MVB FINANCIAL CORP
Form 10KSB
March 27, 2006
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

x ANNUAL REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005

¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ To ______

Commission file Number 34603-9

MVB Financial Corp.

(Name of small business issuer in its charter)

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

Issuer s telephone number (304) 363-4800

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
None	

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $1.00 Par

(Title of Class)

Preferred Stock $1,000.00 Par

(Title of Class)

Check whether the issuer (1) filed all reports required to be filed under Section 13 or 15(d) of the Exchange Act during the past 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 ¨.

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x.

State issuer s revenues for its most recent fiscal year $7,527,000

Based upon the average selling price of sales known to the Issuer of the common shares of the Issuer during the period from December 31, 2005 through March 27, 2006, the aggregate market value of the common shares of the Issuer held by non affiliates during that time was $9,424,352. For this purpose certain executive officers and directors are considered affiliates.

As of March 22, 2006, the Issuer had 1,352,692 shares of common stock outstanding with a par value of $1.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of MVB s definitive Proxy Statement relating to the Annual Meeting to be held May 16, 2006 are incorporated by reference into Part III of this Annual Report on Form 10-KSB.

Transitional Small Business Disclosure Format (Check one): Yes ¨; No x

Table of Contents

TABLE OF CONTENTS

		Page
PART I		
Item 1.	Description of Business	4
Item 2.	Description of Property	10
Item 3.	Legal Proceedings	10
Item 4.	Submission of Matters to a Vote of Security Holders	10
PART II		
Item 5.	Market for Equity and Related Stockholder Matters	10
Item 6.	Management s Discussion and Analysis	11
Item 7.	Financial Statements	28
Item 8.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	49
Item 8A.	Controls and Procedures	49
Item 8B.	Other Information	49
PART III		
Item 9.	Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act	50
Item 10.	Executive Compensation	50
Item 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	50
Item 12.	Certain Relationships and Related Transactions	50
Item 13.	Exhibits.	50
Item 14.	Principal Accountant Fees and Services	50

Table of Contents

PART I

ITEM 1. DESCRIPTION OF BUSINESS

MVB Financial Corp., or MVB, was formed on January 1, 2004 as a bank holding company. MVB Bank, Inc., or the Bank, was formed on October 30, 1997 and chartered under the laws of the state of West Virginia. The Bank commenced operations on January 4, 1999. During the fourth quarter of 2004, MVB formed two second-tier holding companies MVB Marion, Inc. and MVB Harrison, Inc. to manage the banking operations of MVB, the sole bank subsidiary, in those markets. In August of 2005, MVB opened a full service office in neighboring Harrison County. During October of 2005 MVB purchased a branch office in Jefferson County, situated in West Virginia s eastern panhandle. This full service office held assets of $1.8 million and deposits of $17.1 million at the time of purchase.

MVB operates four offices, two of which are located in Marion County, the main office located at 301 Virginia Avenue in Fairmont and a branch office at 2500 Fairmont Avenue inside the Shop N Save Supermarket in White Hall, WV. The remaining offices are located at 1000 Johnson Avenue in the Bridgeport area of Harrison County and 88 Somerset Boulevard in the Charles Town area of Jefferson County. At December 31, 2005, MVB had total assets of $151.3 million, total loans of $105.2 million, total deposits of $114.0 million and total stockholders equity of $18.5 million.

MVB s business activities are currently confined to a single segment which is community banking. As a community banking entity, MVB 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. MVB also offers travelers checks and official checks. Services are provided through our walk-in offices, automated teller machines (ATMs), drive-in facilities, and internet and telephone banking. Additionally, MVB offers non-deposit investment products through an association with a broker-dealer.

Since the opening date of January 4, 1999, MVB has experienced significant growth in assets, loans, and deposits due to overwhelming community and customer support in the Marion county market. During 2005, MVB began to focus on growth outside of the Marion County area as the primary method for reaching performance goals. During 2005 growth has been primarily the result of the opening of the Harrison County location, and the acquisition of the Jefferson County office. MVB continuously reviews key performance indicators to measure our success.

At December 31, 2005, MVB had 61 full-time and 8 part-time employees. MVB s principal office is located at 301 Virginia Avenue, Fairmont, West Virginia 26554, and its telephone number is (304) 363-4800. MVB s Internet web site is www.mvbbanking.com.

Market Area

MVB s primary market areas are the Marion, Harrison and Jefferson Counties of West Virginia, which includes a total of 63 banking facilities. Its extended market is the adjacent counties of Monongalia, Taylor and Berkeley Counties, West Virginia. MVB operates facilities in Marion County located on the south side of Third Street at Virginia Avenue in Fairmont, West Virginia, and inside the Shop N Save supermarket in the growing eastern section of White Hall. Other offices are located in the thriving Bridgeport area of Harrison County and the rapidly growing Jefferson County area in West Virginia s eastern panhandle.

United States Census Bureau data indicates that the Fairmont and Marion County, West Virginia populations have had somewhat different trends from 1980 to 2000. The population of Fairmont has fluctuated from 23,863 in 1980; 20,210 in 1990 and 21,678 in 2000, or a net decline of 2,185 or 9.2%. Marion County increased its population from

Table of Contents

1980 to 1990, 55,789 to 57,249, and decreased to 56,598 in 2000. These changes resulted in a net increase of 1.45%. The Marion County population includes that of Fairmont. The result is that over the last 20 years, there has not been any significant change in population. Harrison County s population has decreased from 69,371 in 1990 to 68,652 in 2000, while Bridgeport s population has increased from 7,306 in 2000 to an estimated 12,537 in 2005, indicating that while population change in Harrison County has been relatively flat, the Bridgeport area is growing. The population in Jefferson County has been on the rise in recent years, increasing from 42,190 in 2000 to 46,270 in 2003. During this period, Charles Town has seen an increase in population of 17.2%.

Unemployment in Marion County has improved compared to that of the State of West Virginia from November 1995 through December 2005. As of December 2005, the overall state rate was 4.2% compared to 3.6% for Marion County. During this same period of time, the Marion County Unemployment Rate has decreased from 8.9% to 3.6%, while the West Virginia rate declined from 7.5% to 4.2%. At December 31, 2005, Harrison and Jefferson counties showed unemployment rates of 4.1% and 2.3%, respectively. Jefferson County s unemployment rate is much better than the state average, Marion County s rate is better than the state average, and Harrison County s rate is about that of the state average. The future direction of unemployment will probably be driven by what occurs economically on a National level.

