

MVB FINANCIAL CORP  
Form 10-Q  
November 13, 2008  
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**United States**  
**Securities and Exchange Commission**  
Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended SEPTEMBER 30, 2008

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File number 333-120931

**MVB Financial Corp.**

(Exact name of small business issuer as specified in its charter)

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

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

**301 Virginia Avenue**

**Fairmont, West Virginia 26554-2777**

(Address of principal executive offices)

**304-363-4800**

(Issuer's telephone number)

**Not Applicable**

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

As of November 13, 2008, the number of shares outstanding of the issuer's only class of common stock was 1,598,622.

Transitional Small Business format (check one): Yes  No

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MVB Financial Corp.

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## Part I. Financial Information

**Item 1. Financial Statements**

MVB Financial Corp. and Subsidiaries

Consolidated Balance Sheets

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

	September 30 2008 (Unaudited)	December 31 2007 (Note 1)
<b>Assets</b>		
Cash and due from banks	\$ 7,574	\$ 4,926
Interest bearing balances FHLB	61	490
Investment securities:		
Securities held-to-maturity, at cost	5,807	1,814
Securities available-for-sale, at approximate market value	22,268	26,029
Loans:	194,078	181,537
Less: Allowance for loan losses	(1,774)	(1,733)
<b>Net loans</b>	<b>192,304</b>	<b>179,804</b>
Loans held for sale	575	217
Bank premises, furniture and equipment, net	8,117	8,244
Accrued interest receivable and other assets	9,169	8,574
<b>Total assets</b>	<b>\$ 245,875</b>	<b>\$ 230,098</b>
<b>Liabilities</b>		
Deposits		
Non-interest bearing	\$ 22,118	\$ 19,129
Interest bearing	149,355	138,319
<b>Total deposits</b>	<b>171,473</b>	<b>157,448</b>
Accrued interest, taxes and other liabilities	1,250	1,601
Repurchase agreements	19,199	19,817
Federal Home Loan Bank borrowings	24,346	23,583
Long-term debt	4,124	4,124
<b>Total liabilities</b>	<b>220,392</b>	<b>206,573</b>
<b>Stockholders equity</b>		
Preferred stock, \$1,000 par value, 5,000 shares authorized; none issued		
Common stock, \$1 par value, 4,000,000 authorized, 1,598,622 and 1,508,081 issued	1,599	1,508
Additional paid-in capital	20,119	18,450
Treasury Stock, 10,469 and 8,919 shares, respectively	(199)	(168)
Retained earnings	4,273	4,140
Accumulated other comprehensive income (loss)	(309)	(405)
<b>Total stockholders equity</b>	<b>25,483</b>	<b>23,525</b>

<b>Total liabilities and stockholders equity</b>	\$ 245,875	\$ 230,098
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See accompanying notes to unaudited financial statements.

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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Income

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

	Nine Months Ended September 30		Three Months Ended September 30	
	2008	2007	2008	2007
<b>Interest income</b>				
Interest and fees on loans	\$ 8,993	\$ 8,350	\$ 2,950	\$ 3,206
Interest on deposits with other banks	25	99	1	4
Interest on investment securities taxable	1,004	897	331	288
Interest on tax exempt loans and securities	298	247	105	82
<b>Total interest income</b>	<b>10,320</b>	<b>9,593</b>	<b>3,387</b>	<b>3,580</b>
<b>Interest expense</b>				
Deposits	3,717	3,523	1,147	1,273
Repurchase agreements	253	523	71	186
Federal Home Loan Bank borrowings	530	372	171	169
Long-term debt	157	149	46	74
<b>Total interest expense</b>	<b>4,657</b>	<b>4,567</b>	<b>1,435</b>	<b>1,702</b>
<b>Net interest income</b>	<b>5,663</b>	<b>5,026</b>	<b>1,952</b>	<b>1,878</b>
Provision for loan losses	448	382	147	142
<b>Net interest income after provision for loan losses</b>	<b>5,215</b>	<b>4,644</b>	<b>1,805</b>	<b>1,736</b>
<b>Other income</b>				
Service charges on deposit accounts	516	471	187	165
Income on bank owned life insurance	135	123	45	45
Visa debit card income	188	155	66	53
Income on loans held for sale	318	261	122	86
Other operating income	198	173	59	92
Gain on sale of securities	16			
<b>Total other income</b>	<b>1,371</b>	<b>1,183</b>	<b>479</b>	<b>441</b>
<b>Other expense</b>				
Salary and employee benefits	3,015	2,593	1,021	918
Occupancy expense	391	280	136	105
Equipment expense	298	259	102	99
Data processing	401	447	144	157
Visa debit card expense	160	106	56	37
Advertising	172	181	44	79
Legal and accounting fees	80	60	31	21
Printing, stationery and supplies	80	91	27	38
Other taxes	117	88	44	32
Other operating expenses	580	500	196	216
Loss on security impairment	700		700	
<b>Total other expense</b>	<b>5,994</b>	<b>4,605</b>	<b>2,501</b>	<b>1,702</b>

