

MVB FINANCIAL CORP
Form 10QSB
November 09, 2005

United States
Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **SEPTEMBER 30, 2005**

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 333-120931

MVB Financial Corp.

(Exact name of registrant as specified in its charter)

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West Virginia
(State or other jurisdiction of
incorporation or organization)

20-0034461
(I.R.S. Employer
Identification No)

301 Virginia Avenue

Fairmont, West Virginia 26554-2777

(Address of principal executive offices, zip code)

304-363-4800

(Issuer's telephone number, including area code)

Not Applicable

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

Check whether the registrant (1) filed all reports required to be filed by Sections 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 No

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

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

As of November 9, 2005, the number of shares outstanding of the issuer's only class of common stock was 1,274,310.

Transitional Small Business format (check one): Yes No

MVB Financial Corp.

Part I. Financial Information

Item 1. Financial Statements

The unaudited interim consolidated financial statements of MVB Financial Corp.(MVB or the Company) listed below are included on pages 2-8 of this report.

Consolidated Balance Sheets at September 30, 2005 and December 31, 2004

Consolidated Statements of Income for the Nine Months and Three Months ended September 30, 2005 and 2004

Consolidated Statements of Stockholders' Equity for the Nine Months ended September 30, 2005 and 2004

Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2005 and 2004 Notes to Consolidated Financial Statements

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-QSB and Section 310(b) of Regulation SB. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles 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 balance sheet as of December 31, 2004 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles. Operating results for the nine months and three months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

The Private Securities Litigation Reform Act of 1995 indicates that the disclosure of forward-looking information is desirable for investors and encourages such disclosure by providing a safe harbor for forward-looking statements that involve risk and uncertainty. All statements other than statements of historical fact included in this Form 10-QSB including statements in Management's Discussion and Analysis of Financial Condition and Results of Operations are, or may be deemed to be, forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. In order to comply with the terms of the safe harbor, the corporation notes that a variety of factors, (e.g., changes in the national and local economies, changes in the interest rate environment, competition, etc.) could cause MVB's actual results and experience to differ materially from the anticipated results or other expectations expressed in those forward-looking statements.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations is included on pages 9-22 of this report.

Item 3. Controls and Procedures

Part II. Other Information

Item 5. Other Information

Item 6. Exhibits

Part I. Financial Information

Item 1. Financial Statements

MVB Financial Corp. and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands, except Share and Per Share Data)

| | September 30 | December 31 |
|---|-------------------|-------------------|
| | 2005 | 2004 |
| | (Unaudited) | (Note 1) |
| | <u> </u> | <u> </u> |
| Assets | | |
| Cash and due from banks | \$ 3,930 | \$ 2,153 |
| Interest bearing balances FHLB | 2,067 | 305 |
| Certificates of deposit in other banks | | 1,585 |
| Investment securities: | | |
| Securities held-to-maturity, at cost | 1,418 | 1,461 |
| Securities available-for-sale, at approximate market value | 19,096 | 18,919 |
| Loans: | 93,278 | 78,844 |
| Less: Allowance for loan losses | (921) | (891) |
| | <u>92,357</u> | <u>77,953</u> |
| Net loans | 92,357 | 77,953 |
| Loans held for sale | 354 | |
| Bank premises, furniture and equipment, net | 3,892 | 1,619 |
| Accrued interest receivable and other assets | 4,998 | 2,211 |
| | <u> </u> | <u> </u> |
| Total assets | \$ 128,112 | \$ 106,206 |
| | <u> </u> | <u> </u> |
| Liabilities | | |
| Deposits | | |
| Non-interest bearing | \$ 11,307 | \$ 9,216 |
| Interest bearing | 83,909 | 76,270 |
| | <u> </u> | <u> </u> |
| Total deposits | 95,216 | 85,486 |
| Accrued interest, taxes and other liabilities | 393 | 340 |
| Repurchase agreements and federal funds sold | 10,888 | 7,498 |
| Federal Home Loan Bank borrowings | 3,918 | 4,039 |
| | <u> </u> | <u> </u> |
| Total liabilities | 110,415 | 97,363 |
| Stockholders equity | | |
| Preferred stock, \$1,000 par value, 5,000 shares authorized; none issued | | |
| Common stock, \$1 par value, 4,000,000 authorized, 1,274,310 and 743,060 issued and outstanding, respectively | 1,274 | 743 |
| Additional paid-in capital | 14,969 | 6,975 |
| Treasury stock | (10) | (9) |

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| | | |
|--|-------------------|-------------------|
| Retained earnings | 1,748 | 1,323 |
| Accumulated other comprehensive income (loss) | (284) | (189) |
| Total stockholders equity | 17,697 | 8,843 |
| Total liabilities and stockholders equity | \$ 128,112 | \$ 106,206 |

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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Income

(Unaudited) (Dollars in Thousands except Share and Per Share Data)

| | Nine Months Ended September 30 | | Three Months Ended September 30 | |
|--|-----------------------------------|---------------|------------------------------------|---------------|
| | 2005 | 2004 | 2005 | 2004 |
| Interest income | | | | |
| Interest and fees on loans | \$ 4,148 | \$ 3,408 | \$ 1,562 | \$ 1,218 |
| Interest on deposits with other banks | 77 | 40 | 10 | 13 |
| Interest on federal funds sold | 4 | 1 | | |
| Interest on investment securities | 582 | 619 | 192 | 200 |
| Total interest income | 4,811 | 4,068 | 1,764 | 1,431 |
| Interest expense | | | | |
| Deposits | 1,242 | 1,006 | 453 | 345 |
| Repurchase agreements and federal funds sold | 148 | 43 | 65 | 12 |
| Federal Home Loan Bank borrowings | 149 | 105 | 50 | 35 |
| Total interest expense | 1,539 | 1,154 | 568 | 392 |
| Net interest income | 3,272 | 2,914 | 1,196 | 1,039 |
| Provision for loan losses | 110 | 192 | 55 | 58 |
| Net interest income after provision for loan losses | 3,162 | 2,722 | 1,141 | 981 |
| Other income | | | | |
| Service charges on deposit accounts | 329 | 341 | 109 | 123 |
| Commissions from investment services | 1 | 18 | 1 | 2 |
| Other operating income | 205 | 150 | 77 | 54 |
| Loss on sale of securities | (5) | | | |
| Total other income | 530 | 509 | 187 | 179 |
| Other expense | | | | |
| Salary and employee benefits | 1,837 | 1,010 | 724 | 357 |
| Occupancy expense | 148 | 99 | 56 | 33 |
| Equipment expense | 176 | 111 | 67 | 39 |
| Data processing | 362 | 319 | 132 | 107 |
| Advertising | 46 | 42 | 17 | 14 |
| Legal and accounting fees | 54 | 58 | 17 | 15 |
| Other operating expenses | 470 | 346 | 186 | 115 |
| Total other expense | 3,093 | 1,985 | 1,199 | 680 |
| Income before income taxes | 599 | 1,246 | 129 | 480 |
| Income tax expense | 174 | 510 | 29 | 194 |
| Net income | \$ 425 | \$ 736 | \$ 100 | \$ 286 |