MVB 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, MVB retains most of its originated loans (exclusive of certain long-term, fixed rate residential mortgages that are sold servicing released). However, loans originated in excess of MVB s legal lending limit are participated to other banking institutions and the servicing of those loans is retained by MVB. MVB has no loans to foreign entities. MVB s lending market area is primarily concentrated in the Marion and Harrison Counties of West Virginia.

Commercial Loans

At December 31, 2005, MVB had outstanding approximately $58.8 million in commercial loans, including commercial, commercial real estate, financial and agricultural loans. These loans represented approximately 56% of the total aggregate loan portfolio as of that date.

Lending Practices. Commercial lending entails significant additional risks as compared with single-family residential mortgage lending, and consumer lending. In addition, the payment experience on commercial loans typically depends on adequate cash flow of a business and thus may be subject, to a greater extent, to adverse conditions in the general economy or in a specific industry. Loan terms include amortization schedules commensurate with the purpose of each loan, the source of repayment and the risk involved. The primary analysis technique used in determining whether to grant a commercial loan is the review of a schedule of estimated cash flows to evaluate whether anticipated future cash flows will be adequate to service both interest and principal due. In addition, MVB reviews collateral to determine its value in relation to the loan in the event of a foreclosure.

MVB periodically evaluates all new commercial loans greater than $100,000 and on an annual basis, all loans greater than $200,000. If deterioration in credit worthiness has occurred, MVB takes effective and prompt action designed to assure repayment of the loan. Upon detection of the reduced ability of a borrower to meet original cash flow obligations, the loan is considered an impaired loan and reviewed for possible downgrading or placement on non-accrual status.

Consumer Loans

At December 31, 2005, MVB had outstanding consumer loans in an aggregate amount of approximately $17.9 million or approximately 17% of the aggregate total loan portfolio.

Lending Practices. Consumer loans generally involve more risk as to collectibility than mortgage loans because of the type and nature of the collateral and, in certain instances, the absence of collateral. As a result, consumer lending collections are dependent upon the borrower s continued financial stability, and thus are more likely to be adversely affected by employment loss, personal bankruptcy, or adverse economic conditions. Credit approval for consumer loans requires demonstration of sufficiency of income to repay principal and interest due, stability of employment, a positive credit record and sufficient collateral for secured loans. It is the policy of MVB to review its consumer loan portfolio monthly and to charge off loans that do not meet its standards and to adhere strictly to all laws and regulations governing consumer lending. The loan committees are responsible for monitoring performance in this area and for advising and updating loan personnel.

MVB offers credit life insurance and health and accident insurance to all qualified borrowers, thus reducing risk of loss when a borrower s income is terminated or interrupted.

Real Estate Loans

At December 31, 2004, MVB had approximately $28.5 million of residential real estate loans, home equity lines of credit, and construction mortgages outstanding, representing 27% of total loans outstanding.

Lending Practices.

Residential Real Estate Loans. MVB generally requires that the residential real estate loan amount be no more than 80% of the purchase price or the appraised value of the real estate securing the loan, unless the borrower obtains private mortgage insurance for the percentage exceeding 80%. Occasionally, MVB may lend up to 100% of the appraised value of the real estate. The risk conditions of these loans are considered during underwriting for the purposes of establishing an interest rate compatible with the risks inherent in mortgage lending and based on the equity of the home. Loans made in this lending category are generally one to five year adjustable rate, fully amortizing mortgages. MVB also originates fixed rate real estate loans and generally sells these loans in the secondary market, servicing released. All real estate loans are secured by first mortgages with evidence of title in favor of MVB in the form of an attorney s opinion of the title or a title insurance policy. MVB also requires proof of hazard insurance with MVB named as the mortgagee and as the loss payee. Generally appraisals are obtained from licensed appraisers for all loans.

Home Equity Loans. Home equity lines of credit are generally made as second mortgages by MVB. The maximum amount of a home equity line of credit is generally limited to 80% of the appraised value of the property less the balance of the first mortgage. MVB will lend up to 100% of the appraised value of the property at higher interest rates which are considered compatible with the additional risk assumed in these types of loans. The home equity lines of credit are written with 10 year terms, but are subject to review upon request for renewal.

Construction Loans. Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property s value at completion of construction and the estimated cost (including interest) of construction. If the estimate of construction cost proves to be inaccurate, MVB may advance funds beyond the amount originally committed to permit completion of the project.

Competition

MVB experiences significant competition in attracting depositors and borrowers. Competition in lending activities comes principally from other commercial banks, savings associations, insurance companies, governmental agencies, credit unions, brokerage firms and pension funds. The primary factors in competing for loans are interest rate and

overall lending services. Competition for deposits comes from other commercial banks, savings associations, money market funds and credit unions as well as from insurance companies and brokerage firms. The primary factors in competing for deposits are interest rates paid on deposits, account liquidity, convenience of office location, and overall financial condition. MVB believes that its community approach provides flexibility, which enables the bank to offer an array of banking products and services.

MVB operates under a needs-based selling approach that management believes has proven successful in serving the financial needs of most customers. It is not MVB s strategy to compete solely on the basis of interest rate. Management believes that a focus on customer relationships and service will promote our customers continued use of MVB s financial products and services and will lead to enhanced revenue opportunities.

Supervision and Regulation

The following is a summary of certain statutes and regulations affecting MVB and its subsidiaries and is qualified in its entirety by reference to such statutes and regulations:

Bank Holding Company Regulation. MVB is a bank holding company under the Bank Holding Company Act of 1956, which restricts the activities of MVB and any acquisition by MVB of voting stock or assets of any bank, savings association or other company. MVB is also subject to the reporting requirements of, and examination and regulation by, the Federal Reserve Bank. MVB s subsidiary bank, MVB Bank, Inc., is subject to restrictions imposed by the Federal Reserve Act on transactions with affiliates, including any loans or extensions of credit to MVB or its subsidiaries, investments in the stock or other securities thereof and the taking of such stock or securities as collateral for loans to any borrower; the issuance of guarantees, acceptances or letters of credit on behalf of MVB and its subsidiaries; purchases or sales of securities or other assets; and the payment of money or furnishing of services to MVB and other subsidiaries. MVB is prohibited from acquiring direct or indirect control of more than 5% of any class of voting stock or substantially all of the assets of any bank holding company without the prior approval of the Federal Reserve Board. MVB and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with extensions of credit and/or the provision of other property or services to a customer by MVB or its subsidiaries.

