MVB FINANCIAL CORP
Form SB-2
April 12, 2007
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As filed with the Securities and Exchange Commission on April 12, 2007.

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM SB-2

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

MVB FINANCIAL CORP.

(Name of small business issuer in its charter)

West Virginia	6712	20-0034461
(State or jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

301 Virginia Avenue

Fairmont, West Virginia 26554-2777

(304) 363-4800

(Address and telephone number of principal executive offices)

James R. Martin

President and Chief Executive Officer

MVB Financial Corp.

301 Virginia Avenue

Fairmont, West Virginia 26554-2777

(304) 363-4800 (304) 366-8600 Fax

(Name, address and telephone number of agent for service)

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Approximate date of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price	Proposed Maximum Aggregate	Amount of Registration Fee

		per Share	Offering Price	
Common Stock, $1.00 par value	200,000	$ 20	$ 4,000,000	$ 122.80

(1) Estimated solely for purposes of calculating the registration fee.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a) may determine.

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PROSPECTUS

Up to 200,000 Shares

MVB FINANCIAL CORP.

301 Virginia Avenue

Fairmont, West Virginia 26554-2777

(304) 363-4800

Common Stock

MVB Financial Corp. is offering up to 200,000 shares of its common stock. Prior to the offering, there has been no public market for the common stock, and at least initially, we do not expect one to develop. Subject to the following provisions, each investor must purchase a minimum of 100 shares and may purchase no more than 10,000 shares. See Terms of the Offering. Funds raised from the offering will be immediately available to MVB Financial for use, and therefore, MVB Financial will not utilize an escrow account. Additionally, there is no established minimum amount MVB Financial is required to raise before it may use funds for the purposes described in Use of Proceeds. The offering will terminate on or before 1, 200 . MVB Financial is not aware of any expected purchase amounts by its officers or directors.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The shares of MVB Financial Corp. common stock are not savings accounts, deposits or other bank obligations, and neither the FDIC nor any other governmental agency insures these securities.

Shares of MVB Financial Corp. involve risk. See Risk Factors on page 2.

	Price	Estimated Expense Of Offering[1]	Estimated Proceeds To MVB Financial
Per Share:	$ 20 2	$ .20	$ 19.80
Offering Total:	$ 4,000,000	$ 40,000	$ 3,960,000

[1] MVB Financial Corp. will offer the shares of its common stock to the public primarily through sales made by its directors, officers, and employees, on a best-efforts basis as set forth in Plan of Distribution. These individuals will use personal contact, telephone, mail or other

media to solicit subscriptions. No director, officer or employee of MVB Financial will receive any additional compensation for assisting with the sale of MVB Financial s common stock. The expenses of the offering are estimated to be $40,000 including legal, accounting, printing and postage expenses. MVB Financial reserves the right to issue shares through sales made by brokers or dealers in securities, in which case expenses may exceed the amounts listed above.

[2] The Price was determined arbitrarily by MVB Financial.

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SUMMARY

You should read this summary together with the more detailed information, including our financial statements and related notes, appearing elsewhere in this prospectus. In this prospectus, we use MVB Financial or the company to refer to MVB Financial Corp. and the bank or MVB to refer to MVB Bank, Inc.

MVB Financial (Page)

MVB Financial is a West Virginia state-chartered bank holding company and owns three second-tier holding companies (MVB-Marion, Inc., MVB-Harrison, Inc., and MVB-East, Inc., to manage the banking operations of MVB, the sole bank subsidiary, in those markets.

MVB (Page)

MVB was incorporated October 30, 1997 and opened for business on January 4, 1999 under the laws of the State of West Virginia. MVB s deposits are insured by the FDIC up to FDIC limits. MVB engages in general banking business within its primary market areas of Marion County, West Virginia, and Harrison County, West Virginia. MVB is expanding its presence in the Eastern Panhandle of West Virginia (Jefferson and Berkeley Counties). The main office is located at 301 Virginia Avenue, Fairmont, West Virginia.

MVB focuses primarily on extending loans to small businesses and consumers and is engaged in real estate and consumer installment lending.