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| | | | | |
|---|---------|---------|-----------|---------|
| Basic net income per share | \$.48 | \$ 1.03 | \$.09 | \$.39 |
| Diluted net income per share | \$.47 | \$.99 | \$.08 | \$.38 |
| Basic weighted average shares outstanding | 887,519 | 714,056 | 1,168,331 | 725,923 |
| Diluted weighted average shares outstanding | 912,126 | 742,424 | 1,192,938 | 754,291 |

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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Stockholders' Equity

For the Nine Months Ended September 30, 2005 and 2004

(Unaudited) (Dollars in thousands)

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|--|-----------------|----------------------------------|----------------------|---|-------------------|------------------|
| Balance, January 1, 2004 | \$ 708 | \$ 6,537 | \$ 742 | \$ (159) | | \$ 7,828 |
| Net income | | | 736 | | | 736 |
| Other comprehensive income: | | | | | | |
| Unrealized gain on available-for-sale securities, net of deferred income taxes | | | | 67 | | 67 |
| Total comprehensive income | | | | | | 803 |
| Stock dividend 5% stock dividend | 35 | 438 | (473) | | | 0 |
| Treasury stock acquired | | | | | (9) | (9) |
| Balance, September 30, 2004 | <u>\$ 743</u> | <u>\$ 6,975</u> | <u>\$ 1,005</u> | <u>\$ (92)</u> | <u>(9)</u> | <u>\$ 8,622</u> |
| Balance, January 1, 2005 | \$ 743 | \$ 6,975 | \$ 1,323 | \$ (189) | \$ (9) | \$ 8,843 |
| Net income | | | 425 | | | 425 |
| Other comprehensive income: | | | | | | |
| Unrealized loss on available-for-sale securities, net of deferred income taxes | | | | (100) | | (100) |
| Minimum pension liability adjustment net of tax effect | | | | 5 | | 5 |
| Total comprehensive income | | | | | | 330 |
| Stock Offering | 531 | 7,994 | | | | 8,525 |
| Treasury stock acquired | | | | | (1) | (1) |
| Balance, September 30, 2005 | <u>\$ 1,274</u> | <u>\$ 14,969</u> | <u>\$ 1,748</u> | <u>\$ (284)</u> | <u>(10)</u> | <u>\$ 17,697</u> |

MVB Financial Corp. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited) (Dollars in thousands)

| | Nine Months Ended September 30 | |
|---|-----------------------------------|-----------------|
| | 2005 | 2004 |
| Operating activities | | |
| Net income | \$ 425 | \$ 736 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 110 | 192 |
| Depreciation | 112 | 84 |
| Loans originated for sale | (5,080) | |
| Proceeds of loans sold | 4,781 | |
| Amortization, net of accretion | 77 | 146 |
| (Increase) in interest receivable and other assets | (2,716) | 6 |
| Increase in accrued interest, taxes, and other liabilities | 53 | 73 |
| Net cash (used in)/provided by operating activities | (2,238) | 1,237 |
| Investing activities | | |
| (Increase) in loans made to customers | (14,569) | (13,008) |
| Purchases of premises and equipment | (2,385) | (39) |
| Purchases of investment securities available-for-sale | (3,890) | (2,870) |
| Purchases of investment securities held-to-maturity | | (950) |
| (Increase)/decrease in deposits with Federal Home Loan Bank, net | (1,762) | 322 |
| Decrease in federal funds sold | | 548 |
| Purchases of certificates of deposit with other banks | (2,079) | (3,258) |
| Proceeds from maturity of certificates of deposit with other Banks | 3,664 | 3,065 |
| Proceeds from sales, maturities and calls of securities available-for-sale | 3,479 | 5,859 |
| Proceeds from maturities and calls of securities held-to-maturity | 33 | 523 |
| Net cash used in investing activities | (17,509) | (9,808) |
| Financing activities | | |
| Net increase in deposits | 9,730 | 9,650 |
| Net increase in repurchase agreements | 3,390 | 872 |
| Net (decrease) in Federal Home Loan Bank Borrowings | (121) | (993) |
| Purchase of treasury stock | (1) | (9) |
| Proceeds of stock offering | 8,526 | |
| Net cash provided by financing activities | 21,524 | 9,520 |
| Increase in cash and cash equivalents | 1,777 | 949 |
| Cash and cash equivalents - beginning of period | 2,153 | 2,018 |
| Cash and cash equivalents - end of period | \$ 3,930 | \$ 2,967 |

MVB Financial Corp.

Notes to Consolidated Financial Statements

Note 1 Basis of Presentation

The accounting and reporting policies of MVB 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. The interim financial information included in this report is unaudited.

The consolidated balance sheet as of December 31, 2004 has been extracted from audited financial statements included in MVB's 2004 filing on Form 10-KSB. 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 financial statements should be read in conjunction with the financial statements and notes thereto included in MVB's December 31, 2004, Form 10-KSB filed with the Securities and Exchange Commission.

