double-declining balance method. Net core deposit intangibles are included in accrued interest receivable and other assets on the consolidated balance sheet and totaled $744 thousand and $845 thousand as of December 31, 2016 and 2015, respectively.

Restricted Bank Stock

The Bank is a member of the FHLB of Pittsburgh and as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. As of December 31, 2016 and 2015, the Bank holds $5.8 million and $8.6 million, respectively. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) A significant decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance (c) the impact of legislative and regulatory changes on the customer base of the FHLB and (d) the liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

Management considered that the FHLB's regulatory capital ratios have improved in the most recent quarters, liquidity appears adequate, new shares of FHLB stock continue to exchange hands at the $100 par value and the FHLB has repurchased shares of excess capital stock from its members during 2016 and 2015 and has reinstituted the dividend.

Foreclosed Assets Held for Resale

Foreclosed assets held for resale acquired in satisfaction of mortgage obligations and in foreclosure proceedings are recorded at fair value less estimated selling costs at the time of foreclosure, with any valuation adjustments charged to the allowance for loan losses. Any gains or losses on sale are then recorded in other noninterest expense. At December 31, 2016 and 2015, the Company held other real estate of $414 thousand and $239 thousand.

Bank-Owned Life Insurance

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

Income Taxes

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

Stock Based Compensation

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

Earnings Per Share

The Company determines basic earnings per share by dividing net income less preferred stock dividends by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by dividing net income less dividends on convertible preferred stock plus interest on convertible subordinated debt by the weighted average number of shares outstanding increased by both the number of shares that would be issued assuming the exercise of stock options under the Company's 2003 and 2013 Stock Incentive Plans and the conversion of preferred stock and subordinated debt if dilutive.

Prior year dilutive earnings per share has been modified with the calculation of continuing and discontinued operations to use the denominator of shares from continuing operations for continuing, discontinuing, and total earnings per share. The subordinated debt was considered anti-dilutive for continuing operations and excluded from the calculation for year ending December 31, 2015. This changed the reported prior year earnings per share.

(Dollars in thousands except shares and per share data)	For the years ended December 31, 2016	2015	2014
Numerator for basic earnings per share:			
Net Income from continuing operations	$ 8,977	$ 6,603	$ 2,655
Less: Dividends on preferred stock	1,128	575	332
Net Income from continuing operations available to common shareholders - basic	7,849	6,028	2,323
Net Income from discontinued operations available to common shareholders - basic and diluted	3,935	213	(576)
Net Income available to common shareholders	$ 11,784	$ 6,241	$ 1,747
Numerator for diluted earnings per share:			
Net Income from continuing operations available to common shareholders - basic	$ 7,849	$ 6,028	$ 2,323
Add: Dividends on preferred stock	—	—	—
Add: Interest on subordinated debt (tax effected)	1,390	—	—
Net Income available to common shareholders from continuing operations - diluted	$ 9,239	$ 6,028	$ 2,323
Denominator:			
Total average shares outstanding	8,212,021	8,014,316	7,905,468
Effect of dilutive convertible preferred stock	—	—	—
Effect of dilutive convertible subordinated debt	1,837,500	—	—
Effect of dilutive stock options	19,212	125,800	196,649
Total diluted average shares outstanding	10,068,733	8,140,116	8,102,117
Earnings per share from continuing operations - basic	$ 0.96	$ 0.75	$ 0.29
Earnings per share from discontinued operations - basic	$ 0.48	$ 0.03	$ (0.07)
Earnings per common shareholder - basic	$ 1.44	$ 0.78	$ 0.22
Earnings per share from continuing operations - diluted	$ 0.92	$ 0.74	$ 0.29
Earnings per share from discontinued operations - diluted	$ 0.39	$ 0.03	$ (0.07)
Earnings per common shareholder - diluted	$ 1.31	$ 0.77	$ 0.22

Comprehensive Income

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

Marketing Costs

Marketing costs are expensed as incurred. Marketing expense was $1.3 million, $1.4 million and $1.1 million for 2016, 2015 and 2014, respectively.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from the company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the

Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Reclassifications

Certain amounts in the 2015 and 2014 consolidated financial statements have been reclassified to conform to the 2016 financial statement presentation.

Recent Accounting Pronouncements

In December 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.* The amendments in this ASU cover a variety of Topics in the Codification related to the new revenue recognition standard (ASU 2014-09) and represent changes to make minor corrections or minor improvements to the Codification that are not expected to have a significant impact on current accounting practice or create a significant administrative cost to most entities. For public companies, this update will be effective for fiscal years beginning after December 15, 2017, including all interim periods within those fiscal years. The adoption of this guidance is not expected to be material to the consolidated financial statements.

In December 2016, the FASB issued ASU 2016-19, *Technical Corrections and Improvements.* The amendments in this ASU cover a wide range of Topics in the Codification and represent changes to make corrections or improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. For public companies, this update will be effective for fiscal years beginning after December 15, 2016, including all interim periods within those fiscal years. Early application is permitted. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force).* The new guidance clarifies the classification within the statement of cash flows for certain transactions, including debt extinguishment costs, zero-coupon debt, contingent consideration related to business combinations, insurance proceeds, equity method distributions and beneficial interests in securitizations. The guidance also clarifies that cash flows with aspects of multiple classes of cash flows or that cannot be separated by source or use should be classified based on the activity that is likely to be the predominant source or use of cash flows for the item. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17, *Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control.* The new guidance changes the accounting for the consolidation of VIEs in certain situations involving entities under common control. Specifically, the amendments change how the indirect interests held through related parties that are under common control should be included in a reporting entity's evaluation of whether it is a primary beneficiary of a VIE. Under the amended guidance, the reporting entity is only required to include the indirect interests held through related parties that are under common control in a VIE on a proportionate basis. Currently, the indirect interests held by the related parties that are under common control are considered to be the equivalent of direct interests in their entirety. This guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.* This new guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Current U.S. GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* This new guidance clarifies the guidance for classification of certain cash receipts and payments within an entity's statements of cash flows. These items include debt prepayment or extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of BOLI policies, distributions received from equity method investees, and beneficial interests in securitization transactions. The amended guidance also specifies how to address classification of cash receipts and payments that have aspects of more than one class of cash flows. This guidances is effective for fiscal years beginning after

December 15, 2017 and interim periods within those fiscal years. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The new guidance replaces the incurred loss impairment methodology in current GAAP with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit impaired loans will receive an allowance account at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, with such allowance limited to the amount by which fair value is below amortized cost. The guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company's project management team and MLC are in the process of developing an understanding of this pronouncement, evaluating the impact of this pronouncement and researching additional software resources that could assist with the implementation.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* The new guidance eliminates the concept of APIC pools for stock-based awards and requires that the related excess tax benefits and tax deficiencies be classified as an operating activity in the statement of cash flows. The new guidance also allows entities to make a one-time policy election to account for forfeitures when they occur, instead of accruing compensation cost based on the number of awards expected to vest. Additionally, the new guidance changes the requirement for an award to qualify for equity classification by permitting tax withholding up to the maximum statutory tax rate instead of the minimum statutory tax rate. The new guidance is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

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. While we are currently evaluating the impact of the new standard, we expect an increase to the Consolidated Balance Sheets for right-of-use assets and associated lease liabilities, as well as resulting depreciation expense of the right-of-use assets and interest expense of the lease liabilities in the Consolidated Statements of Income, for arrangements previously accounted for as operating leases.

In January 2016, the FASB issued ASU 2016-01, Accounting for Financial Instruments - Overall: Classification and Measurement (Subtopic 825-10). Amendments within ASU 2016-01 that relate to non-public entities have been excluded from this presentation. The amendments in this ASU 2016-01 address the following: 1) require equity investments to be measured at fair value with changes in fair value recognized in net income; 2) simplify the impairment assessment of equity investments without readily-determinable fair values by requiring a qualitative assessment to identify impairment; 3) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 4) require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 5) require separate presentation in other comprehensive income for the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 6) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and 7) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the provisions of this amendment to determine the potential impact the new standard will have on the Company's consolidated financial statements as it relates to accounting for financial instruments. The Company is currently evaluating the provisions of this amendment to determine the potential impact the new standard will have on the Company's consolidated financial statements as it relates to accounting for financial instruments.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.* The new guidance requires that adjustments to provisional amounts identified during the measurement period of a business combination be recognized in the reporting period in which the adjustment amounts are determined. Furthermore, the income statement effects of such adjustments, if any, must be calculated as if the accounting had been completed at the acquisition date reflecting the portion of the amount recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. Under previous guidance, adjustments to provisional amounts identified during the measurement period are to be recognized retrospectively. ASU 2015-16 was effective for us on January 1, 2016 and did not have a significant impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis.* The amendments modify the evaluation reporting organizations must perform to determine if certain legal entities should be consolidated as VIEs. Specifically, the amendments: (1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU 2015-02 was effective for us on January 1, 2016 and did not have a significant impact on the Company's consolidated financial statements.

NOTE 2. INVESTMENT SECURITIES

Prior to the final determination of Basel III, investments were recorded as held-to-maturity due to the uncertainty of the capital treatment of available-for-sale investments. Upon the issuance of the final ruling, the Company opted out of the Other Comprehensive Income treatment of available-for-sale investments permitted under Basel III. Due to the change in capital treatment under the final ruling of Basel III, the Company's purpose of recording investments as held-to-maturity changed; therefore, during the period ended March 31, 2016, the Company reclassified $52.4 million, with unrealized holding gains of $1.8 million, of the remaining held-to-maturity investments into available-for-sale investments.

There were no held-to-maturity securities at December 31, 2016.