As of December 31, 2006, MVB had total assets of $191.2 million, loans of $142.6 million, deposits of $134.6 million and shareholders equity of $21.7 million, compared to $151.3 million, $105.2 million, and $114.0 million and $18.5 million as of December 31, 2005, respectively.

The Offering (Page)

Amount:	Up to 200,000 Shares
Type:	Common Stock
Price:	$20 per Share

Use of Proceeds (Page)

MVB Financial will use the proceeds of this offering to support the growth of the bank. This includes investing the proceeds of the offering in the bank to increase its legal lending limits to any one borrower. In addition to investing the proceeds of this offering in the bank to increase its legal lending limit, MVB Financial issued $4,000,000 of trust preferred securities as of March 29, 2007, to fund an additional increase in its legal lending limits. This $4,000,000 investment in MVB yields an increase of $600,000 in its legal lending limit.

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RISK FACTORS

Prospective investors, prior to making an investment decision, should consider carefully, in addition to the other information contained in this prospectus (including the financial statements and notes thereto), the following factors. This prospectus contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. Our actual results could differ materially. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below, as well as those discussed elsewhere in this prospectus.

You may have difficulty selling your shares of MVB Financial.

Because no public market exists for the holding company s common stock, you may have difficulty selling your shares. We cannot predict when, if ever, we could meet the listing qualifications of the Nasdaq Stock Market s National Market Tier or when we may trade on the Nasdaq Bulletin Board. There will not be an active public market for the shares in the near future.

The company faces vigorous competition for deposits and loans in its market areas which requires the company to offer attractive interest rates on deposits and loans which may negatively impact earnings.

The banking business is generally a highly competitive business and as such, the company must offer attractive products, including attractive interest rates on loans and deposits which may lower earnings. As of June 30, 2006, based on an FDIC analysis done as of June 30 each year, there were five banks in Marion County with 18 different locations. Marion County deposits approximated $613 million; MVB s market share was 14.4%. There were 12 banks in Harrison County with 31 different offices. Harrison County deposits approximated $932 million; MVB s market share after being open nearly one year was 1.29%. The Jefferson County market which MVB entered in October 2005 has seven banks with 17 offices. Deposits in Jefferson County approximated $708 million of which MVB had a 2.3% market share.

For most of the services which MVB provides, there is also competition from financial institutions other than commercial banks, for instance, savings and loan associations and credit unions. Offices of national brokerage firms are also in both markets. In addition, some traditional banking services or competing services are offered by insurance companies, investment counseling firms and other business firms and individuals. These entities may have significantly greater financial and marketing resources than MVB has.

The existence of larger financial institutions in Marion, Harrison and Jefferson Counties, West Virginia, some of which are owned by larger regional or national companies, influence the competition in MVB s market area. The principal competitive factors in the market for deposits and loans are interest rates, either paid on deposits or charged on loans. West Virginia law allows statewide branch banking which provides increased opportunities for MVB, but it also increases the potential competition for MVB in its service area. In addition, in 1994, Congress passed the Riegle-Neal Interstate Banking and Branching Efficiency Act. Under this Act, absent contrary action by a state s legislature, interstate branch banking was allowed to occur after June 1, 1997. States are permitted to elect to participate to a variety of degrees in interstate banking or states may elect to opt out. In 1996, the West Virginia Legislature elected to opt in. Accordingly, out-of-state banks may form de novo banks or may require existing branches of West Virginia banks on a reciprocal basis.

In the future, the bank s lending limit could create a competitive disadvantage for the bank.

In the future, the bank may not be able to attract larger customers because the size of loans that the bank can offer to potential customers is less than the size of the loans that many of the bank s larger competitors can offer. Accordingly, the bank may lose customers seeking large loans. We anticipate that our lending limit will continue to increase proportionately with the bank s growth in earnings and as a result of the stock sale described herein;

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however, the bank may not be able to successfully attract or maintain larger customers. To date, MVB s management does not believe that this risk has significantly impacted MVB, but does believe there are and will be additional opportunities for MVB if it has a larger lending limit.