MVB has an incentive stock option plan for selected employees. Because the exercise price of MVB's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in the Consolidated Statements of Income. Had compensation expense been determined using the fair value method, pro forma net income for the nine months ended September 30, 2005 and 2004 would have been as follows:

| (Dollars in Thousands, Except Per Share Data) | Nine Months Ended September 30 | | Three Months Ended September 30 | |
|--|-----------------------------------|---------|------------------------------------|--------|
| | 2005 | 2004 | 2005 | 2004 |
| Net income as reported | \$ 425 | \$ 736 | \$ 100 | \$ 286 |
| Stock based compensation using fair value method, net of tax | (4) | (20) | (1) | (5) |
| Pro forma net income | \$ 421 | \$ 716 | \$ 99 | \$ 281 |
| Basic earnings per share as reported | \$.48 | \$ 1.03 | \$.09 | \$.39 |
| Diluted earnings per share as reported | \$.47 | \$.99 | \$.08 | \$.38 |
| Proforma basic earnings per share | \$.47 | \$ 1.00 | \$.08 | \$.39 |
| Proforma diluted earnings per share | \$.46 | \$.96 | \$.08 | \$.37 |

For purposes of pro forma disclosures, the estimated fair value of options is amortized to expense over the option vesting period.

Note 2. Allowance for Loan Losses

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The provision for loan losses for the nine months ended September 30, 2005 and 2004 was \$110,000 and \$192,000, respectively. Management bases the provision for loan losses upon its continuing evaluation of the adequacy of the allowance for loan losses and the overall management of inherent credit risk.

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Due to the start up nature of MVB Bank, Inc., (the bank), arriving at an appropriate allowance involves a high degree of management judgment. In exercising this judgment, management considers numerous internal and external factors including, but not limited to, portfolio growth, national and local economic conditions, trends in the markets served, concentrations of credit in certain business segments, geographic diversity, historical loss experience of other institutions in these markets, and guidance from the bank's primary regulator. Management seeks to maintain an allowance for loan losses that is appropriate in the circumstances and that complies with applicable accounting and regulatory standards.

The results of this analysis at September 30, 2005, indicate that the allowance for loan losses is considered adequate to absorb losses inherent in the portfolio.

| (Dollars in thousands) | Nine Months Ended September 30 | |
|----------------------------------|-----------------------------------|--------|
| | 2005 | 2004 |
| Allowance for loan losses | | |
| Balance, beginning of period | \$ 891 | \$ 689 |
| Loan charge-offs | (88) | (61) |
| Loan recoveries | 8 | 11 |
| | (80) | (50) |
| Net charge-offs | | |
| Loan loss provision | 110 | 192 |
| | \$ 921 | \$ 831 |
| Balance, end of period | | |

The increase in the allowance for loan losses is primarily based upon the growth in the commercial loan portfolio.

Note 3. Borrowed Funds

The bank is a party to repurchase agreements with certain customers. These accounts function as sweep accounts. As of September 30, 2005 and December 31, 2004, the bank had repurchase agreements of \$10,888,003 and \$7,207,625.

The bank is a member of the Federal Home Loan Bank (FHLB) of Pittsburgh, Pennsylvania. The remaining maximum borrowing capacity with the FHLB at September 30, 2005 was approximately \$40,253,000.

| Borrowings from the FHLB were as follows: | September 30 2005 | December 31 2004 |
|---|----------------------|---------------------|
| Fixed interest rate note, originating April 1999, due April 2014, interest of 5.405% is payable monthly | \$ 1,000,000 | \$ 1,000,000 |
| Fixed interest rate note, originating May 2004, due May 2005, interest of 2.02% is payable monthly | | 419,121 |
| Fixed interest rate note, originating April 2002, due May 2017, interest of 5.90% is payable monthly. | 715,524 | 723,697 |
| Floating interest rate note, originating March 2003, due December 2005, interest of 3.89% is payable monthly | 897,490 | 1,896,624 |
| Floating interest rate note, originating January 2005, due January 2020, interest of 5.14% is payable monthly | 1,304,611 | |

| | |
|---------------------|---------------------|
| <u>\$ 3,917,625</u> | <u>\$ 4,039,442</u> |
|---------------------|---------------------|

Borrowings from the FHLB are secured by stock in the FHLB of Pittsburgh, qualifying first mortgage loans, mortgage-backed securities and certain investment securities. At September 30, 2005, MVB had collateral pledged equal to the amount of the federal home loan bank advances.

Note 4. Other Comprehensive Income

The bank currently has two components of other comprehensive income, which include unrealized gains and losses on securities available for sale and pension liability adjustment. Details are as follows:

| (Amounts in Thousands) | Sept 30 | Sept 30 |
|--|----------|----------|
| | 2005 | 2004 |
| Other Comprehensive Income: | | |
| Beginning accumulated other comprehensive income | \$ (189) | \$ (159) |
| Unrealized gains/(losses) on securities available for sale | (167) | 91 |
| Pension liability adjustment | 5 | 0 |
| Deferred income tax effect | 67 | (24) |
| Net change in other comprehensive income | (95) | 67 |
| Ending accumulated other comprehensive income | \$ (284) | \$ (92) |

Note 5 Net Income Per Common Share

MVB determines basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by dividing net income by the weighted average number of shares outstanding increased by the number of shares that would be issued assuming the exercise of stock options. At September 30, 2005 and 2004, stock options to purchase 40,829 shares at an average price of \$10.12 were outstanding. For the nine months ended September 30, 2005 and 2004, the dilutive effect of stock options was 24,607 and 28,368 shares, respectively.

Note 6 Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board issued SFAS No. 123R, *Share-Based Payment*, that addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using the intrinsic method and requires that such transactions be accounted for using a fair-value-based method and recognized as expense in the consolidated statement of income. The effective date of SFAS No. 123R (as amended by the SEC) is for annual periods beginning after June 15, 2005. The provisions of SFAS No. 123R do not have an impact on MVB's results of operations at the present time. MVB will begin recognizing compensation expense in 2006 for options that have been issued but not yet vested prior to January 1, 2006. Projected compensation expense associated with adopting SFAS No. 123R will approximate \$5,000 in 2006. This estimate applies only to options issued through September 30, 2005 but not yet vested prior to January 1, 2006. Any options issued after September 30, 2005 would increase compensation expense above this estimate for 2006.

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

The following data should be read in conjunction with the unaudited consolidated financial statements and management's discussion and analysis that follows.

