MVB FINANCIAL CORP
Form 10-Q
May 05, 2016
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United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File number 000-50567

MVB Financial Corp.

(Exact name of registrant as specified in its charter)

West Virginia	20-0034461
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

301 Virginia Avenue

Fairmont, West Virginia 26554-2777

(Address of principal executive offices)

304-363-4800

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant has (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

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

Large accelerated filer

Accelerated filer [X]

Non-accelerated filer

Smaller reporting company

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

Yes [ ] No [X]

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

As of May 5, 2016, the Registrant had 8,078,000 shares of common stock outstanding with a par value of $1.00 per share.

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Part I. Financial Information

Item 1. Financial Statements

MVB Financial Corp. and Subsidiaries

Consolidated Balance Sheets

(Unaudited) (Dollars in thousands)

(Dollars in thousands except per share data)

	March 31, 2016 (Unaudited)		December 31, 2015 (Note 1)	
ASSETS				
Cash and cash equivalents:				
Cash and due from banks	$	15,314	$	14,302
Interest bearing balances with banks		13,412		14,831
Total cash and cash equivalents		28,726		29,133
Certificates of deposit with other banks		13,150		13,150
Investment Securities:				
Securities available-for-sale		134,825		70,256
Securities held-to-maturity (fair value of $0 for 2016 and $54,470 for 2015)		—		52,859
Loans held for sale		98,876		102,623
Loans:		1,075,606		1,032,170
Less: Allowance for loan losses		(8,447)		(8,006)
Net Loans		1,067,159		1,024,164
Premises and equipment		26,377		26,275
Bank owned life insurance		22,493		22,332
Accrued interest receivable and other assets		22,554		25,204
Goodwill		18,480		18,480
TOTAL ASSETS	$	1,432,640	$	1,384,476
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Noninterest bearing	$	86,603	$	80,423
Interest bearing		1,004,965		931,891
Total deposits		1,091,568		1,012,314
Accrued interest payable and other liabilities		14,655		13,291
Repurchase agreements		29,561		27,437
FHLB and other borrowings		146,267		183,198
Subordinated debt		33,524		33,524
Total liabilities		1,315,575		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 7)		16,334		16,334
		8,129		8,113

Common stock, par value $1; 20,000,000 shares authorized; 8,129,077 and 8,112,998 issued; and 8,078,000 and 8,061,921 outstanding in 2016 and 2015, respectively				
Additional paid-in capital		74,309		74,228
Retained earnings		21,503		20,054
Accumulated other comprehensive loss		(2,126)		(2,933)
Treasury Stock, 51,077 shares, at cost		(1,084)		(1,084)
Total stockholders' equity		117,065		114,712
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	1,432,640	$	1,384,476

See accompanying notes to unaudited consolidated financial statements.

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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Income

(Unaudited) (Dollars in thousands except per share data)

	Three months ended March 31, 2016	2015
INTEREST INCOME		
Interest and fees on loans	$ 12,431	$ 8,764
Interest on deposits with other banks	88	64
Interest on investment securities - taxable	310	239
Interest on tax exempt loans and securities	553	571
Total interest income	13,382	9,638
INTEREST EXPENSE		
Interest on deposits	1,888	1,367
Interest on repurchase agreements	21	24
Interest on FHLB and other borrowings	226	157
Interest on subordinated debt	552	543
Total interest expense	2,687	2,091
NET INTEREST INCOME	10,695	7,547
Provision for loan losses	625	659
Net interest income after provision for loan losses	10,070	6,888
NONINTEREST INCOME		
Service charges on deposit accounts	173	132
Income on bank owned life insurance	161	167
Visa debit card and interchange income	292	209
Mortgage fee income	6,785	6,309
Gain on sale of portfolio loans	149	346
Insurance and investment services income	1,117	1,698
Gain on sale of securities	381	121
Gain on derivatives	401	2,249
Other operating income	217	168
Total noninterest income	9,676	11,399
NONINTEREST EXPENSES		
Salary and employee benefits	11,260	9,734
Occupancy expense	1,010	875
Equipment depreciation and maintenance	574	483
Data processing and communications	1,165	926
Mortgage processing	861	746
Marketing, contributions and sponsorships	299	337

Professional fees	705	662
Printing, postage and supplies	222	186
Insurance, tax and assessment expense	400	428
Travel, entertainment, dues and subscriptions	395	320
Other operating expenses	243	258
Total noninterest expense	17,134	14,955
Income before income taxes	2,612	3,332
Income tax expense	816	1,229
Net Income	$ 1,796	$ 2,103
Preferred dividends	186	142
Net Income available to common shareholders	$ 1,610	$ 1,961
Earnings per share - basic	$ 0.20	$ 0.25
Earnings per share - diluted	$ 0.20	$ 0.24
Cash dividends declared	$ 0.02	$ —
Weighted average shares outstanding - basic	8,061,998	7,983,285
Weighted average shares outstanding - diluted	9,901,250	8,135,058

See accompanying notes to unaudited consolidated financial statements.

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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Unaudited) (Dollars in thousands)

	Three months ended March 31, 2016	2015
Net Income	$ 1,796	$ 2,103
Other comprehensive income (loss):		
Unrealized holding gains during the year	418	541
Unrealized holding gains during the year related to reclassified held-to-maturity securities	1,825	—
Income tax effect	(897)	(217)
Reclassification adjustment for gain recognized in income	(112)	(121)
Reclassification adjustment for gain recognized in income related to reclassified held-to-maturity securities	(269)	—
Income tax effect	152	49
Change in defined benefit pension plan	(517)	(273)
Income tax effect	207	109
Total other comprehensive income	807	88
Comprehensive income	$ 2,603	$ 2,191

See accompanying notes to unaudited consolidated financial statements.

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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

(Unaudited) (Dollars in thousands except per share data)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2014	$ 16,334	$ 8,034	$ 74,342	$ 14,454	$ (2,642)	$ (1,084)	$ 109,438
Net Income	—	—	—	2,103	—	—	2,103
Other comprehensive income	—	—	—	—	88	—	88
Dividends on preferred stock (See Footnote 7)	—	—	—	(142)	—	—	(142)
Stock based compensation	—	—	99	—	—	—	99
Balance March 31, 2015	$ 16,334	$ 8,034	$ 74,441	$ 16,415	$ (2,554)	$ (1,084)	$ 111,586
Balance December 31, 2015	$ 16,334	$ 8,113	$ 74,228	$ 20,054	$ (2,933)	$ (1,084)	$ 114,712
Net Income	—	—	—	1,796	—	—	1,796
Other comprehensive income	—	—	—	—	807	—	807
Cash dividends paid ($0.02 per share)	—	—	—	(161)	—	—	(161)
Dividends on preferred stock (See Footnote 7)	—	—	—	(186)	—	—	(186)

Stock based compensation	—	—	105	—	—	—	105
Common stock options exercised	—	16	(24)	—	—	—	(8)
Balance March 31, 2016	$ 16,334	$ 8,129	$ 74,309	$ 21,503	$ (2,126)	$ (1,084)	$ 117,065

See accompanying notes to unaudited consolidated financial statements.

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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited) (Dollars in thousands)

	Three months ended March 31, 2016	March 31, 2015
OPERATING ACTIVITIES		
Net Income	$ 1,796	$ 2,103
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net amortization and accretion of investments	180	185
Net amortization of deferred loan fees	(22)	22
Provision for loan losses	625	659
Depreciation and amortization	800	454
Stock based compensation	105	99
Loans originated for sale	(317,168)	(338,846)
Proceeds of loans sold	327,700	288,880
Mortgage fee income	(6,785)	(6,309)
Gain on sale of securities	(381)	(121)
Income on bank owned life insurance	(161)	(167)
Deferred taxes	(520)	(20)
Other, net	1,731	2,433
Net cash provided by (used in) operating activities	7,900	(50,628)
INVESTING ACTIVITIES		
Purchases of investment securities available-for-sale	(32,885)	(11,535)
Maturities/paydowns of investment securities available-for-sale	1,613	1,511
Maturities/paydowns of investment securities held-to-maturity	400	540
Sales of investment securities available-for-sale	21,225	11,484
Purchases of premises and equipment	(652)	(394)
Net increase in loans	(43,449)	(33,065)
Loans purchased	(149)	(346)
Purchases of restricted bank stock	(5,450)	(6,040)
Redemptions of restricted bank stock	6,933	4,349
Proceeds from sale of certificates of deposit with banks	—	248
Proceeds from sale of other real estate owned	15	—
Net cash used in investing activities	(52,399)	(33,248)
FINANCING ACTIVITIES		
Net increase in deposits	79,254	43,081
Net increase (decrease) in repurchase agreements	2,124	(6,551)
Net change in short-term FHLB borrowings	(36,908)	43,997
Principal payments on FHLB borrowings	(23)	(41)
Common stock options exercised	(8)	—
Cash dividends paid on common stock	(161)	—
Cash dividends paid on preferred stock	(186)	(142)
Net cash provided by financing activities	44,092	80,344

(Decrease) in cash and cash equivalents	(407)	(3,532)
Cash and cash equivalents at beginning of period	29,133	30,077
Cash and cash equivalents at end of period	$ 28,726	$ 26,545
Supplemental disclosure of cash flow information:		
Loans transferred to other real estate owned	$ —	$ —
Cashless stock options exercised	$ 16	$ —
Cash payments for:		
Interest on deposits, repurchase agreements and borrowings	$ 3,089	$ 2,547
Income taxes	$ —	$ —

See accompanying notes to unaudited consolidated financial statements.