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Income before income taxes	592	1,222	(217)	475
Income tax expense/(benefit)	321	270	89	60
<b>Net income</b>	<b>\$ 271</b>	<b>\$ 952</b>	<b>\$ (306)</b>	<b>\$ 415</b>
Basic net income per share	\$ 0.17	\$ 0.65	\$ (0.19)	\$ 0.28
Diluted net income per share	\$ 0.17	\$ 0.63	\$ (0.19)	\$ 0.27
Basic weighted average shares outstanding	1,577,824	1,467,959	1,598,617	1,468,175
Diluted weighted average shares outstanding	1,617,498	1,514,762	1,638,290	1,514,978

See accompanying notes to unaudited financial statements.

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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited) (Dollars in thousands)

	<b>Nine Months Ended September 30</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating activities</b>		
Net income	\$ 271	\$ 537
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	448	240
Depreciation	329	153
Stock option expense	11	5
Loans originated for sale	(27,448)	(11,704)
Proceeds of loans sold	27,090	12,166
Amortization, net of accretion	705	18
(Increase) in interest receivable and other assets	(797)	(34)
(Decrease) in accrued interest, taxes, and other liabilities	(351)	(3)
<b>Net cash provided by operating activities</b>	<b>258</b>	<b>1,378</b>
<b>Investing activities</b>		
(Increase) in loans made to customers	(12,949)	(13,953)
Purchases of premises and equipment	(202)	(1,692)
Decrease/(increase) in deposits with Federal Home Loan Bank, net	429	(1,276)
Purchases of investment securities available-for-sale	(13,511)	(624)
Proceeds from sales, maturities and calls of securities available-for-sale	16,735	3,511
Purchases of investment securities held-to-maturity	(4,000)	
Purchase of bank owned life insurance		(500)
<b>Net cash (used in) investing activities</b>	<b>(13,498)</b>	<b>(14,534)</b>
<b>Financing activities</b>		
Net increase in deposits	14,026	15,808
Net (decrease) in repurchase agreements	(618)	(1,427)
Net increase/(decrease) in Federal Home Loan Bank Borrowings	763	(6,223)
Proceeds from long-term borrowings		4,124
Purchase of treasury stock	(31)	
Proceeds of stock offering	1,735	
Common stock options exercised	13	
<b>Net cash provided by financing activities</b>	<b>15,888</b>	<b>12,282</b>
<b>Increase/(Decrease) in cash and cash equivalents</b>	<b>2648</b>	<b>(874)</b>
Cash and cash equivalents - beginning of period	4,926	6,417
<b>Cash and cash equivalents - end of period</b>	<b>\$ 7,574</b>	<b>\$ 5,543</b>
Cash payments for:		
Interest on deposits, repurchase agreements and FHLB borrowings	\$ 4,707	\$ 4,284
Income taxes	\$ 645	\$ 306

See accompanying notes to unaudited financial statements.





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MVB Financial Corp. and Subsidiaries

Notes to Consolidated Financial Statements

### **Note 1 Subsequent Event**

On October 3, 2008 the Federal government passed legislation to allow companies holding FNMA and FHLMC preferred stock to recognize the income tax benefit from the loss due to the impairment of those securities. Because the legislation was not passed until after the end of the quarter, for GAAP purposes the income tax benefit that related to the impairment of the FHLMC preferred stock is not reflected in the financial statements for the third quarter. If MVB had recognized the tax benefit that applied to the impairment of the FHLMC preferred stock, net income for the nine and three months ended September 30, 2008 would have been \$481 and \$(96) respectively. MVB believes these numbers better reflect the net income after impairment of the FHLMC preferred stock for those periods than what is reported on the income statement, due to the fact that the fourth quarter will show a tax benefit on a loss recognized in the prior quarter.