The bank engages in commercial and consumer lending activities which are riskier than residential real estate lending.

MVB makes loans that involve a greater degree of risk than loans involving residential real estate lending. Commercial business loans may involve greater risks than other types of lending because they are often made based on varying forms of collateral, and repayment of these loans often depends on the success of the commercial venture. Consumer loans may involve greater risk because adverse changes in borrowers incomes and employment after funding of the loans may impact their abilities to repay the loans. To date, MVB has not been significantly impacted by this risk.

The bank s loan portfolio at December 31, 2006, consists of the following:

Type of Loan	Percentage of Portfolio
Residential Real Estate Loans	34%
Commercial Loans, principally real estate secured	58%
Consumer Loans	8%

The bank has limited control over its profitability because the bank cannot control the various factors that can cause fluctuations in interest rates.

Aside from credit risk, the most significant risk resulting from MVB s normal course of business, extending loans and accepting deposits, is interest rate risk. If market interest rate fluctuations cause MVB s cost of funds to increase faster than the yield of its interest-earning assets, its net interest income will be reduced. MVB s results of operations depend to a large extent on the level of net interest income, which is the difference between income from interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Interest rates are highly sensitive to many factors that are beyond the bank s control, including general economic conditions and the policies of various governmental and regulatory authorities.

To effectively monitor the interest rate risk discussed above, MVB uses a well-known computer model to project the change in net interest income under various changes in interest rates. To provide guidance to management, MVB s board of directors, through its Asset/Liability/Investment Committee, has established a policy related thereto which includes interest rate risk parameters within which to operate. As of December 31, 2006, MVB s interest rate risk is within the parameters.

The bank s success depends on the bank s management team.

The departure of one or more of the bank s officers or other key personnel could adversely affect the bank s operations and financial position. The bank s management makes most decisions that involve the bank s operations. The key personnel are James R. Martin, President and Chief Executive Officer, Larry F. Mazza, Chief Executive Officer, MVB-Harrison, Inc., Roger J. Turner, President, MVB-Harrison, Inc. and Senior Lending Officer, Timothy R. Procita, President and Chief Executive Officer, MVB-East, Inc., Gary M. Cox, Senior Vice President, Marketing/Business Services, Eric L. Tichenor, Senior Vice President and Cashier, and Susan R. Walls, Vice President, Deposit Services. All except for Mr. Mazza, Mr. Procita and Mr. Turner have been with MVB since inception. Mr. Mazza and Mr. Turner joined MVB in March 2005 while Mr. Procita joined MVB in March 2007. All MVB key personnel had extensive experience in his or her field of expertise prior to joining MVB.

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The company is highly regulated.

The operations of the company are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on them. Policies adopted or required by these governmental authorities can affect the company s business operations, including earnings due to cost of compliance with various banking regulations and the availability, growth and distribution of the company s investments, borrowings and deposits.

The company may incur increased charge-offs and additional loan loss provisions due to negative credit quality experience in the future.

In the future, the company could experience negative credit quality trends that could lead to a deterioration of asset quality. A deterioration in asset quality could require the company to incur loan charge-offs in the future and incur additional loan loss provisions, both of which would decrease earnings.

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SPECIAL CAUTIONARY NOTE

REGARDING FORWARD-LOOKING STATEMENTS

When used in this prospectus, in MVB s or MVB Financial press releases or other public or shareholder communications, and in oral statements made with the approval of an authorized executive officer, the words or phrases are expected to, estimate, is anticipated, project, will continue will likely result, plans to or similar expressions are intended to identify forward-looking statements. These types of statements are subject to risks and uncertainties, including changes in economic conditions in the bank s market area, changes in policies by regulatory agencies, fluctuation in interest rates, demand for loans in the bank s market area, and competition that could cause actual results to differ materially from what MVB or MVB Financial have presently anticipated or projected. MVB and MVB Financial wish to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. MVB and MVB Financial wish to advise readers that factors addressed within this prospectus would affect the bank s financial performance and could cause the bank s actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. The factors we list in the section Risk Factors provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.