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MVB Financial Corp. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 – Basis of Presentation

These consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with instructions to Form 10 Q. Accordingly, they do not include all the information and footnotes required by GAAP for annual year-end financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, have been included and are of a normal, recurring nature. The consolidated balance sheet as of December 31, 2015 has been derived from audited financial statements included in the Company's 2015 filing on Form 10-K. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the company's December 31, 2015, Form 10-K filed with the Securities and Exchange Commission.

In certain instances, amounts reported in prior periods' consolidated financial statements have been reclassified to conform to the current presentation. Specifically, a portion of the prior periods' interest income and interest expense was classified as gain on loans held for sale and has been reclassified in the current presentation.

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

Note 2 – Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early application is permitted. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue versus Net) ("ASU 2016-08"), which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard. ASU 2016-08 clarifies how an entity should identify the unit of accounting (i.e. the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. The amendments in ASU 2016-08 affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and have similar effective dates and transition requirements (i.e., effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein). The Company is currently evaluating the impact of adopting the new revenue recognition guidance on its consolidated financial statements.

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In March 2016, the FASB issued ASU 2016-04, Liabilities —Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products (“ASU 2016-04”). The amendments apply to entities that offer certain prepaid stored value products (e.g., prepaid gift cards issued on a specific payment network and redeemable at network-accepting merchant locations, prepaid telecommunication cards, and traveler’s checks). Liabilities related to the sale of prepaid stored-value products are financial liabilities. The amendments provide a narrow scope exception to the guidance in Subtopic 405-20 to require that breakage for those liabilities be accounted for consistent with the breakage guidance in Topic 606 Revenue from Contracts with Customers. Neither current U.S. GAAP nor the pending guidance in Topic 606 contains specific guidance for the derecognition of prepaid stored-value product liabilities. 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 will evaluate the provisions of this ASU to determine the potential impact the new standard will have on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this ASU is permitted for all entities. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Accounting for Financial Instruments – Overall: Classification and Measurement (Subtopic 825-10) (“ASU 2016-01”). Amendments within ASU No. 2016-01 that relate to non-public entities have been excluded from this presentation. The amendments in this ASU No.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 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 (“ASU 2015-16”). The amendments in ASU 2015-16 require that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. The amendments also require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the estimated amounts had been recognized as of the acquisition date. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. As such, the adoption of ASU 2015-15 did not have a material impact on the Company's consolidated financial statements.

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In August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated With Line-of-Credit Arrangements: Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (“ASU 2015-15”), to clarify the SEC staff's position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements given the lack of guidance on this topic in ASU 2015-03. The SEC staff has announced that it would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. ASU 2015-15 is effective upon issuance for all entities. As such, the adoption of ASU 2015-15 did not have a material impact on the Company’s consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (“ASU 2015-2”). 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 No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company has evaluated the provisions of ASU No. 2015-02 and determined the new standard has no impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-9”). These amendments affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g. insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance, and creates a Topic 606, Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This ASU will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is not permitted. The ASU allows for either full retrospective or modified retrospective adoption. We are evaluating the transition method that will be elected and the potential effects of the adoption of the ASU on our consolidated financial statements.

Note 3 – Investments

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

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unrealized holding gains of $1.8 million, of the remaining held-to-maturity investments into available-for-sale investments.

There were no investment securities held-to-maturity at March 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:

(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 March 31, 2016 are summarized as follows:

(in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U.S. Agency securities	$ 34,480	$ 47	$ (77)	$ 34,450
U.S. Sponsored Mortgage-backed securities	33,655	34	(356)	33,333
Municipal securities	59,739	1,638	(110)	61,267
Total debt securities	127,874	1,719	(543)	129,050
Equity and other securities	5,693	87	(5)	5,775
Total investment securities available-for-sale	$ 133,567	$ 1,806	$ (548)	$ 134,825

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

(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 tables summarize amortized cost and fair values of debt securities by maturity at March 31, 2016:

	Available for sale	
	Amortized Cost	Fair Value
Within one year	$ 1,507	$ 1,513
After one year, but within five	27,204	27,345
After five years, but within ten	15,112	15,401
After ten years	84,051	84,791
Total	$ 127,874	$ 129,050

Investment securities with a carrying value of $114.3 million at March 31, 2016, were pledged to secure public funds, repurchase agreements and potential borrowings at the Federal Reserve discount window.

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The Company's investment portfolio includes securities that are in an unrealized loss position as of March 31, 2016, the details of which are included in the following table. Although these securities, if sold at March 31, 2016 would result in a pretax loss of $548.thousand the Company has no intent to sell the applicable securities at such fair values, and maintains the Company has the ability to hold these securities until all principal has been recovered. It is 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 March 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 market value.

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

Description and number of positions	Less than 12 months		12 months or more	
(in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Agency securities (9)	$ 23,224	$ (77)	$ —	$ —
U.S. Sponsored Mortgage-backed securities (14)	6,019	(11)	20,355	(345)
Municipal securities (21)	11,439	(110)	—	—
Equity and other securities (1)	995	(5)	—	—
	$ 41,677	$ (203)	$ 20,355	$ (345)

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

Description and number of positions	Less than 12 months		12 months or more	
(in thousands)	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)

For the three month period ended March 31, 2016 and 2015, the Company sold investments available-for-sale of $21.2 million and $11.5 million, respectively, resulting in gross gains of $381 thousand and $121 thousand, respectively and no gross losses.

The Company sold no held-to-maturity investments during the three month periods ended March 31, 2016 and 2015.

Note 4 – Loans and Allowance for Loan Losses

All loan origination fees and direct loan origination costs are deferred and recognized over the life of the loan. As of March 31, 2016 and 2015, net deferred fees and costs of $1.0 million and $1.4 million, respectively, were included in the carrying value of loans.

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.

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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 as presented in this note, 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. The liability for unfunded commitments was $224 thousand and $108 thousand respectively as of March 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 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.

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The following table summarizes the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of March 31, 2016:

(in thousands)	Commercial	Residential	Home Equity	Consumer	Total
ALL balance December 31, 2015	$ 6,066	$ 1,095	$ 715	$ 130	$ 8,006
Charge-offs	(102)	(67)	—	(22)	(191)
Recoveries	—	—	—	7	7
Provision	257	129	32	207	625
ALL balance March 31, 2016	$ 6,221	$ 1,157	$ 747	$ 322	$ 8,447
Individually evaluated for impairment	$ 946	$ 212	$ —	$ 211	$ 1,369
Collectively evaluated for impairment	$ 5,275	$ 945	$ 747	$ 111	$ 7,078

The following table summarizes the primary segments of the Company loan portfolio as of March 31, 2016:

(in thousands)	Commercial	Residential	Home Equity	Consumer	Total
Individually evaluated for impairment	$ 10,974	$ 1,049	$ 28	$ 375	$ 12,426
Collectively evaluated for impairment	742,824	235,594	68,290	16,472	1,063,180
Total Loans	$ 753,798	$ 236,643	$ 68,318	$ 16,847	$ 1,075,606

The following table summarizes the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of March 31, 2015:

	Commercial	Residential	Home Equity	Consumer	Total
ALL balance December 31, 2014	$ 4,363	$ 962	$ 691	$ 207	$ 6,223
Charge-offs	(409)	(14)	—	—	(423)
Recoveries	21	—	1	—	22
Provision	672	9	(12)	(10)	659
ALL balance March 31, 2015	$ 4,647	$ 957	$ 680	$ 197	$ 6,481
Individually evaluated for impairment	$ 554	$ 284	$ 28	$ 2	$ 868
Collectively evaluated for impairment	$ 4,093	$ 673	$ 652	$ 195	$ 5,613

The following table summarizes the primary segments of the Company loan portfolio as of March 31, 2015:

(in thousands)	Commercial	Residential	Equity	Consumer	Total
Individually evaluated for impairment	$ 13,185	$ 949	$ 28	$ 2	$ 14,164
Collectively evaluated for impairment	578,573	173,667	48,202	16,679	817,121
Total Loans	$ 591,758	$ 174,616	$ 48,230	$ 16,681	$ 831,285

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

During December 2013 the Bank purchased $74.3 million in performing commercial real estate secured loans in the northern Virginia area. At the time of acquisition, none of these loans were considered impaired. They were acquired at a premium of roughly 1.024 or $1.8 million, which is being amortized in accordance with ASC 310-20. These loans are collectively evaluated for impairment under ASC 450. The loans continue to be individually monitored for payoff activity, and any necessary adjustments to the premium are made accordingly. As of March 31, 2016 and December 31, 2015, these balances totaled $33.1 million and $46.8 million, respectively. Of the $41.2 million decrease, MVB refinanced $17.2 million, sold a participation totaling $2.9 million and sold $9.7 million back to the institution from which the loans were originally purchased in December 2013. The weighted average yield on the remaining portfolio is 5.02%.