At September 30, 2005 and for the Nine and Three Months Ended September 30, 2005 and 2004:

| | Nine Months Ended September 30 | | Three Months Ended September 30 | |
|--|-----------------------------------|----------|------------------------------------|----------|
| | 2005 | 2004 | 2005 | 2004 |
| Net income to: | | | | |
| Average assets | .49% | .97% | .32% | 1.10% |
| Average stockholders' equity | 5.01 | 11.94 | 2.51 | 13.71 |
| Net interest margin | 4.00 | 4.10 | 4.14 | 4.24 |
| Average stockholders' equity to average assets | 9.77 | 8.16 | 13.04 | 8.02 |
| Total loans to total deposits (end of period) | 98.34 | 88.92 | 98.34 | 88.92 |
| Allowance for loan losses to total loans (end of period) | .98 | 1.10 | .98 | 1.10 |
| Efficiency ratio | 80.01 | 57.01 | 85.43 | 55.31 |
| Capital ratios: | | | | |
| Tier 1 capital ratio | 18.69 | 11.33 | 18.69 | 11.33 |
| Risk-based capital ratio | 19.66 | 12.42 | 19.66 | 12.42 |
| Leverage ratio | 14.55 | 8.28 | 14.55 | 8.28 |
| Cash dividends as a percentage of net income | N/A | N/A | N/A | N/A |
| Per share data: | | | | |
| Book value per share (end of period) | \$ 13.69 | \$ 11.68 | \$ 13.69 | \$ 11.68 |
| Market value per share (end of period)* | 16.00 | 13.50 | 16.00 | 13.50 |
| Basic earnings per share | .48 | 1.03 | .09 | .39 |
| Diluted earnings per share | .47 | .99 | .08 | .38 |

* Market value per share is based on MVB's knowledge of certain arms-length transactions in the stock as MVB's common stock is not traded on any market. There may be other transactions involving either higher or lower prices of which MVB is unaware.

Introduction

The following discussion and analysis of the consolidated financial statements of MVB Financial Corp. is presented to provide insight into management's assessment of the financial results. MVB's wholly-owned banking subsidiary, MVB Bank, Inc. (the bank), is the primary financial entity in this discussion. Unless otherwise noted, this discussion will be in reference to the bank.

MVB Bank, Inc. was chartered by the State of West Virginia and is subject to regulation, supervision, and examination by the Federal Deposit Insurance Corporation and the West Virginia Department of Banking. The bank is not a member of the Federal Reserve System. The bank is a member of the Federal Home Loan Bank of Pittsburgh.

The bank began operations January 4, 1999, at 301 Virginia Avenue in Fairmont, West Virginia. MVB Bank, Inc. provides a full array of financial products and services to its customers, including traditional banking products such as deposit accounts, lending products, debit cards, automated teller machines, and safe deposit rental facilities. The bank opened a banking office in the Shop N Save supermarket in White Hall, WV during the second quarter of 2000. During August of 2005, the bank opened a full-service office in the Bridgeport area of Harrison County, WV. In addition to the Bridgeport office, MVB Bank, Inc. entered into a definitive purchase agreement with Susquehanna Bancshares to acquire an office at 88 Somerset Boulevard in Charles Town, WV. Through the acquisition of this office, which is located in the Jefferson County area of the eastern panhandle, the bank will acquire approximately \$17 million in deposits. Only two loans were to be acquired in the transaction which was effective at the close of business October 7, 2005. Additionally, the bank is currently operating a loan production office in Martinsburg, WV, with plans to explore further expansion in the panhandle.

During 2005, MVB Financial Corp. formed two wholly-owned second-tier holding companies, MVB Marion, Inc. and MVB Harrison, Inc. As part of the capitalization of MVB Marion, Inc., MVB Financial Corp. contributed its investment in the bank to MVB Marion, Inc. At September 30, 2005, MVB has invested \$8.5 million of the proceeds of an \$11.6 million stock offering in process to capitalize MVB Harrison, Inc., which in turn has invested \$8.5 million in MVB Bank, Inc. As of September 30, 2005, MVB Harrison, Inc. had purchased 531,250 shares of MVB Bank, Inc. representing an ownership percentage of 42.9 percent of MVB Bank, Inc., while MVB Marion, Inc. owned 57.1 percent of the bank.

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

Application of Critical Accounting Policies

MVB'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, 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 MVB are presented in Note 1 to the audited consolidated financial statements included in MVB's 2004 Annual Report on Form 10-KSB. 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 estimated future cash flows, estimated losses in pools of homogeneous loans based on historical loss experience of peer banks, estimated losses on specific commercial credits, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset in the consolidated balance sheet. Note 1 to the consolidated financial statements in MVB's 10-KSB 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-QSB.

Results of Operations

Overview of the Statement of Income

For the quarter ended September 30, 2005, MVB earned \$100,000 compared to \$286,000 in the third quarter of 2004. Third quarter income before income taxes declined \$351,000 as a result of expansion into nearby Bridgeport and into the Charles Town and Martinsburg areas of West Virginia's eastern panhandle. The most significant item impacting the current quarter's profitability was salaries and benefits of \$307,000 relating to the Bridgeport, Charles Town and Martinsburg offices.

Loan loss provisions of \$55,000 and \$58,000 were made for the quarters ended September 30, 2005 and 2004, respectively. The provision for loan losses, which is a product of management's formal quarterly analysis, is recorded in response to inherent risks in the loan portfolio.

Non-interest income for the quarters ended September 30, 2005 and 2004 totaled \$187,000 and \$179,000, respectively. The most significant portion of non-interest income is service charges on deposit accounts.

Non-interest expense for the quarters ended September 30, 2005 and 2004 totaled \$1.2 million and \$680,000, respectively. \$419,000 of this \$520,000 increase relates to the expansion into the Bridgeport, Charles Town and Martinsburg areas. The most significant portion of this increase relates to staffing costs of \$307,000 for the three additional offices. An additional \$60,000 of this increase relates to increases for existing staff and additions to staff in Marion County.

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 short and long-term borrowed funds. Net interest income is the 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.

MVB's interest-earning assets, interest-bearing liabilities, and stockholders' equity changed significantly during the third quarter of 2005 compared to 2004. The most significant areas of change between the quarters ended September 30, 2005 and September 30, 2004 were as follows: net loans increased to an average balance of \$88.4 million from \$72.7 million, interest-bearing liabilities grew to an average balance of \$105.8 million from \$95.3 million, and stockholders' equity increased to an average balance of \$15.9 million from \$8.3 million. These trends reflect the continued growth of MVB.