Where any forward-looking statement includes a statement of the assumptions or bases underlying the forward-looking statement, MVB and MVB Financial caution that assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material. We cannot assure you that any statement of expectation or belief in any forward-looking statement will result, or be achieved or accomplished.

TERMS OF THE OFFERING

MVB Financial is offering up to 200,000 shares of common stock at a cash price of $20 per share. This price per share was set by the board of directors of MVB arbitrarily. Each investor must execute a subscription agreement and deliver $20 for each share the investor wishes to acquire. Checks must be made payable to MVB Financial Corp. Each investor must purchase a minimum of 100 shares and may purchase no more than 10,000 shares. At the board s discretion, MVB Financial may waive the maximum amount of shares that may be purchased. Further, MVB Financial reserves the right to cancel or modify subscriptions, in whole or in part, for any reason. MVB Financial also reserves the right to reject any and all subscriptions and to determine the order in which it will accept subscriptions. The full subscription price per share must be paid at the time an investor subscribes for shares, unless the company agrees to other arrangements concerning the time and place of full payment. Funds raised from the offering will be immediately available to MVB Financial for use and therefore, MVB Financial will not use an escrow account. Additionally, there is no established minimum amount MVB Financial is required to raise before it may use funds for the purposes described in Use of Proceeds. The offering will terminate on or before . MVB Financial is not aware of any expected purchase amounts by its officers or directors.

MVB Financial s board of directors has established general guidelines for management to determine offerees of common stock of the company. These guidelines allow significant discretion to management as to whom may be offered the company s common stock. Factors which may be considered in determining who the offerees are in this offering include:

- Existence of accounts or purchases of products with the company and its subsidiaries;
- The profitability and volume of the existing accounts and products;
- The longevity of the account relationship;
- Future growth potential of the relationship between the company and its subsidiaries and the offeree;

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Whether the offeree has in the past or may in the future, refer other persons as customers to the company and its subsidiaries;

Whether the offeree is an employee of the company or its subsidiaries;

Whether management of the company deems, in its discretion, that the offeree would be beneficial to the company, by virtue of ongoing business development or referrals, general reputation, or otherwise; and

Any other factor that management determines relevant.

In addition to the foregoing factors, management may provide preferential treatment in the opportunity to purchase shares to the company s and its subsidiaries employees who have assisted in the development and growth of the company and its business and to provide incentives to other persons to continue to assist in the company s growth. These guidelines are not binding on management, and the board of directors has vested in management the discretion to determine the identities of the offerees of the common stock.

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USE OF PROCEEDS

MVB Financial will use the proceeds from this offering to support the growth of the bank. This includes investing the proceeds of the offering in the bank to increase its legal lending limit to any one borrower. The legal lending limit to one borrower is, generally, equal to 15% of the bank s equity capital plus its Allowance for Loan Losses. At December 31, 2006, MVB s legal lending limit was approximately $3.3 million. The bank would like to increase this amount to about $5 million. This can be done through bank earnings and investments by MVB Financial in MVB.

MVB may raise funds for investment by selling stock (as contemplated in this prospectus) or through the issuance of trust-preferred securities. It is anticipated that a combination of such funds will be used to increase the legal limit of MVB.

The net proceeds of this proposed stock sale, approximately $4 million, will be invested in MVB by MVB Financial. Assuming the entire offering is sold, the increase in MVB s legal lending limit will be nearly $600,000. If all shares are not sold, the legal lending limit of MVB will increase by 15% of the net proceeds.

Trust-preferred securities are essentially debt issued by MVB Financial, the proceeds of which can be invested in MVB to increase the capital of MVB. The advantage to the trust-preferred securities is that it is a debt of MVB and does not dilute existing shareholders. The disadvantage is that as debt there is a required quarterly interest payment and expense associated therewith.

Effective March 29, 2007, MVB Financial issued $4 million in trust preferred securities, the proceeds of which were invested in MVB as equity capital. This increase in equity capital resulted in an additional increase in MVB s legal lending limit by $600,000.

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CAPITALIZATION

December 31, 2006 and 2005

The following table sets forth our actual capitalization as of December 31, 2006, and December 31, 2005.