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

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
March 31, 2016	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
Commercial					
Commercial Business	$ 679	$ 107	$ 3,266	$ 3,945	$ 3,945
Commercial Real Estate	4,377	754	—	4,377	4,377
Acquisition & Development	267	85	2,385	2,652	4,129
Total Commercial	5,323	946	5,651	10,974	12,451
Residential	865	212	184	1,049	1,116
Home Equity	—	—	28	28	28
Consumer	273	211	102	375	378
Total impaired loans	$ 6,461	$ 1,369	$ 5,965	$ 12,426	$ 13,973
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 $2.9 million, or 19% during the first quarter of 2016, primarily the result of the net impact of two loans. 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 the first quarter of 2016, this $5.0 million loan was repurchased by the selling financial institution thereby decreasing total impaired loans by $5.0 million. In contrast, a $1.8 million commercial real estate loan (net of a $651 thousand participation) was identified as impaired in the first quarter of 2016 as a result of an extended stabilization and interest only period, as well as a lack of project specific cash flows. The net effect of these two significant impairment items was $3.2 million. The remaining $400 thousand of the decrease in impaired loans since December 31, 2015 was the net effect of multiple other factors, including $167 thousand in partial charge-offs and normal loan amortization.

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The following tables present the average recorded investment in impaired loans and related interest income recognized for the periods indicated (in thousands):

	Three months ended March 31, 2016		
	Average Investment in Impaired Loans	Interest Income Recognized on Accrual Basis	Interest Income Recognized on Cash Basis
Commercial			
Commercial Business	$ 3,838	$ 39	$ 26
Commercial Real Estate	6,541	28	25
Acquisition & Development	2,722	2	3
Total Commercial	13,101	69	54
Residential	1,059	5	3
Home Equity	28	—	—
Consumer	198	—	—
Total	$ 14,386	$ 74	$ 57

	Three months ended March 31, 2015		
	Average Investment in Impaired Loans	Interest Income Recognized on Accrual Basis	Interest Income Recognized on Cash Basis
Commercial			
Commercial Business	$ 3,511	$ 39	$ 36
Commercial Real Estate	6,542	13	4
Acquisition & Development	3,527	85	1
Total Commercial	13,580	137	41
Residential	950	5	2
Home Equity	28	—	—
Consumer	2	—	—
Total	$ 14,560	$ 142	$ 43

As of March 31, 2016, the Bank held three foreclosed residential real estate properties representing $144 thousand, or 64%, 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 $790 thousand as of March 31, 2016. These loans are included in the table above and have a total of $132 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

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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 March 31, 2016 and December 31, 2015 (in thousands):

March 31, 2016	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Commercial Business	$ 330,961	$ 6,096	$ 5,849	$ 576	$ 343,482
Commercial Real Estate	296,720	1,231	7,160	—	305,111
Acquisition & Development	99,266	2,980	1,529	1,430	105,205
Total Commercial	726,947	10,307	14,538	2,006	753,798
Residential	233,520	1,810	1,111	202	236,643
Home Equity	67,696	536	86	—	68,318
Consumer	16,174	298	375	—	16,847
Total Loans	$ 1,044,337	$ 12,951	$ 16,110	$ 2,208	$ 1,075,606

December 31, 2015	Pass	Special Mention	Substandard	Doubtful	Total
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 is in a collection process could warrant non-accrual status. A thorough review is to be 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 will be subject to applicable regulatory restrictions and guidelines. Generally, loans should be placed in non-accrual status when the loan approaches 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

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and interest is not expected, or when the loan displays potential loss characteristics. Normally, all accrued interest should be charged off when a loan is placed in non-accrual status. Any payments subsequently received should be 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 the aging categories of performing loans and nonaccrual loans as of March 31, 2016 and December 31, 2015 (in thousands):

March 31, 2016	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
Commercial								
Commercial Business	$ 341,548	$ 65	$ 1,020	$ 849	$ 1,934	$ 343,482	$ 849	$ —
Commercial Real Estate	303,829	416	139	727	1,282	305,111	2,214	384
Acquisition & Development	102,397	273	150	2,385	2,808	105,205	2,692	—
Total Commercial	747,774	754	1,309	3,961	6,024	753,798	5,755	384
Residential	232,833	2,169	232	1,409	3,810	236,643	1,313	401
Home Equity	68,174	144	—	—	144	68,318	59	—
Consumer	16,387	84	1	375	460	16,847	375	—
Total	$ 1,065,168	$ 3,151	$ 1,542	$ 5,745	$ 10,438	$ 1,075,606	$ 7,502	$ 785

December 31, 2015	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
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
	714,151	1,414	4,731	9,023	15,168	729,319	8,195	848

Total Commercial								
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	$ 1,013,306	$ 3,323	$ 5,521	$ 10,020	$ 18,864	$ 1,032,170	$ 9,405	$ 848

Troubled Debt Restructurings

The restructuring of a loan is considered a troubled debt restructuring (“TDR”) if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. At March 31, 2016 and December 31, 2015, the Bank had specific reserve allocations for TDR’s of $518 thousand and $672, thousand respectively.

Loans considered to be troubled debt restructured loans totaled $9.2 million and $9.3 million as of March 31, 2016 and December 31, 2015, respectively. $2.4 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 restructured due to extended interest only periods and/or unsatisfactory repayment structures once transitioned to principal and interest payments. These borrowers have experienced continued financial difficulty and are considered non-performing loans as of March 31, 2016 and December 31, 2015. Two additional restructured loans, a

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$241 thousand commercial real estate loan and a $377 thousand mortgage loan, are considered non-performing as of March 31, 2016. Both of these loans were also considered restructured due to extended interest only periods and /or unsatisfactory repayment structures.

There were no new TDR’s for the three months ended March 31, 2016 and 2015.

NOTE 5 - BORROWED FUNDS

Short-term Borrowings

Along with traditional deposits, the Bank has access to short-term borrowings from FHLB to fund its operations and investments. Short-term borrowings from FHLB totaled $143.0 million at March 31, 2016, compared to $179.9 million at December 31, 2015.

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

(Dollars in thousands)	March 31, 2016		December 31, 2015	
Balance at end of period	$ 143,008		$ 179,917	
Average balance during the three and twelve months ended	111,785		121,425	
Maximum month-end balance during the three and twelve months ended	147,747		179,917	
Weighted-average rate during the three and twelve months ended	0.54	%	0.34	%
Rate at end of period	0.44	%	0.44	%

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 March 31, 2016 and December 31, 2015. These borrowings were collateralized with investment securities with a carrying value of $30.3 million and $28.3 million at March 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 $29.6 million at March 31, 2016, compared to $27.4 million at December 31, 2015.

Information related to repurchase agreements is summarized as follows:

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(Dollars in thousands)	March 31, 2016	December 31, 2015
Balance at end of period	$ 29,561	$ 27,437
Average balance during the three and twelve months ended	28,464	26,884
Maximum month-end balance during the three and twelve months ended	29,561	32,470
Weighted-average rate during the three and twelve months ended	0.29 %	0.31 %
Rate at end of period	0.30 %	0.30 %

Term notes from the FHLB were as follows: (Dollars in thousands)	March 31, 2016	December 31, 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	$ 2,445	$ 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%	814	820
	$ 3,259	$ 3,281

Subordinated Debt

Information related to subordinated debt is summarized as follows:

(Dollars in thousands)	March 31, 2016	December 31, 2015
Balance at end of period	$ 33,524	$ 33,524
Average balance during the three and twelve months ended	33,524	33,524
Maximum month-end balance during the three and twelve months ended	33,524	33,524
Weighted-average rate during the three and twelve months ended	6.56 %	6.55 %
Rate at end of period	6.58 %	6.57 %

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 were 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 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. The securities issued by the Trust are includable for regulatory purposes as a component of the Company’s Tier I 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.

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On June 30, 2014, MVB Financial Corp. (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 as of March 31, 2016 and December 31, 2015 and interest expense of $552 thousand and $543 thousand for the three months ended March 31, 2016 and 2015.