On July 30, 2002, the Senate and the House of Representatives of the United States (Congress) enacted the Sarbanes-Oxley Act of 2002, a law that addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. The New York Stock Exchange proposed corporate governance rules that were enacted by the Securities and Exchange Commission. The changes are intended to allow stockholders to more easily and efficiently monitor the performance of companies and directors.

Effective August 29, 2002, as directed by Section 302(a) of Sarbanes-Oxley, MVB s chief executive officer and chief financial officer are each required to certify that MVB s Quarterly and Annual Reports do not contain any untrue statement of a material fact. The rules have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of MVB s internal controls; they have made certain disclosures to MVB s auditors and the audit committee of the Board of Directors about MVB s internal controls; and they have included information in MVB s Quarterly and Annual Reports about their evaluation and whether there have been significant changes in MVB s internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation. Effective in 2007, Section 404 of Sarbanes-Oxley will become applicable to MVB.

The Gramm-Leach-Bliley Act (also known as the Financial Services Modernization Act of 1999) permits bank holding companies to become financial holding companies. This allows them to affiliate with securities firms and insurance companies and to engage in other activities that are financial in nature. A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized, is well managed and

has at least a satisfactory rating under the Community Reinvestment Act. No regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board.

Banking Subsidiary Regulation. MVB Bank, Inc. was chartered as a state bank and is regulated by the West Virginia Division of Banking and the Federal Deposit Insurance Corporation. The Bank provides FDIC insurance on its deposits and is a member of the Federal Home Loan Bank of Pittsburgh.

International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (USA Patriot Act)

The International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (the Patriot Act) was adopted in response to the September 11, 2001 terrorist attacks. The Patriot Act provides law enforcement with greater powers to investigate terrorism and prevent future terrorist acts. Among the broad-reaching provisions contained in the Patriot Act are several designed to deter terrorists ability to launder money in the United States and provide law enforcement with additional powers to investigate how terrorists and terrorist organizations are financed. The Patriot Act creates additional requirements for banks, which were already subject to similar regulations. The Patriot Act authorizes the Secretary of the Treasury to require financial institutions to take certain special measures when the Secretary suspects that certain transactions or accounts are related to money laundering. These special measures may be ordered when the Secretary suspects that a jurisdiction outside of the United States, a financial institution operating outside of the United States, a class of transactions involving a jurisdiction outside of the United States or certain types of accounts are of primary money laundering concern. The special measures include the following: (a) require financial institutions to keep records and report on the transactions or accounts at issue; (b) require financial institutions to obtain and retain information related to the beneficial ownership of any account opened or maintained by foreign persons; (c)require financial institutions to identify each customer who is permitted to use a payable-through or correspondent account and obtain certain information from each customer permitted to use the account; and (d) prohibit or impose conditions on the opening or maintaining of correspondent or payable-through accounts.

Federal Deposit Insurance Corporation

The FDIC insures the deposits of the Bank which is subject to the applicable provisions of the Federal Deposit Insurance Act. The FDIC may terminate a bank s deposit insurance upon finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition enacted or imposed by the bank s regulatory agency.

Federal Home Loan Bank

The FHLB provides credit to its members in the form of advances. As a member of the FHLB of Pittsburgh, the Bank must maintain an investment in the capital stock of that FHLB in an amount equal to the greater of 1.0% of the aggregate outstanding principal amount of its respective residential mortgage loans, home purchase contracts and similar obligations at the beginning of each year, or 5% of its advances from the FHLB.

Capital Requirements

Federal Reserve Board. The Federal Reserve Board has adopted risk-based capital guidelines for bank holding companies. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning assets and off-balance sheet items to broad risk categories. For further discussion regarding the Bank s risk-based capital requirements, see Note 14 of the Notes to the Financial Statements included in Item 8 of this Form 10-KSB.

Table of Contents

West Virginia Division of Banking. State banks, such as MVB Bank, Inc. are subject to similar capital requirements adopted by the West Virginia Division of Banking.

Limits on Dividends

MVB s ability to obtain funds for the payment of dividends and for other cash requirements largely depends on the amount of dividends the Bank declares. However, the Federal Reserve Board expects MVB to serve as a source of strength to the Bank. The Federal Reserve Board may require MVB to retain capital for further investment in the Bank, rather than pay dividends to its shareholders. MVB Bank, Inc. may not pay dividends to MVB if, after paying those dividends, the Bank would fail to meet the required minimum levels under the risk-based capital guidelines and the minimum leverage ratio requirements. The Bank must have the approval from the West Virginia Department of Banking if a dividend in any year would cause the total dividends for that year to exceed the sum of the current year s net earnings as defined and the retained earnings for the preceding two years as defined, less required transfers to surplus. These provisions could limit MVB s ability to pay dividends on its outstanding common shares.

Federal and State Laws

MVB Bank, Inc. is subject to regulatory oversight under various consumer protection and fair lending laws. These laws govern, among other things, truth-in-lending disclosure, equal credit opportunity, fair credit reporting and community reinvestment. Failure to abide by federal laws and regulations governing community reinvestment could limit the ability of a bank to open a new branch or engage in a merger transaction. Community reinvestment regulations evaluate how well and to what extent a bank lends and invests in its designated service area, with particular emphasis on low-to-moderate income communities and borrowers in such areas.

Monetary Policy and Economic Conditions

The business of financial institutions is affected not only by general economic conditions, but also by the policies of various governmental regulatory agencies, including the Federal Reserve Board. The Federal Reserve Board regulates money and credit conditions and interest rates to influence general economic conditions primarily through open market operations in U.S. government securities, changes in the discount rate on bank borrowings and changes in the reserve requirements against depository institutions deposits. These policies and regulations significantly affect the overall growth and distribution of loans, investments and deposits, and the interest rates charged on loans, as well as the interest rates paid on deposit accounts.

