MVB FINANCIAL CORP
Form 10KSB
March 28, 2007

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, 2006

¨ **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 $ 11,251,000

Based upon the average selling price of sales known to the Registrant of the common shares of the Registrant through March 27, 2007, the aggregate market value of the common shares of the Registrant held by non affiliates during that time was $16,439,744. For this purpose certain executive officers and directors are considered affiliates.

As of March 27, 2007, the Registrant had 1,467,849 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 15, 2007 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

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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. In 2006 MVB formed another second-tier holding company, MVB East, Inc. to manage the banking operations of MVB in the Jefferson and Berkeley county markets.

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 Bridgeport, Harrison County, and 88 Somerset Boulevard in Charles Town, Jefferson County. At December 31, 2006, MVB had total assets of $191.3 million, total loans of $142.6 million, total deposits of $134.6 million and total stockholders equity of $21.7 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.

At December 31, 2006, MVB had 59 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.

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 and Harrison county markets.

During 2006, MVB continued to focus on growth in the Harrison and Jefferson County areas as the primary method for reaching performance goals. MVB continuously reviews key performance indicators to measure our success.

Recent Additions

During the fourth quarter of 2006, MVB began construction of a full service banking facility in the Martinsburg area of Berkeley County West Virginia.

Market Area

MVB s primary market areas are the Marion, Harrison and Jefferson Counties of West Virginia, which includes a total of 64 banking facilities. Its extended market is the adjacent counties of Monongalia, Taylor and Berkeley Counties, West Virginia. 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

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 7,598 in 2006, 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 49,206 in 2005. During this period, Charles Town has seen an increase in population of 16.6%.

Unemployment in Marion County has improved compared to that of the State of West Virginia from November 1995 through December 2006. As of December 2006, the overall state rate was 4.6% compared to 3.9% for Marion County. During this same period of time, the Marion County Unemployment Rate has decreased from 8.9% to 3.9%, while the West Virginia rate declined from 7.5% to 4.6%. At December 31, 2006, Harrison and Jefferson counties showed unemployment rates of 4.4% and 2.7%, 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, Harrison and Jefferson Counties of West Virginia.

Commercial Loans

At December 31, 2006, MVB had outstanding approximately $83.1 million in commercial loans, including commercial, commercial real estate, financial and agricultural loans. These loans represented approximately 58.3% of the total aggregate loan portfolio as of that date.

Lending Practices. Commercial lending entails significant additional risks as compared with consumer lending (i.e., single-family residential mortgage lending, and installment 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 evaluates all new commercial loans, and on an annual basis mortgage loans in excess of $300,000, as well as customers that have total outstanding loans that aggregate more than $500,000. 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 a classified loan and reviewed for possible downgrading or placement on non-accrual status.

Consumer Loans

At December 31, 2006, MVB had outstanding consumer loans in an aggregate amount of approximately $11.4 million or approximately 8% 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.

Real Estate Loans

At December 31, 2006, MVB had approximately $48.1 million of residential real estate loans, home equity lines of credit, and construction mortgages outstanding, representing 33.7% of total loans outstanding.

Lending Practices. 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 to maturity 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, full appraisals are obtained from licensed appraisers for all loans secured by real estate.

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 primarily focuses on the Marion, Harrison and Jefferson County markets for its products and services. Management believes MVB has developed a niche and a level of expertise in serving this area.

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 rates. 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 Board. 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 and should not significantly impact MVB.

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.

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.

The Financial Services Modernization Act defines financial in nature to include: securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Federal Reserve Board has determined to be closely related to banking. A bank also may engage, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development and real estate investment, through a financial subsidiary of the bank, if the bank is well capitalized, well managed and has at least a satisfactory Community Reinvestment Act rating.

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 7 of this Form 10-KSB.

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 Consumer 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.

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:

	2006		**2005**	
	Estimated Market Value Per Share	**Dividend**	**Estimated Market Value Per Share**	**Dividend**
Fourth Quarter	$ 16.00	$ 0.00	$ 16.00	$ 0.00
Third Quarter	16.00	0.00	16.00	0.00
Second Quarter	16.00	0.00	14.00	0.00
First Quarter	16.00	0.00	14.00	0.00

MVB had 943 stockholders of record at December 31, 2006.

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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.

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

Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, Accounting for Income Taxes and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 will be effective for the Company s fiscal years beginning after December 15, 2006. The Company is currently reviewing the effect FIN 48 will have on its financial statements but does not expect that adoption of FIN 48 will materially impact our financial position, income or cash flows.

Fair Value Measurements

In September 2006, the FASB issued SFAS N. 157, Fair Value Measurements (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors request for expanded information about the extent to which a company measures assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently reviewing the effect SFAS 157 will have on its financial statements.

Employers Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued SFAS no. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, and amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). SFAS 158 requires the Company to (a) recognize in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation, (b) recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise

during the period, (c) measure defined benefit plan assets and defined benefit plan obligations as of the date of the Company s statement of financial position, and (d) disclose additional information about certain effects on net periodic benefit costs in the upcoming fiscal year that arise from the delayed recognition of the actuarial gains and losses and the prior service costs and credits. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The adoption of FASB 158 did not have a material effect on the financial statements.

Share-Based Payment

On December 16, 2004, the Financial Accounting Standards Board issued FASB No. 123 (revised 2004), Share-Based Payment (FASB 123R). In April 2005, the Securities and Exchange Commission (the SEC) adopted a rule permitting implementation of FASB 123R at the beginning of the fiscal year commencing after June 15, 2005. Under the provisions of FASB 123R, an entity is required to treat all stock-based compensation as a cost that is reflected in the financial statements. The Company was required to adopt SFAS 123R beginning in its fiscal quarter ended March 31, 2006. The Company adopted SFAS 123R using the modified prospective method whereby the Company must recognize the expense only for periods beginning after December 31, 2005. The adoption of FASB 123R had no impact upon the financial statements.