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A summary of maturities of borrowings and subordinated debt over the next five years is as follows:

(dollars in thousands)

Year	Amount
2016	$ 143,079
2017	615
2018	81
2019	85
2020	90
Thereafter	35,841
	$ 179,791

Note 6 – 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.

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 2 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 1 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 2 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, 2015 and the three months ended March 31, 2016. Valuation techniques are consistent with techniques used in prior periods.

- Loans held for sale — Loans held for sale are carried 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 the committed market rates or the price secondary markets are currently offering for similar loans using observable market data.

- 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 applied to this calculation to estimate the derivative value.

· 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.

· Forward sales commitments – Forward sales commitments are considered derivatives and are recorded at fair value, based on (i) committed sales prices from investors for commitments to sell mortgage loans or (ii) observable market data inputs for commitments to sell mortgage backed securities. A majority of the interest rate locks and loans held for sale are committed on a best efforts basis.

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

	March 31, 2016			
(in thousands)	Level I	Level II	Level III	Total
Assets:				
U.S. Government Agency securities	$ —	$ 34,450	$ —	$ 34,450
U.S. Sponsored Mortgage backed securities	—	33,333	—	33,333
Municipal securities	—	61,267	—	61,267
Equity and Other securities	—	5,775	—	5,775
Loans held for sale	—	98,876	—	98,876
Interest rate lock commitment	—	—	2,769	2,769
Interest rate swap	—	1,155	—	1,155
Interest rate cap	—	163	—	163
Liability:				
Interest rate swap	—	1,155	—	1,155
Forward sales commitments	—	662	—	662

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(in thousands)	December 31, 2015 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	—	—	1,583	1,583
Interest rate swap	—	405	—	405
Interest rate cap	—	437	—	437
Liabilities:				
Interest rate swap	—	405	—	405

The following table represents recurring level III assets:

Interest Rate Lock Commitments (in thousands)	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Balance, beginning of period	$ 1,583	$ 1,020
Realized and unrealized gains (loss) included in earnings	1,186	770
Balance, end of period	$ 2,769	$ 1,790

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 non-interest 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 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. For a majority of impaired real estate related loans, the Company obtains a current external appraisal. Other valuation techniques are used as well, including internal valuations, comparable property analysis and contractual sales information.

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- Other Real Estate owned — Other real estate owned, which is obtained through the Bank's foreclosure process is valued utilizing the appraised collateral value. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At the time, the foreclosure is completed, the Company obtains a current external appraisal.

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

	March 31, 2016			
(in thousands)	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ —	$ —	$ 11,057	$ 11,057
Other real estate owned	—	—	226	226

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

The following tables present quantitative information about the Level 3 significant unobservable inputs for assets measured at fair value on a nonrecurring basis at March 31, 2016 and December 31, 2015.

	Quantitative Information about Level 3 Fair Value Measurements			
(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range
March 31, 2016:				
Impaired loans	$ 11,057	Appraisal of collateral (1)	Appraisal adjustments(2)	20% - 62%
			Liquidation expense (2)	5% - 10%
Other real estate owned	$ 226	Appraisal of collateral (1)	Appraisal adjustments (2)	20% - 30%
			Liquidation expense (2)	5% - 10%

Quantitative Information about Level 3 Fair Value Measurements

(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range
December 31, 2015:				
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%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not observable.
(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.

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

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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 applied to this calculation to estimate the derivative value. The “pull through rate” range from 78% – 81% and 78% - 82% as of March 31, 2016 and December 31, 2015.

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 and repurchase agreements approximate their fair values.

Deposits: The fair values of demand deposits (i.e., non-interest 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.

Forward Sales Commitments: Forward sales commitments 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 (i) committed sales prices from investors for commitments to sell mortgage loans or (ii) observable market data inputs for commitments to sell mortgage backed securities.

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.

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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 (in thousands):

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Fair Value Measurements at:

	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2016:					
Financial assets:					
Cash and cash equivalents	$ 28,726	$ 28,726	$ 28,726	$ —	$ —
Certificates of deposits with other banks	13,150	13,297	—	13,297	—
Securities available-for-sale	134,825	134,825	—	134,825	—
Loans held for sale	98,876	98,876	—	98,876	—
Loans, net	1,067,159	1,070,055	—	—	1,070,055
Mortgage servicing rights	779	779	—	—	779
Interest rate lock commitment	2,769	2,769	—	—	2,769
Interest rate swap	1,155	1,155	—	1,155	—
Interest rate cap	163	163	—	163	—
Accrued interest receivable	3,618	3,618	—	893	2,725
Financial liabilities:					
Deposits	$ 1,091,568	$ 1,104,641	$ —	$ 1,104,641	$ —
Repurchase agreements	29,561	29,561	—	29,561	—
FHLB and other borrowings	146,267	146,273	—	146,273	—
Interest rate swap	1,155	1,155	—	1,155	—
Forward sales commitments	662	662	—	662	—
Accrued interest payable	600	600	—	600	—
Subordinated debt	33,524	32,172	—	32,172	—
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	1,583	1,583	—	—	1,583
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	—
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 7 – Stock Offerings

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

On September 8, 2011 MVB received $8.5 million in Small Business Lending Fund (SBLF) capital. The Company 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. Through March 8, 2016, the company's loan production qualified for the lowest dividend rate possible of 1%. Beginning March 9, 2016, the dividend rate increased to 9%.and will remain as such until the SBLF is retired

Note 8 – Net Income Per Common Share

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

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(Dollars in thousands except shares and per share data)	For the three months ended March 31, 2016	2015
Numerator for basic earnings per share:		
Net Income	$ 1,796	$ 2,103
Less: Dividends on preferred stock	186	142
Net income available to common shareholders - basic	$ 1,610	$ 1,961
Numerator for diluted earnings per share:		
Net income available to common shareholders	$ 1,610	$ 1,961
Add: Interest on convertible subordinated debt (tax effected)	342	—
Net income available to common shareholders - diluted	$ 1,952	$ 1,961
Denominator:		
Total average shares outstanding	8,061,998	7,983,285
Effect of dilutive convertible subordinated debt	1,837,500	—
Effect of dilutive stock options	1,752	151,773
Total diluted average shares outstanding	9,901,250	8,135,058
Earnings Per Share - Basic	$ 0.20	$ 0.25
Earnings Per Share - Diluted	$ 0.20	$ 0.24

Note 9 – Segment Reporting

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

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Information about the reportable segments and reconciliation to the consolidated financial statements for the three month periods ended March 31, 2016 and 2015 are as follows:

Three months ended March 31, 2016 (in thousands)	Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Insurance	Intercompany Eliminations	Consolidated
Revenues:						
Interest income	$ 12,462	$ 941	$ 1	$ —	$ (22)	$ 13,382
Mortgage fee income	(22)	7,108	—	—	(301)	6,785
Insurance and investment services income	53	—	—	1,064	—	1,117
Other income	1,072	679	1,613	—	(1,590)	1,774
Total operating income	13,565	8,728	1,614	1,064	(1,913)	23,058
Expenses:						
Interest expense	2,040	419	552	—	(324)	2,687
Provision for loan losses	625	—	—	—	—	625
Salaries and employee benefits	2,831	5,711	1,766	952	—	11,260
Other expense	4,473	1,944	764	282	(1,589)	5,874
Total operating expenses	9,969	8,074	3,082	1,234	(1,913)	20,446
Income (loss) before income taxes	3,596	654	(1,468)	(170)	—	2,612
Income tax expense (benefit)	1,137	258	(515)	(64)	—	816
Net income (loss)	2,459	396	(953)	(106)	—	1,796
Preferred stock dividends	—	—	186	—	—	186
Net income (loss) available to common shareholders	$ 2,459	$ 396	$ (1,139)	$ (106)	$ —	$ 1,610
Capital expenditures for the three-month period ended March 31, 2016	$ 549	$ 41	$ 62	$ —	$ —	$ 652
Total assets as of March 31, 2016	1,433,380	126,854	146,896	2,366	(276,856)	1,432,640
Total assets as of December 31, 2015	1,378,988	125,227	151,441	5,017	(276,197)	1,384,476
	1,598	16,882	—	—	—	18,480

Goodwill as of March 31, 2016						
Goodwill as of December 31, 2015	$ 1,598	$ 16,882	$ —	$ —	$ —	$ 18,480