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 bank's balance sheet. The net interest margin for the quarters ended September 30, 2005 and 2004 was 4.14% and 4.25% respectively. Short-term borrowing yields have begun to rise with the recent Fed increases in rates, and MVB began tiering rates in 2005 on the money market portfolio. Most of the bank's short-term borrowings are repurchase agreements, which continue to be an attractive source of funds for MVB, even with the recent rate increases.

Management continuously monitors the effects of net interest margin on the performance of the bank. Growth and mix of the balance sheet will continue to impact net interest margin in future periods. As competition for deposits continues, management anticipates that future deposits will be at a higher cost of funds thereby exerting continued pressure on the net interest margin.

Average Balances and Interest Rates

(Unaudited)(Dollars in thousands)

| | Three Months Ended Sept. 30, 2005 | | | Three Months Ended Sept. 30, 2004 | | |
|---|--------------------------------------|--------------------------------|----------------|--------------------------------------|--------------------------------|----------------|
| | Average Balance | Interest Income/ Expense | Yield/ Cost | Average Balance | Interest Income/ Expense | Yield/ Cost |
| Assets | | | | | | |
| Interest-bearing deposits in banks | \$ 1,290 | \$ 10 | 3.10% | \$ 2,931 | \$ 13 | 1.77% |
| Federal funds sold | | | | | | |
| Investment securities | 21,082 | 192 | 3.64 | 22,275 | 199 | 3.57 |
| Loans: | | | | | | |
| Commercial | 42,244 | 756 | 7.16 | 36,714 | 611 | 6.66 |
| Tax exempt | 5,297 | 62 | 4.68 | 1,425 | 14 | 3.93 |
| Consumer | 12,678 | 256 | 8.08 | 13,242 | 256 | 7.73 |
| Real estate | 29,103 | 438 | 6.02 | 22,091 | 338 | 6.12 |
| Allowance for loan losses | (896) | | | (806) | | |
| Net loans | 88,426 | 1,512 | 6.84 | 72,666 | 1,219 | 6.71 |
| Total earning assets | 110,798 | 1,714 | 6.19 | 97,872 | 1,431 | 5.85 |
| Cash and due from banks | 3,145 | | | 2,647 | | |
| Other assets | 8,090 | | | 3,427 | | |
| Total assets | \$ 122,033 | | | \$ 103,946 | | |
| Liabilities | | | | | | |
| Deposits: | | | | | | |
| Non-interest bearing demand | \$ 11,832 | \$ | | \$ 9,670 | \$ | |
| NOW | 9,394 | 12 | 0.51 | 7,701 | 10 | 0.52 |
| Money market checking | 23,432 | 106 | 1.81 | 21,953 | 55 | 1.00 |
| Savings | 6,014 | 9 | 0.60 | 5,415 | 8 | 0.59 |
| IRAs | 4,672 | 41 | 3.51 | 4,022 | 33 | 3.28 |
| CDs | 35,560 | 285 | 3.21 | 34,294 | 239 | 2.79 |
| Repurchase agreements & FFS | 10,834 | 65 | 2.40 | 8,189 | 12 | 0.59 |
| FHLB borrowings | 4,030 | 50 | 4.96 | 4,082 | 35 | 3.43 |
| Total interest-bearing liabilities | 105,768 | 568 | 2.15 | 95,326 | 392 | 1.64 |
| Other liabilities | 349 | | | 278 | | |
| Total liabilities | 106,117 | | | 95,604 | | |
| Stockholders equity | | | | | | |
| Common stock | 1,133 | | | 708 | | |
| Paid-in capital | 12,916 | | | 6,537 | | |
| Retained earnings | 2,122 | | | 1,383 | | |
| Accumulated other comprehensive income | (255) | | | (286) | | |
| Total stockholders equity | 15,916 | | | 8,342 | | |

| | | | | |
|--|-------------------|--------------|-------------------|--------------|
| Total liabilities and | | | | |
| stockholders equity | \$ 122,033 | | \$ 103,946 | |
| Net interest spread | | 4.04 | | 4.21 |
| Impact of non-interest bearing funds on margin | | .10 | | 0.04 |
| Net interest income-margin | \$ 1,146 | 4.14% | \$ 1,038 | 4.25% |

Average Balances and Interest Rates

(Unaudited)(Dollars in thousands)

| | Nine Months Ended Sept. 30, 2005 | | | Nine Months Ended Sept. 30, 2004 | | |
|---|-------------------------------------|--------------------------------|----------------|-------------------------------------|--------------------------------|----------------|
| | Average Balance | Interest Income/ Expense | Yield/ Cost | Average Balance | Interest Income/ Expense | Yield/ Cost |
| Assets | | | | | | |
| Interest-bearing deposits in banks | \$ 3,955 | \$ 78 | 2.63% | \$ 3,941 | \$ 40 | 1.35% |
| Federal funds sold | 211 | 4 | 2.53 | 148 | 1 | .90 |
| Investment securities | 21,026 | 582 | 3.69 | 23,360 | 616 | 3.52 |
| Loans: | | | | | | |
| Commercial | 39,288 | 2,006 | 6.81 | 33,417 | 1,628 | 6.50 |
| Tax exempt | 4,489 | 153 | 4.54 | 787 | 24 | 4.07 |
| Consumer | 12,688 | 754 | 7.92 | 12,860 | 798 | 8.27 |
| Real estate | 26,738 | 1,184 | 5.90 | 20,867 | 956 | 6.11 |
| Allowance for loan losses | (894) | | | (748) | | |
| Net loans | 82,309 | 4,097 | 6.64 | 67,183 | 3,406 | 6.76 |
| Total earning assets | 107,501 | 4,761 | 5.91 | 94,632 | 4,063 | 5.72 |
| Cash and due from banks | 2,924 | | | 2,400 | | |
| Other assets | 5,404 | | | 3,540 | | |
| Total assets | \$ 115,829 | | | \$ 100,572 | | |
| Liabilities | | | | | | |
| Deposits: | | | | | | |
| Non-interest bearing demand | \$ 11,045 | \$ | | \$ 8,563 | \$ | |
| NOW | 9,288 | 35 | 0.50 | 7,470 | 28 | 0.50 |
| Money market checking | 24,224 | 261 | 1.44 | 21,909 | 161 | 0.98 |
| Savings | 5,856 | 26 | 0.59 | 4,947 | 22 | 0.59 |
| IRAs | 4,637 | 120 | 3.45 | 3,826 | 91 | 3.17 |
| CDs | 35,123 | 800 | 3.04 | 33,484 | 704 | 2.81 |
| Repurchase agreements & FFS | 9,740 | 148 | 2.03 | 7,834 | 43 | 0.73 |
| FHLB borrowings | 4,234 | 149 | 4.69 | 4,059 | 105 | 3.45 |
| Total interest-bearing liabilities | 104,147 | 1,539 | 1.97 | 92,092 | 1,154 | 1.67 |
| Other liabilities | 364 | | | 275 | | |
| Total liabilities | 104,511 | | | 92,367 | | |
| Stockholders equity | | | | | | |
| Common stock | 852 | | | 708 | | |
| Paid-in capital | 8,704 | | | 6,537 | | |
| Retained earnings | 2,022 | | | 1,139 | | |
| Accumulated other comprehensive income | (260) | | | (179) | | |
| Total stockholders equity | 11,318 | | | 8,205 | | |