Several other new accounting standards became effective during the periods presented or will be effective subsequent to December 31, 2006. None of these new standards had or is expected to have a significant impact on the Company s consolidated financial statements.

Summary Financial Results

MVB earned $973,000 in 2006 compared to $562,000 in 2005. The earnings equated to a 2006 return on average assets of .58% and a return on average equity of 4.86%, compared to prior year results of .45% and 4.34%, respectively. Basic earnings per share was $.68 in 2006 compared to $.57 in 2005. Diluted earnings per share was $.67 in 2006 compared to $.56 in 2005. The most significant factor in the increase in 2006 profitability was the performance of two offices added in 2005. Salaries expense increased by $412,000, mostly relating to staffing of the additional offices for a full year. Occupancy and equipment depreciation and maintenance increased by $146,000 and $63,000 respectively, all relating to a full year s operations at the two additional offices. Data processing expense increased by $128,000, a result of an increased volume of transactions and the increased offering of additional services such as online banking and bill payment. Interest income increased by $3.4 million to $10.0 million and interest expense increased by $2.0 million to $4.3 million, resulting in an increase in net interest income of $1.3 million, mainly relating to the improved perfomance of the new offices. Other income increased by $364,000, $128,000 of which related to income on loans held for sale and $117,000 in additional service charges on deposit accounts. The 2006 results support MVB s belief 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 2007, results of operations should continue to reap the rewards of the outlay of expenditures in 2005.

While operating in a challenging interest rate environment, the Bank achieved a 6.59% yield on earning assets in 2006 compared to 5.83% in 2005. Despite extensive competition, total loans increased to $142.6 million at December 31, 2006, from $105.2 million at December 31, 2005. The Bank s ability to originate quality loans is supported by a minimal delinquency rate and non-accrual and impaired loans totaling only $5,000 at December 31, 2006.

Deposits increased to $134.6 million at December 31, 2006, from $114.0 million at December 31, 2005, due in large part 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 3.32% in 2006 compared to 2.36% in 2005. This cost of funds, combined with the earning asset yield, resulted in a net interest margin of 3.72% in 2006 compared to 3.79% in 2005.

The Bank maintained a high-quality, short-term investment portfolio during 2006 to provide liquidity in the balance sheet, to fund loan growth, for repurchase agreements and to provide security for state and municipal deposits.

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 also 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 3.72% in 2006 compared to 3.79% in 2005. The net interest margin continues to face considerable pressure due to competitive pricing of loans and deposits in MVB s markets. During 2006, the Federal Reserve raised interest rates four times for a total increase of 1.00% 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.

During 2006, net interest income increased by $1.3 million or 30.7% to $5.6 million in 2006 from $4.3 million in 2005. This increase is largely due to the growth in average earning assets, primarily $37.6 million in loans. Average total earning assets were $151.8 million in 2006 compared to $114.0 million in 2005. Average total loans grew to $124.8 million in 2006 from $87.1 million in 2005. Primarily as a result of this growth, total interest income increased by $3.4 million, or 50.5%, to $10.0 million in 2006 from $6.6 million in 2005. Average interest-bearing liabilities, mainly deposits, likewise increased in 2006 by $32.8 million. Average interest-bearing deposits grew to $103.1 million in 2006 from $83.6 million in 2005. Total interest expense increased by $2.0 million or 87.5%, to $4.4 million in 2006 from $2.4 million in 2005. This increase in interest expense was the result of a 96 basis point increase in interest cost from 2005 to 2006, along with an increase in average interest-bearing liabilities of $32.8 million.

The growth in the volume of earning assets during 2006 and the rate increases by the Federal Reserve combined to result in the yield on earning assets improving to 6.59% in 2006 from 5.83% in 2005. The loan portfolio yield increased by 57 basis points, due mainly to the volume of adjustable rate loans repricing as interest rates increased, while MVB s investment portfolio yield increased by 54 basis points and interest-bearing deposits in banks yield increased by 128 basis points.

The cost of interest-bearing liabilities increased to 3.32% in 2006 from 2.36% in 2005. This increase is primarily the result of the higher interest rates paid on money market accounts, certificates of deposit, individual retirement accounts, repurchase agreements and Federal Home Loan Bank borrowings.

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:

	2006			2005		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
Interest-bearing deposits in banks	$ 683	$ 30	4.39%	$ 5,146	$ 160	3.11%
Federal funds sold				158	4	2.53
Investment securities	27,335	1,179	4.31	22,466	846	3.77
Loans						
Commercial	60,195	4,698	7.80	41,269	2,784	6.75
Tax exempt	6,536	302	4.62	4,860	223	4.59
Real estate	42,262	2,642	6.25	28,177	1,621	5.75
Consumer	15,801	1,160	7.34	12,839	1,013	7.89
Allowance for loan losses	(1,001)			(899)		
Net loans	123,793	8,802	7.11	86,246	5,641	6.54
Total earning assets	151,811	10,011	6.59	114,016	6,651	5.83
Cash and due from banks	4,297			3,057		
Other assets	12,842			6,595		
Total assets	$ 168,950			$ 123,668		
Liabilities						
Deposits:						
Non-interest bearing demand	$ 16,797	$		$ 11,707	$	
NOW	11,452	64	0.56	9,514	48	0.50
Money market checking	25,405	606	2.39	25,009	397	1.59
Savings	6,151	36	0.59	6,089	36	0.59
IRAs	5,875	238	4.05	4,731	167	3.53
CDs	54,269	2,259	4.16	38,299	1,239	3.24
Repurchase agreements and federal funds sold	19,581	698	3.56	11,029	248	2.25
Federal Home Loan Bank borrowings	8,673	459	5.28	3,941	191	4.85
Total interest-bearing liabilities	131,406	4,360	3.32	98,612	2,326	2.36
Other liabilities	732			392		
Total liabilities	148,935			110,711		
Stockholders equity						
Common stock	1,360			954		
Paid-in capital	16,314			10,227		
Retained earnings	2,791			2,071		
Accumulated other comprehensive income	(450)			(295)		
Total stockholders equity	20,015			12,957		
Total liabilities and stockholders equity	$ 168,950			$ 123,668		
Net interest spread			3.27			3.47
Impact of non-interest bearing funds on margin			0.45			0.32