The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of financial institutions in the past and are expected to continue to have significant effects in the future. In view of the changing conditions in the economy and the money markets and the activities of monetary and fiscal authorities, MVB cannot predict future changes in interest rates, credit availability or deposit levels.

Effect of Environmental Regulation

MVB s primary exposure to environmental risk is through its lending activities. In cases when management believes environmental risk potentially exists, MVB mitigates its environmental risk exposures by requiring environmental site assessments at the time of loan origination to confirm collateral quality as to commercial real estate parcels posing higher than normal potential for environmental impact, as determined by reference to present and past uses of the subject property and adjacent sites. Environmental assessments are typically required prior to any foreclosure activity involving non-residential real estate collateral.

With regard to residential real estate lending, management reviews those loans with inherent environmental risk on an individual basis and makes decisions based on the dollar amount of the loan and the materiality of the specific credit.

Table of Contents

MVB anticipates no material effect on anticipated capital expenditures, earnings or competitive position as a result of compliance with federal, state or local environmental protection laws or regulations.

ITEM 2. DESCRIPTION OF PROPERTY

MVB Bank, Inc. owns its main office located at 301 Virginia Avenue in Fairmont, along with its offices at 1000 Johnson Avenue in Bridgeport and 88 Somerset Boulevard in Charles Town. The Bank leases its office at 2500 Fairmont Avenue inside the Shop N Save supermarket in White Hall, in addition to the land at the Bridgeport location.

Additional information concerning the property and equipment owned or leased by MVB and its subsidiaries is incorporated herein by reference from Note 4, Bank Premises and Equipment and Note 16, Leases of the Notes to the Financial Statements included in Item 7 of this Form 10-KSB.

ITEM 3. LEGAL PROCEEDINGS

There are no pending legal proceedings to which MVB or its subsidiaries are a party or to which any of their property is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

MVB s common shares are not traded on any national exchange.

The table presented below sets forth the estimated market value for the indicated periods based upon sales known to management with respect to MVB s common shares. The information set forth in the table is based on MVB s knowledge of certain arms-length transactions in the stock. In addition, dividends are subject to the restrictions described in Note 15 to the financial statements.

Quarterly Market and Dividend Information:

	2005		2004	
	Estimated Market Value Per Share	**Cash Dividend**	**Estimated Market Value Per Share**	**Cash Dividend**
Fourth Quarter	$ 16.00	$ 0.00	$ 14.00	$ 0.00
Third Quarter	16.00	0.00	13.50	0.00
Second Quarter	14.00	0.00	13.50	0.00
First Quarter	14.00	0.00	13.50	0.00

MVB declared a 5% stock dividend on common shares with a record date of July 1, 2004, payable August 15, 2004. All per share data has been restated to reflect the stock dividend.

MVB had 920 stockholders of record at December 31, 2005.

Equity Compensation Plan Information See Exhibit 99.1 on page 65.

10

Table of Contents

ITEM 6. MANAGEMENT S DISCUSSION AND ANALYSIS

Forward-looking Statements:

The following discussion contains statements that refer to future expectations, contain projections of the results of operations or of financial condition, or state other information that is forward-looking. Forward-looking statements are easily identified by the use of words such as could, anticipate, estimate, believe, and similar words that refer to a future outlook. There is always a degree of uncertainty associated with forward-looking statements. MVB s management believes that the expectations reflected in such statements are based upon reasonable assumptions and on the facts and circumstances existing at the time of these disclosures. Actual results could differ significantly from those anticipated.

Many factors could cause MVB s actual results to differ materially from the results contemplated by the forward-looking statements. Some factors, which could negatively affect the results, include:

- General economic conditions, either nationally or within MVB s market, could be less favorable than expected;
- Changes in market interest rates could affect interest margins and profitability;
- Competitive pressures could be greater than anticipated;
- Legal or accounting changes could affect MVB s results; and
- Adverse changes could occur in the securities and investments markets.

In Management s Discussion and Analysis we review and explain the general financial condition and the results of operations for MVB Financial Corp. and its subsidiaries. We have designed this discussion to assist you in understanding the significant changes in MVB s financial condition and results of operations. We have used accounting principles generally accepted in the United States to prepare the accompanying consolidated financial statements. We engaged Brown, Edwards & Company, L.L.P. to audit the consolidated financial statements and their independent audit report is included in Item 7 herein.

Introduction

The following discussion and analysis of the Consolidated Financial Statements of MVB is presented to provide insight into management s assessment of the financial results and operations of MVB. MVB Bank, Inc. is the sole operating subsidiary of MVB and all comments, unless otherwise noted, are related to the Bank. You should read this discussion and analysis in conjunction with the audited Consolidated Financial Statements and footnotes and the ratios and statistics contained elsewhere in this Form 10-KSB.

Application of Critical Accounting Policies

MVB s consolidated financial statements are prepared in accordance with U. S. generally accepted accounting principles and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the 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.

Table of Contents

The most significant accounting policies followed by the Bank are presented in Note 1 to the consolidated financial statements. 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. Losses inherent in classifications of homogeneous loans are based on historical loss experience and consideration of current economic trends and conditions, all of which may be susceptible to significant change. Non-homogeneous loans are specifically evaluated due to the increased risks inherent in those loans. The loan portfolio also represents the largest asset type in the consolidated balance sheet. Note 1 to the consolidated financial statements 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 this financial review.

Recent Accounting Pronouncements and Developments

Meaning of Other Than Temporary Impairment

In November 2005, the FASB issued Staff Positions FAS 115-1 and FAS 124-1 which nullified the delaying guidance in EITF 03-01-1 and superseded EITF topic D-44. The guidance in the 2005 release is effective for reporting periods beginning after December 13, 2005, although earlier application is permitted. This FASB Staff Position (FSP) addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FASB Statements No. 115, Accounting for Certain Investments in Debt and Equity Securities, and No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, and APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. This FSP nullifies certain requirements of Issue 03-1 and supersedes EITF Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value.