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| | | | | |
|--|-------------------|--------------|-------------------|--------------|
| Total liabilities and | | | | |
| stockholders equity | \$ 115,829 | | \$ 100,572 | |
| Net interest spread | | 3.93 | | 4.05 |
| Impact of non-interest bearing funds on margin | | .06 | | 0.04 |
| Net interest income-margin | \$ 3,222 | 4.00% | \$ 2,909 | 4.10% |

Non-Interest Income

Service charges on deposit accounts generate the core of the bank's non-interest income. Non-interest income totaled \$187,000 in the third quarter of 2005 compared to \$179,000 in the third quarter of 2004.

Service charges on deposit accounts include mainly non-sufficient funds and returned check fees, allowable overdraft fees and service charges on commercial accounts.

Non-Interest Expense

For the third quarter of 2005, non-interest expense totaled \$1.2 million compared to \$680,000 in the third quarter of 2004. MVB's efficiency ratio was 85.43% for the third quarter of 2005 compared to 55.31% for the third quarter of 2004. This ratio measures the efficiency of non-interest expenses incurred in relationship to net interest income plus non-interest income. MVB's 2005 efficiency ratio has increased due mainly to the staffing and equipment requirements for the Bridgeport, Charles Town and Martinsburg offices.

Salaries and benefits totaled \$724,000 for the quarter ended September 30, 2005 compared to \$357,000 for the quarter ended September 30, 2004. This increase in salaries and benefits reflects MVB's additional staffing for new locations and adjustments to existing personnel to continue providing outstanding customer service. MVB had 59 full-time equivalent personnel at September 30, 2005 compared to 37 full-time equivalent personnel as of September 30, 2004. This increase is mainly due to the addition of staff for the new offices. Management will continue to strive to find new ways of increasing efficiencies and leveraging its resources, while effectively optimizing customer service.

For the quarters ended September 30, 2005 and 2004, occupancy expense totaled \$56,000 and \$33,000, respectively. This increase is a result of the construction of a full-service banking office in Harrison County, which opened in August of 2005.

Equipment expense totaled \$67,000 in the third quarter of 2005 compared to \$39,000 for the third quarter of 2004. Included in equipment expense is depreciation of furniture, fixtures and equipment of \$48,000 for the quarter ended September 30, 2005 and \$20,000 for the quarter ended September 30, 2004. Equipment depreciation expense reflects MVB's commitment to technology and the addition of equipment related to the Bridgeport banking office.

Data processing costs totaled \$132,000 in the third quarter of 2005 compared to \$107,000 in the third quarter of 2004. These increases are due to the overall account and transaction growth of the bank.

Other operating expense totaled \$186,000 in the third quarter of 2005 compared to \$115,000 in the third quarter of 2004. The primary components of growth in this area are increases in stationery and supplies, travel, training, and communication expenses relating to the additional offices.

Return on Average Assets and Average Equity

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Returns on average assets (ROA) and average equity (ROE) were .32% and 2.51% for the third quarter of 2005 compared to 1.10% and 13.71% in the third quarter of 2004. As anticipated these performance indicators have declined in 2005 with the additional expenses relating to the opening of the Bridgeport office, the planned opening of offices in the eastern panhandle and the addition of \$8.5 million in capital.

The bank is considered well capitalized under regulatory and industry standards of risk-based capital. MVB Financial Corp. is in the process of completing an \$11.6 million public stock offering, which was done to fund expansion into the Harrison and Jefferson County areas. At September 30, 2005, MVB has sold 531,250 shares resulting in an increase in capital of \$8.5 million.

Financial Condition

Overview of the Statement of Condition

Total assets at September 30, 2005 were \$128.1 million or an increase of \$21.9 million since December 31, 2004. This is attributable to the bank's continued expansion within the Marion County market, the beginning of expansion into the Harrison County market, and its continued emphasis on offering competitive products to its customers combined with quality customer service. Asset growth has occurred primarily in commercial and mortgage loans, bank premises and equipment, and other assets. Loan demand was strong during the third quarter as anticipated, with commercial loans increasing by more than \$5.0 million, \$3.5 million of which was generated by the Bridgeport office which opened in August. Mortgage loans increased by more than \$2.7 million, \$600,000 of which was generated in the Bridgeport office. Bank premises and equipment increased by \$2.3 million as the result of construction of the Bridgeport office, and other assets increased by more than \$2.0 million as the bank purchased additional bank owned life insurance policies, which are used to fund employee benefit expense.

Deposits totaled \$95.2 million at September 30, 2005 or an increase of \$9.8 million since December 31, 2004. Repurchase agreements totaled \$10.9 million and have increased \$3.7 million since December 31, 2004.

Stockholders' equity has increased approximately \$8.8 million from December 31, 2004 due to the issuance of 531,250 shares of MVB's 725,000 share stock offering and earnings for the nine months ended September 30, 2005 of \$425,000.