Amortized cost and fair values of investment securities held-to-maturity at December 31, 2015 including gross unrealized gains and losses, are summarized as follows:

(Dollars in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Municipal securities	$ 52,859	$ 1,699	$ (88)	$ 54,470
Total investment securities held-to-maturity	$ 52,859	$ 1,699	$ (88)	$ 54,470

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

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

Amortized cost and fair values of investment securities available-for-sale at December 31, 2015 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U. S. Agency securities	$ 29,532	$ —	$ (181)	$ 29,351
U.S. Sponsored Mortgage-backed securities	34,246	1	(533)	33,714
Municipal securities	1,775	23	—	1,798
Total debt securities	65,553	24	(714)	64,863
Equity and other securities	5,309	95	(11)	5,393
Total investment securities available-for-sale	$ 70,862	$ 119	$ (725)	$ 70,256

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

	December 31, 2016	
	Available for sale	
(Dollars in thousands)	Amortized Cost	Fair Value
Within one year	$ 1,277	$ 1,280
After one year, but within five	11,176	11,244
After five years, but within ten	14,666	14,487
After ten Years	130,270	127,333
Total	$ 157,389	$ 154,344

Investment securities with a carrying value of $82.7 million and $106.4 million at December 31, 2016 and 2015, respectively, were pledged to secure public funds, repurchase agreements and potential borrowings at the Federal Reserve discount window.

The Company's investment portfolio includes securities that are in an unrealized loss position as of December 31, 2016, the details of which are included in the following table. Although these securities, if sold at December 31, 2016 would result in a pretax loss of $3.8 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. It is not more likely than not the Company would sell any securities at a loss for liquidity purposes. Declines in the fair values of these securities can be traced to general market conditions which reflect the prospect for the economy as a whole. When determining other-than-temporary impairment on securities, the Company considers such factors as adverse conditions specifically related to a certain security or to specific conditions in an industry or geographic area, the time frame securities have been in an unrealized loss position, the Company's ability to hold the security for a period of time sufficient to allow for anticipated recovery in value, whether or not the security has been downgraded by a rating agency, and whether or not the financial condition of the security issuer has severely deteriorated. As of December 31, 2016, the Company considers all securities with unrealized loss positions to be temporarily impaired, and consequently, does not believe the Company will sustain any material realized losses as a result of the current temporary decline in fair value.

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

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

The following table discloses investments in an unrealized loss position at December 31, 2015:

(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 (9)	$ 28,351	$ (181)	$ —	$ —
U.S. Sponsored Mortgage-backed securities (19)	20,647	(233)	11,862	(300)
Municipal securities (22)	3,827	(32)	5,559	(56)
Equity and other securities (1)	2,489	(11)	—	—
	$ 55,314	$ (457)	$ 17,421	$ (356)

The Company sold investments available-for-sale of $55.2 million, $12.9 million and $61.3 million in 2016, 2015 and 2014, respectively. These sales resulted in gross gains of $1.1 million, $125 thousand and $553 thousand and gross losses of $2 thousand, $0, and $140 thousand in 2016, 2015 and 2014, respectively.

During 2015, the Company sold investments held-to-maturity $421 thousand, resulting in gross gains of $5 thousand. The held-to-maturity investments were sold due to a credit downgrade, indicating significant deterioration of the issuer's creditworthiness. The Company sold no held-to-maturity investments during the years of 2016 or 2014.

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

The Company routinely generates 1-4 family mortgages for sale into the secondary market. During 2016, 2015 and 2014, the Company recognized sales proceeds of $1.7 billion, $1.3 billion and $881.3 million, resulting in mortgage fee income of $35.7 million, $29.5 million and $17.6 million, respectively.

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

(Dollars in thousands)	2016	2015
Commercial and Non-Residential Real Estate	$ 757,516	$ 729,319
Residential Real Estate	215,452	217,366
Home Equity	65,386	68,124
Consumer	14,511	17,361
Total Loans	$ 1,052,865	$ 1,032,170

All loan origination fees and direct loan origination costs are deferred and recognized over the life of the loan. As of December 31, 2016 and 2015, net deferred fees of $897 thousand and $1.1 million, respectively, were included in the carrying value of loans.

The following table summarizes the primary segments of the loan portfolio as of December 31, 2016 and 2015:

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
December 31, 2016					
Individually evaluated for impairment	$ 10,781	$ 1,161	$ 132	$ 78	$ 12,152
Collectively evaluated for impairment	746,735	214,291	65,254	14,433	1,040,713
Total Loans	$ 757,516	$ 215,452	$ 65,386	$ 14,511	$ 1,052,865
December 31, 2015					
Individually evaluated for impairment	$ 14,177	$ 1,067	$ 28	$ 103	$ 15,375
Collectively evaluated for impairment	715,142	216,299	68,096	17,258	1,016,795
Total Loans	$ 729,319	$ 217,366	$ 68,124	$ 17,361	$ 1,032,170

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

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

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2016 and 2015:

	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
December 31, 2016					
Commercial					
Commercial Business	$ —	$ —	$ 3,342	$ 3,342	$ 4,102
Commercial Real Estate	2,757	302	892	3,649	3,676
Acquisition & Development	264	74	3,526	3,790	6,059
Total Commercial	3,021	376	7,760	10,781	13,837
Residential	783	122	378	1,161	1,166
Home Equity	62	36	70	132	135
Consumer	16	9	62	78	285
Total Impaired Loans	$ 3,882	$ 543	$ 8,270	$ 12,152	$ 15,423
December 31, 2015					
Commercial					
Commercial Business	$ 574	$ 4	$ 3,260	$ 3,834	$ 3,834
Commercial Real Estate	7,587	513	—	7,587	7,587
Acquisition & Development	1,800	191	956	2,756	4,131
Total Commercial	9,961	708	4,216	14,177	15,552
Residential	1,045	276	22	1,067	1,067
Home Equity	28	28	—	28	28
Consumer	103	1	—	103	103
Total Impaired Loans	$ 11,137	$ 1,013	$ 4,238	$ 15,375	$ 16,750

Impaired loans have decreased by $3.2 million, or 21%, during 2016, primarily the result of the net impact of seven commercial loan relationships. A $5.0 million loan to finance commercial real estate property in the Northern Virginia market, which had as primary tenants, government contractors that have vacated the premises as a result of losing significant contracts with the United States government, was purchased from another financial institution in late 2013. In 2016, this $5.0 million loan was repurchased by the selling financial institution thereby decreasing total impaired loans by $5.0 million.

In contrast, five of the seven relationships generated increases to the impaired loan total since 2015, the largest of which was a $950 thousand commercial real estate loan (net of a $361 thousand participation) that was identified as impaired in 2016 as a result of an extended stabilization and interest only period, as well as a lack of project specific cash flows. Charge-offs of $701 thousand were incurred on this loan in 2016. The remaining four relationships that generated increases to the impaired loan total included thirteen commercial real estate and/or acquisition and development loans that totaled $3.9 million as of December 31, 2016, a net increase of $1.2 million specific to these relationships since 2015.

The last of the seven commercial relationships that contributed to the net decrease in impaired loans since 2015 included two loans that were identified as impaired in 2016 as a result of a decline in the coal industry. In 2016, these two loans, along with a third related loan that was previously impaired, required orderly liquidation of the related collateral, resulting in $796 thousand in principal curtailment and a total of partial charge-offs in the amount of $759 thousand. The net effect of these seven significant impairment items on the total of impaired loans was $3.4 million.

The remaining $200 thousand of the net decrease in impaired loans since December 31, 2015 was the net effect of multiple other factors, including the identification of additional impaired loans, foreclosures, loan sales, payoffs, principal curtailments, partial charge-offs, and normal loan amortization.

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

	December 31, 2016			December 31, 2015			December 31, 2014		
(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	Average Investment in Impaired Loans	Interest Income Recognized on Accrual Basis	Interest Income Recognized on Cash Basis
Commercial									
Commercial Business	$ 4,027	$ 155	$ 104	$ 3,153	$ 156	$ 114	$ 301	$ 14	$ 61
Commercial Real Estate	3,590	100	75	6,618	63	61	2,213	149	105
Acquisition & Development	3,983	9	112	2,408	9	10	4,456	112	94
Total Commercial	11,600	264	291	12,179	228	185	6,970	275	260
Residential	928	20	28	920	12	13	804	20	20
Home Equity	50	1	1	28	1	1	28	1	1
Consumer	245	—	—	1	—	—	20	1	1
Total	$ 12,823	$ 285	$ 320	$ 13,128	$ 241	$ 199	$ 7,822	$ 297	$ 282

As of December 31, 2016, the Bank held two foreclosed residential real estate properties representing $214 thousand, or 52%, of the total balance of other real estate owned. There are six additional consumer mortgage loans collateralized by residential real estate properties in the process of foreclosure. The total recorded investment in these loans was $464 thousand as of December 31, 2016. These loans are included in the table above and have a total of $59 thousand in specific allowance allocated to them.

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

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

Review of the appropriate risk grade is included in both the internal and external loan review process, and on an ongoing basis. The Bank has an experienced Credit Department that continually reviews and assesses loans within the portfolio. The Bank engages an external consultant to conduct independent loan reviews on at least an annual basis. Generally, the external consultant reviews larger commercial relationships or criticized relationships. The Bank's Credit Department compiles detailed reviews, including plans for resolution, on loans classified as Substandard on a quarterly basis. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

The following table represents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system as of December 31, 2016 and 2015:

(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2016					
Commercial					
Commercial Business	$ 377,631	$ 2,933	$ 6,833	$ 69	$ 387,466
Commercial Real Estate	240,851	26,340	3,532	737	271,460
Acquisition & Development	90,875	1,905	2,584	3,226	98,590
Total Commercial	709,357	31,178	12,949	4,032	757,516
Residential	212,869	1,664	787	132	215,452
Home Equity	64,706	582	98	—	65,386
Consumer	14,134	302	13	62	14,511
Total Loans	$ 1,001,066	$ 33,726	$ 13,847	$ 4,226	$ 1,052,865
December 31, 2015					
Commercial					
Commercial Business	$ 288,549	$ 7,949	$ 3,411	$ 574	$ 300,483
Commercial Real Estate	299,560	9,761	8,436	—	317,757
Acquisition & Development	105,585	2,739	1,223	1,532	111,079
Total Commercial	693,694	20,449	13,070	2,106	729,319
Residential	214,184	1,764	1,168	250	217,366
Home Equity	67,645	416	63	—	68,124
Consumer	16,679	311	371	—	17,361
Total Loans	$ 992,202	$ 22,940	$ 14,672	$ 2,356	$ 1,032,170

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due.