Net interest income-margin	$ 5,651	3.72%	$ 4,325	3.79%

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

	2006 vs. 2005 Increase (Decrease) Due to change in:		
(Dollars in thousands)	**Volume(1)**	**Rate(1)**	**Net**
Interest earning assets:			
Loan portfolio:			
Commercial	$ 1,477	$ 437	$ 1,914
Tax exempt	77	2	79
Real Estate	881	140	1,021
Consumer	217	(70)	147
Net loans	$ 2,652	$ 509	$ 3,161
Investment securities (1)	210	123	333
Interest-bearing deposits in banks	(196)	66	(130)
Total interest-earning assets	$ 2,666	$ 698	$ 3,364
Interest-bearing liabilities:			
NOW	$ 11	$ 5	$ 16
Money market checking	9	201	210
Savings			
IRAs	46	25	71
CDs	665	355	1,020
Repurchase agreements	305	145	450
FHLB borrowings	250	17	267
Total interest-bearing liabilities	$ 1,286	$ 748	$ 2,034
Net interest income	$ 1,380	$ (50)	$ 1,330

	2005 vs. 2004 Increase (Decrease) Due to change in:		
(Dollars in thousands)	**Volume(1)**	**Rate(1)**	**Net**
Interest earning assets:			
Loan portfolio:			
Commercial	$ 456	$ 90	$ 546
Tax exempt	173	4	177
Real Estate	375	(69)	306
Consumer	(12)	(43)	(55)
Net loans	$ 992	$ (18)	$ 974
Investment securities (1)	(21)	50	29
Interest-bearing deposits in banks	51	58	109
Federal funds sold	1	2	3
Total interest-earning assets	$ 1,023	$ 92	$ 1,115
Interest-bearing liabilities:			
NOW	$ 10	$	$ 10
Money market checking	44	134	178
Savings	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	$ 714	$ (355)	$ 359

(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.

Provision for Loan Losses

MVB s provision for loan losses for 2006 and 2005 were approximately $445,000 and $160,000, respectively. This increase principally relates to the increase in loans outstanding.

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 conditions, trends in the markets served and guidance from the Bank s primary regulators. Management seeks to maintain 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 2006 was $1.2 million versus $876,000 in 2005.

The most significant increase in non-interest income from 2006 to 2005 was $128,000 in fees on loans sold into the secondary market. This increase is mainly the result of increased focus on secondary market loans. Other areas of significant increase in non-interest income were service charges on deposit accounts which increased by $117,000 to $591,000 and Visa debit card income, which increased by 47.8% to $170,000.

Loss on sale of securities during 2006 totaled $4,000 versus $5,000 in 2005. The Bank does not routinely sell securities from the portfolio, however, during 2006, some very small mortgage-backed securities were sold and replaced with higher yielding agencies which were used for repurchase agreements.

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 $5.13 million in 2006 versus $4.28 in 2005. Approximately 56% and 58% of non-interest expense for 2006 and 2005, 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 $2.48 million to $2.90 million represents a full year of staffing for the Harrison and Jefferson offices as well as salary adjustments for existing staff.

Data processing comprised approximately 12.3% and 11.8% of total non-interest expense during 2006 and 2005, respectively, growing from $505,000 in 2005 to $633,000 in 2006. This increase is the result of increasing account and transaction volumes from one year to the next, a full year s operation of the Harrison and Jefferson County offices and the continued focus on internet banking and bill payment services.

In 2006 occupancy expense increased by 62.7% to $379,000 and equipment depreciation and maintenance increased by 25.5% to $310,000. These increases were a direct result of expansion into the Harrison and Jefferson County markets.

2005 compared to 2004

Net interest income increased by $359,000 when comparing 2005 with 2004 results. This increase is largely due to growth in average earning assets, primarily loans, of $16.9 million in 2005. Average interest-bearing liabilities, mainly deposits, increased by $14.4 million in 2005. This increase was due to an increase in average interest-bearing deposits of $11.2 million.

Non-interest income is comprised of fees related to deposit accounts and cash management accounts. Non-interest income was $876,000 in 2005 compared to $677,000 in 2004. This increase was due primarily to increased deposit account activity, the addition of secondary market loan income and interest income on additional bank owned life insurance purchased in 2005.

Non-interest expense reached $4.3 million in 2005 compared to $2.7 million in 2004. This increase is representative of the continued growth in the Harrison and Jefferson county markets.

Income Taxes

MVB incurred income tax expense of $341,000 in 2006 and $195,000 in 2005.

The effective tax rate was 26% in 2005 and 2006.

Return on Assets

MVB s return on average assets was .58% in 2006, .45% in 2005 and 1.04% in 2004. The increased return in 2006 is a direct result of the improving performance of the Harrison and Jefferson offices as they continue to grow and mature. The 2005 results reflect all of the costs of opening the Harrison and Jefferson offices, with less than a full year to realize earnings from the new locations.

Return on Equity

MVB s return on average stockholders equity (ROE) was 4.86% in 2006, compared to 4.34% in 2005 and 12.68% in 2004. The increased return in 2006 is a direct result of the improving performance of the Harrison and Jefferson offices as they continue to grow. As with return on assets, the 2005 results reflect all the costs of opening the new offices with less than a full year to realize earnings from those offices. MVB also added $9 million in capital in 2005, which in addition to reduced earnings, had a significant negative impact on return on equity.