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Three months ended March 31, 2015 (in thousands)	Commercial & Retail Banking	Mortgage Banking	Financial Holding Company	Insurance	Intercompany Eliminations	Consolidated
Revenues:						
Interest income	$ 8,903	$ 830	$ 1	$ —	$ (96)	$ 9,638
Mortgage fee income	(13)	6,551	—	—	(229)	6,309
Insurance and investment services income	71	—	—	1,627	—	1,698
Other income	766	2,688	1,158	—	(1,220)	3,392
Total operating income	9,727	10,069	1,159	1,627	(1,545)	21,037
Expenses:						
Interest expense	1,499	374	543	—	(325)	2,091
Provision for loan losses	659	—	—	—	—	659
Salaries and employee benefits	2,778	5,091	979	886	—	9,734
Other expense	4,128	1,691	436	186	(1,220)	5,221
Total operating expenses	9,064	7,156	1,958	1,072	(1,545)	17,705
Income (loss) before income taxes	663	2,913	(799)	555	—	3,332
Income tax expense (benefit)	167	1,115	(264)	211	—	1,229
Net income (loss)	496	1,798	(535)	344	—	2,103
Preferred stock dividends	—	—	142	—	—	142
Net income (loss) available to common shareholders	$ 496	$ 1,798	$ (677)	$ 344	$ —	$ 1,961
Capital expenditures for the three-month period ended March 31, 2015	$ 318	$ 28	$ 41	7	$ —	$ 394
Total assets as of March 31, 2015	1,204,263	159,904	141,096	4,188	(314,478)	1,194,973
Total assets as of December 31, 2014	1,048,101	101,791	146,137	4,031	(189,601)	1,110,459
Goodwill as of March 31, 2015	897	16,882	—	—	—	17,779
Goodwill as of December 31, 2014	$ 897	$ 16,882	$ —	$ —	$ —	$ 17,779

Commercial & Retail Banking

For the three months ended March 31, 2016, the Commercial & Retail Banking segment earned $2.5 million compared to $496 thousand during the three months ended March 31, 2015. Net interest income increased $3.0 million, mainly the result of average loan balances increasing by $227.0 million. In addition, average interest bearing liabilities increased $220.5 million which led to a $542 thousand increase in interest expense. Noninterest income increased by $278 thousand, largely the result of an increase in gain on sale of securities of $189 thousand and a $162 thousand expense reduction due to the mark to market valuation of the interest rate cap . Noninterest expense increased $399 thousand, largely the result of a $191 thousand increase in other operating expense and a $163 thousand increase in occupancy and equipment. In addition, income tax expense increased $970 thousand due to the increase in earnings.

Mortgage Banking

For the three months ended March 31, 2016, the Mortgage Banking segment earned $396 thousand compared to $1.8 million during the three months ended March 31, 2015. Net interest income increased $66 thousand, noninterest income decreased by $1.5 million and noninterest expense increased by $873 thousand. The $1.4 million earnings decrease is largely due to a $2.0 million decrease in gains related to the mark to market valuation of the interest rate lock commitments driven by a 50% increase in the locked mortgage loan pipeline for the three months ended March 31, 2016 compared to a 92% increase in the locked mortgage pipeline for the three months ended March 31, 2015. In addition, loans held for sale decreased from $125.8 million at March 31, 2015 to $98.9 million at March 31, 2016. Mortgage fee income also increased by $557 thousand. Personnel expense increased by $621 thousand and mortgage processing expense increased by $114 thousand. In addition, income tax expense decreased $858 thousand due to the decrease in earnings.

Financial Holding Company

For the three months ended March 31, 2016, the Financial Holding Company segment lost $953 thousand compared to a loss of $535 thousand during the three months ended March 31, 2015. Interest expense increased $9 thousand,

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noninterest income increased $455 thousand and noninterest expense increased $1.1 million. In addition, the income tax benefit increased $251 thousand. The increase in noninterest income was due a $385 thousand increase in other operating income and a $70 thousand increase in gain on sale of securities. The increase in noninterest expense was largely due to a $787 thousand increase in salaries expense, including a $500 thousand reorganization expense, and a $170 thousand increase in professional fees.

Insurance

For the three months ended March 31, 2016, the Insurance segment lost $106 thousand compared to a $344 thousand profit during the three months ended March 31, 2015. Noninterest income decreased $562 thousand and noninterest expense increased by $162 thousand. Income tax benefit for the first quarter 2016 increased by $275 thousand.

Note 10 – Pension Plan

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

Information pertaining to the activity in the Company's defined benefit plan, using the latest available actuarial valuations for the three months ended March 31, 2016 and 2015 is as follows:

(in thousands)	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Service cost	$ -	$ —
Interest cost	92	79
Expected Return on Plan Assets	(83)	(79)
Amortization of Net Actuarial Loss	59	64
Amortization of Prior Service Cost	—	—
Net Periodic Benefit Cost	$ 68	$ 64

Contributions Paid	$ 40	$ 36

Note 11 – Comprehensive Income

The following tables present the components of accumulated other comprehensive income (“AOCI”) for the three months ended March 31, 2016 and 2015:

(in thousands) Details about AOCI Components	For the three months ended March 31, 2016 Amount Reclassified from AOCI	For the three months ended March 31, 2015 Amount Reclassified from AOCI	Affected line item in the Statement where net income is presented
Available-for-sale securities			
Unrealized holding gains	$ 381	$ 121	Gain on sale of securities
	381	121	Total before tax
	(152)	(49)	Income tax expense
	229	72	Net of tax
Defined benefit pension plan items			
Amortization of net actuarial loss	(59)	(64)	Salaries and benefits
	(59)	(64)	Total before tax
	24	26	Income tax expense
	(35)	(38)	Net of tax
Total reclassifications	$ 194	$ 34	

(in thousands)	Unrealized gains (losses) on available-for-sale securities	Defined benefit pension plan items	Total
Balance at December 31, 2015	$ (363)	$ (2,570)	$ (2,933)
Other comprehensive income (loss) before reclassification, net of tax	1,346	(345)	1,001
Amounts reclassified from AOCI, net of tax	(229)	35	(194)
Net current period OCI	1,117	(310)	807
Balance at March 31, 2016	$ 754	$ (2,880)	$ (2,126)
Balance at December 31, 2014	$ (406)	$ (2,236)	$ (2,642)
Other comprehensive income (loss) before reclassification, net of tax	324	(202)	122
Amounts reclassified from AOCI, net of tax	(72)	38	(34)
Net current period OCI	252	(164)	88

Balance at March 31, 2015	$ (154)	$ (2,400)	$ (2,554)

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

The following present's management's discussion and analysis of our consolidated financial condition at March 31, 2016 and December 31, 2015 and the results of our operations for the three months ended March 31, 2016 and 2015. This discussion should be read in conjunction with our unaudited consolidated financial statements and the notes thereto appearing elsewhere in this report and the audited consolidated financial statements and the notes to consolidated financial statements included in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2015.

FORWARD-LOOKING INFORMATION

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

· statements with respect to the beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operations and performance of MVB Financial Corp. (the "Company") and its subsidiaries (collectively "we," "our," or "us), including MVB Bank, Inc. (the "Bank");

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

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

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

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

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

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

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

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

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

· changes in fiscal, monetary, regulatory, trade and tax policies and laws, and regulatory assessments and fees, including policies of the U.S. Department of Treasury, the Board of Governors of the Federal Reserve Board System, and the FDIC;

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

· the impact of the Dodd-Frank Act and of new international standards known as Basel III, and rules and regulations thereunder, many of which have not yet been promulgated, on our required regulatory capital and liquidity levels, governmental assessments on us, the scope of business activities in which we may engage, the manner in which the Company, the Bank, MVB Mortgage, and MVB Insurance engage in such activities, the fees that the Bank, MVB Mortgage, and MVB Insurance may charge for certain products and services, and other matters affected by the Dodd-Frank Act and these international standards;

- continuing consolidation in the financial services industry; new legal claims against the Company, the Bank, MVB Mortgage, and MVB Insurance, including litigation, arbitration and proceedings brought by governmental or self-regulatory agencies, or changes in existing legal matters;

- success in gaining regulatory approvals, when required, including for proposed mergers or acquisitions;

- changes in consumer spending and savings habits;

- increased competitive challenges and expanding product and pricing pressures among financial institutions;

- inflation and deflation;

- technological changes and the implementation of new technologies by the Company, the Bank, MVB Mortgage, and MVB Insurance;

- the ability of the Company, the Bank, MVB Mortgage, and MVB Insurance to develop and maintain secure and reliable information technology systems;

- legislation or regulatory changes which adversely affect the operations or business of the Company, the Bank, MVB Mortgage, or MVB Insurance;

- the ability of the Company, the Bank, MVB Mortgage, and MVB Insurance to comply with applicable laws and regulations; changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies; and,

- costs of deposit insurance and changes with respect to FDIC insurance coverage levels.