### **Note 2 Basis of Presentation**

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-QSB and Section 310(b) of Regulation SB. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for annual year-end financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, have been included and are of a normal, recurring nature. The balance sheet as of December 31, 2007 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles. Operating results for the nine and three months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The accounting and reporting policies of MVB conform to accounting principles generally accepted in the United States and practices in the banking industry. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates, such as the allowance for loan losses, are based upon known facts and circumstances. Estimates are revised by management in the period such facts and circumstances change. Actual results could differ from those estimates. All significant inter-company accounts and transactions have been eliminated in consolidation.

The consolidated balance sheet as of December 31, 2007 has been extracted from audited financial statements included in MVB's 2007 filing on Form 10-KSB. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in MVB's December 31, 2007, Form 10-KSB filed with the Securities and Exchange Commission.

### **Note 3. Allowance for Loan Losses**

The provision for loan losses for the nine months ended September 30, 2008 and 2007, was \$448 and \$382, respectively. Management bases the provision for loan losses upon its continuing evaluation of the adequacy of the allowance for loan losses and the overall management of inherent credit risk.

Management continually monitors the risk in the loan portfolio through review of the monthly delinquency reports and the Loan Review Committee, which is responsible for the determination of the adequacy of the allowance for loan losses. This analysis involves both experience of the portfolio to date and the makeup of the overall portfolio. The allocation among the various components of the loan portfolio and its adequacy is somewhat difficult considering the limited operating history in newer markets.

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Specific loss estimates are derived for individual loans based on specific criteria such as current delinquency status, related deposit account activity, estimates of cash flow and underlying collateral value.

The results of this analysis at September 30, 2008, indicate that the allowance for loan losses is considered adequate to absorb losses inherent in the portfolio.

(Dollars in thousands)

	Sept. 30	
	2008	2007
<b>Allowance for loan losses</b>		
Balance, beginning of period	\$ 1,733	\$ 1,206
Loan charge-offs	(415)	(30)
Loan recoveries	8	10
<b>Net charge-offs</b>	(407)	(20)
Loan loss provision	448	382
<b>Balance, end of period</b>	<b>\$ 1,774</b>	<b>\$ 1,568</b>

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

(Dollars in thousands)

	Sept. 30	
	2008	2007
<b>Non-accrual loans:</b>		
Commercial	\$ 278	\$ 12
Real Estate	198	176
Consumer		1
<b>Total non-accrual loans</b>	<b>476</b>	<b>189</b>
Renegotiated loans		
<b>Total non-performing loans</b>	<b>476</b>	<b>189</b>
Other real estate, net	657	
<b>Total non-performing assets</b>	<b>\$ 1,133</b>	<b>\$ 189</b>
Accruing loans past due 90 days or more	\$	\$ 441
Non-performing loans as a % of total loans	.59%	.11%
Allowance for loan losses as a % of non-performing loans	372.69%	829.63%

**Note 4. Borrowed Funds**

The Company is a party to repurchase agreements with certain customers. As of September 30, 2008 and December 31, 2007, the Company had repurchase agreements of \$19.2 million and \$19.8 million.

The bank is a member of the Federal Home Loan Bank ( FHLB ) of Pittsburgh, Pennsylvania. Borrowings from the FHLB are secured by stock in the FHLB of Pittsburgh, qualifying first mortgage loans, mortgage-backed securities and certain investment securities. The remaining maximum borrowing capacity with the FHLB at September 30, 2008 was approximately \$39.1 million.