Overview of the Statement of Condition

The MVB balance sheet changed significantly from 2005 to 2006. Loans increased by $37.4 million to $142.6 million at December 31, 2006. This increase was largely due to growth in Harrison County, where $27.4 million in new loans were added to the portfolio. Bank premises, furniture and equipment increased by $867,000 as MVB has begun construction of a new facility in Berkeley County, West Virginia. Additionally, loans held for sale increased by $1.3 million and other assets increased by $807,000, $558,000 of which was FHLB stock. Deposits increased by $20.6 million, $9.8 million relating to Harrison County and $1.7 million relating to Jefferson County. Repurchase agreements increased by $4.9 million, $4.4 million relating to Harrison County. FHLB borrowings increased by $10.8 million, much of which was used to fund loan growth. Finally, stockholders equity increased by $3.1 million, $2.1 million of which represented the completion of an $11.6 million public offering began in 2005 and $973,000 in 2006 earnings. These areas of growth are in large part the direct result of growth in the Harrison and Jefferson county markets, in addition to the continued success of MVB in the Marion County market.

Cash and Cash Equivalents

MVB s cash and cash equivalents totaled $6.4 million at December 31, 2006, compared to $3.1 million at December 31, 2005, an increase of $3.3 million, $2.9 million of which represents an increase in the cash letter on the final day of the year.

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.

Investment Securities

Investment securities totaled $28.7 million at December 31, 2006, compared to $28.5 million at December 31, 2005.

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, 2006, the amortized cost of MVB s investment securities totaled $29.1 million, resulting in unrealized depreciation in the investment portfolio of $378,000.

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, Harrison and Jefferson 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 $142.6 million as of December 31, 2006, compared to $105.2 million at December 31, 2005.

During 2006, MVB experienced loan growth of $27.4 million in Harrison County and $9.8 million in Jefferson County. 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 $24.1 million, while adjustable rate residential real estate loans grew $15.2 million.

At December 31, 2006, commercial loans represented the largest portion of the portfolio approximating 58.3% of the total loan portfolio. Commercial loans totaled $83.1 million at December 31, 2006, compared to $59.0 million at December 31, 2005. 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 2007.

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 33.7% of MVB s total loan portfolio. Residential real estate loans totaled $48.1 million at December 31, 2006, compared to $32.9 million at December 31, 2005. Included in residential real estate loans are home equity credit lines totaling $10.7 million at December 31,2006, compared to $4.5 million at December 31, 2005. 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, 2006, consumer loan balances totaled $11.4 million compared to $13.3 million at December 31, 2005. 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 MVB s market areas.

The following table provides additional information about MVB s loans:

Loan maturities at December 31, 2006:

(Dollars in Thousands)	One Year or Less	Thru Five Years	Due After Five Years	Total
Commercial and nonresidential real estate	$ 13,967	$ 35,444	$ 33,713	$ 83,124
Residential real estate	2,788	6,133	39,144	48,065
Consumer and other	3,574	7,645	191	11,410
Total	$ 20,329	$ 49,222	$ 73,048	$ 142,599

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

Loan Portfolio Analysis:

(Dollars in Thousands)	2006	2005
Year-end balances:		
Commercial, financial and agricultural	83,124	59,052
Real estate	48,065	32,903
Consumer	11,410	13,259
Total	142,599	105,214

Loan Concentration

At December 31, 2006, 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 areas.

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. 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 has been a valuable indication of a potential problem.

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, 2006, MVB had non-accrual loans totaling $5,000 versus $81,000 as of this same date in 2005. At December 31, 2006 and 2005, MVB had impaired loans totaling $5,000 and $116,000, 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 $2,276,000 and $1,157,000, respectively at December 31, 2006 and 2005. Excluded from the 2005 numbers is a $1.3 million USDA 80% secured loan. This loan was paid off in the first quarter of 2006 through the liquidation of collateral consisting of machinery and equipment.

	December 31	
	2006	**2005**
Loans past due more than 30 days to gross loans	1.59%	1.10%
Loans past due more than 90 days to gross loans	.03%	.03%

MVB incurred net charge-offs of $112,000 in 2006 and $178,000 in 2005. MVB s provision for loan losses was $445,000 in 2006 and $160,000 in 2005. Net charge-offs represented .09% and .20% in 2006 and 2005, respectively, compared to average outstanding loans for the indicated period.

	2006	**2005**
Balance, January 1	$ 873	$ 891
Provision	445	160
Charge-offs	119	187
Recoveries	(7)	(9)
Net charge-offs	112	178
Balance, December 31	$ 1,206	$ 873

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

(Dollars in Thousands)	**2006**	**2005**
Allocation of allowance for loan losses at December 31:		
Commercial	$ 482	$ 349
Real estate	362	184
Consumer	362	340
Total	$ 1,206	$ 873
Percent of loans to total loans at December 31:		
Commercial	58%	56%
Real estate	34	31
Consumer	8	13
Total	100%	100%

Non-performing assets consist of loans that are no longer accruing interest, loans that have been renegotiated to below market rates based upon financial difficulties of the borrower, and real estate acquired through foreclosure. When interest accruals are suspended, accrued interest income is reversed with current year accruals charged to earnings and prior year amounts generally charged off as a credit loss. When, in management s judgment, the borrower s ability to make periodic interest and principal payments resumes and collectibility is no longer in doubt, the loan is returned to accrual status.

Non-performing assets and past due loans:

(Dollars in Thousands)	**2006**	**2005**
Non-accrual loans		
Commercial	$	$ 35
Real estate		
Consumer	5	81
Total non-accrual loans	5	116
Renegotiated loans		
Total non-performing loans	5	116
Other real estate, net		
Total non-performing assets	$ 5	$ 116
Accruing loans past due 90 days or more		
Non-performing loans as a % of total loans	.00%	.11%
Allowance for loan losses as a % of non-performing loans	24,120%	753%

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 MVB, totaling $134.6 million, or 79.8% of MVB s funding sources at December 31, 2006. This same information at December 31, 2005 reflected $114.0 million in deposits representing 86.1% of such funding sources. Cash management accounts, which are available to large corporate customers represented 12.0% and 11.6% of MVB s funding sources at December 31, 2006 and 2005, respectively. Borrowings from the Federal Home Loan Bank of Pittsburgh for specific purposes represented the remainder of such funding sources.