	December 31, 2006	December 31, 2005
	(in thousands)	
Stockholders equity:		
Preferred Stock, par value $1,000; 5,000 shares authorized; None issued	$	$
Common Stock, $1.00 par value, 4,000,000 shares authorized; 1,467,849 and 1,336,517 issued and outstanding at December 31, 2006, and 2005, 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 (loss)	(373)	(443)
Total Capitalization	$ 21,655	$ 18,518

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MARKET PRICE AND DIVIDEND DATA

The company s common stock is not traded on any stock exchange or over the counter. Shares of the company s common stock are occasionally bought and sold by private individuals, firms or corporations, and the company may not have knowledge of the purchase price or the terms of the purchase. Trading of shares of the company s common stock is very limited, and the table presented below sets forth the estimated market value for the indicated periods based on sales made known to management by persons involved in such sales and purchases. Because of its fairly recent formation, the company has not paid cash dividends and MVB Financial does not intend to declare dividends in the foreseeable future. On June 1, 2001, the bank issued stock in connection with a 5% stock dividend. The board of directors of MVB Financial declared a 5% stock dividend to shareholders of record July 1, 2004, payable August 15, 2004. No fractional shares were issued. All those entitled to receive fractional shares received cash in lieu of such shares at the estimated market price at the time of the dividend.

At December 31, 2006, MVB Financial s common stock was owned, of record, by approximately 950 shareholders.

MVB Financial s stockholders are entitled to receive dividends when and as declared by its board of directors, subject to various regulatory restrictions. Dividends of the bank to MVB Financial are subject to the restrictions contained in W.Va. Code § 31A-4-25. That statute provides that not less than one-tenth part of the net profits of the preceding half-year (in the case of quarterly or semi-annual dividends) or the preceding two consecutive half-year periods (in the case of annual dividends) must be carried to a bank s surplus fund until the surplus fund equals the amount of its capital stock. The prior approval of the West Virginia Commissioner of Banking is required if the total of all dividends declared by a state bank in any calendar year will exceed the bank s net profits for that year combined with its retained net profits for the preceding two years. The statute defines net profits as the remainder of all earnings from current operations plus actual recoveries on loans and investments and other assets after deducting all current operating expenses, actual losses and all federal and state taxes.

	Quarterly Market Price Information			
	2006 Estimated Market Value Per Share		2005 Estimated Market Value Per Share	
	High	Low	High	Low
First Quarter	16.00	16.00	14.00	14.00
Second Quarter	16.00	16.00	16.00	14.00
Third Quarter	16.00	16.00	16.00	16.00
Fourth Quarter	16.00	16.00	16.00	16.00

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights(a)	Weighted-average exercise price of outstanding options, warrants and rights(b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(c)
Equity compensation plans approved by security holders	176,812	$ 14.64	23,188
Equity compensation plans not approved by security holders	0	0	0

Total	176,812	$	14.64	23,188

On May 15, 2007, the shareholders of MVB Financial will vote on the proposed addition of 100,000 shares of common stock to the 2003 MVB Financial Corp. Stock Option Plan.

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DESCRIPTION OF BUSINESS

You should read the following description of our business in conjunction with the information included elsewhere in this prospectus. This description contains certain forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from the results discussed in the forward-looking statements as a result of certain factors set forth in Risk Factors and elsewhere in this prospectus.

The company was formed on May 29, 2003, as a bank holding company and acquired MVB effective January 1, 2004. MVB 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 2005 and 2006, MVB Financial formed three second-tier holding companies (MVB-Marion, Inc., MVB-Harrison, Inc., and MVB-East, Inc.) to manage the banking operations of MVB, the sole bank subsidiary, in those markets.

MVB operates offices in the Fairmont and White Hall areas of Marion County, West Virginia, the Bridgeport area of Harrison County, West Virginia, and the Somerset Village Shopping Center of Jefferson County, West Virginia. At December 31, 2006, MVB Financial 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), automobile drive-in facilities, banking by phone and Internet-based banking. Additionally, MVB offers a full line of investment products through an unaffiliated registered broker-dealer.