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Borrowings from the FHLB were as follows:

	Sept. 30 2008	December 31 2007
Fixed interest rate note, originating April 1999, due April 2014, interest of 5.41% is payable monthly.	\$ 1,000	\$ 1,000
Fixed interest rate note, originating January 2005, due January 2020, interest of 5.14% is payable in monthly installments of \$11.	1,105	1,158
Fixed interest rate note, originating April 2002, due May 2017, interest of 5.90% is payable monthly.	679	689
Fixed interest rate note, originating July 2006, due July 2016, payable in monthly installments of \$8, including interest of 4.50%.	1,426	1,452
Fixed interest rate note, originating October 2006, due October 2021, payable in monthly installments of \$6, including interest of 5.20%.	1,131	1,145
Fixed interest rate note, originating February 2007, due February 2022, payable in monthly installments of \$5, including interest of 5.22%.	948	958
Fixed interest rate note, originating April 2007, due April 2022, payable in monthly installments of \$6, including interest of 5.18%.	1,072	1,085
Fixed interest rate note originating September 2007, due September 2008, payable September 2008, interest of 4.53% payable quarterly.		700
Floating interest rate note, originating March 2003, due December 2011, interest of 2.02% payable monthly.	11,901	10,296
Fixed interest rate note originating November 2007, due April 2008, interest of 4.80% payable quarterly.		2,700
Fixed interest rate note originating November 2007, due April 2008, interest of 4.60% payable quarterly.		1,300
Fixed interest rate note, originating December 2007, due December 2017, payable in monthly installments of \$7, including interest of 5.25%.	1,084	1,100
Fixed interest rate note originating March 2008, due March 2009, interest of 2.26% payable quarterly.	2,000	
Fixed interest rate note originating March 2008, due March 2013, interest of 2.37% payable quarterly.	2,000	
	\$ 24,346	\$ 23,583

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A summary of maturities of these borrowings over the next five years is as follows:

Year	Amount
2008	48
2009	2,199
2010	210
2011	12,122
2012	232
Thereafter	13,659
	28,470

**Note 5. Comprehensive Income**

The Company is required to present comprehensive income in a full set of general-purpose financial statements for all periods presented. The following represents comprehensive income for the three and nine month periods ended September 30, 2008 and September 30, 2007.

The following table represents other comprehensive income before tax and net of tax:

(in thousands)

	For the three months ended Sept. 30,		For the nine months ended Sept. 30,	
	2008	2007	2008	2007
Unrealized gain (losses) on securities available for sale	\$ 264	\$ 299	\$ 161	\$ 148
Pension liability adjustment				
Tax effect	(106)	(120)	(64)	(59)
Net of tax effect	158	179	97	89
Net income as reported	(306)	415	271	952
Total comprehensive income	(148)	\$ 594	\$ 368	\$ 1,041

**Note 6 Net Income Per Common Share**

MVB determines basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by dividing net income by the weighted average number of shares outstanding increased by the number of shares that would be issued assuming the exercise of stock options. At September 30, 2008 and 2007, stock options to purchase 152,007 and 174,312 shares at an average price of \$14.78 and \$14.63, respectively, were outstanding. For the nine and three months ended September 30, 2008 and 2007, the dilutive effect of stock options was 39,673 and 46,803 shares, respectively.

**Note 7 Recent Accounting Pronouncements**

In September 2006, the FASB reached consensus on the guidance provided by Emerging Issues Task Force Issue 06-4 ( EITF 06-4 ), Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance

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Arrangements. The guidance is applicable to endorsement split-dollar life insurance arrangements, whereby the employer owns and controls the insurance policy, that are associated with a postretirement benefit. EITF 06-4 requires that for a split-dollar life insurance arrangement within the scope of the Issue, and employer should recognize a liability for future benefits in accordance with FAS No. 106 (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Company adopted this standard in the first quarter of 2008, which resulted in an adjustment to retained earnings of \$138 and the recording of a \$150 liability.

In September 2006, The FASB issued FAS No. 157, Fair Value Measurements, which provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The Standard does not expand the use of fair value in any new circumstances. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard on January 1, 2008 had no material impact on the Company's results of operations or financial position.

In September 2006, the FASB issued FAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). FAS No. 158 requires that a company recognize the overfunded or underfunded status of its defined benefit post retirement plans (other than multiemployer plans) as an asset or liability in its statement of financial position and that it recognize changes in the funded status in the year in which the changes occur through other comprehensive income. FAS No. 158 also requires the measurement of defined benefit plan assets and obligations as of the fiscal year end, in addition to footnote disclosures. FAS No. 158 is effective for fiscal years ending after December 15, 2006. The Company adopted this standard in 2006.