Management continues to emphasize the development of additional non-interest-bearing deposits as a core funding source for MVB. At December 31, 2006, non-interest-bearing balances totaled $19.8 million compared to $13.5 million at December 31, 2005 or 14.7% and 11.9% of total deposits respectively.

Interest-bearing deposits totaled $114.8 million at December 31, 2006, compared to $100.4 million at December 31, 2005. On a percentage basis, Certificates of Deposits compose the largest component of MVB s deposits. Average interest-bearing liabilities totaled $131.4 million during 2006 compared to $98.6 million during 2005. Average non-interest bearing liabilities totaled $17.5 million during 2006 compared to $12.0 million during 2005. Management will continue to emphasize deposit gathering in 2007 by offering outstanding customer service and competitively priced products.

Maturities of Certificates of Deposit $100,000 or more:

(Dollars in Thousands)	2006
Under 3 months	$ 1,502
Over 3-6 months	8,691
Over 6 to 12 months	11,278
Over 12 months	7,195
Total	$ 28,666

There are no other time deposits of $100,000 or more.

Federal Home Loan Bank borrowings and repurchase agreements:

(Dollars in Thousands)	2006	2005
Ending balance	$ 33,999	18,311
Average balance	28,254	14,970
Highest month-end balance	35,946	$ 18,311
Interest expense	1,157	439
Weighted average interest rate:		
End of Year	4.36%	3.24%
During the Year	4.09%	2.93%

Along with traditional deposits, MVB has access to both overnight repurchase agreements and Federal Home Loan Bank borrowings to fund its operations and investments. MVB s repurchase agreements totaled $20.2 million at December 31, 2006, compared to $15.3 million in 2005. Federal Home Loan Bank borrowings totaled $13.8 million at December 31, 2006, compared to $3.0 million at year-end 2005.

Capital/Stockholders Equity

During the year ended December 31, 2006, stockholders equity increased approximately $3.1 million to $21.6 million. This increase consists of $2.1 million raised through the completion of a public stock offering begun in 2005 and MVB s net income for the year of $973,000. MVB paid no dividends during 2006 or 2005.

At December 31, 2006, accumulated other comprehensive income (loss) totaled ($373,000), a decrease in the loss of $70,000 from December 31, 2005. This principally represents net unrealized loss on available-for-sale securities, net of income taxes, and the adjustment to initially apply FASB statement No. 158, net of income taxes, at December 31, 2006. Because the vast majority of all 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 values of investments than those institutions that classify more of their investment portfolio as held to maturity . Interest rate fluctuations between year-end 2006 and 2005 resulted in the change in market value of the portfolio.

MVB has also complied 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 either 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 14 of the Notes to the Audited Financial Statements. At December 31, 2006, MVB s risk-based capital ratios were above the minimum standards for a well-capitalized institution. MVB s risk-based capital ratio of 15.2% at December 31, 2006, is above the well-capitalized standard of 10%. MVB s Tier 1 capital ratio of 14.4% also exceeded the

well-capitalized minimum of 6%. The leverage ratio at December 31, 2006, was 11.4% and was also above the well-capitalized standard of 5%. Management believes MVB s capital continues to provide a strong base for profitable growth.

Liquidity and Interest Rate Sensitivity

The objective of MVB s asset/liability management function is to maintain consistent growth in net interest income within its policy guidelines. This objective is accomplished through management of MVB s balance sheet liquidity and interest rate risk exposure based on changes in economic conditions, interest rate levels, and customer preferences.

Interest Rate Risk

The most significant market risk resulting from MVB 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 which 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 review and management of the Bank s balance sheets related to the management of interest rate risk. The IALC strives to keep MVB 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 which represents projections of current balance sheet growth trends. Base case simulation results are prepared under a flat interest rate forecast and what is perceived to be the most likely alternative interest rate forecast. 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, what alternative strategies should be considered. 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 model 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 the base case for a 1% shift in interest rates, nor more than 15 % from the base case for a 2% shift in interest rates. MVB is in compliance with this policy as of December 31, 2006.

The following table is provided to show the earnings at risk of MVB as of December 31, 2006.

(Dollars in Thousands)	**Estimated Increase (Decrease) in Net Interest Income December 31, 2006**	
Immediate Interest Rate Change (one year time frame) (in Basis Points)	**Amount**	**Percent**
+200	$ 7,245	10.2%
+100	6,909	5.1%
Base rate	6,572	
-100	6,270	-4.6%
-200*	$ 5,825	-11.4%

Liquidity

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

The main source of liquidity for MVB comes through deposit growth. Liquidity is also provided from cash generated from investment maturities, principal payments from loans, and income from loans and investment securities. During the year ended December 31, 2006, cash provided by financing activities totaled $38.4 million, while outflows from investing activity totaled $35.0 million. When appropriate, MVB has the ability to take advantage of external sources of funds such as advances from the Federal Home Loan Bank (FHLB) and national market certificate of deposit issuance programs. These external sources often provide attractive interest rates and flexible maturity dates that enable MVB to match funding with contractual maturity dates of assets. Securities in the investment portfolio are primarily classified as available-for-sale and can be utilized as an additional source of liquidity.

Off-Balance Sheet Commitments

MVB has entered into certain agreements that represent off-balance sheet arrangements that could have a significant impact on MVB s financial statements and could have a significant impact in future periods. Specifically, MVB has entered into agreements to extend credit or provide conditional payments pursuant to standby and commercial letters of credit. Further discussion of these agreements, including the amounts outstanding at December 31, 2006, is included in Note 7 to the financial statements.

The following table details the amounts and expected maturities of significant commitments as of December 31, 2006.