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

SUMMARY OF RESULTS OF OPERATIONS

As of March 31, 2016 and 2015 and for the Three Months Ended March 31, 2016 and 2015:

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	Three months ended March 31, 2016	2015
Net income to:		
Average assets (annualized)	0.53 %	0.75 %
Average stockholders' equity (annualized)	6.23 %	7.67 %
Net interest margin	3.36 %	2.95 %
Average stockholders' equity to average assets	8.43 %	9.84 %
Total loans to total deposits (end of period)	98.54 %	95.96 %
Allowance for loan losses to total loans (end of period)	0.79 %	0.78 %
Efficiency ratio	84.11 %	82.42 %
Bank Capital ratios:		
Tier 1 capital ratio	10.76 %	13.03 %
Risk-based capital ratio	11.48 %	13.73 %
Leverage ratio	9.34 %	11.19 %
Common Equity Tier 1 capital ratio	10.76 %	13.03 %
Cash dividends on common stock as a percentage of net income	8.98 %	N/A
Per share data:		
Book value per share (end of period)	$ 12.39	$ 11.86
Basic earnings per share	$ 0.20	$ 0.25
Diluted earnings per share	$ 0.20	$ 0.24

Introduction

MVB Financial Corp. ("the Company") was formed on May 29, 2003 and became a bank holding company under the laws of West Virginia on January 1, 2004, and, effective December 19, 2012, became a financial holding company. The Company features multiple subsidiaries and affiliated businesses, including MVB Bank, Inc. (the "Bank" or "MVB Bank") and its wholly-owned subsidiary MVB Mortgage and MVB Insurance, LLC ("MVB Insurance").

On December 31, 2013, three Company subsidiaries, MVB-Central, Inc. (a second-tier level holding company), MVB-East, Inc. (a second tier holding company) and Bank Compliance Solutions, Inc. (an inactive subsidiary) were merged into the Company.

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

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

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

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East, Charleston, West Virginia and later replaced during March 2015 by a full service branch at the same location.

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

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

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

In addition to MVB Mortgage, the Company has a wholly-owned subsidiary, MVB Insurance, LLC. MVB Insurance was originally formed in 2000 and reinstated in 2005, as a Bank subsidiary. Effective June 1, 2013, MVB Insurance became a direct subsidiary of the Company. MVB Insurance offers select insurance products such as title insurance, individual insurance, commercial insurance, employee benefits insurance, and professional liability insurance. MVB Insurance maintains its headquarters at 301 Virginia Avenue, Fairmont, West Virginia, and operates offices at: 48 Donley Street, Suite 703, Morgantown, West Virginia, 400 Washington Street East, Charleston, West Virginia; 300 Wharton Circle, Suite 260, Triadelphia, West Virginia; and 1838 Sir Tyler Drive, Wilmington, North Carolina.

The Company's primary business activities, through its subsidiaries, are currently community banking, mortgage banking and insurance services. 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 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 up increased market opportunities in the Washington, D.C. metropolitan region and added enough volume to further diversify the Company's revenue stream.

This discussion and analysis should be read in conjunction with the prior year-end audited consolidated financial statements and footnotes thereto included in the Company's filing on Form 10-K and the unaudited financial statements, ratios, statistics, and discussions contained elsewhere in this Form 10-Q. At March 31, 2016, the Company had 370 full-time equivalent employees. The Company's principal office is located at 301 Virginia Avenue, Fairmont, West Virginia 26554, and its telephone number is (304) 363-4800. The Company's Internet web site is www.mvbbanking.com.

Application of Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates,

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assumptions, and judgments. Application of certain accounting policies inherently requires a greater reliance on the use of estimates, assumptions and judgments and as such, the probability of actual results being materially different from reported estimates is increased. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal forecasting techniques.

The most significant accounting policies followed by the Company are presented in Note 1 to the audited consolidated financial statements included in the Company's 2015 Annual Report on Form 10-K. These policies, along with the disclosures presented in the other financial statement notes and in management's discussion and analysis of operations, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses to be the accounting area that requires the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

The allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of losses inherent in classifications of homogeneous loans based on historical loss experience of peer banks, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. Non-homogeneous loans are specifically evaluated due to the increased risks inherent in those loans. The loan portfolio also represents the largest asset type in the consolidated balance sheet. Note 1 to the consolidated financial statements in MVB's 10-K describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in the Allowance for Loan Losses section of Management's Discussion and Analysis in this quarterly report on Form 10-Q.

Results of Operations

Overview of the Statements of Income

For the three months ended March 31, 2016, the Company earned $1.8 million compared to $2.1 million in the first quarter of 2015. Net interest income increased by $3.1 million, noninterest income decreased by $1.7 million and noninterest expenses increased by $2.2 million. The increase in net interest income was driven mainly by the continued growth of the Company balance sheet, with $240.4 million in average loan growth and despite an increase in average interest bearing liabilities of $230.3 million and an increase in interest expense of $596 thousand. The increase in average interest bearing liabilities generated the increase in interest expense of $596 thousand; $349 thousand of the increase was related to an increase in certificates of deposit, which increased cost of funds on certificates of deposit by 18 basis points.

Loan loss provisions of $625 thousand and $659 thousand were made for the quarters ended March 31, 2016 and 2015, respectively. The decrease in loan loss provision is attributable to decreasing historical loan loss rates within the residential real estate and home equity loan portfolios and lower historical levels of charge-offs. The provision for loan losses, which is a product of management's formal quarterly analysis, is recorded in response to inherent losses in the loan portfolio. The Company charged off $191 thousand in loans during the first quarter of 2016 versus $423 thousand for the same time period in 2015.

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Interest Income and Expense

Net interest income is the amount by which interest income on earning assets exceeds interest expense on interest-bearing liabilities. Interest-earning assets include loans and investment securities. Interest-bearing liabilities include interest-bearing deposits and repurchase agreements, subordinated debt and Federal Home Loan Bank advances. Net interest income is a primary source of revenue for the bank. Changes in market interest rates, as well as changes in the mix and volume of interest-earning assets and interest-bearing liabilities impact net interest income. Net interest margin is calculated by dividing net interest income by average interest-earning assets. This ratio serves as a performance measurement of the net interest revenue stream generated by the Company’s balance sheet.

The net interest margin for the three months ended March 31, 2016 and 2015 was 3.36% and 2.95% respectively. The 41 basis point increase in the net interest margin for the quarter ended March 31, 2016 was the result of a 44 basis point increase in yield, largely the result of a 57 basis point increase in yield on commercial loans and a 43 basis point increase in yield on consumer loans. The increase in yield on commercial loans was primarily the result of the recovery of non-accrual interest on one commercial lending relationship which contributed $662 thousand to commercial loan interest income for the quarter ended March 31, 2016, representing 37 basis points of the increase in commercial loan yield for the quarter. Cost of funds for the three months ended March 31, 2016 versus 2015 increased by 3 basis points. The cost of funds increase was mainly the result of a 20 basis point increase in FHLB and other borrowings, an 18 basis point increase in certificates of deposit and a 9 basis point increase in money market checking and offset by a 6 basis point decrease in NOW and a 5 basis point decrease in savings. The continued low rate environment and increasing competition for quality credit continues to apply pressure upon the Company’s loan portfolio yield. The Company was able to grow average loan balances by $240.4 million and average deposit balances by $237.9 million, resulting in an increase in net interest income of $3.1 million. Additionally, investment securities average balance increased by $5.6 million through the purchase of available-for-sale securities, and the resulting securities earned higher rates in the loan portfolio. An increase in the Company’s average non-interest bearing balances of $14.6 million helped to sustain a 9 basis point favorable spread on net interest margin.

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

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Average Balances and Interest Rates

(Unaudited)(Dollars in thousands)

	Three Months Ended March 31, 2016			Three Months Ended March 31, 2015		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
Assets						
Interest-bearing deposits in banks	$ 18,633	$ 26	0.56 %	$ 15,789	$ 10	0.25 %
CDs with other banks	13,150	62	1.89	11,789	54	1.83
Investment securities:						
Taxable	67,965	310	1.82	54,300	239	1.76
Tax-exempt	57,237	408	2.85	65,352	388	2.37
Loans and loans held for sale: (1)						
Commercial	712,263	8,388	4.71	551,186	5,707	4.14
Tax exempt	16,811	145	3.45	20,851	183	3.51
Real estate	370,321	3,835	4.14	287,989	2,879	4.00
Consumer	18,309	208	4.54	17,313	178	4.11
Total loans	1,117,704	12,576	4.50	877,339	8,947	4.08
Total earning assets	1,274,689	13,382	4.20	1,024,569	9,638	3.76
Less: Allowance for loan losses	(8,244)			(6,616)		
Cash and due from banks	15,651			14,781		
Other assets	86,149			82,840		
Total assets	$ 1,368,245			$ 1,115,574		
Liabilities						
Deposits:						
NOW	$ 480,016	$ 687	0.57 %	$ 415,003	$ 649	0.63 %
Money market checking	110,994	194	0.70	52,973	81	0.61
Savings	44,864	27	0.24	36,739	27	0.29
IRAs	15,676	50	1.28	9,841	29	1.18
CDs	330,204	930	1.13	243,872	581	0.95
Repurchase agreements and federal funds sold	28,464	21	0.30	29,981	24	0.32
FHLB and other borrowings	114,089	226	0.79	105,645	157	0.59
Subordinated debt	33,524	552	6.59	33,524	543	6.48
Total interest-bearing liabilities	1,157,831	2,687	0.93	927,578	2,091	0.90
Noninterest bearing demand deposits	86,223			71,616		
Other liabilities	8,846			6,625		
Total liabilities	1,252,900			1,005,819		
Stockholders’ equity						

Preferred stock		16,334					16,334				
Common stock		8,111					8,034				
Paid-in capital		74,275					74,383				
Treasury stock		(1,084)					(1,084)				
Retained earnings		20,425					14,729				
Accumulated other comprehensive income		(2,716)					(2,641)				
Total stockholders' equity		115,345					109,755				
Total liabilities and stockholders' equity	$	1,368,245				$	1,115,574				
Net interest spread				3.27						2.86	
Net interest income-margin			$ 10,695	3.36	%				$ 7,547	2.95	%

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

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Non-Interest Income

Mortgage fee income, insurance and investment services income and gain on derivatives generate the core of the Company's noninterest income. Also, gain on sale of portfolio loans continue to be part of the core of the Bank's noninterest income. In addition, beginning in the third quarter of 2015, the Bank began entering into swap loan agreements. These swap loan agreements allow the bank to offer customers fixed rate loans and the bank to "swap" the interest rate on the loans with a third party at a floating rate. This helps the Bank lower its exposure by improving the interest rate risk position and also produces current period non-interest income.