A loan that has deteriorated and requires additional collection efforts by the Bank could warrant non-accrual status. A thorough review is presented to the Chief Credit Officer and or the Management Loan Committee ("MLC"), as required with respect to any loan which is in a collection process and to make a determination as to whether the loan should be placed on non-accrual status. The placement of loans on non-accrual status is subject to applicable regulatory restrictions and guidelines. Generally, loans should be placed in non-accrual status when the loan reaches 90 days past due, when it becomes likely the borrower cannot or will not make scheduled principal or interest payments, when full repayment of principal and interest is not expected, or when the loan displays potential loss characteristics. Normally, all accrued interest is charged off when a loan is placed in non-accrual status, unless Management believes it is likely the accrued interest will be collected. Any payments subsequently received are applied to principal. To remove a loan from non-accrual status, all principal and interest due must be paid up to date and the Bank is reasonably sure of future satisfactory payment performance. Usually, this requires a six-month recent history of payments due. Removal of a loan from non-accrual status will require the approval of the Chief Credit Officer and or MLC.

The following table presents the classes of the loan portfolio summarized by aging categories of performing loans and nonaccrual loans as of December 31, 2016 and 2015:

(Dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Total Loans	Non-Accrual	90+ Days Still Accruing
December 31, 2016								
Commercial								
Commercial Business	$ 387,208	$ 15	$ 169	$ 74	$ 258	$ 387,466	$ 74	$ —
Commercial Real Estate	270,339	229	—	892	1,121	271,460	1,375	—
Acquisition & Development	96,014	—	—	2,576	2,576	98,590	3,526	—
Total Commercial	753,561	244	169	3,542	3,955	757,516	4,975	—
Residential	212,502	2,067	419	464	2,950	215,452	1,072	—
Home Equity	64,791	525	—	70	595	65,386	104	—
Consumer	14,354	55	34	68	157	14,511	78	—
Total Loans	$ 1,045,208	$ 2,891	$ 622	$ 4,144	$ 7,657	$ 1,052,865	$ 6,229	$ —
December 31, 2015								
Commercial								
Commercial Business	$ 299,515	$ 300	$ —	$ 668	$ 968	$ 300,483	$ 687	$ —
Commercial Real Estate	307,029	436	4,731	5,561	10,728	317,757	5,020	541
Acquisition & Development	107,607	678	—	2,794	3,472	111,079	2,488	307
Total Commercial	714,151	1,414	4,731	9,023	15,168	729,319	8,195	848
Residential	214,326	1,838	576	626	3,040	217,366	803	—
Home Equity	67,908	23	193	—	216	68,124	36	—
Consumer	16,921	48	21	371	440	17,361	371	—
Total Loans	$ 1,013,306	$ 3,323	$ 5,521	$ 10,020	$ 18,864	$ 1,032,170	$ 9,405	$ 848

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

Interest income on loans would have increased by approximately $396 thousand, $639 thousand and $221 thousand for 2016, 2015 and 2014, respectively, if loans had performed in accordance with their terms.

The Bank's methodology for determining the ALL is based on the requirements of ASC Section 310-10-35 for loans individually evaluated for impairment (discussed above) and ASC Subtopic 450-20 for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the two components represents the Bank's ALL.

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

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

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

Company and Bank management have identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; trends in volume and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry and/or geographic standpoint. The combination of historical charge-off and qualitative factors are then weighted for each risk grade. These weightings are determined internally based upon the likelihood of loss as a loan risk grading deteriorates.

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

Once the estimated future advances were calculated, an allocation rate, which was derived from the Bank's historical losses and qualitative environmental factors, was applied in the similar manner as those used for the allowance for loan loss calculation. The resulting estimated loss allocations were totaled to determine the liability for unfunded commitments related to these loans, which Management considers necessary to anticipate potential losses on those commitments that have a reasonable probability of funding. The liability for unfunded commitments was $284 thousand and $224 thousand respectively as of December 31, 2016 and 2015.

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

The following tables summarize the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2016, 2015, and 2014. Activity in the allowance is presented for the periods indicated:

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
ALL balance at December 31, 2015	$ 6,066	$ 1,095	$ 715	$ 130	$ 8,006
Charge-offs	(1,995)	(124)	(100)	(338)	(2,557)
Recoveries	9	2	9	1	21
Provision	3,101	17	104	409	3,631
ALL balance at December 31, 2016	$ 7,181	$ 990	$ 728	$ 202	$ 9,101
Individually evaluated for impairment	$ 376	$ 122	$ 36	$ 9	$ 543
Collectively evaluated for impairment	$ 6,805	$ 868	$ 692	$ 193	$ 8,558

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
ALL balance at December 31, 2014	$ 4,363	$ 962	$ 691	$ 207	$ 6,223
Charge-offs	(708)	(28)	(5)	(6)	(747)
Recoveries	20	2	4	11	37
Provision	2,391	159	25	(82)	2,493
ALL balance at December 31, 2015	$ 6,066	$ 1,095	$ 715	$ 130	$ 8,006
Individually evaluated for impairment	$ 708	$ 276	$ 28	$ 1	$ 1,013
Collectively evaluated for impairment	$ 5,358	$ 819	$ 687	$ 129	$ 6,993

(Dollars in thousands)	Commercial	Residential	Home Equity	Consumer	Total
ALL balance at December 31, 2013	$ 3,609	$ 519	$ 554	$ 253	$ 4,935
Charge-offs	(1,110)	(130)	—	(68)	(1,308)
Recoveries	7	—	3	4	14
Provision	1,857	573	134	18	2,582
ALL balance at December 31, 2014	$ 4,363	$ 962	$ 691	$ 207	$ 6,223
Individually evaluated for impairment	$ 362	$ 298	$ 28	$ 2	$ 690
Collectively evaluated for impairment	$ 4,001	$ 664	$ 663	$ 205	$ 5,533

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

At December 31, 2016 and 2015, these balances totaled $20.5 million and $46.8 million, respectively. Of the $53.8 million decrease since originally purchased, MVB refinanced $19.6 million and sold participations totaling $10.5 million and sold $9.7 million back to the institution from which the loans were originally purchased in December 2013. The remainder of the decrease was the result of $6.2 million in loan amortization and $7.8 million in principal paydowns and/or loan payoffs. The weighted average yield on the remaining portfolio is 5.57%.

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

Troubled Debt Restructurings

The restructuring of a loan is considered a troubled debt restructuring ("TDR") if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. At December 31, 2016 and 2015, the Bank had specific reserve allocations for TDR's of $348 thousand and $672 thousand, respectively.

Loans considered to be troubled debt restructured loans totaled $8.8 million and $9.3 million as of December 31, 2016 and December 31, 2015, respectively. Of these totals, $5.9 million and $6.1 million, respectively, represent accruing troubled debt restructured loans and represent 49% and 40%, respectively of total impaired loans. Meanwhile, $2.3 million and $2.5 million, respectively, represent three loans to two borrowers that have defaulted under the restructured terms. All three 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 December 31, 2016 and December 31, 2015. Two additional restructured loans, a $214 thousand commercial real estate loan and a $348 thousand mortgage loan, are considered non-performing as of December 31, 2016. Both of these were also considered TDR's due to interest only periods and/or unsatisfactory repayment structures.

The following table presents details related to loans identified as Troubled Debt Restructurings during the years ended December 31, 2016 and 2015.

	New TDR's [1]					
	December 31, 2016			December 31, 2015		
(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	—	$ —	$ —	—	$ —	$ —
Commercial Real Estate	—	—	—	1	1,076	1,076
Acquisition & Development	—	—	—	—	—	—
Total Commercial	—	—	—	1	1,076	1,076
Residential	—	—	—	1	90	90
Home Equity	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	—	$ —	$ —	2	$ 1,166	$ 1,166

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

NOTE 4. PREMISES AND EQUIPMENT

Premises and equipment at December 31, were as follows:

(Dollars in thousands)	2016	2015
Land	$ 3,965	$ 3,965
Buildings and improvements	16,906	16,389
Furniture, fixtures and equipment	12,127	10,980
Construction in progress	608	1,375
Leasehold improvements	1,345	1,678
	34,951	34,387
Accumulated depreciation	(9,870)	(8,112)
Net premises and equipment	$ 25,081	$ 26,275

During 2014, the Bank completed construction of a new facility in Kanawha County, West Virginia and a new facility in the West Virginia High Technology Park in Fairmont, Marion County, West Virginia.

Depreciation expense amounted to $2.0 million, $2.0 million and $1.2 million for 2016, 2015 and 2014, respectively.

NOTE 5. DEPOSITS

Deposits at December 31, were as follows:

(Dollars in thousands)	2016	2015
Demand deposits of individuals, partnerships, and corporations		
Noninterest bearing demand	$ 115,692	$ 80,423
Interest bearing demand	414,031	473,459
Savings and money markets	280,533	128,622
Time deposits including CDs and IRAs	296,761	329,810
Total deposits	$ 1,107,017	$ 1,012,314
Time deposits that meet or exceed the FDIC insurance limit	$ 18,727	$ 21,690

Maturities of time deposits at December 31, 2016 were as follows (Dollars in thousands):

2017	$ 145,152
2018	74,349
2019	28,480
2020	38,513
2021	10,267
Total	$ 296,761

NOTE 6. BORROWED FUNDS

The Bank is a member of the Federal Home Loan Bank ("FHLB") of Pittsburgh, Pennsylvania. The remaining maximum borrowing capacity with the FHLB at December 31, 2016 was approximately $326.9 million. At December 31, 2016 and 2015 the Bank had borrowed $90.9 million and $183.2 million.