In February 2007, the FASB issued FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115, which provides all entities with an option to report selected financial assets and liabilities at fair value. The objective of the FAS No. 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply the complex provisions of hedge accounting. FAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007 provided the entity also elects to apply the provisions of FAS No. 157, Fair Value Measurements. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

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Effective January 1, 2008, the Company adopted FAS 157, which, among other things, requires enhanced disclosures about assets and liabilities carried at fair value. FAS 157 establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by FAS 157 hierarchy are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The following table presents the assets and liabilities reported on the consolidated statements of financial condition at their fair value as of September 30, 2008 by level within the fair value hierarchy. As required by FAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

(In Thousands)	September 30, 2008			Total
	Level I	Level II	Level III	
Assets:				
Investment securities, available for sale		22,268		22,268

In May 2008, the FASB issued FAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. FAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). FAS No. 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect the adoption of FAS No. 162 to have a material effect on its results of operations and financial position.

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In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP 142-3 ). FSP 142-3 amends the factors that should be considered in developing assumptions about renewal or extension used in estimating the useful life of a recognized intangible asset under FAS No. 142, *Goodwill and Other Intangible Assets*. This standard is intended to improve the consistency between the useful life of a recognized intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141R and other GAAP. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The measurement provisions of this standard will apply only to intangible assets of the Company acquired after the effective date.

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

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



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At September 30, 2008 and for the Nine and Three Months Ended September 30, 2008 and 2007:

	Nine Months Ended September 30		Three Months Ended September 30	
	2008	2007	2008	2007
Net income to:				
Average assets	.15%	.64%	(.51)%	.78%
Average stockholders' equity	1.41	5.78	(4.73)	7.45
Net interest margin	3.51	3.69	3.57	3.89
Average stockholders' equity to average assets	10.83	11.01	10.80	10.49
Total loans to total deposits (end of period)	113.18	109.93	113.18	109.93
Allowance for loan losses to total loans (end of period)	.91	.91	.91	.91
Efficiency ratio	85.21	74.17	102.88	73.39
Capital ratios:				
Tier 1 capital ratio	14.14	14.50	14.14	14.50
Risk-based capital ratio	15.03	15.39	15.03	15.39
Leverage ratio	11.83	12.09	11.83	12.09
Cash dividends as a percentage of net income	N/A	N/A	N/A	N/A
Per share data:				
Book value per share (end of period)	\$ 16.07	\$ 15.43	\$ 16.07	\$ 15.43
Market value per share (end of period)*	20.00	20.00	20.00	20.00
Basic earnings per share	.17	.65	(.19)	.28
Diluted earnings per share	.17	.63	(.19)	.27

Market value per share is based on MVB's knowledge of certain arms-length transactions in the stock as MVB's common stock is not traded on any market. There may be other transactions involving either higher or lower prices of which MVB is unaware. Without the impairment of the FHLMC preferred stock, MVB's ROA and ROE for the nine months ended would have been .51% and 4.71%. For the three months ended these numbers would have been .56% and 5.23%. These numbers are more representative of the true performance of the company.

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### **Introduction**

The following discussion and analysis of the consolidated financial statements of MVB Financial Corp. is presented to provide insight into management's assessment of the financial results. MVB has three wholly-owned second tier holding companies which own 100 percent of MVB Bank, Inc. (the bank). The bank is the primary financial entity in this discussion. Unless otherwise noted, this discussion will be in reference to the bank.

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

The bank began operations January 4, 1999, at 301 Virginia Avenue in Fairmont, West Virginia. MVB Bank, Inc. provides a full array of financial products and services to its customers, including traditional banking products such as deposit accounts, lending products, debit cards, automated teller machines, and safe deposit rental facilities. The bank opened a banking office in the Shop N Save supermarket in White Hall, WV during the second quarter of 2000. During August of 2005, the bank opened a full-service office at 1000 Johnson Avenue in Bridgeport, WV. In October of 2005 MVB Bank, Inc. purchased an office at 88 Somerset Boulevard in Charles Town, WV. Additionally, the bank opened a full service office at 651 Foxcroft Avenue in Martinsburg, WV during August 2007.

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

### **Application of Critical Accounting Policies**

MVB's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Application of certain accounting policies inherently requires a greater reliance on the use of estimates, assumptions and judgments and as such, the probability of actual results being materially different from reported estimates is increased. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal forecasting techniques.