(Dollars in thousands)	One Year Or Less	One To Three Years	Three To Five Years	Over Five Years	Total
Commitments to extend credit:					
Commercial	$ 5,892	$ 1,633	$ 144	$ 8,130	$ 15,799
Residential real estate	1,507			166	1,673
Revolving home equity lines		298	461	10,377	11,136
Standby letters of credit	231		169	400	400
Other commitments	594			594	594

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

Fourth Quarter

MVB s fourth quarter net income was $325,000 in 2006 compared to $137,000 in the fourth quarter of 2005. This equated to basic earnings per share, on a quarterly basis, of $.23 in 2006 and $.13 in 2005. Diluted earnings per share for the fourth quarter of 2006 and 2005 was $.22 and $.12, respectively. Net interest income increased in each quarter during 2006 and was $1.54 million in the fourth quarter of 2006 compared to $1.18 million in 2005. Non-interest income was $357,000 in the fourth quarter of 2006 compared to $316,000 in 2005. Non-interest expense increased to $1.30 million for the fourth quarter of 2006 from $1.29 million in 2005.

Future Outlook

The Bank s results of operations in 2006 were very nearly back to the levels prior to the opening of a new office in Harrison County and the purchase of an existing office in Jefferson County during 2005. These results support management s belief that the new markets will make more opportunities available to MVB in the future years. Due to continued customer acceptance of our customer service commitment, MVB has become a strong competitor in the Marion and Harrison County markets. MVB will strive to continue penetrating its markets with an emphasis on customer service with the highest quality products and technology.

Future plans for the Bank involve the Bank taking advantage of both technology and personal customer contact. The Bank continues to expand delivery channels to better serve both retail and business banking customers. In addition to top of the line technology, the Bank is committed to providing individual and personal banking services. MVB will continue to search for quality banking locations as well as exploring alternative delivery systems.

ITEM 7. FINANCIAL STATEMENTS
MVB Financial Corp.

Consolidated Balance Sheets

(Dollars in thousands, except number of shares)

December 31, 2006 and 2005

	2006	2005
ASSETS		
Cash and due from banks	$ 6,417	$ 3,130
Interest bearing balances with banks	53	3,614
Investment Securities:		
Securities held-to-maturity, at cost	2,326	3,608
Securities available-for-sale, at approximate market value	26,413	24,926
Loans:	142,599	105,214
Less: Allowance for loan losses	(1,206)	(873)
Net Loans	141,393	104,341
Loans held for sale	1,293	
Bank premises, furniture and equipment	6,493	5,626
Accrued interest receivable and other assets	6,896	6,089
TOTAL ASSETS	$ 191,284	$ 151,334
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Non-interest bearing	$ 19,758	$ 13,521
Interest bearing	114,835	100,432
Total Deposits	134,593	113,953
Accrued interest, taxes, and other liabilities	1,037	552
Repurchase agreements	20,209	15,309
Federal Home Loan Bank borrowings	13,790	3,002
Total Liabilities	169,629	132,816
STOCKHOLDERS EQUITY		
Preferred stock, par value $1,000; 5,000 shares authorized, none issued		
Common stock, par value $1; 4,000,000 shares authorized; 1,467,849 and 1,336,517 shares issued and outstanding, respectively	1,468	1,336
Additional paid-in capital	17,720	15,750
Treasury Stock	(18)	(10)
Retained earnings	2,858	1,885
Accumulated other comprehensive income	(373)	(443)
Total Stockholders Equity	21,655	18,518
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 191,284	$ 151,334

See Notes to Consolidated Financial Statements

MVB Financial Corp.

Consolidated Statements of Income

(Dollars in thousands except Share and Per Share Data)

Years ended December 31, 2006 and 2005

	2006	2005
INTEREST INCOME		
Interest and fees on loans	$ 8,500	$ 5,418
Interest on deposits with other banks	30	164
Interest on investment securities taxable	1,151	820
Interest on tax exempt loans and securities	330	249
Total interest income	10,011	6,651
INTEREST EXPENSE		
Interest on deposits	3,203	1,886
Interest on repurchase agreements	698	249
Interest on Federal Home Loan Bank borrowings	459	191
Total interest expense	4,360	2,326
NET INTEREST INCOME	5,651	4,325
Provision for loan losses	445	160
Net interest income after provision for loan losses	5,206	4,165
OTHER INCOME		
Service charges on deposit accounts	591	474
Income on bank owned life insurance	149	101
Visa debit card income	170	115
Income on loans held for sale	246	118
Other operating income	88	73
Loss on sale of securities	(4)	(5)
	1,240	876
OTHER EXPENSES		
Salaries and employee benefits	2,897	2,485
Occupancy expense	379	233
Equipment depreciation and maintenance	310	247
Data processing	633	505
Visa debit card expense	116	85
Advertising	112	93
Legal and accounting fees	87	56
Printing, stationery and supplies	85	94
Other taxes	97	85
Other operating expenses	416	401
	5,132	4,284
Income before income taxes	1,314	757
Income tax expense	341	195

Net Income	$	973	$	562
Basic net income per share	$	0.68	$	0.57
Diluted net income per share	$	0.67	$	0.56
Basic weighted average shares outstanding		1,427,985		993,022
Diluted weighted average shares outstanding		1,442,910		1,008,033

See Notes to Consolidated Financial Statements

MVB Financial Corp.