Short-term borrowings

Along with traditional deposits, the Bank has access to short-term borrowings from FHLB to fund its operations and investments. Short-term borrowings from FHLB totaled $87.7 million at December 31, 2016, compared to $179.9 million at year-end 2015.

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

(Dollars in thousands)	2016	2015	2014
Balance at end of year	$ 87,733	$ 179,917	$ 95,829
Average balance during the year	137,822	121,425	76,185
Maximum month-end balance	210,600	179,917	120,229
Weighted-average rate during the year	0.51%	0.34%	0.27%
Weighted-average rate at December 31	0.74%	0.44%	0.32%

Repurchase agreements

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

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

All of the Company's repurchase agreements were overnight agreements at December 31, 2016 and December 31, 2015. These borrowings were collateralized with investment securities with a carrying value of $26.0 million and $28.3 million at December 31, 2016 and December 31, 2015, 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 $25.2 million at December 31, 2016, compared to $27.4 million in 2015.

Information related to repurchase agreements is summarized as follows:

(Dollars in thousands)	2016	2015	2014
Balance at end of year	$ 25,160	$ 27,437	$ 32,673
Average balance during the year	27,066	26,884	55,731
Maximum month-end balance	29,561	32,470	83,781
Weighted-average rate during the year	0.27%	0.31%	0.52%
Weighted-average rate at December 31	0.28%	0.30%	0.35%

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

(Dollars in thousands)	2016	2015
Fixed interest rate notes, originating between April 2002 and December 2007, due between July 2016 and April 2022, interest of between 4.50% and 5.90% payable monthly	$ 2,390	$ 2,461
Amortizing fixed interest rate note, originating February 2007, due February 2022, payable in monthly installments of $5 thousand, including interest of 5.22%	798	820
	$ 3,188	$ 3,281

Subordinated Debt

Information related to subordinated debt is summarized as follows:

(Dollars in thousands)	2016	2015	2014
Balance at end of year	$ 33,524	$ 33,524	$ 33,524
Average balance during the year	33,524	33,524	19,361
Maximum month-end balance	33,524	33,524	33,524
Weighted-average rate during the year	6.64%	6.57%	6.01%
Weighted-average rate at December 31	6.63%	6.57%	6.53%

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

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

On June 30, 2014, the Company issued its Convertible Subordinated Promissory Notes Due 2024 (the "Notes") to various investors in the aggregate principal amount of $29,400,000. The Notes were issued in $100,000 increments per Note subject to a minimum investment of $1,000,000. The Notes expire 10 years after the initial issuance date of the Notes (the "Maturity Date").

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

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

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

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

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

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

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

The Company reflects subordinated debt in the amount of $33.5 million and $33.5 million as of December 31, 2016 and December 31, 2015 and interest expense of $2.2 million, $2.2 million and $1.1 million for the years ended December 31, 2016, 2015 and 2014.

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

Year	Amount
2017	88,348
2018	81
2019	85
2020	90
2021	886
Thereafter	34,955
	$ 124,445

NOTE 7. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

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

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

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

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

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

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

(Dollars in thousands)	2016	2015
Available on lines of credit	$ 255,469	$ 252,543
Stand-by letters of credit	13,387	7,793
Other loan commitments	1,819	1,568
	$ 270,675	$ 261,904

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 and $17.0 million on December 31, 2016 and 2015, 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.

NOTE 8. INCOME TAXES

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

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

(Dollars in thousands)	2016	2015	2014
Current:			
Federal	$ 4,885	$ 2,830	$ 862
State	1,197	591	124
	$ 6,082	$ 3,421	$ 986
Deferred expense (benefit)			
Federal	$ 665	$ (371)	$ (1,017)
State	42	(24)	(65)
	707	(395)	(1,082)
Income tax expense (benefit)	$ 6,789	$ 3,026	$ (96)

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

	2016		2015		2014	
(Dollars in thousands)	Amount	%	Amount	%	Amount	%
Tax at Federal tax rate	$ 6,689	34 %	$ 3,346	34 %	$ 674	34 %
Tax effect of:						
State income tax	1,197	6.0 %	246	2.5 %	50	2.5 %
Tax exempt earnings	(1,097)	(5.5)%	(566)	(5.8)%	(820)	(41.3)%
	$ 6,789	34.5 %	$ 3,026	30.7 %	$ (96)	(4.8)%

Deferred tax assets and liabilities are the result of timing differences in recognition of revenue and expense for income tax and financial statement purposes.

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

(Dollars in thousands)	2016	2015
Allowance for loan losses	$ 2,641	$ 2,904
Minimum pension liability	1,786	1,713
Unrealized loss on securities available-for-sale	1,066	242
Gross deferred tax assets	5,493	4,859
Depreciation	(1,352)	(883)
Pension	(6)	(43)
Goodwill	(465)	(452)
Gross deferred tax liabilities	(1,823)	(1,378)
Net deferred tax asset	$ 3,670	$ 3,481

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

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. With limited exception, the Company's federal and state income tax returns for taxable years through 2012 have been closed for purposes of examination by the federal and state taxing jurisdictions.

NOTE 9. RELATED PARTY TRANSACTIONS

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

(Dollars in thousands)	Balance at Beginning of Year	Borrowings	Executive Officer and Director Retirements	Repayments	Balance at End of Year
December 31, 2016	$ 42,840	$ 251,708	$ (7,194)	$ (258,818)	$ 28,536
December 31, 2015	$ 39,083	$ 357,230	$ —	$ (353,473)	$ 42,840

The Company held related party deposits of $34.7 million and $16.9 million at December 31, 2016 and December 31, 2015, respectively.

The Company held no related party repurchase agreements at December 31, 2016 and December 31, 2015.

NOTE 10. PENSION PLAN

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

Pension expense was $273 thousand, $256 thousand and $469 thousand in 2016, 2015 and 2014, respectively.

Information pertaining to the activity in the Company's defined benefit plan, using the latest available actuarial valuations with a measurement date of December 31, 2016 and 2015 is as follows:

(Dollars in thousands)	2016	2015
Change in benefit obligation		
Benefit obligation at beginning of year	$ 8,662	$ 8,173
Service cost	—	—
Interest cost	367	315
Actuarial loss	4	276
Assumption changes	179	97
Curtailment impact	—	—
Benefits paid	(191)	(199)
Benefit obligation at end of year	$ 9,021	$ 8,662
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 4,486	$ 4,471
Actual return on plan assets	96	(124)
Employer contribution	182	338
Benefits paid	(191)	(199)
Fair value of plan assets at end of year	$ 4,573	$ 4,486
Funded status	$ (4,448)	$ (4,176)
Unrecognized net actuarial loss	4,464	4,283
Unrecognized prior service cost	—	—
Prepaid pension cost recognized	$ 16	$ 107
Accumulated benefit obligation	$ 9,021	$ 8,662

At December 31, 2016, 2015 and 2014, the weighted average assumptions used to determine the benefit obligation are as follows:

	2016	2015	2014
Discount rate	4.05%	4.30%	3.90%
Rate of compensation increase	n/a	n/a	n/a

The components of net periodic pension cost are as follows:

(Dollars in thousands)	2016	2015	2014
Service cost	$ —	$ —	$ 346
Interest cost	367	315	306
Expected return on plan assets	(330)	(316)	(319)
Amortization of prior service costs	—	—	—
Amortization of net actuarial loss	236	257	136
Net periodic pension cost	$ 273	$ 256	$ 469

For the years December 31, 2016, 2015 and 2014, the weighted average assumptions used to determine net periodic pension cost are as follows:

	2016	2015	2014
Discount rate	4.30%	3.90%	4.86%
Expected long-term rate of return on plan assets	6.75%	6.75%	7.50%
Rate of compensation increase	n/a	n/a	n/a

The Company's pension plan asset allocations at December 31, 2016 and 2015, as well as target allocations for 2016 are as follows:

	12/31/2016	12/31/2015
Plan Assets		
Cash	16%	10%
Fixed income	28%	20%
Alternative investments	9%	19%
Domestic equities	28%	32%
Foreign equities	19%	19%
Total	100%	100%

The estimated net loss (gain) for the plan that are expected to be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $241 thousand.

The following table sets forth by level, within the fair value hierarchy, as defined in Note 18, "Fair Value Measurements" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, the Plan's assets at fair value as of December 31, 2016.

(Dollars in thousands)	Level I	Level II	Level III	Total
Assets:				
Cash	$ 732	$ —	$ —	$ 732
Fixed income	1,280	—	—	1,280
Alternative investments	—	—	412	412
Domestic equities	1,280	—	—	1,280
Foreign equities	869	—	—	869
Total assets at fair value	$ 4,161	$ —	$ 412	$ 4,573

The following table sets forth by level, within the fair value hierarchy, as defined in Note 18, "Fair Value Measurements" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, the Plan's assets at fair value as of December 31, 2015.