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The most significant accounting policies followed by MVB are presented in Note 1 to the audited consolidated financial statements included in MVB's 2007 Annual Report on Form 10-KSB. These policies, along with the disclosures presented in the other financial statement notes and in management's discussion and analysis of operations, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses to be the accounting area that requires the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

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

## **Results of Operations**

### *Overview of the Statement of Income*

For the quarter ended September 30, 2008, MVB earned \$(306) compared to \$415 in the third quarter of 2007. The loss in the third quarter of 2008 was due to the impairment of \$700 in FHLMC preferred stock owned by the bank. Without the impairment of the FHLMC preferred stock in the third quarter of 2008 and the tax refunds received in the third quarter of 2007, net income for the third quarter of 2008 would have been \$338 versus \$335 during 2007.

Loan loss provisions of \$147 and \$142 were made for the periods ended September 30, 2008 and 2007, respectively. The provision for loan losses, which is a product of management's formal quarterly analysis, is recorded in response to inherent risks in the loan portfolio.

Non-interest income for the quarters ended September 30, 2008 and 2007 totaled \$479 and \$441, respectively. The most significant portion of non-interest income is service charges on deposit accounts, which totaled \$187 at September 30, 2008, an increase of \$22 over the third quarter of 2007. Other items that were significant factors in the increase in non-interest income were as follows: income on loans held for sale increased by \$36 and Visa debit card income increased by \$13.

Non-interest expense for the quarters ended September 30, 2008 and 2007 totaled \$2.5 million and \$1.7 million, respectively. The most significant increases were the loss on impairment of the FHLMC preferred stock of \$700 and salaries and benefits increased by \$103. The increase in salaries related to MVB's growth in Berkeley County which opened in August of 2007.

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For the nine months ended September 30, 2008 MVB earned \$271 compared to \$952 for the same period in 2007. This \$681 decrease in earnings is the result of the \$700 loss on impairment of FHLMC preferred stock in 2008 and tax refunds of \$80 in the third quarter of 2007. Comparing the two quarters without the 2008 FHLMC impairment and the 2007 tax credits, MVB would have earned \$904 in 2008 versus \$872 in 2007.

Loan loss provisions of \$448 and \$382 were made for the nine months ended September 30, 2008 and 2007, respectively. This increase of \$66 relates to strengthening the loan loss reserves in the newer offices to gradually bring them to the same level as the Marion County portfolio.

Non-interest income for the nine months ended September 30, 2008 and 2007 totaled \$1.4 million and \$1.2 million, respectively. This increase of \$188 relates primarily to the following: an increase of \$57 in origination fees on mortgages sold, a \$45 increase in service charges on deposit accounts, a \$33 increase in Visa Debit card income and an increase of \$25 in other operating income principally relating to title insurance income and rental income in the Berkeley office.

Non-interest expense for the nine months ended September 30, 2008 and 2007 totaled \$6.0 million and \$4.6 million, respectively. This \$1.4 million increase was driven by the following: the \$700 FHLMC preferred stock impairment, a \$422 increase in salaries and benefits, a \$111 increase in occupancy expense, an \$80 increase in other operating expenses and a \$54 increase in Visa Debit card expense. These increases with the exception of the FHLMC preferred stock impairment are all the result of the continued growth and expansion of the bank, especially in Berkeley County.

## **Interest Income and Expense**

Net interest income is the amount by which interest income on earning assets exceeds interest expense on interest-bearing liabilities. Interest-earning assets include loans and investment securities. Interest-bearing liabilities include interest-bearing deposits and repurchase agreements and Federal Home Loan Bank advances. Net interest income is the primary source of revenue for the bank. Changes in market interest rates, as well as changes in the mix and volume of interest-earning assets and interest-bearing liabilities impact net interest income.

Net interest margin is calculated by dividing net interest income by average interest-earning assets. This ratio serves as a performance measurement of the net interest revenue stream generated by the bank's balance sheet. The net interest margin for the quarters ended September 30, 2008 and 2007 was 3.57% and 3.89% respectively. During late 2007 the Federal Reserve began a series of rate cuts resulting in a total rate decrease of 4%. This rate decrease had the greatest impact on MVB in the yield on commercial loans, which decreased from 8.57% at September 30, 2007 to 6.27% at September 30, 2008. MVB countered the decreased loan yields by reducing rates on interest bearing liabilities from 4.04% to 3.00% at September 30, 2008.