Cash and Cash Equivalents

Cash and cash equivalents totaled \$3.9 million as of September 30, 2005 compared to \$2.2 million as of December 31, 2004, or an increase of \$1.7 million.

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 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.

Investment Securities

Investment securities totaled \$20.5 million as of September 30, 2005 and \$20.4 million as of December 31, 2004. Government sponsored agency securities comprise the majority of the portfolio.

Management monitors 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, sets 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

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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

The bank's lending is primarily focused in the Marion and Harrison County areas of West Virginia, and consists primarily of commercial lending, retail lending, which includes single-family residential mortgages, and consumer lending.

The following table details total loans outstanding as of:

| (Dollars in thousands) | September 30 | December 31 |
|-------------------------|------------------|------------------|
| | 2005 | 2004 |
| Commercial | \$ 16,108 | \$ 12,197 |
| Real estate, commercial | 32,562 | 28,198 |
| Real estate, mortgage | 31,314 | 24,181 |
| Consumer | 13,648 | 14,268 |
| Total loans | \$ 93,632 | \$ 78,844 |

Loan Concentration

At September 30, 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. Commercial loan demand has continued to be strong during 2005, aided by the addition of the Harrison County market.

Allowance for Loan Losses

Management continually monitors the loan portfolio through review of the monthly delinquency reports and through 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 delinquent 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.

Total non-performing assets and accruing loans past due 90 days are summarized as follows:

| (Dollars in thousands) | September 30 | |
|------------------------|--------------|------|
| | 2005 | 2004 |
| Non-accrual loans: | | |
| Commercial | \$ 33 | \$ |
| Real Estate | | |
| Consumer | 9 | 5 |

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| | | |
|--|-------------------|-------------------|
| Total non-accrual loans | 42 | 5 |
| Renegotiated loans | | |
| | <u> </u> | <u> </u> |
| Total non-performing loans | 42 | 5 |
| Other real estate, net | 80 | |
| | <u> </u> | <u> </u> |
| Total non-performing assets | \$ 122 | \$ 5 |
| | <u> </u> | <u> </u> |
| Accruing loans past due 30 days or more | \$ 504 | \$ 301 |
| Non-performing loans as a % of total loans | .13% | .00% |
| Allowance for loan losses as a % of non-performing loans | 2,193% | 16,620% |

Funding Sources

MVB 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 \$95.2 million at September 30, 2005.

Non-interest bearing deposits remain a core funding source for MVB. At September 30, 2005, non-interest bearing deposits totaled \$11.3 million compared to \$9.2 million at December 31, 2004. Management intends to continue to focus on finding ways to increase the bank's base of low-cost funding sources.

Interest-bearing deposits totaled \$83.9 million at September 30, 2005 compared to \$76.3 million at December 31, 2004. Average interest-bearing liabilities totaled \$105.8 million during the third quarter of 2005 compared to \$95.3 million for the third quarter of 2004. Average non-interest bearing demand deposits totaled \$11.8 million for the third quarter of 2005 compared to \$9.7 million for the third quarter of 2004. Management will continue to emphasize deposit gathering in 2005 by offering outstanding customer service and competitively priced products. Management will also concentrate on balancing deposit growth with adequate net interest margin to meet MVB's strategic goals.

Along with traditional deposits, MVB has access to both short-term and long-term borrowings to fund its operations and investments. MVB's short-term borrowings consist of corporate deposits held in overnight repurchase agreements and certain advances with the Federal Home Loan Bank of Pittsburgh. At September 30, 2005, short-term borrowings totaled \$11.8 million compared to \$9.8 million at December 31, 2004. In addition to the aforementioned funds alternatives, MVB has access to more than \$40.2 million through additional advances from the Federal Home Loan Bank of Pittsburgh, a \$2.5 million line of credit with the Bankers Bank of Atlanta, a \$3.5 million line of credit with the Community Bankers Bank of Virginia and the ability to readily sell jumbo certificates of deposits to other banks.

Capital/Stockholders' Equity

The bank was initially capitalized when it sold 452,000 shares of stock at \$10 per share or a total of \$4.5 million in an offering during 1998.

In October of 1999 the bank completed a secondary offering of 66,000 shares of stock at \$11 per share or a total of \$726,000. This offering was used to purchase MVB's main office at 301 Virginia Avenue.

During November of 2002 the bank completed another secondary offering of 164,000 shares of stock at \$12.50 per share or a total of \$2.0 million. This offering was needed to continue funding the bank's growth.

In 2004, the bank formed a one-bank holding company. In that transaction, MVB Financial Corp. issued shares of common stock in exchange for shares of the bank's common stock.

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In 2005, MVB will complete a public offering of 725,000 shares totaling \$11.6 million. These funds will be used to support the opening of the Bridgeport office, as well as expansion to Charles Town and Martinsburg. At September 30, 2005, 531,250 shares have been sold, representing additional capital of \$8.5 million.

At September 30, 2005, accumulated other comprehensive (loss) totaled \$(284,000) compared to \$(189,000) at December 31, 2004. This represents an increase in net unrealized losses on available-for-sale securities at September 30, 2005, net of income taxes due to an increase in the overall investment interest rate environment. Because most of the investment securities in MVB's portfolio are classified as

available-for-sale, both the investment and equity sections of MVB's balance sheet are more sensitive to the changing market value of investments.

The primary source of funds for dividends to be paid by MVB Financial Corp. is dividends received from its subsidiary bank, MVB Bank, Inc. Dividends paid by the subsidiary 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.

MVB must also comply with the standards of capital adequacy mandated by the banking industry. Bank regulators have established risk-based capital requirements designed to measure capital adequacy. Risk-based capital ratios reflect the relative risks of various assets banks hold in their portfolios. A weight category of 0% (lowest risk assets), 20%, 50%, or 100% (highest risk assets) is assigned to each asset on the balance sheet. Detailed information concerning MVB's risk-based capital ratios can be found in Note 12 of the Notes to the Consolidated Financial Statements of MVB's 2004 Form 10-KSB. At September 30, 2005, MVB and its banking subsidiary's risk-based capital ratios exceeded the minimum standards for a well capitalized financial institution.

MVB and its banking subsidiary are subject to various regulatory capital requirements administered by the federal banking agencies. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, MVB must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. MVB and its banking subsidiary's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Commitments

In the normal course of business, MVB is party to financial instruments with off-balance sheet risk necessary to meet the financing needs of customers and to manage its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of these instruments express the extent of involvement MVB has in these financial instruments.