(Dollars in thousands)	Level I	Level II	Level III	Total
Assets:				
Cash	$ 449	$ —	$ —	$ 449
Fixed income	897	—	—	897
Alternative investments	—	—	852	852
Domestic equities	1,436	—	—	1,436
Foreign equities	852	—	—	852
Total assets at fair value	$ 3,634	$ —	$ 852	$ 4,486

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

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

(Dollars in thousands)	Cash Flow
Contributions for the period of 01/01/17 through 12/31/17	$ 319
Estimated future benefit payments reflecting expected future service	
2017	$ 252
2018	$ 260
2019	$ 280
2020	$ 298
2021	$ 307
2022 through 2026	$ 2,104

NOTE 11. GOODWILL AND OTHER INTANGIBLE ASSETS

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

(Dollars in thousands)	Goodwill	Core Deposit Intangible Gross	Core Deposit Intangible Accumulated Depreciation	Core Deposit Intangible Net
Balance at January 1, 2016	$ 18,480	$ 1,006	$ (161)	$ 845
Amortization expense	—	—	(101)	(101)
Balance at December 31, 2016	$ 18,480	$ 1,006	$ (262)	$ 744
Balance at January 1, 2015	$ 17,779	$ 128	$ (127)	$ 1
Goodwill and core deposit intangible resulting from branch acquisition	701	878	—	878
Amortization expense	—	—	(34)	(34)
Balance at December 31, 2015	$ 18,480	$ 1,006	$ (161)	$ 845
Balance at January 1, 2014	$ 17,779	$ 128	$ (123)	$ 5
Amortization expense	—	—	(4)	(4)
Balance at December 31, 2014	$ 17,779	$ 128	$ (127)	$ 1

Goodwill represents the excess of the purchase price over the fair value of acquired net assets under the acquisition method of accounting. The value of the acquired core deposit relationships was determined using the present value of the difference between a market participant's cost of obtaining alternative funds and the cost to maintain the acquired deposit base. The core deposit intangibles are being amortized over a ten-year period using an accelerated method. Goodwill in the amount of $701 thousand and core deposit intangibles in the amount of $878 thousand resulted from the branch acquisitions as discussed in Note 22, "Mergers and Acquisitions" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

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

2017	$ 98
2018	96
2019	93
2020	90
2021	87
Thereafter	280
	$ 744

The Company's assessment of qualitative factors determined that it is not more likely than not that the fair value of each reporting unit is less than its carrying amount and therefore, goodwill is not impaired as of December 31, 2016 and 2015. The Company has not identified any triggering events since the impairment evaluation that would indicate potential impairment.

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

NOTE 12. STOCK OFFERING

On December 5, 2016, the Company entered into Securities Purchase Agreements with certain accredited investors. Pursuant to the Purchase Agreements, the Investors agreed to purchase an aggregate of 1,913,044 shares of the Company's common stock, par value $1.00 per share, at a price of $11.50 per share, as part of a private placement (the "Private Placement"). The Private

Placement closed on December 6, 2016. The gross proceeds to the Company from the Private Placement were approximately $22 million or $20.5 million after stock issuance costs. The proceeds from the Private Placement were used by the Company to pay related transaction fees and expenses and for general corporate purposes. A portion of the proceeds were used for the redemption of the preferred stock issued to the United States Department of Treasury in connection with the Company's participation in the Small Business Lending Fund, as discussed in Note 25, "Subsequent Events" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

The 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 Securities and Exchange Commission (the "SEC") to register for resale the 1,913,044 shares of common stock issued to the Investors in the Private Placement. The registration statement was declared effective by the SEC on December 27, 2016.

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

The Class C Preferred Certificate designated 383.4 shares of preferred stock as Class C Preferred shares. The Class C Preferred shares carry an annual dividend rate of 6.5% and are convertible into shares of Company common stock within 30 days after the first, second, third, fourth and fifth anniversaries of the original issue date, based on a common stock price of $16 per share, as adjusted for future corporate activities. The Class C Preferred shares are redeemable by the Company on or after the fifth anniversary of the original issue date for Liquidation Amount, as defined therein, plus declared and unpaid dividends. Redemption is subject to any necessary regulatory approvals. In the event of liquidation of the Company, shares of Class C Preferred stock shall be junior to creditors of the Company and to the shares of Senior Noncumulative Perpetual Preferred Stock, Series A and the Class B Preferred shares. Holders of Class C Preferred shares shall have no voting rights, except for authorization of senior shares of stock, amendment to the Class C Preferred shares, share exchanges, reclassifications or changes of control, or as required by law. The proceeds of these preferred stock offerings will be used to support continued growth of the Company and its subsidiary.

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"), that had been issued to the United States Department of the Treasury, on September 8, 2011, pursuant to the SBLF (see Note 25, "Subsequent Events" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.)

NOTE 13. STOCK OPTIONS

The MVB Financial Corp. Incentive Stock Plan (the "Plan") provides for the issuance of stock options to selected employees. Under the provisions of the plan, the option price per share shall not be less than the fair market value of the common stock on the date of the grant. These options also expire 10 years from the date of the grant. With the exception of 22,000 shares granted in 2010 that vest in 3 years and expire 10 years from the date of grant, all options granted vest in 5 years and expire 10 years from the date of the grant. As of December 31, 2016, the Plan had 2.2 million shares authorized and 400,825 shares remaining available for issuance.

Total compensation expense recorded on stock options during 2016, 2015 and 2014 was $568 thousand, $413 thousand and $321 thousand, respectively. Proceeds from stock options exercised were $32 thousand, $(448) thousand and $63 thousand during

2016, 2015 and 2014 respectively. During both 2016 and 2015, certain options were exercised in cashless transactions. Shares were forfeited related to exercise price and tax withholdings and the Company paid tax authorities amounts due resulting in a net cash outflow.

The following summarizes MVB's stock options as of and for the year ended December 31, 2016, and the changes for the year then ended:

	2016		2015	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,190,295	$ 13.15	1,355,905	$ 12.21
Granted	432,000	12.72	45,500	14.80
Exercised	(55,000)	9.02	(204,670)	7.31
Forfeited/expired	(67,500)	14.59	(6,440)	13.33
Outstanding at end of year	1,499,795	$ 13.11	1,190,295	$ 13.15
Exercisable at end of year	768,598	$ 12.75	542,499	$ 11.82

Weighted-average fair value of options granted during 2016	$ 2.98
Weighted-average fair value of options granted during 2015	$ 2.72
Weighted-average fair value of options granted during 2014	$ 3.05

The intrinsic value of options exercised during 2016, 2015 and 2014 was $108 thousand, $1.6 million and $37 thousand, respectively.

The fair value for the options was estimated at the date of grant using a Black-Scholes option-pricing model with average risk-free interest rates of 1.31%, 2.16% and 2.65% for 2016, 2015 and 2014, respectively, and a weighted average expected life of the options of 7 years for all three years. The expected volatility of MVB's stock price used for 2016 options was 19.07%, while for the 2015 options it was 13.90% and 2014 options it was 10.23%. The expected dividend yield used was 0.43% for 2016 and 0.51% for both 2015 and 2014.

The following summarizes information related to the total outstanding and exercisable options at December 31, 2016:

Options Outstanding				Options Exercisable			
Total Options	Weighted-Average Exercise Price	Intrinsic Value	Weighted-Average Remaining Life	Total Options	Weighted-Average Exercise Price	Intrinsic Value	Weighted-Average Remaining Life
1,499,795	$ 13.11	(465,921)	6.03	768,598	$ 12.75	37,711	4.35

NOTE 14. REGULATORY CAPITAL REQUIREMENTS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Capital adequacy guidelines have recently changed as a result of the Dodd-Frank Act and a separate, international capital initiative known as "Basel III." Regulators have issued rules implementing these requirements ("Revised Capital Rules"). Among other things, the Revised Capital Rules raise the minimum thresholds for required capital and revise certain aspects of the definitions and elements of the capital that can be used to satisfy these required minimum thresholds. While the rules became effective on January 1, 2014 for certain large banking organizations, most banking organizations, including MVB Financial Corp and the Bank, were required to begin complying with these new requirements on January 1, 2015.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of Total capital, Tier 1 capital and Tier 1 common equity to risk-weighted assets, and of Tier 1 capital to average assets, as defined. As of December 31, 2016 and 2015, the Company meets all capital adequacy requirements to which it is subject.

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

	Actual		Minimum to be Well Capitalized		Minimum for Capital Adequacy Purposes	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016						
Total Capital (to risk-weighted assets)						
Consolidated	$ 174,093	15.4%	n/a	n/a	$ 90,699	8.0%
Subsidiary Bank	$ 163,394	14.5%	$ 113,027	10.0%	$ 90,422	8.0%
Tier 1 Capital (to risk-weighted assets)						
Consolidated	$ 135,100	11.9%	n/a	n/a	$ 68,025	6.0%
Subsidiary Bank	$ 153,737	13.6%	$ 90,422	8.0%	$ 67,816	6.0%
Common Equity Tier 1 Capital (to risk-weighted assets)						
Consolidated	$ 114,642	10.1%	n/a	n/a	$ 51,018	4.5%
Subsidiary Bank	$ 153,737	13.6%	$ 73,468	6.5%	$ 50,862	4.5%
Tier 1 Capital (to average assets)						
Consolidated	$ 135,100	9.5%	n/a	n/a	$ 56,655	4.0%
Subsidiary Bank	$ 153,737	10.9%	$ 70,651	5.0%	$ 56,521	4.0%
As of December 31, 2015						
Total Capital (to risk-weighted assets)						
Consolidated	$ 140,376	12.9%	n/a	n/a	$ 86,997	8.0%
Subsidiary Bank	$ 132,013	12.2%	$ 108,318	10.0%	$ 86,654	8.0%
Tier 1 Capital (to risk-weighted assets)						
Consolidated	$ 102,952	9.5%	n/a	n/a	$ 65,248	6.0%
Subsidiary Bank	$ 123,989	11.5%	$ 86,654	8.0%	$ 64,991	6.0%
Common Equity Tier 1 Capital (to risk-weighted assets)						
Consolidated	$ 82,494	7.6%	n/a	n/a	$ 48,936	4.5%
Subsidiary Bank	$ 123,989	11.5%	$ 70,407	6.5%	$ 48,743	4.5%
Tier 1 Capital (to average assets)						
Consolidated	$ 102,952	7.8%	n/a	n/a	$ 53,019	4.0%
Subsidiary Bank	$ 123,989	9.5%	$ 65,238	5.0%	$ 52,191	4.0%

NOTE 15. REGULATORY RESTRICTION ON DIVIDEND

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

NOTE 16. LEASES

The Company leases land and building space for the operation of some banking offices. All such leases qualify as operating leases. Following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2016:

(Dollars in thousands)

Years ended December 31:		
2017	$	1,898
2018		1,561
2019		965
2020		842
2021		869
Thereafter		5,001
Total minimum payments required:	$	11,136

Total rent expense for the years ended December 31, 2016, 2015 and 2014 was $1.7 million, $1.8 million and $1.7 million, respectively.