Loan Commitments

On March 9, 2004, the SEC issued Staff Accounting Bulletin 105 (SAB 105), Application of Accounting Principles to Loan Commitment stating that the fair value of loan commitments is to be accounted for as a derivative instrument under SFAS 133, but the valuation of such commitment should not consider expected future cash flows related to servicing of the future loan. Compliance with this Staff Accounting Bulletin did not have a material impact on financial condition, the results of operations, or liquidity.

Exchanges of Nonmonetary Assets

In December 2004, the FASB issued SFAS 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions. This statement amends the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged and more broadly provides for exceptions regarding

Table of Contents

exchanges of nonmonetary assets that do not have commercial substance. This Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of this standard is not expected to have a material impact on financial condition, results of operations, or liquidity.

Share-Based Payment

In December 2004, the FASB revised SFAS 123, Accounting for Stock-Based Compensation. SFAS 123R establishes accounting requirements for share-based compensation to employees and carries forward prior guidance on accounting for awards to non-employees. The provisions of this statement will become effective January 1, 2006 for all equity awards granted after the effective date. SFAS 123R requires an entity to recognize compensation expense based on an estimate of the number of awards expected to actually vest, exclusive of awards expected to be forfeited. The adoption of this standard is not expected to have a material effect on financial condition, the results of operations, or liquidity.

Summary Financial Results

MVB earned $562,000 in 2005 compared to $1,058,000 in 2004. The earnings equated to a 2005 return on average assets of .45% and a return on average equity of 4.34%, compared to prior year results of 1.04% and 12.68%, respectively. Basic earnings per share were $.57 in 2005 compared to $1.46 in 2004. Diluted earnings per share were $.49 in 2005 compared to $1.41 in 2004. The most significant factor in the decrease in 2005 profitability was the addition of two new offices, one a new branch constructed in Harrison County, and the other the purchase of an existing office in Jefferson County. Salaries expense increased by $1,125,000, $967,000 relating to the staffing of the additional offices. Occupancy and Equipment depreciation and maintenance increased by $96,000 and $90,000 respectively, with $96,000 and $78,000 relating to the two additional offices. Data processing expense increased by $78,000, a result of an increased volume of transactions and the offering of additional services such as online banking and bill payment. Other operating expenses increased by $144,000, mostly as a result of the new offices. Interest income increased by $1,115,000 to $6,651,000 and interest expense increased by $756,000 to $2,326,000, resulting in an increase in net interest income of $359,000, $103,000 of which related to the new offices. Though the 2005 results are not at the 2004 levels, MVB believes that it has added further value to the franchise by establishing a presence in what we believe are two of the better markets in West Virginia. As these locations have time to develop further in 2006, results of operations should begin to reap the rewards of the expenditures in 2005.

While operating in a challenging interest rate environment, the Bank achieved a 5.83% yield on earning assets in 2005 compared to 5.76% in 2004. Despite extensive competition, total loans increased to $105.2 million at December 31, 2005, from $78.8 million at December 31, 2004. The Bank s ability to originate quality loans is supported by a minimal delinquency rate, non-accrual loans totaling $81,000, and impaired loans totaling $35,000 at December 31, 2005.

Deposits increased to $114.0 million at December 31, 2005, from $85.4 million at December 31, 2004, due mainly to MVB s expansion into the Harrison and Jefferson County markets. MVB offers an uncomplicated product design accompanied by a simple fee structure that is attractive to customers. The overall cost of funds for the Bank was 2.36% in 2005 compared to 1.86% in 2004. This cost of funds, combined with the earning asset yield, resulted in a net interest margin of 3.79% in 2005 compared to 4.13% in 2004.

The Bank maintained a high-quality, short-term investment portfolio during 2005 to provide liquidity in the balance sheet, to fund loan growth, and to pledge against customers accounts.

Interest Income and Expense

Net interest income is the amount by which interest income on earning assets exceeds interest expense incurred on interest-bearing liabilities. Interest-earning assets include loans and investment securities. Interest-bearing liabilities include interest-

bearing deposits, borrowed funds such as sweep accounts, and repurchase agreements. Net interest income remains the primary source of revenue for MVB. Net interest income is impacted by changes in market interest rates, as well as the mix of interest-earning assets and interest-bearing liabilities. Net interest income is also impacted favorably by increases in non-interest bearing demand deposits and equity.

Net interest margin is calculated by dividing net interest income by average interest-earning assets and serves as a measurement of the net revenue stream generated by MVB s balance sheet. As noted above, the net interest margin was 3.79% in 2005 compared to 4.13% in 2004. The net interest margin continues to face considerable pressure due to competitive pricing of loans and deposits in MVB s markets. During 2005, the Federal Reserve raised interest rates eight times for a total increase of 2.00% which had a negative impact on MVB s interest margin. Management s estimate of the impact of future changes in market interest rates is shown in the section captioned Interest Rate Risk.

Management continues to analyze methods to deploy MVB s assets into an earning asset mix which will result in a stronger net interest margin. Loan growth continues to be strong and management anticipates that loan activity will remain strong in the near term future.

Net interest income increased by $359,000 or 9.0% to $4.3 million in 2005 from $4.0 million in 2004. This increase is largely due to the growth in average earning assets, primarily $16.9 million in loans. Average total earning assets were $114.0 million in 2005 compared to $96.1 million in 2004. Average total loans grew to $87.1 million in 2005 from $70.2 million in 2004. Primarily as a result of this growth, total interest income increased by $1.1 million, or 20.1%, to $6.6 million in 2005 from $5.5 million in 2004. Average interest-bearing liabilities, mainly deposits, likewise increased in 2005 by $14.4 million. Average interest-bearing deposits grew to $83.6 million in 2005 from $72.4 million in 2004. Total interest expense increased by $757,000 or 48.1%, to $2.3 million in 2005 from $1.6 million in 2004. This increase in interest expense was the result of a 50 basis point increase in interest cost from 2004 to 2005, along with an increase in interest-bearing liabilities of $14.4 million, much of which pertained to the Jefferson County acquisition.