At December 31, 2006, the company had 59 full-time equivalent 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 Marion County. Our early performance in the newer markets of Harrison and Jefferson Counties is encouraging.

Recent Additions

MVB has a full-service office under construction in Martinsburg, Berkeley County, West Virginia, which will be a companion office to our existing office in the adjacent county of Jefferson.

Customers and Markets

The company s market areas have a diverse economic structure. Principal industries or employers in Marion and Harrison Counties include health care, Fairmont State University, kindergarten through 12th grade public education, high-technology organizations and the FBI Fingerprint Identification Center. Principal industries in Jefferson County include both public and higher education, horse racing and machine gaming and retail sales. In addition, tourism and other service-related industries are important and growing components of the economy of both markets. Consequently, MVB Financial does not depend upon any one industry segment for its business operations.

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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 s loan originations include a broad range of industrial classifications. Management has reviewed the loan portfolio and does not believe that there is any particular area of concentration in the loan portfolio. MVB has no loans to foreign entities. MVB s lending market areas are primarily concentrated in Marion, Harrison and Jefferson Counties, West Virginia.

Commercial Loans

At December 31, 2006, MVB had outstanding approximately $83.1 million in commercial loans, including commercial and commercial real estate loans. These loans represented approximately 58% 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. Extensions of credit to borrowers whose aggregate total debt, including the principal amount of the proposed loan, exceeds $800,000 requires board approval. 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, all loan relationships greater than $500,000. If deterioration in the credit worthiness of a borrower 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 of approximately $11.4 million, or 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 practice of MVB to review its delinquent and nonperforming consumer loans 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 34% of total loans outstanding.

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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%. MVB may lend up to 100% of the appraised value of the real estate. The risk conditions of these loans are considered during underwriting. Loans made in this lending category are generally one to three year adjustable rate, fully amortizing mortgages. MVB also originates fixed-rate real estate loans and generally sells these loans in the secondary market, servicing released. All real estate loans are secured by first mortgages with evidence of title in favor of MVB in the form of an attorney s opinion of the title or a title insurance policy. MVB also requires proof of hazard insurance with MVB named as the mortgagee and as the loss payee. Generally, full appraisals are obtained for all mortgage loans. Appraisals are obtained from licensed appraisers.

Home Equity Loans. Home equity lines of credit are generally made as second mortgages by MVB. The maximum amount of the 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.

MVB s loan underwriting criteria has been developed and is formulated in its written credit policy. The credit policy is a comprehensive lending policy, which includes underwriting standards for all categories of loans MVB offers. MVB s lending policy includes provisions that promote a diversified loan portfolio to reduce MVB s vulnerability to risks associated with any specific category of loans.

Another factor that helps to mitigate the risk in the MVB loan portfolio is the experience of its lenders in its market areas. The commercial lenders have between seven and 30 years of successful commercial lending experience. The consumer lenders have between 12 and 30 years of experience in their area of lending expertise. Most mortgage lenders have more than five years of experience, with several having more than 25 years of experience and can call on the senior lending officer or one of the commercial lenders for advice and counsel.

MVB s lending activities are subject to a variety of lending limits imposed by federal and state law. While differing limits apply in certain circumstances based on the type of loan or the nature of the borrower (including the borrower s relationship to MVB), in general MVB is subject to a loan-to-one borrower limit of an amount equal to (i) 15% of MVB s unimpaired capital and surplus in the case of loans which are not fully secured by readily marketable collateral, or (ii) 25% of the unimpaired capital and surplus if the excess over 15% is fully secured by readily marketable collateral. Unless MVB sells participations in its loans to other financial institutions, MVB cannot meet all lending needs of loan customers requiring aggregate extensions of credit above these limits. Additionally, MVB may voluntarily choose to impose a policy limit on loans to a single borrower that is less than the legal limit.

MVB may not make any extension of credit to any director, executive officer, or principal shareholder of MVB or MVB Financial, or to any related interest of such person, unless the board of directors or a committee thereof approves the extension of credit, and MVB makes the loan on terms no more favorable to such person than would be available to a person not affiliated with MVB.

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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