NOTE 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following summarizes the methods and significant assumptions used by the Company in estimating its fair value disclosures for financial instruments.

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

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

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

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

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

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

Mortgage servicing rights: The carrying value of mortgage servicing rights approximates their fair value.

Interest rate lock commitment: For mortgage interest rate locks, the fair value is based on either (i) the price of the underlying loans obtained from an investor for loans that will be delivered on a best efforts basis or (ii) the observable price for individual loans traded in the secondary market for loans that will be delivered on a mandatory basis less (iii) expected costs to deliver the interest rate locks, any expected "pull through rate" is multiplied by this calculation to estimate the derivative value.

Mortgage-backed security hedges: MBS hedges are used to mitigate interest rate risk for residential mortgage loans held for sale and interest rate locks and manage expected funding percentages. These instruments are considered derivatives and are recorded at fair value based on observable market data of the individual mortgage-backed securities.

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

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

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

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

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

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

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

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

Fair Value Measurements at:

(Dollars in thousands)	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
December 31, 2016					
Financial assets:					
Cash and cash equivalents	$ 17,340	$ 17,340	$ 17,340	$ —	$ —
Certificates of deposits with other banks	14,527	14,985	—	14,985	—
Securities available-for-sale	162,368	162,368	—	162,368	—
Loans held for sale	90,174	90,174	—	90,174	—
Loans, net	1,043,764	1,035,437	—	—	1,035,437
Mortgage servicing rights	190	190	—	—	190
Interest rate lock commitment	1,546	1,546	—	—	1,546
Mortgage-backed security hedges	372	372	—	372	—
Interest rate swap	250	250	—	250	—
Interest rate cap	268	268	—	268	—
Accrued interest receivable	3,951	3,951	—	1,002	2,949
Financial liabilities:					
Deposits	$ 1,107,017	$ 1,116,174	$ —	$ 1,116,174	$ —
Repurchase agreements	25,160	25,160	—	25,160	—
FHLB and other borrowings	90,921	90,919	—	90,919	—
Interest rate swap	250	250	—	250	—
Accrued interest payable	741	741	—	741	—
Subordinated debt	33,524	32,275	—	32,275	—
December 31, 2015					
Financial assets:					
Cash and cash equivalents	$ 29,133	$ 29,133	$ 29,133	$ —	$ —
Certificates of deposits with other banks	13,150	13,270	—	13,270	—
Securities available-for-sale	70,256	70,256	—	70,256	—
Securities held-to-maturity	52,859	54,470	—	54,470	—
Loans held for sale	102,623	102,623	—	102,623	—
Loans, net	1,024,164	1,034,832	—	—	1,034,832
Mortgage servicing rights	956	956	—	—	956
Interest rate lock commitment	1,537	1,537	—	—	1,537
Interest rate swap	405	405	—	405	—
Interest rate cap	437	437	—	437	—
Accrued interest receivable	3,356	3,356	—	723	2,633
Financial liabilities:					
Deposits	$ 1,012,314	$ 1,015,521	$ —	$ 1,015,521	$ —
Repurchase agreements	27,437	27,437	—	27,437	—
FHLB and other borrowings	183,198	183,211	—	183,211	—
Mortgage-backed security hedges	19	19	—	19	—
Interest rate swap	405	405	—	405	—
Accrued interest payable	474	474	—	474	—
Subordinated debt	33,524	32,172	—	32,172	—

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 18. FAIR VALUE MEASUREMENTS

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

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

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

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

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

Assets Measured on a Recurring Basis

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

- ***Available-for-sale investment securities*** — Available-for-sale investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level I securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level II securities include mortgage-backed securities issued by government sponsored entities and private label entities, municipal bonds and corporate debt securities. There have been no changes in valuation techniques for the year ended December 31, 2016. Valuation techniques are consistent with techniques used in prior periods.

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

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

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

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

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

The following tables present the assets reported on the consolidated statements of financial condition at their fair value on a recurring basis as of December 31, 2016 and 2015 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

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

	December 31, 2015			
(Dollars in thousands)	**Level I**	**Level II**	**Level III**	**Total**
Assets:				
U.S. Government Agency securities	$ —	$ 29,351	$ —	$ 29,351
U.S. Sponsored Mortgage backed securities	—	33,714	—	33,714
Municipal securities	—	1,798	—	1,798
Equity and other securities	—	5,393	—	5,393
Loans held for sale	—	102,623	—	102,623
Interest rate lock commitment	—	—	1,537	1,537
Interest rate swap	—	405	—	405
Interest rate cap	—	437	—	437
Liabilities:				
Interest rate swap	—	405	—	405
Mortgage-backed security hedges	—	19	—	19

The following table represents recurring level III assets:

Interest Rate Lock Commitments	December 31, 2016	December 31, 2015
(Dollars in thousands)		
Balance, beginning of period	$ 1,537	$ 1,020
Realized and unrealized gains included in earnings	9	517
Balance, end of period	$ 1,546	$ 1,537

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 non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment. Non-financial assets measured at fair value on a nonrecurring basis during 2016 and 2015 include certain foreclosed assets which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for possible loan losses and certain foreclosed assets which, subsequent to their initial recognition, were remeasured at fair value through a write-down included in other noninterest expense.

- *Impaired Loans* — Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using one of several methods, including collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Collateral values are estimated using Level II inputs based on observable market data or Level III inputs based on customized discounting criteria. For a majority of impaired real estate related loans, the Company obtains a current external appraisal. Other valuation techniques are used as well, including internal valuations, comparable property analysis and contractual sales information.

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

Assets measured at fair value on a nonrecurring basis as of December 31, 2016 and 2015 are included in the table below:

(Dollars in thousands)	December 31, 2016			
	Level I	Level II	Level III	Total
Impaired loans	$ —	$ —	$ 11,609	$ 11,609
Other real estate owned	—	—	414	414

(Dollars in thousands)	December 31, 2015			
	Level I	Level II	Level III	Total
Impaired loans	$ —	$ —	$ 14,362	$ 14,362
Other real estate owned	—	—	239	239

The following tables presents quantitative information about the Level III significant unobservable inputs for assets and liabilities measured at fair value at December 31, 2016 and 2015.

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

	Quantitative Information about Level III Fair Value Measurements			
(Dollars in thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range**
December 31, 2015				
Nonrecurring measurements:				
Impaired loans	$ 14,362	Appraisal of collateral [1]	Appraisal adjustments [2]	20% - 62%
			Liquidation expense [2]	5% - 10%
Other real estate owned	$ 239	Appraisal of collateral [1]	Appraisal adjustments [2]	20% - 30%
			Liquidation expense [2]	5% - 10%
Recurring measurements:				
Interest rate lock commitments	$ 1,537	Pricing model	Pull through rates	76% - 85%

[1] Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level III inputs which are not identifiable.

[2] Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

NOTE 19. COMPREHENSIVE INCOME

The following tables present the components of accumulated other comprehensive income ("AOCI") for the years ended December 31:

(Dollars in thousands)	2016	2015	2014	
Details about AOCI Components	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	$ 1,082	$ 130	$ 413	Gain on sale of securities
	1,082	130	413	Total before tax
	(433)	(52)	(165)	Income tax expense
	649	78	248	Net of tax
Defined benefit pension plan items				
Amortization of net actuarial loss	(236)	(257)	(136)	Salaries and benefits
	(236)	(257)	(136)	Total before tax
	94	103	54	Income tax expense
	(142)	(154)	(82)	Net of tax
Total reclassifications	$ 507	$ (76)	$ 166	

(Dollars in thousands)	Unrealized gains (losses) on available for-sale securities	Defined benefit pension plan items	Total
Balance at January 1, 2016	$ (363)	$ (2,570)	$ (2,933)
Other comprehensive loss before reclassification	(586)	(251)	(837)
Amounts reclassified from AOCI	(649)	142	(507)
Net current period OCI	(1,235)	(109)	(1,344)
Balance at December 31, 2016	$ (1,598)	$ (2,679)	$ (4,277)
Balance at January 1, 2015	$ (406)	$ (2,236)	$ (2,642)
Other comprehensive loss before reclassification	121	(488)	(367)
Amounts reclassified from AOCI	(78)	154	76
Net current period OCI	43	(334)	(291)
Balance at December 31, 2015	$ (363)	$ (2,570)	$ (2,933)

NOTE 20. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

Information relative to the parent company's condensed balance sheets at December 31, 2016 and 2015, and the related condensed statements of income and cash flows for the years ended December 31, 2016, 2015 and 2014 are presented below:

Condensed Balance Sheets

(Dollars in thousands)	December 31, 2016	December 31, 2015
Assets		
Cash	$ 7,699	$ 3,440
Investment in subsidiaries	168,325	142,057
Other assets	4,316	3,012
Total assets	$ 180,340	$ 148,509
Liabilities and stockholders' equity		
Other liabilities	$ 1,191	$ 273
Long-term debt	33,524	33,524
Total liabilities	34,715	33,797
Total stockholders' equity	145,625	114,712
Total liabilities and stockholders' equity	$ 180,340	$ 148,509