For the three months ended March 31, 2016, noninterest income totaled $9.7 million compared to $11.4 million for the same time period in 2015. The $1.7 million decrease in noninterest income was mainly the result of a decrease in gain on derivatives of $1.8 million and a $581 thousand decrease in insurance and investment services income. The decrease in gain on derivatives was largely the result of a 50% increase in the locked mortgage loan pipeline for the three months ended March 31, 2016 compared to a 92% increase in the locked mortgage pipeline for the three months ended March 31, 2015. In addition, loans held for sale decreased from $125.8 million at March 31, 2015 to $98.9 million at March 31, 2016. The decrease in insurance and investment services income was largely the result of a decrease in agency and contingency income. In addition, mortgage fee income increased $476 thousand, gain on sale of securities increased $260 thousand and insurance and investment services income decreased $581 thousand. The increase in mortgage fee income was due to a $29.2 million or 10.2% increase in loan sale volume combined with a flat gain on sale margin. The gain on sale of securities increase was the result of selling $9.7 million more securities during the three month period ended March 31, 2016 versus the same time period in 2015.

Non-Interest Expense

The Company had 370 full-time equivalent personnel at March 31, 2016, as noted, compared to 324 full-time equivalent personnel as of March 31, 2015. Company and Bank management will continue to strive to find new ways of increasing efficiencies and leveraging its resources, while effectively optimizing customer service.

Salaries and employee benefits, occupancy and equipment, data processing and communications, mortgage processing and professional fees generate the core of the Company's noninterest expense. The Company's efficiency ratio was 84.11% for the first quarter of 2016 compared to 82.42% for the first quarter of 2015. This ratio measures the efficiency of noninterest expenses incurred in relationship to net interest income plus noninterest income. The increased efficiency ratio is the result of noninterest expense outpacing the growth in net interest income and noninterest income.

For the three months ended March 31, 2016, noninterest expense totaled $17.1 million compared to $15.0 million for the same time period in 2015. The $2.1 million increase in noninterest expense was mainly the result of the following:

Salaries and employee benefits expense increased $1.5 million, this increase related to: the addition of new bank and mortgage offices, increased incentives and commissions related to goal attainment and production, additional staffing related to organic growth and raises for existing staff.

Occupancy and equipment expense increased $226 thousand. This increase was mainly the result of the opening of multiple new bank and mortgage office locations.

Data processing and communication costs increased $239 thousand. This increase was largely driven by overall growth in terms of client base, personnel and office space, and the usage of new and enhanced products, services and providers to better serve the client base.

Mortgage processing costs increased $115 thousand. This increase was primarily the result of increase mortgage loan volume.

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Return on Average Assets and Average Equity (Annualized)

Returns on average assets (ROA) and average equity (ROE) annualized were .53% and 6.23% for the first quarter of 2016 compared to .75% and 7.67% in the first quarter of 2015. The .22% decrease in ROA is due to decreased earnings of $307 thousand and a $252.7 million increase in average assets for the first quarter of 2016 compared to the first quarter of 2015. The increase in average assets was primarily due to an increase in net loans due to continued loan growth. The 1.44% decrease in ROE is also due to decreased earnings of $307 thousand and a $5.6 million increase in average equity for the first quarter of 2016 compared to the first quarter of 2015. The increase in average equity was mainly due to increased earnings.

Overview of the Statement of Condition

The Company’s interest-earning assets, interest-bearing liabilities, and stockholders’ equity changed significantly during the first quarter of 2016 compared to the quarter ended March 31, 2015. The most significant areas of change between the quarters ended March 31, 2016 and March 31, 2015 were as follows: total loans increased to an average balance of $1.1 billion from $877.3 million, investment securities increased $5.6 million to an average of $125.2 million, interest-bearing liabilities grew to an average balance of $1.2 billion from $927.6 million and stockholders’ equity grew $5.6 million to an average of $115.3 million. These trends reflect the continued growth of the Company and its subsidiaries in the loan, deposit and capital areas.

Total assets at March 31, 2016 were $1.4 billion or an increase of $48.2 million since December 31, 2015. The greatest area of increase was a $43.0 million increase in net loan growth.

Deposits totaled $1.1 billion at March 31, 2016 or an increase of $79.3 million since December 31, 2015, mainly the result of an increase in savings, NOW and time deposits.

Stockholders’ equity has increased approximately $2.4 million from December 31, 2015 largely due to earnings for the three months ended March 31, 2016 of $1.8 million. In addition, unrealized gains on available-for-sale securities increased $1.1 million, in part due to the reclassification of all held-to-maturity investments into available-for-sale investments. Also, pension liability was reduced by $310 thousand.

Cash and Cash Equivalents

Cash and cash equivalents totaled $28.7 million as of March 31, 2016 compared to $29.1 million as of December 31, 2015.

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

Investment Securities

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

Investment securities totaled $134.8 million as of March 31, 2016 and $123.1 million as of December 31, 2015. As of March 31, 2016, the investment portfolio is comprised of the following mix of securities:

· 45.4% of municipal securities

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- 25.6% - U.S. Agency securities
- 24.7% - U.S. Sponsored Mortgage-backed securities
- 4.3% - Equity and other securities

The Company and Bank management monitor the earnings performance and liquidity of the investment portfolio on a regular basis through Asset/Liability Committee meetings. The group also monitors net interest income and pricing guidelines, and manages interest rate risk for the bank. Through active balance sheet management and analysis of the investment securities portfolio, the bank maintains sufficient liquidity to satisfy depositor requirements and the various credit needs of its customers. The Company and Bank management believes the risk characteristics inherent in the investment portfolio are acceptable based on these parameters.

Loans

The Company’s loan portfolio totaled $1.1 billion as of March 31, 2016 and $1.0 billion as of December 31, 2015. The Bank’s lending is primarily focused in the Marion, Harrison, Jefferson, Berkeley, Monongalia, and Kanawha counties of West Virginia, as well as the northern Virginia area for the mortgage and commercial lending business. Its extended market is in the adjacent counties. The portfolio consists principally of commercial lending, retail lending, which includes single-family residential mortgages, and consumer lending. The growth in loans is primarily attributable to organic growth within the Bank’s primary lending areas and northern Virginia in addition to loans acquired in the two branch acquisition as discussed in Note 12.

Loan Concentration

At March 31, 2016 and December 31, 2015, $753.8 million, or 70.1% and $729.3 million, or 70.7%, respectively, of our loan portfolio consisted of nonresidential real estate loans. A significant portion of the nonresidential real estate loan portfolio is secured by commercial real estate. The majority of nonresidential real estate loans that are not secured by real estate are lines of credit secured by accounts receivable and equipment and obligations of states and political subdivisions. While the loan concentration is in nonresidential real estate loans, the nonresidential real estate portfolio is comprised of loans to many different borrowers, in numerous different industries but primarily located in our market areas.

Allowance for Loan Losses

The allowance for loan losses was $8.4 million or 0.79% of total loans at March 31, 2016 compared to $8.0 million or 0.78% of total loans at December 31, 2015. The Bank management continually monitors the loan portfolio through review of the monthly delinquency reports and through the Bank Loan Review Committee. The Bank Loan Review Committee is responsible for the determination of the adequacy of the allowance for loan losses. Their analysis involves both experience of the portfolio to date and the makeup of the overall portfolio. Specific loss estimates are derived for individual loans based on specific criteria such as current delinquency status, related deposit account activity, where applicable, local market rumors, which are generally based on some factual information, and changes in the local and national economy. While local market rumors are not measurable or perhaps not readily supportable, historically, this form of information can be an indication of a potential problem. The allowance for loan losses is further based upon the internal risk rating assigned to the various loan types within the portfolio.