The growth in the volume of earning assets during 2005, the rate increases by the Federal Reserve, and the adoption of FASB 91 combined to result in the yield on earning assets remaining relatively unchanged at 5.83% in 2005 from 5.76% in 2004. The adoption of FASB 91 reduced the yield on the combined loan portfolio 18 basis points, while MVB s investment portfolio yield increased by 22 basis points and interest-bearing deposits in banks yield increased by 163 basis points.

The cost of interest-bearing liabilities increased to 2.36% in 2005 from 1.86% in 2004. This increase is primarily the result of the higher interest rates paid on money market accounts, certificates of deposit and repurchase agreements.

Table of Contents

Statistical Financial Information Regarding MVB Financial Corp.

The following tables provide further information about MVB s interest income and expense:

Average Balances and Analysis of Net Interest Income:

	2005			2004		
(Dollars in thousands)	**Average Balance**	**Interest Income/ Expense**	**Yield/ Cost**	**Average Balance**	**Interest Income/ Expense**	**Yield/ Cost**
Interest-bearing deposits in banks	$ 5,146	$ 160	3.09%	$ 3,498	$ 51	1.46%
Federal funds sold	158	4	2.53	111	1	0.90
Investment securities (1)	22,466	846	3.77	23,012	817	3.55
Loans (2) (3) (4)						
Commercial	41,269	2,784	6.75	34,513	2,238	6.48
Tax exempt	4,860	223	4.59	1,087	46	4.23
Real estate	28,177	1,621	5.75	21,659	1,315	6.07
Consumer	12,839	1,013	7.89	12,993	1,068	8.22
Allowance for loan losses	(899)			(773)		
Net loans	86,246	5,641	6.54	69,479	4,667	6.72
Total earning assets	114,016	6,651	5.83	96,100	5,536	5.76
Cash and due from banks	3,057			2,411		
Other assets	6,595			3,375		
Total assets	$ 123,668			$ 101,886		
Liabilities						
Deposits:						
Non-interest bearing demand	$ 11,707	$		$ 8,992	$	
NOW	9,514	48	0.50	7,560	38	0.50
Money market checking	25,009	397	1.59	22,208	219	0.99
Savings	6,089	36	0.59	5,094	30	0.59
IRAs	4,731	167	3.53	3,928	126	3.21
CDs	38,299	1,239	3.24	33,629	950	2.82
Repurchase agreements and federal funds sold	11,029	248	2.25	7,871	68	0.86
Federal Home Loan Bank borrowings	3,941	191	4.85	3,964	139	3.51
Total interest-bearing liabilities	98,612	2,326	2.36	84,254	1,570	1.86
Other liabilites	392			298		
Total liabilities	99,004			84,552		
Stockholders equity						
Common stock	954			708		
Paid-in capital	10,227			6,537		
Retained earnings	2,071			1,266		
Accumulated other comprehensive income	(295)			(169)		
Total stockholders equity	12,957			8,342		
Total liabilities and stockholders equity	$ 111,961			$ 92,894		

Net interest spread		3.47		3.90
Impact of non-interest bearing funds on margin		0.32		0.23
Net interest income-margin	$ 4,325	3.79%	$ 3,966	4.13%

(1) Average balances of investment securities based on carrying value.
(2) Loan fees included in interest income for 2005 and 2004 were $217 and $297.
(3) Non-accrual loans are included in the daily average loan amounts outstanding.
(4) For 2005 and 2004 income is computed on a fully tax-equivalent basis assuming a tax rate of 26% and 37%.

Table of Contents

Rate/Volume Analysis of Changes in Interest Income and Expense:

	2005 vs. 2004 Increase (Decrease) Due to change in:		
(Dollars in thousands)	**Volume(1)**	**Rate(1)**	**Net**
Interest earning assets:			
Loan portfolio:			
Commercial	$ 457	$ 90	$ 547
Tax exempt	173	4	177
Real Estate	375	(69)	306
Consumer	(12)	(43)	(55)
Net loans	$ 993	$ (18)	$ 975
Securities	(21)	50	29
Interest-bearing deposits in banks	51	58	109
Federal funds sold	1		1
Total interest-earning assets	$ 1,024	$ 90	$ 1,114
Interest-bearing liabilities:			
NOW	$ 10	$	$ 10
Money Market Checking	44	134	178
Savings deposits	6		6
IRAs	28	13	41
CDs	151	138	289
Repurchase agreements	71	109	180
FHLB borrowings	(1)	53	52
Total interest-bearing liabilities	$ 309	$ 447	$ 756
Net interest income	$ 715	$ (357)	$ 358

	2004 vs. 2003 Increase (Decrease) Due to change in:		
(Dollars in thousands)	**Volume(1)**	**Rate(1)**	**Net**
Interest earning assets:			
Loan portfolio:			
Commercial	$ 575	$ (57)	$ 518
Tax exempt	45	(1)	44
Real Estate	219	(88)	131
Consumer	120	(86)	34

Net loans	$ 959	$ (232)	$ 727
Securities	(61)	86	25
Interest-bearing deposits in banks	(34)	(9)	(43)
Federal funds sold	(8)	(1)	(9)
Total interest-earning assets	$ 856	$ (156)	$ 700
Interest-bearing liabilities:			
NOW	7	(5)	2
Money Market Checking	14	(62)	(48)
Savings deposits	7	$ (6)	$ 1
IRAs	21	(17)	4
CDs	93	(148)	(55)
Repurchase agreements	2	3	5
FHLB borrowings	(28)	(13)	(41)
Total interest-bearing liabilities	$ 116	$ (248)	$ (132)
Net interest income	$ 740	$ 92	$ 832

(1) The change in interest due to both rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

Table of Contents

Provision for Loan Losses

MVB s provision for loan losses for 2005 and 2004 were approximately $160,000 and $269,000, respectively.

75% of the $26.4 million increase in total loans during 2005 related to the Harrison County office. The loan loss provision level for the Harrison office is less than the level used for Marion County, and is based upon what MVB did in its early years in Marion County. As the Harrison portfolio ages the loan loss provision level for that office will be evaluated for adequacy in the same manner as the Marion portfolio. Management believes that due to the experience of the lenders in the Harrison office and their relationships with the borrowers, a lesser allowance for the initial stages of the office is appropriate.