Condensed Statements of Income

(Dollars in thousands)	Year ended December 31, 2016	2015	2014
Income - dividends from bank subsidiary	$ 9,241	$ 7,744	$ 7,471
Expenses - operating	11,307	8,988	7,331
Income (loss) before income taxes and undistributed earnings - continuing operations	(2,066)	(1,244)	140
Income tax (benefit) - continuing operations	(2,072)	(1,597)	(992)
Income after tax from continuing operations	6	353	1,132
Income before income taxes and undistributed earnings - discontinued operations	6,926	—	—
Income tax - discontinued operations	2,629	—	—
Income after tax from discontinued operations	4,297	—	—
Equity in undistributed income earnings of subsidiaries	8,609	6,463	947
Net Income	$ 12,912	$ 6,816	$ 2,079
Preferred dividends	$ 1,128	$ 575	$ 332
Net Income available to common shareholders	$ 11,784	$ 6,241	$ 1,747

Condensed Statements of Cash Flows

(Dollars in thousands)	2016	2015	2014
OPERATING ACTIVITIES			
Net Income	$ 12,912	$ 6,816	$ 2,079
Equity in undistributed earnings of subsidiaries	(8,609)	(6,463)	(947)
(Decrease) in other assets	(612)	(529)	(1,778)
Decrease (increase) in other liabilities	920	(261)	436
Stock option expense	568	413	321
Net cash provided by (used in) operating activities	5,179	(24)	111
INVESTING ACTIVITIES			
Investment in subsidiary	(19,697)	(400)	(37,042)
Net cash used in investing activities	(19,697)	(400)	(37,042)
FINANCING ACTIVITIES			
Proceeds of stock offering	20,519	—	5,588
Dividend reinvestment plan	—	—	180
Proceeds from subordinated debt	—	—	29,400
Preferred stock issuance	—	—	7,834
Common stock options exercised	32	(448)	63
Cash dividends paid on common stock	(646)	(641)	(636)
Cash dividends paid on preferred stock	(1,128)	(575)	(332)
Net cash provided by (used in) financing activities	18,777	(1,664)	42,097
Increase (decrease) in cash	4,259	(2,088)	5,166
Cash at beginning of period	3,440	5,528	362
Cash at end of period	$ 7,699	$ 3,440	$ 5,528

NOTE 21. SEGMENT REPORTING

The Company has identified three reportable segments: commercial and retail banking; mortgage banking; and financial holding company. Insurance services was previously identified as a reportable segment until entering into an Asset Purchase Agreement, as discussed below and in Note 23, "Discontinued Operations" of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. Revenue from commercial and retail banking activities consists primarily of interest earned on loans and investment securities and service charges on deposit accounts. Revenue from financial holding company activities is mainly comprised of intercompany service income and dividends.

Revenue from the mortgage banking activities is comprised of interest earned on loans and fees received as a result of the mortgage origination process. The mortgage banking services are conducted by MVB Mortgage. Revenue from insurance services is comprised mainly of commissions on the sale of insurance products.

On June 30, 2016, the Company entered into an Asset Purchase Agreement with USI Insurance Services ("USI"), in which USI purchased substantially all of the assets and assumed certain liabilities of MVB Insurance, which resulted in a pre-tax gain of $6.9 million, as discussed in Note 23, "Discontinued Operations" of the Notes to the Consolidated Financial Statements included in

Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. MVB Insurance retained the assets related to, and continues to operate, its title insurance business. The title insurance business is immaterial in terms of revenue and the Company has reorganized MVB Insurance as a subsidiary of the Bank.

Information about the reportable segments and reconciliation to the consolidated financial statements for the years ended December 31, 2016, 2015, and 2014 are as follows:

	2016					
(Dollars in thousands)	**Commercial & Retail Banking**	**Mortgage Banking**	**Financial Holding Company**	**Insurance**	**Intercompany Eliminations**	**Consolidated**
Revenues:						
Interest income	$ 50,413	$ 4,285	$ 3	$ —	$ (578)	$ 54,123
Mortgage fee income	(252)	36,960	—	—	(1,035)	35,673
Insurance and investment services income	420	—	—	—	—	420
Other income	5,485	1,674	5,247	—	(5,294)	7,112
Total operating income	56,066	42,919	5,250	—	(6,907)	97,328
Expenses:						
Interest expense	8,437	2,082	2,226	—	(1,613)	11,132
Salaries and employee benefits	11,592	27,696	5,937	—	—	45,225
Provision for loan losses	3,632	—	—	—	—	3,632
Other expense	18,009	8,125	3,144	—	(5,294)	23,984
Total operating expenses	41,670	37,903	11,307	—	(6,907)	83,973
Income (loss) from continuing operations, before income taxes	14,396	5,016	(6,057)	—	—	13,355
Income tax expense (benefit) - continuing operations	4,496	1,954	(2,072)	—	—	4,378
Net income (loss) from continuing operations	9,900	3,062	(3,985)	—	—	8,977
Income (loss) from discontinued operations	—	—	6,926	(580)	—	6,346
Income tax expense (benefit) - discontinued operations	$ —	$ —	$ 2,629	$ (218)	$ —	$ 2,411
Net income (loss) from discontinued operations	$ —	$ —	$ 4,297	$ (362)	$ —	$ 3,935
Net income (loss)	$ 9,900	$ 3,062	$ 312	$ (362)	$ —	$ 12,912
Preferred stock dividends	—	—	1,128	—	—	1,128
Net income (loss) available to common shareholders	9,900	3,062	(816)	(362)	—	11,784
Capital Expenditures for the year ended December 31, 2016	$ 1,145	$ 220	$ 303	$ —	$ —	$ 1,668
Total Assets as of December 31, 2016	1,415,735	122,242	180,340	—	(299,513)	1,418,804
Goodwill as of December 31, 2016	1,598	16,882	—	—	—	18,480

(Dollars in thousands)	2015 Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Insurance	Intercompany Eliminations	Consolidated
Revenues:						
Interest income	$ 40,524	$ 3,882	$ 2	$ —	$ (308)	$ 44,100
Mortgage fee income	7	30,560	—	—	(1,095)	29,472
Insurance and investment services income	338	—	—	—	—	338
Other income	3,721	1,673	4,331	—	(4,580)	5,145
Total operating income	44,590	36,115	4,333	—	(5,983)	79,055
Expenses:						
Interest expense	6,776	1,647	2,204	—	(1,402)	9,225
Salaries and employee benefits	11,049	20,774	4,250	—	—	36,073
Provision for loan losses	2,493	—	—	—	—	2,493
Other expense	16,132	7,471	2,534	—	(4,362)	21,775
Total operating expenses	36,450	29,892	8,988	—	(5,764)	69,566
Income (loss) from continuing operations, before income taxes	8,140	6,223	(4,655)	—	(219)	9,489
Income tax expense (benefit) - continuing operations	2,176	2,394	(1,597)	—	(87)	2,886
Net income (loss) from continuing operations	5,964	3,829	(3,058)	—	(132)	6,603
Income (loss) from discontinued operations	—	—	—	134	219	353
Income tax expense (benefit) - discontinued operations	$ —	$ —	$ —	$ 53	$ 87	$ 140
Net income (loss) from discontinued operations	$ —	$ —	$ —	$ 81	$ 132	$ 213
Net income (loss)	$ 5,964	$ 3,829	$ (3,058)	$ 81	$ —	$ 6,816
Preferred stock dividends	—	—	575	—	—	575
Net income (loss) available to common shareholders	5,964	3,829	(3,633)	81	—	6,241
Capital Expenditures for the year ended December 31, 2015	$ 1,174	$ 354	$ 616	$ 9	$ —	$ 2,153
Total Assets as of December 31, 2015	1,378,988	125,227	148,509	5,017	(273,265)	1,384,476
Goodwill as of December 31, 2015	1,598	16,882	—	—	—	18,480

(Dollars in thousands)	Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Insurance	Intercompany Eliminations	Consolidated
	2014					
Revenues:						
Interest income	$ 33,175	$ 2,645	$ 2	$ —	$ 346	$ 36,168
Mortgage fee income	64	18,691	—	—	(1,198)	17,557
Insurance and investment services income	328	—	—	—	—	328
Other income	4,458	(2)	4,357	—	(4,676)	4,137
Total operating income	38,025	21,334	4,359	—	(5,528)	58,190
Expenses:						
Interest expense	5,663	1,063	1,703	—	(918)	7,511
Salaries and employee benefits	9,629	14,487	3,658	—	—	27,774
Provision for loan losses	2,582	—	—	—	—	2,582
Other expense	13,994	5,990	1,970	—	(4,534)	17,420
Total operating expenses	31,868	21,540	7,331	—	(5,452)	55,287
Income (loss) from continuing operations, before income taxes	6,157	(206)	(2,972)	—	(76)	2,903
Income tax expense (benefit) - continuing operations	1,326	(57)	(993)	—	(28)	248
Net income (loss) from continuing operations	4,831	(149)	(1,979)	—	(48)	2,655
Income (loss) from discontinued operations	—	—	—	(996)	76	(920)
Income tax expense (benefit) - discontinued operations	$ —	$ —	$ —	$ (372)	$ 28	$ (344)
Net income (loss) from discontinued operations	$ —	$ —	$ —	$ (624)	$ 48	$ (576)
Net income (loss)	$ 4,831	$ (149)	$ (1,979)	$ (624)	$ —	$ 2,079
Preferred stock dividends	—	—	332	—	—	332
Net income (loss) available to common shareholders	4,831	(149)	(2,311)	(624)	—	1,747
Capital Expenditures for the year ended December 31, 2014	$ 9,072	$ 333	$ 40	$ 353	$ —	$ 9,798
Total Assets as of December 31, 2014	1,048,101	101,791	146,137	4,031	(189,601)	1,110,459
Goodwill as of December 31, 2014	897	16,882	—	—	—	17,779

Commercial & Retail Banking

For the year ended December 31, 2016, the Commercial & Retail Banking segment earned $9.9 million compared to $6.0 million in 2015. Net interest income increased by $8.2 million, primarily the result of average loan balances increasing by $179.0 million. Noninterest income increased by $1.6 million, mainly the result of the following: $818 thousand improvement in performance of the interest rate cap, $882 thousand increase in gain on sale of securities, $133 thousand increase in other operating income, and $199 thousand increase in Visa debit card and interchange income, which was offset by $371 thousand decrease in gain on sale of portfolio loans and $259 thousand decrease in mortgage fee income. Noninterest expense increased by $2.4 million, primarily the result of the following: $543 thousand increase in salaries and employee benefits expense, $494 thousand increase in occupancy and equipment expense, and $832 thousand increase in data processing and communications expense, which was offset by $776 thousand decrease in professional fees. In addition, provision expense increased by $1.1 million.