Capital Resources

The Company considers a number of alternatives, including but not limited to deposits, short-term borrowings and long-term borrowings when evaluating funding sources. Traditional deposits continue to be the most significant source of funds for the bank, reaching $1.1 billion at March 31, 2016.

Non-interest bearing deposits remain a core funding source for the Bank and, thus, the Company. At March 31, 2016, non-interest bearing deposits totaled $86.6 million compared to $80.4 million at December 31, 2015. The Company and

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Bank management intend to continue to focus on finding ways to increase the base of non-interest bearing funding sources of the Bank and other Company subsidiaries.

Interest-bearing deposits totaled $1.0 billion at March 31, 2016 compared to $931.9 million at December 31, 2015. Average interest-bearing liabilities totaled $1.2 billion during the first quarter of 2016 compared to $927.6 million for the first quarter of 2015. This $230.3 million increase is the result of the following: $86.3 million increase in CDs, $65.0 million increase in NOW, $58.0 million increase in MMDA and $8.4 million increase in FHLB and other borrowings. Average non-interest bearing demand deposits totaled $86.2 million for the first quarter of 2016 compared to $71.6 million for the first quarter of 2015. Management will continue to emphasize deposit gathering in 2016 by offering outstanding customer service and competitively priced products. The Company and Bank management will also concentrate on balancing deposit growth with adequate net interest margin to meet the Company's strategic goals.

Along with traditional deposits, the Bank has access to both repurchase agreements, which are corporate deposits secured by pledging securities from the investment portfolio, and Federal Home Loan Bank borrowings to fund its operations and investments. At March 31, 2016, repurchase agreements totaled $29.6 million compared to $27.4 million at December 31, 2015. In addition to the aforementioned funds alternatives, the Bank has access to more than $211.5 million through additional advances from the Federal Home Loan Bank of Pittsburgh and the ability to readily sell jumbo certificates of deposits to other banks as well as brokered deposit markets.

Liquidity

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

The main source of liquidity for the Bank comes through deposit growth. Liquidity is also provided from cash generated from investment maturities, principal payments from loans, and income from loans and investment securities. During the three months ended March 31, 2016, cash provided by financing activities totaled $44.1 million, while outflows from investing activity totaled $52.4 million. When appropriate, the Bank has the ability to take advantage of external sources of funds such as advances from the Federal Home Loan Bank (FHLB), national market certificate of deposit issuance programs, the Federal Reserve discount window, brokered deposits and CDARS. These external sources often provide attractive interest rates and flexible maturity dates that enable the Bank to match funding with contractual maturity dates of assets. Securities in the investment portfolio are primarily classified as available-for-sale and can be utilized as an additional source of liquidity.

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

Current Economic Conditions

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

The current economic climate in the Company's primary market areas reflect economic climates that are generally less favorable than the general national climate. Unemployment in the United States was 5.1% and 5.6% in March 2016 and 2015, respectively. The unemployment levels in the Company's primary market areas were as follows for the periods indicated:

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	February 2016	February 2015
Berkeley County, WV	5.2 %	5.9 %
Harrison County, WV	7.8 %	6.8 %
Jefferson County, WV	4.4 %	5.0 %
Marion County, WV	8.1 %	6.9 %
Monongalia County, WV	5.3 %	5.0 %
Kanawha County, WV	6.7 %	6.9 %
Fairfax County, VA	3.2 %	3.9 %

Nonperforming loans to total loans were 0.77% in March of 2016 versus 1.07% in March of 2015 and charge offs to total loans were 0.02% and 0.05% for each period respectively. The Company and the Bank continue to closely monitor economic and delinquency trends.

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

The energy industry, consisting of coal and natural gas, which has been negatively impacted by the decline in energy commodity prices, are elements of the West Virginia economy and numerous markets in which the Company operates. The Company has limited exposure in both the coal and natural gas industry. As of March 31, 2016 and December 31, 2015, the outstanding loan balances to coal and natural gas production clients was $7.1 million and $7.3 million, respectively.

Capital/Stockholders' Equity

The Company and the Bank have financed operations and growth over the years through the sale of equity. These equity sales have resulted in an effective source of capital.

At March 31, 2016, accumulated other comprehensive loss totaled $2.1 million compared to $2.9 million at December 31, 2015. This change is primarily the result in the rise of the change in the value of the unrealized loss on available for sale securities in large part due to the reclassification of all held-to-maturity investments into available-for-sale investments

Treasury stock shares totaled 51,077 shares.

The Board of Directors of the Company approved a transition from a semi-annual dividend to a quarterly dividend on August 18, 2015 and declared its first quarterly cash dividend to shareholders of record at the close of business on September 1, 2015, payable September 15, 2015.

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

Capital Requirements

The Bank's total risk based capital ratio declined from 12.19% at December 31, 2015 to 11.48% at March 31, 2016. The decline in this ratio was largely due to the classification of $84.8 million of additional acquisition and development commercial loans as High Volatility Commercial Real Estate loans ("HVCRE"). The vast majority of the loans reclassified were due to the fact that the loan agreements did not contractually require the clients to maintain 15% cash equity in the transactions. MVB is currently working to make changes to several of these loan agreements which will

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allow the bank to revise the classification of a portion of these HVCRE 150% risk weighted loans to the commercial loan 100% risk weighted asset classification.

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

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

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

· 4.5% CET1 to risk-weighted assets;

· 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;

· 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and

· 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

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

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

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

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

Prompt Corrective Action

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

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

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

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

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

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

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

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

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Consolidated Financial Statements included in Item 8 of the Company’s 2015 Form 10-K.

Commitments and Contingent Liabilities

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

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

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

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

Concentration of Credit Risk

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

Regulatory

The Company is required to maintain certain reserve balances on hand in accordance with the Federal Reserve Board requirements. The average balance maintained in accordance with such requirements was $12.5 million and $17.0 million on March 31, 2016 and December 31, 2015, respectively.

Contingent Liability

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

Off-Balance Sheet Commitments

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

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

Market Risk

There have been no material changes in market risks faced by the Company since December 31, 2015. For information regarding the Company's market risk, refer to the Company's Annual Report to Shareholders for the year ended December 31, 2015.

Effects of Inflation on Financial Statements

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

Future Outlook

The Company's results of operations in the first quarter of 2016 decreased slightly compared to the first quarter of 2015 mainly due to a decrease in gain on derivatives, a decrease in insurance and investment services income and an increase in noninterest expense. The Company has invested in the infrastructure to support envisioned future growth in each key area, including personnel, technology and processes to meet the growing compliance requirements in the industry. Commercial and retail loan production remains strong and mortgage and insurance have added staff and locations to ramp up production and improve profitability. The Company believes it is well positioned in some of the finest markets in the states of West Virginia and Virginia and will focus on doing the things that have made it successful thus far through the following: margin improvement; leveraging capital; organic portfolio loan growth; and operating efficiency. The critical challenge for the Company in the future is to attract core deposits to fund growth in the new markets through continued delivery of the most outstanding customer service with the highest quality products and technology.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Sensitivity Management

The Company uses a simulation model to analyze, manage and formulate operating strategies that address net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a twenty-four month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities. The model incorporates certain assumptions which management believes to be reasonable regarding the impact of changing interest rates and the prepayment assumption of certain assets and liabilities as of December 31, 2015. The model assumes changes in interest rates without any management intervention to change the composition of the balance sheet. According to the model run for the period ended December 31, 2015, over a twelve month period an immediate 100 basis point increase in interest rates would result in an increase in net interest income by 1.5%. An immediate 200 basis points increase in interest rates would result in an increase in net interest income by 3.8%. A 100 basis points decrease in interest rates would result in a decrease in net interest income of 2.0%. While management carefully monitors the exposure to changes in interest rates and takes actions as warranted to decrease any adverse impact, there can be no assurance about the actual effect of interest rate changes on net interest income.

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

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

Item 4. Controls and Procedures

The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer, along with the Company's Chief Financial Officer (the Principal Financial Officer), has evaluated the effectiveness as of March 31, 2016, of the design and operation of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, the Company's Chief Executive Officer, along with the Company's Principal Accounting Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2016.

There have been no material changes in the Company's internal control over financial reporting during the first quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Our operations are subject to many risks that could adversely affect our future financial condition and performance and, therefore, the market value of our securities, including the risk factors that are described in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2015. There have been no material changes in our risk factors from those disclosed.

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

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

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

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed herewith.

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

SIGNATURES

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

Date: May 5, 2016

MVB Financial Corp.

By: /s/ Larry F. Mazza
Larry F. Mazza
President, CEO and Director

(Principal Executive Officer)

By: /s/ Donald T. Robinson
Donald T. Robinson
Executive Vice President & CFO

(Principal Financial and Accounting Officer)