Loan commitments are made to accommodate the financial needs of MVB's customers. MVB uses the same underwriting standards in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties. The total amount of loan commitments outstanding at September 30, 2005 and December 31, 2004 was \$20.9 million and \$9.9 million, respectively.

Market Risk Management

The most significant market risk resulting from MVB Bank, Inc.'s normal course of business, extending loans and accepting deposits, is interest rate risk. Interest rate risk is the potential for economic loss due to future interest rate changes that can impact both the earnings stream as well as market values of financial assets and liabilities. MVB's Investment/Asset/Liability Committee (IALC) is responsible for the overall management of MVB and its subsidiary bank's balance sheet related to the management of interest rate risk. The IALC strives to keep the bank focused on the future, anticipating and exploring alternatives, rather than simply reacting to change after the fact.

To this end, the IALC has established an interest risk management policy that sets the minimum requirements and guidelines for monitoring and controlling the level and amount of interest rate risk. The objective of the interest rate risk policy is to encourage management to adhere to sound fundamentals of banking while allowing sufficient flexibility to exercise the creativity and innovations necessary to meet the challenges of changing markets. The ultimate goal of these policies is to optimize net interest income within the constraints of prudent capital adequacy, liquidity, and safety.

The IALC relies on different methods of assessing interest rate risk including simulating net interest income, monitoring the sensitivity of the net present market value of equity or economic value of equity, and monitoring the difference or gap between maturing or rate-sensitive assets and liabilities over various time periods. The IALC places emphasis on simulation modeling as the most beneficial measurement of interest rate risk due to its dynamic measure. By employing a simulation process that measures the impact of potential changes in interest rates and balance sheet structures and by establishing limits on changes in net income and net market value, the IALC is better able to evaluate the possible risks associated with alternative strategies.

The simulation process starts with a base case simulation that represents projections of current balance sheet growth trends. Base case simulation results are prepared under a flat interest rate forecast and at least two alternative interest rate forecasts, one rising and one declining, assuming parallel yield curve shifts. Comparisons showing the earnings variance from the flat rate forecast illustrate the risks associated with the current balance sheet strategy. If necessary, additional balance sheet strategies are developed and simulations prepared. The results from model simulations are reviewed for indications of whether current interest rate risk strategies are accomplishing their goal and, if not, suggest alternative strategies that could. The policy calls for periodic review by the IALC of assumptions used in the modeling.

The IALC believes that it is beneficial to monitor interest rate risk for both the short and long-term. Therefore, to effectively evaluate results from simulations, limits on changes in net interest income and the value of the balance sheet have been established. The IALC has determined that the earnings at risk of the bank shall not change more than 10% from base case for each 1% shift in interest rates, nor by more than 15% from the base case for a 2% shift in interest rates. MVB is in compliance with this policy as of June 30, 2005, the latest date for which information is presently available. The following table is provided to show the earnings at risk and value at risk positions of MVB as of June 30, 2005.

(Dollars in Thousands)

| Immediate | | | |
|-----------------------------|--|---|-------|
| Interest Rate Change | | Estimated Increase (Decrease) in Net Interest Income | |
| (in Basis Points) | | | |
| +200 | | \$ 4,994 | 4.9% |
| +100 | | 4,864 | 2.2 |
| Base rate | | 4,759 | |
| -100 | | (4,658) | (2.1) |
| -200 | | (4,335) | (8.9) |

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 bank's results of operations in the third quarter of 2005 continue to reflect the costs of opening the Bridgeport office. Results in the next few quarters will continue to be impacted by this expansion, as well as expansion into the Charles Town and Martinsburg areas. MVB's emphasis in future periods will be to continue to do those things that have made the bank successful thus far. The critical challenge for the bank in the future will remain the delivery of the most outstanding customer service with the highest quality products and technology.

Future plans for the bank involve the bank taking advantage of technology to deliver even better customer service. The bank introduced internet banking in the second quarter of 2005 and will continue to explore all options which better enable the bank to service its customers.

2005 will continue to be a year of tremendous growth for MVB. The expansion into nearby Harrison County in Bridgeport, along with the purchase of an office in Charles Town, will make MVB a much larger and more diversified organization. Earnings for the short term will not be up to par with what MVB has produced in the past, however these additions should make MVB even more profitable in future years.

Item 3. Controls and Procedures

Disclosure controls are procedures that a company designs with the objective of ensuring that information required to be disclosed in their reports filed under the Securities Exchange Act of 1934 (such as this Form 10-QSB), is recorded, processed, summarized and reported within the time period specified under the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Internal controls are procedures that a company designs with the objective of providing reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use and transactions are properly recorded and reported all to permit the preparation of a company's financial statements in conformity with generally accepted accounting principles.

The Company's management, including the CEO and CFO, does not expect that our disclosure controls or internal controls will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments and decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of control also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Evaluation of disclosure controls and procedures

As of the end of the period covered by this report and pursuant to Rule 13a-15 of the Securities Exchange Act of 1934 (the Exchange Act), the Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness and design of the Company's disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded, as of the end of the period covered by this report, that the Company's disclosure controls and procedures were effective in recording, processing, summarizing and reporting information required to be disclosed by the Company, within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in internal controls

In addition, there have been no changes in internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter to which this report relates that have materially affected or is reasonably likely to materially affect, the internal control over financial reporting.

Part II. Other Information

Item 5. Other Information

None.

Item 6. Exhibits

(a) The following exhibits were filed with Form SB-2 Registration Statement, Registration No. 333-120931, filed December 1, 2004, and are incorporated by reference herein.

Exhibit 3.1 Articles of Incorporation

Exhibit 3.1-1 Articles of Incorporation Amendment

Exhibit 3.2 Bylaws

(b) The following exhibits are filed herewith.

Exhibit 31.1 Certificate of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certificate of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 Certificate of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 Certificate of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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.

November 9, 2005

MVB Financial Corp.

By: /s/ James R. Martin

James R. Martin
President and Chief Executive Officer

By: /s/ Eric L. Tichenor

Eric L. Tichenor
Chief Financial Officer