MVB also has nearly $2 million in loans secured by either cash or readily marketable securities and another $1.4 million in government guaranteed loans.

Determining the appropriate level of the Allowance for Loan Losses (ALL) requires considerable management judgment. In exercising this judgment, management considers numerous internal and external factors including, but not limited to, portfolio growth, national and local economic condition, trends in the markets served and guidance from the Bank s primary regulators. Management seeks to produce an ALL that is appropriate in the circumstances and that complies with applicable accounting and regulatory standards. Further discussion can be found later in this discussion under Allowance for Loan Losses.

Non-Interest Income

Fees related to deposit accounts and cash management accounts represent the significant portion of the Bank s primary non-interest income. The total of non-interest income for 2005 was $876,000 versus $677,000 in 2004.

The most significant increase in non-interest income from 2004 to 2005 was $115,000 in income on loans held for sale. This increase is mainly the result of the addition of experienced secondary market lending staff in Harrison County. Other areas of significant increase in non-interest income were income on bank owned life insurance which increased by 74% to 101,000 as the result of the purchase of an additional 2 million in policies during 2005, and Visa debit card income, which increased by 25% to $115,000.

Loss on sale of securities during 2005 totaled $5,000 versus zero in 2004. The Bank does not routinely sell securities from the portfolio, however, during 2005, securities were sold to liquidate some preferred stock.

The Bank is constantly searching for new non-interest income opportunities that enhance income and provide customer benefits.

Non-Interest Expense

Non-interest Expense was $4.28 million in 2005 versus $2.69 in 2004. Approximately 58% and 51% of non-interest expense for 2005 and 2004, respectively, related to personnel costs. Personnel is the lifeblood of every service organization, which is why personnel cost is such a significant part of the expenditure mix. This increase in personnel cost from $1.36 million to $2.48 million represents both the additions of staff in Harrison and Jefferson counties and salary adjustments for existing staff.

Table of Contents

Data processing comprised approximately 11.8% and 15.9% of total non-interest expense during 2005 and 2004, respectively, growing from $427,000 in 2004 to $505,000 in 2005. This increase is the result of increasing account and transaction volumes from one year to the next, the addition of the Harrison and Jefferson County offices and the introduction of internet banking and bill payment services.

In 2005 occupancy expense increased by 70% to $233,000 and equipment depreciation and maintenance increased by 50% to $247,000. These increases were a direct result of expansion into the Harrison and Jefferson County markets.

2004 compared to 2003

Net interest income increased by $816,000 when comparing 2004 with 2003 results. This increase is largely due to growth in average earning assets, primarily loans, of $14.9 million in 2004. Average interest-bearing liabilities, mainly deposits, increased by $7.3 million in 2004. This increase was due to an increase in average interest-bearing deposits of $7.9 million.

Non-interest income was $677,000 in 2004 compared to $598,000 in 2003. This increase was due primarily to increased deposit account activity and the continued success of an allowable overdraft program which the Bank implemented in July of 2003.

Non-interest expense reached $2.7 million in 2004 compared to $2.3 million in 2003. This increase is representative of the continued growth of a start-up bank in the early years of operations.

Income Taxes

MVB incurred income tax expense of $195,000 in 2005 and $627,000 in 2004.

The effective tax rate was 37% in 2004, compared to 26% in 2005. This decrease in the effective tax rate is attributable to an increase in tax exempt income. MVB added $4 million in tax free loans during 2005 in addition to $2 million in bank owned life insurance.

Return on Assets

MVB s return on average assets was .45% in 2005, 1.04% in 2004 and .85% in 2003. The reduced return is a direct result of MVB s expansion into the Harrison and Jefferson County markets.

Return on Equity

MVB s return on average stockholders equity (ROE) was 4.34% in 2005 compared to 12.68% in 2004. The reduced return in 2005 is a direct result of the addition of $9.4 million in capital through a public stock offering in 2005, combined with the added expenses of the new offices in Harrison and Jefferson counties.

Overview of the Statement of Condition

The MVB balance sheet changed significantly from 2004 to 2005. Loans increased by $26.4 million to $105.2 million at December 31, 2005. This increase was largely due to the expansion into Harrison County, where $19.7 million in new loans were added to the portfolio. The securities portfolio increased by $8.1 million to $28.5 million. This increase assisted in securing additional repurchase agreements while increasing short-term yields on excess cash from the Jefferson County purchase. Bank premises, furniture

and equipment increased by $4.0 million as the result of the addition of the Harrison and Jefferson County offices. Additionally, other assets increased by $3.9 million, the most significant portion of which was the addition of $2.0 million in bank owned life insurance policies and $989,000 in intangibles from the Jefferson County purchase. Deposits increased by $28.5 million, $16.6 million relating to Jefferson County and $10.5 million relating to Harrison County. Repurchase agreements increased by $7.8 million, $3.0 million relating to Harrison County and $950,000 relating to Jefferson County. Finally, stockholders equity increased by $9.7 million as part of an $11.6 million ongoing public offering. These areas of growth are in large part the direct result of expansion into Harrison and Jefferson counties, in addition to the continued success of MVB in the Marion County market.

Cash and Cash Equivalents

MVB s cash and cash equivalents totaled $3.1 million at December 31, 2005, compared to $2.2 million at December 31, 2004, an increase of $977,000.

Management believes the current balance of cash and cash equivalents adequately serves MVB s liquidity and performance needs. Total cash and cash equivalents fluctuate on a daily basis due to transactions in process and other liquidity demands. Management believes the liquidity needs of MVB 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 MVB to meet cash obligations as they come due.

Another area of cash reserves is the portfolio of short-term certificates of deposit in other banks. This portfolio decreased from $1.6 million at year-end 2004 to $891,000 as of December 31, 2005. This portfolio is used to increase yield compared to federal funds sold.

Investment Securities

Investment securities totaled $28.5 million at December 31, 2005, compared to $20.4 million at December 31, 2004.

MVB s investment securities are primarily classified as available-for-sale. Management believes the available-for-sale classification provides flexibility for MVB in terms of managing the portfolio for liquidity, yield enhancement and interest rate risk management opportunities. At December 31, 2005, the amortized cost of MVB s investment securities totaled $29.2 million, resulting in unrealized depreciation in the investment portfolio of $707,000.