Consolidated Statements of Cash Flows

(Dollars in thousands)

Years ended December 31, 2006 and 2005

	2006	2005
OPERATING ACTIVITIES		
Net Income	$ 973	$ 562
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	445	160
Deferred income tax (benefit)/expense	(61)	37
Depreciation	310	189
Loans originated for sale	(14,924)	(8,437)
Proceeds of loans sold	13,631	8,437
Amortization, net of accretion	31	83
(Increase) in interest receivable and other assets	(984)	(792)
Increase in accrued interest, taxes, and other liabilities	483	168
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	(96)	407
INVESTING ACTIVITIES		
(Increase) in loans made to customers	(37,497)	(26,541)
Purchases of premises and equipment	(1,177)	(2,525)
Purchases of investment securities available-for-sale	(8,386)	(10,441)
Purchases of investment securities held-to-maturity		(2,200)
Decrease/(increase) in deposits with Federal Home Loan Bank, net	2,670	(2,418)
Purchases of certificates of deposit with other banks	(594)	(3,069)
Proceeds from maturity of certificates of deposit with other banks	1,485	3,763
Proceeds from sales, maturities and calls of securities available-for-sale	8,251	3,976
Proceeds from maturities and calls of securities held-to-maturity	209	40
Purchase of bank owned life insurance		(2,000)
Net cash acquired from branch purchase		14,472
NET CASH (USED IN) INVESTING ACTIVITIES	(35,039)	(26,943)
FINANCING ACTIVITIES		
Net increase in deposits	20,640	11,372
Net increase in repurchase agreements	4,900	7,811
Net increase/(decrease) in Federal Home Loan Bank borrowings	10,788	(1,037)
Purchase of treasury stock	(8)	(1)
Net proceeds of stock offering	2,102	9,368
NET CASH PROVIDED BY FINANCING ACTIVITIES	38,422	27,513
Increase in cash and cash equivalents	3,287	977
Cash and cash equivalents at beginning of period	3,130	2,153
Cash and cash equivalents at end of period	$ 6,417	$ 3,130

Supplemental disclosure of cash flow information

Cash payments for:				
Interest on deposits, repurchase agreements and FHLB borrowings	$	4,249	$	2,172
Income taxes	$	340	$	659

See Notes to Consolidated Financial Statements

MVB Financial Corp.

Consolidated Statements of Changes in Stockholders Equity

Years ended December 31, 2006 and 2005

(Dollars in thousands)

	Common Stock	Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income/(loss)	Treasury Stock	Total Stockholders Equity
Balance, December 31, 2004	$ 743	$ 6,975	$ 1,323	$ (189)	$ (9)	$ 8,843
Comprehensive income:						
Net Income			562			562
Other comprehensive income(loss)						
Net fair value adjustment on securities available for sale, less reclassification adjustment for realized gains - net of tax effect of $156				(234)		(234)
Minimum pension liability adjustment - net of tax effect				(20)		(20)
Total Comprehensive Income						308
Stock offering	593	8,775				9,368
Treasury stock, acquired at cost					(1)	(1)
Balance, December 31, 2005	$ 1,336	$ 15,750	$ 1,885	$ (443)	$ (10)	$ 18,518
Comprehensive income:						
Net Income			973			973
Other comprehensive income(loss)						
Net fair value adjustment on securities available for sale, less reclassification adjustment for realized gains - net of tax effect of $(123)				185		185
Total Comprehensive Income						1,158
Adjustment to initially apply FASB Statement No. 158, net of tax				(115)		(115)
Stock offering	132	1,970				2,102
Treasury stock, acquired at cost					(8)	(8)
Balance, December 31, 2006	$ 1,468	$ 17,720	$ 2,858	$ (373)	$ (18)	$ 21,655

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MVB FINANCIAL CORP.

December 31, 2006

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

MVB Financial Corp., the Company , provides banking services to the domestic market with the primary market areas being the Marion, Jefferson, and Harrison counties of West Virginia. To a large extent, the operations of the Company, such as loan portfolio management and deposit growth, are directly affected by the market area economies.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of MVB Financial Corp. Inc., and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Management Estimates

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

Investment Securities

Debt securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for amortization of premium and accretion of discounts computed by the interest method from purchase date to maturity. Other marketable securities are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on securities available-for-sale, net of the deferred income tax effect, are recognized as direct increases or decreases in stockholders equity. Cost of securities sold is recognized using the specific identification method.

Loans Held for Sale

Through Freddie Mac and InterFirst, MVB Bank, Inc. has the ability to offer customers long-term fixed rate mortgage products without holding these instruments in the bank s loan portfolio. After thorough review of the contracts with Freddie Mac and InterFirst, the Company has concluded that no material derivative instruments exist.

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal reduced by an allowance for loan losses. Loans are considered delinquent when scheduled principal or interest payments are 31 days past due. Interest income on loans is recognized on an accrual basis. The allowance for loan losses is maintained at a level deemed adequate to absorb probable losses inherent in the loan portfolio. The Company consistently applies a quarterly loan review process to continually evaluate loans for changes in credit risk. This process serves as the primary means by which the Company evaluates the adequacy of the allowance for loan losses, and is based upon periodic review of the collectibility of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as substandard or special mention. The general component covers non-classified loans and is based upon historical loss experience adjusted for qualitative factors.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MVB FINANCIAL CORP.

December 31, 2006

Loan Origination Fees and Costs

Loan origination fees and costs are accounted for according to Statement of Financial Accounting Standards No. 91, which requires that loan origination and commitment fees and direct loan origination costs be deferred and the net amount amortized as an adjustment of the related loan s yield.

Bank Premises, Furniture and Equipment

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

Intangible Assets

The excess of the cost of an acquired company over the fair value of the net assets and identified intangibles acquired is recorded as goodwill. The net carrying amount of intangible assets was $995 at December 31, 2006.

Other Investments

Federal Home Loan Bank (FHLB) stock is recorded at cost and considered to be restricted as the Company is required by the FHLB to hold this investment, and the only market for this stock is the issuing agency. FHLB stock totaled $851 and $293 at December 31, 2006 and 2005, respectively, and is included in other assets in the accompanying balance sheet.

Income Taxes

Deferred income taxes are reported for timing differences between items of income or expense reported in the financial statements and those reported for income tax purposes. The differences relate principally to accretion of discounts on investment securities, provision for loan losses, minimum pension liability, and differences between book and tax methods of depreciation.

Stock Based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment, (SFAS No. 123R) which was issued by the Financial Accounting Standards Board (FASB) in December 2004. SFAS No. 123R revises SFAS 123 Accounting for Stock Based Compensation, and supercedes APB No. 25, Accounting for Stock Issued to Employees, (APB No. 25) and its related interpretations. Under SFAS No. 123R, the Company is required to record compensation expense for all awards granted after the date of adoption and for any unvested options previously granted. All outstanding options of the Company were fully vested as of December 31, 2005, and only late in 2006 did the Company grant a small number of options for which compensation expense of less than $1 has been recognized.