Mortgage Banking

For the year ended December 31, 2016, the Mortgage Banking segment earned $3.1 million compared to $3.8 million in 2015. Net interest income decreased $32 thousand, noninterest income increased by $6.4 million and noninterest expense increased by $7.6 million. The $6.4 million increase in noninterest income was all related to mortgage fee income and was offset by the $7.6 million increase in noninterest expense. The increase in noninterest expense was primarily the result of the following: $6.9 million increase in salaries and employee benefits expense, which was primarily due to a 26.4% increase in origination volume as well as a $1.8 million increase in the earn out paid to management of the mortgage company related to the 2012 acquisition. Other items that impacted noninterest expense were as follows: $197 thousand increase in mortgage processing expense, $98 thousand increase in data processing and communications expense, $117 thousand in occupancy and equipment expense, $133 thousand increase in travel, entertainment, dues, and subscriptions expense, and $134 thousand in other operating expense, of which an increase of $55 thousand was related to loan expenses, which was offset by a $115 thousand decrease in marketing expense.

Financial Holding Company

Excluding discontinued operations, for the year ended December 31, 2016, the Financial Holding Company segment lost $4.0 million compared to a loss of $3.1 million in 2015. Interest expense increased $22 thousand, noninterest income increased $916 thousand and noninterest expense increased $2.3 million. In addition, the income tax benefit increased $475 thousand. The increase in noninterest expense was primarily due to a $1.7 million increase in salaries and employee benefits expense, a $220 thousand increase in professional fees, a $259 thousand increase in occupancy and equipment expense, and a $66 thousand increase in other operating expense.

Insurance

For the year ended December 31, 2016, the Insurance segment lost $362 thousand compared to a loss of $81 thousand in 2015. In June 2016, primarily all the assets of the Insurance segment were sold and the segment was reorganized as a subsidiary of the Bank.

NOTE 22. MERGERS AND ACQUISITIONS

On May 1, 2015, MVB Bank, Inc. (MVB Bank), a wholly-owned subsidiary of MVB Financial Corp. (MVB Financial or the Company), issued a joint news release with BB&T Corporation (BB&T) and Susquehanna Bancshares, Inc. (Susquehanna) announcing the signing of a definitive agreement, subject to customary closing conditions including regulatory approvals, through which MVB Bank will acquire two branch locations of Susquehanna Bank in Berkeley County, West Virginia and will assume approximately $69 million of deposits and $17 million of loans. The two Susquehanna Bank branch locations are slated for divestiture under BB&T's agreement with the United States Department of Justice and commitments to the Board of Governors of the Federal Reserve System in connection with BB&T's pending acquisition of Susquehanna. On July 22, 2015, regulatory approvals for the acquisition of the two Susquehanna Bank branch locations were received and the acquisition closed August 28, 2015.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805. The assets and liabilities were recorded at their estimated fair values as of the August 28, 2015 acquisition date.

The following is a summary of net liabilities assumed:

(Dollars in thousands)		
Net assets acquired:		
Cash received in transaction	$	47,962
Cash on hand		330
Loans		18,200
Bank premises, furniture and equipment		609
Accrued interest receivable and other assets		62
Core deposit intangible		878
		68,041
Deposits		68,697
Accrued interest payable and other liabilities		45
		68,742
Net liabilities assumed		(701)
Goodwill		701
	$	—

A valuation of the acquired loans and core deposit intangible was performed with the assistance of a third-party valuation consultant. The unpaid principal balance and fair value of performing loans was $18.7 million and $18.2 million, respectively. The discount of $458 thousand will be accreted through interest income over the life of the loans in accordance with Accounting Standards Codification (ASC) topic 310-20. No nonperforming loans were acquired in this transaction. The core deposit intangible will be amortized over 10 years using a double declining balance amortization method.

Merger costs related to the branch acquisitions were $722 thousand, consisting primarily of legal, consulting and data processing expenses. Goodwill was recorded in the amount of $701 thousand which is the difference between the total purchase price and the net liabilities assumed and is not deductible for income tax purposes.

The following acquisition related costs are included in the consolidated statements of income for the periods indicated:

(Dollars in thousands)	Year ended December 31, 2016		Year ended December 31, 2015		Year ended December 31, 2014	
Professional fees	$	—	$	471	$	183
Marketing		—		29		4
Printing, postage and supplies		—		71		9
Equipment depreciation and maintenance		—		—		26
Travel and entertainment		—		50		88
Data processing and communications		—		76		—
Other operating expense		—		25		—
Total	$	—	$	722	$	310

Actual total revenues net of interest expense and net (loss) relating to the branch acquisitions were $297 thousand and $(122) thousand for the year ended December 31, 2015.

The following pro forma financial information combines the historical results of MVB and two branches acquired on August 28, 2015. The pro forma results exclude the impact of branch acquisition costs of $722 thousand.

If the branch acquisition had been completed on January 1, 2014 total revenue, net of interest expense, would have been $55.1 million and $76.0 million for the years ended December 31, 2014 and 2015, respectively. Net income would have been $1.7 million and $6.4 million for the same periods. Basic and diluted earnings per share would have been $0.17 and $0.17 and $0.73 and $0.72, respectively for the years ended December 31, 2014 and 2015.

NOTE 23. DISCONTINUED OPERATIONS

On June 30, 2016, the Company entered into an Asset Purchase Agreement with USI Insurance Services ("USI"), in which USI purchased substantially all of the assets and assumed certain liabilities of MVB Insurance, which resulted in a pre-tax gain of $6.9 million. MVB Insurance retained the assets related to, and continues to operate, its title insurance business. The title insurance business is immaterial in terms of revenue and the Company has reorganized MVB Insurance as a subsidiary of the Bank. The Company retained approximately $424 thousand in liabilities and received proceeds totaling $7.0 million related to this transaction.

Assets and liabilities of discontinued operations at the dates indicated were as follows:

(Dollars in thousands)	2016	2015
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ —	$ 2,245
Total cash and cash equivalents	—	2,245
Premises and equipment	—	618
Accrued interest receivable and other assets	—	2,154
TOTAL ASSETS	$ —	$ 5,017
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accrued interest payable and other liabilities	—	2,834
Total liabilities	—	2,834
STOCKHOLDERS' EQUITY		
Retained earnings	—	2,183
Total stockholders' equity	—	2,183
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ —	$ 5,017

Net income (losses) from discontinued operations, net of tax, for the years ended December 31, 2016, 2015, and 2014, were as follows:

(Dollars in thousands)	2016	2015	2014
NONINTEREST INCOME			
Insurance and investment services income	$ 1,887	$ 4,733	$ 3,523
Gain on sale of subsidiary	6,926	—	—
Other operating income	2	6	—
Total noninterest income	8,815	4,739	3,523
NONINTEREST EXPENSES			
Salary and employee benefits	1,937	3,603	3,417
Occupancy expense	124	281	245
Equipment depreciation and maintenance	29	57	56
Data processing and communications	79	105	97
Marketing, contributions and sponsorships	7	25	26
Professional fees	2	23	308
Printing, postage and supplies	12	19	41
Insurance, tax and assessment expense	58	136	96
Travel, entertainment, dues and subscriptions	67	119	132
Other operating expenses	154	18	25
Total noninterest expense	2,469	4,386	4,443
Income (loss) from discontinued operations, before income taxes	6,346	353	(920)
Income tax expense (benefit) - discontinued operations	2,411	140	(344)
Net Income (loss) from discontinued operations	$ 3,935	$ 213	$ (576)

NOTE 24. QUARTERLY FINANCIAL DATA (UNAUDITED)

(Dollars in thousands)	Interest Income	Net Interest Income	Income Before Taxes	Net Income	Earnings Per Share Basic	Earnings Per Share Diluted
2016						
First quarter	$ 13,382	$ 10,695	$ 2,612	$ 1,796	$ 0.20	$ 0.20
Second quarter	13,580	10,742	10,228	6,499	0.77	0.63
Third quarter	13,523	10,729	3,441	2,310	0.25	0.24
Fourth quarter	13,638	10,825	3,420	2,307	0.23	0.22

(Dollars in thousands)	Interest Income	Net Interest Income	Income Before Taxes	Net Income	Earnings Per Share Basic	Earnings Per Share Diluted
2015						
First quarter	$ 9,638	$ 7,547	$ 3,332	$ 2,103	$ 0.25	$ 0.24
Second quarter	10,694	8,426	2,688	1,905	0.22	0.23
Third quarter	11,416	9,018	1,912	1,406	0.16	0.17
Fourth quarter	12,352	9,884	1,910	1,402	0.16	0.15

NOTE 25. SUBSEQUENT EVENTS

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"), that had been issued to the United States Department of the Treasury, on September 8, 2011, pursuant to the Small Business Lending Fund program ("SBLF"). The aggregate redemption price of the Series A Preferred Stock was $8,508,500, including dividends accrued, but unpaid through, but not including the redemption date.

The Series A Preferred Stock was redeemed from the Company's surplus capital and approved by the Company's primary federal regulator. The redemption terminates the Company's participation in the SBLF program. After the redemption, the Company's capital ratios remain well in excess of those required for well capitalized status.