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

Loans

MVB s lending is primarily focused in Marion and Harrison County, West Virginia with a secondary focus on the adjacent counties in West Virginia. The portfolio consists principally of commercial lending, retail lending, which includes single-family residential mortgages and consumer lending. Loans totaled $105.2 million as of December 31, 2005, compared to $78.8 million at December 31, 2004.

Table of Contents

During 2005, MVB experienced loan growth of $5.2 million in Marion County, $19.7 million in Harrison County and $1.5 million in Jefferson County. While MVB experienced increases in all loan categories during 2005, the most significant portion of the growth came in the commercial and non-residential real estate area. Commercial and non-residential real estate loans grew approximately $18.4 million, while adjustable rate residential real estate loans grew $4.4 million and consumer loans grew $3.6 million.

At December 31, 2005, commercial loans represented the largest portion of the portfolio approximating 55.9% of the total loan portfolio. Commercial loans totaled $58.8 million at December 31, 2005, compared to $40.4 million at December 31, 2004. Management will continue to focus on the enhancement and growth of the commercial loan portfolio while maintaining appropriate underwriting standards and risk/price balance. Management expects commercial loan demand to continue to be strong in 2006, especially with the additions of experienced staff in Harrison County with a full year to produce.

Residential real estate loans to MVB s retail customers (including home equity lines of credit) account for the second largest portion of the loan portfolio, comprising 27.1% of MVB s total loan portfolio. Residential real estate loans totaled $28.6 million at December 31, 2005, compared to $24.2 million at December 31, 2004. Included in residential real estate loans are home equity credit lines totaling $4.5 million at December 31,2005, compared to $3.7 million at December 31, 2004. Management believes the home equity loans are competitive products with an acceptable return on investment after risk considerations. Residential real estate lending continues to represent a primary focus of MVB s lending due to the lower risk factors associated with this type of loan and the opportunity to provide service to those in the Marion, Harrison and Jefferson County markets.

Consumer lending continues to be a part of MVB s core lending. At December 31, 2005, consumer loan balances totaled $17.9 million compared to $14.3 million at December 31, 2004. The majority of MVB s consumer loans are in the direct lending area. Management is pleased with the performance and quality of the consumer loan portfolio, which can be attributed to the many years of experience of its consumer lenders. This is another important product necessary to serve the Marion County market.

Table of Contents

The following table provides additional information about MVB s loans:

Loan maturities at December 31, 2005:

(Dollars in Thousands)	One Year or Less	Thru Five Years	Due After Five Years	Total
Commercial and nonresidential real estate	$ 17,687	$ 20,806	$ 1,902	$ 58,781
Residential real estate	3,885	16,425	3,871	28,575
Consumer and other	6,278	7,322	668	17,858
Total	$ 27,850	$ 44,553	$ 6,441	$ 105,214

The preceding data has been compiled based upon the earlier of either contractual maturity or next repricing date

Loan Portfolio Analysis:

(Dollars in Thousands)	2005	2004
Year-end balances:		
Commercial, financial and agricultural	58,781	40,395
Real estate	28,575	24,181
Real estate construction		
Consumer	17,858	14,268
Total	105,214	78,844

Loan Concentration

At December 31, 2005, commercial loans comprised the largest component of the loan portfolio. There are very few commercial loans that are not secured by real estate. Such non-real estate secured loans generally are lines of credit secured by accounts receivable. While the loan concentration is in commercial loans, the commercial portfolio is comprised of loans to many different borrowers, in numerous different industries but primarily located in our market area.

Allowance for Loan Losses

Management continually monitors the risk in the loan portfolio through review of the monthly delinquency reports and the Loan Review Committee. The Loan Review Committee is responsible for the determination of the adequacy of the allowance for loan losses. This analysis involves both experience of the portfolio to date and the makeup of the overall portfolio. The allocation among the various components of the loan portfolio and its adequacy is somewhat difficult considering the limited operating history of MVB. 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 has been an indication of a potential problem.

Table of Contents

The result of the evaluation of the adequacy at each period presented herein indicated that the allowance for loan losses was considered adequate to absorb losses inherent in the loan portfolio.

At December 31, 2005, MVB had non-accrual loans totaling $81,000 versus $79,000 as of this same date in 2004. At December 31, 2005 and 2004, MVB had impaired loans totaling $35,000 and $36,000, respectively. A portion of the Allowance for Loan Losses was allocated to cover any loss in these loans. Loans past due more than 30 days were $1,157,000 and $1,004,000, respectively at December 31, 2005 and 2004. Excluded from the above numbers is a $1.3 million USDA 80% secured loan with collateral consisting of machinery and equipment carrying an original appraisal value of $5 million dollars securing the loan. As of December 31, 2005 a new appraisal has been ordered, the results of which are not complete. At December 31, 2005, MVB reversed the interest accrual on the non-guaranteed portion of the loan, which amounted to $7,000. Based upon the Company s best estimates, the amount of the expected loss has been taken into account when considering the adequacy of the loan loss reserve.

	December 31	
	2005	**2004**
Loans past due more than 30 days to gross loans	1.10%	1.27%
Loans past due more than 90 days to gross loans	.03%	.39%

MVB incurred net charge-offs of $178,000 in 2005 and $67,000 in 2004. MVB s provision for loan losses was $160,000 in 2005 and $269,000 in 2004. Net charge-offs represented .17% and .09% in 2005 and 2004, respectively, compared to average outstanding loans for the indicated period.

	2005	**2004**
Balance, January 1	$ 891	$ 689
Provision	160	269
Charge-offs:		
Commercial		
Real estate	40	
Consumer	147	84
Recoveries:		
Commercial		
Real estate		
Consumer	9	17
Net charge-offs	178	67
Balance, December 31	$ 873	$ 891

The following table reflects the allocation of the allowance for loan losses as of December 31:

(Dollars in Thousands)	**2005**	**2004**
Allocation of allowance for loan losses at December 31:		
Commercial	$ 349	$ 349
Real estate	184	191
Consumer	340	351
Total	$ 873	$ 891