At December 31, 2005, the Company accounted for its stock-based compensation using the accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. The Company was not required to adopt the fair value based recognition provisions prescribed under SFAS No. 123, Accounting for Stock-Based Compensation, but complied with the disclosure requirements set forth in SFAS No. 148, which included disclosing pro forma net income as if the fair value based method of accounting had been applied. This information for the year ended December 31, 2005 is as follows:

(Dollars in Thousands, except Per Share Data)	**Year Ended December 2005**
Net income as reported	$ 562

Stock based compensation, net of tax using fair value method		(395)
Pro forma net income	$	167
Basic earnings per share as reported	$	0.57
Diluted earnings per share as reported	$	0.56
Proforma basic earnings per share	$	0.17
Proforma diluted earnings per share	$	0.17

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MVB FINANCIAL CORP.

December 31, 2006

Foreclosed Assets Held for Resale

Foreclosed assets held for resale acquired in satisfaction of mortgage obligations and in foreclosure proceedings are recorded at the lower of cost or fair value less estimated selling costs at the time of foreclosure, with any valuation adjustments charged to the allowance for loan losses. Any unrealized gains or losses on sale are then recorded in other non-interest expense. At December 31, 2006 and 2005, the Company held other real estate of $0 and $40.

Net Income Per Common Share

Diluted net income per common share includes any dilutive effects of stock options, and is computed by dividing net income by the average number of common shares outstanding during the period, adjusted for the dilutive effect of options under The Company s 2003 Stock Incentive Plan.

Comprehensive Income

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

Reclassifications

Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 financial statement presentation.

NOTE 2. INVESTMENT SECURITIES

Amortized cost and approximate market values of investment securities held-to-maturity at December 31, 2006, including gross unrealized gains and losses, are summarized as follows:

(Dollars in thousands)	**Amortized Cost**	**Unrealized Gain**	**Unrealized Loss**	**Approximate Market Value**
Mortgage-backed securities	$	$	$	$
Municipal securities	826	2	(5)	823
U. S. Agency securities	1,500		(7)	1,493
	$ 2,326	$ 2	$ (12)	$ 2,316

Amortized cost and approximate market values of investment securities held-to-maturity at December 31, 2005, including gross unrealized gains and losses, are summarized as follows:

	Amortized Cost	**Unrealized Gain**	**Unrealized Loss**	**Approximate Market Value**
Mortgage-backed securities	$ 69	$ 2	$	$ 71
Municipal securities	838	1	(9)	830

U. S. Agency securities	2,701		(11)	2,690
	$ 3,608	$ 3	$ (20)	$ 3,591

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MVB FINANCIAL CORP.

December 31, 2006

Amortized cost and approximate market values of investment securities available-for-sale at December 31, 2006 are summarized as follows:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Approximate Market Value
U. S. Agency securities	$ 20,869	$ 34	$ (145)	$ 20,758
Mortgage-backed securities	4,667		(159)	4,508
Corporate securities	1,255	2	(110)	1,147
	$ 26,791	$ 36	$ (414)	$ 26,413

Amortized cost and approximate market values of investment securities available-for-sale at December 31, 2005 are summarized as follows:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Approximate Market Value
U. S. Agency securities	$ 17,999	$	$ (275)	$ 17,724
Mortgage-backed securities	6,096	3	(202)	5,897
Corporate securities	1,517		(212)	1,305
	$ 25,612	$ 3	$ (689)	$ 24,926

The following tables summarize amortized cost and approximate market values of securities by maturity:

	December 31, 2006			
	Held to Maturity		Available for sale	
	Amortized Cost	Approximate Market Value	Amortized Cost	Approximate Market Value
Within one year	$ 1,000	$ 999	$ 2,358	$ 2,349
After one year, but within five			13,874	13,672
After five years, but within ten	988	983	8,624	8,594
After ten Years	338	334	1,935	1,798
Total	$ 2,326	$ 2,316	$ 26,791	$ 26,413

Investment securities with a carrying value of $20,904 and $16,254 at December 31, 2006 and 2005, respectively, were pledged to secure public funds and repurchase agreements.

The Company s investment portfolio includes securities that are in an unrealized loss position as of December 31, 2006, the details of which are included in the following table. Although these securities, if sold at December 31, 2006 would result in a pretax loss of $426, the Company has no intent to sell the applicable securities at such market values, and maintains the Company has the ability to hold these securities until all principal has been recovered. Declines in the market values of these securities can be traced to general market conditions which reflect the prospect for the economy as a whole. When determining other-than-temporary impairment on securities, the Company considers such factors as adverse conditions specifically related to a certain security or to specific conditions in an industry or geographic area, the time frame securities

have been in an unrealized loss position, the Company s ability to hold the security for a period of time sufficient to allow for anticipated recovery in value, whether or not the security has been downgraded by a rating agency, and whether or not the financial condition of the security issuer has severely deteriorated. As of December 31, 2006, the Company considers all securities with unrealized loss positions to be temporarily impaired, and consequently, does not believe the Company will sustain any material realized losses as a result of the current temporary decline in market value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MVB FINANCIAL CORP.

December 31, 2006

The following table discloses investments in an unrealized loss position:

At December 31, 2006, total temporary impairment totaled $426.

	Less than 12 months		12 months or more	
Description and number of positions	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. Agencies (33)	$ 2,309	$ (2)	$ 14,256	$ (150)
Mortgage-backed securities (33)			4,508	(159)
Corporate securities (3)			845	(110)
Municipal securities (2)	285	(1)	229	(4)
	$ 2,594	$ (3)	$ 19,838	$ (423)

NOTE 3. LOANS

The components of loans in the balance sheet at December 31, were as follows:

(Dollars in thousands)