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

**Table of Contents****Average Balances and Interest Rates**

(Unaudited)(Dollars in thousands)

	Three Months Ended Sept. 30, 2008			Three Months Ended Sept. 30, 2007		
	Average Balance	Interest Income/Expense	Yield/Cost	Average Balance	Interest Income/Expense	Yield/Cost
<b>Assets</b>						
Interest-bearing deposits in banks	\$ 220	\$ 1	1.82%	\$ 307	\$ 4	5.21%
Investment securities	27,927	338	4.84	25,210	293	4.65
Loans:						
Commercial	121,698	1,907	6.27	98,175	2,104	8.57
Tax exempt	8,401	98	4.67	6,217	74	4.76
Consumer	13,989	255	7.29	14,182	265	7.47
Real estate	46,601	788	6.76	48,858	840	6.88
<b>Total loans</b>	<b>190,689</b>	<b>3,048</b>	<b>6.39</b>	<b>167,432</b>	<b>3,283</b>	<b>7.84</b>
Total earning assets	218,836	3,387	6.19	192,949	3,580	7.42
Cash and due from banks	5,025			4,842		
Other assets	15,623			14,642		
<b>Total assets</b>	<b>\$ 239,484</b>			<b>\$ 212,433</b>		
<b>Liabilities</b>						
Deposits:						
Non-interest bearing demand	\$ 20,938	\$	%	\$ 20,606	\$	%
NOW	16,035	18	0.45	13,659	26	0.76
Money market checking	30,678	115	1.50	29,981	221	2.95
Savings	7,142	4	0.22	6,127	9	0.59
IRAs	7,226	81	4.48	6,542	76	4.65
CDs	87,932	928	4.22	76,093	940	4.94
Repurchase agreements & FFS	19,760	72	1.46	18,775	185	3.94
FHLB borrowings	18,404	171	3.72	13,080	169	5.17
Long-term debt	4,124	46	4.46	4,124	76	7.37
<b>Total interest-bearing liabilities</b>	<b>191,301</b>	<b>1,435</b>	<b>3.00</b>	<b>168,381</b>	<b>1,702</b>	<b>4.04</b>
Other liabilities	1,378			1,153		
<b>Total liabilities</b>	<b>213,617</b>			<b>190,140</b>		
<b>Stockholders equity</b>						
Common stock	1,599			1,468		
Paid-in capital	20,095			17,722		
Retained earnings	4,716			3,484		
Accumulated other comprehensive income	(543)			(381)		
<b>Total stockholders equity</b>	<b>25,867</b>			<b>22,293</b>		
<b>Total liabilities and stockholders equity</b>	<b>\$ 239,484</b>			<b>\$ 212,433</b>		

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Net interest spread		3.19		3.38
Impact of non-interest bearing funds on margin		.38		.51
Net interest income-margin	\$ 1,952	3.57%	\$ 1,878	3.89%

**Table of Contents****Average Balances and Interest Rates**

(Unaudited)(Dollars in thousands)

	Nine Months Ended Sept. 30, 2008			Nine Months Ended Sept. 30, 2007		
	Average Balance	Interest Income/Expense	Yield/Cost	Average Balance	Interest Income/Expense	Yield/Cost
<b>Assets</b>						
Interest-bearing deposits in banks	\$ 1,551	\$ 25	2.15%	\$ 2,580	\$ 99	5.12%
CDs with banks						
Investment securities	27,698	1,027	4.94	26,571	920	4.62
Loans:						
Commercial	117,396	5,845	6.64	83,426	5,159	8.25
Tax exempt	7,757	275	4.73	6,371	224	4.69
Consumer	13,969	764	7.29	14,335	793	7.38
Real estate	46,937	2,384	6.77	48,252	2,398	6.63
<b>Total loans</b>	<b>186,059</b>	<b>9,268</b>	<b>6.64</b>	<b>152,384</b>	<b>8,574</b>	<b>7.50</b>
Total earning assets	215,308	10,320	6.39	181,535	9,593	7.05
Cash and due from banks	5,646			4,683		
Other assets	15,100			13,325		
<b>Total assets</b>	<b>\$ 236,054</b>			<b>\$ 199,543</b>		
<b>Liabilities</b>						
Deposits:						
Non-interest bearing demand	\$ 21,099	\$	%	\$ 19,662	\$	%
NOW	15,980	64	0.53	13,461	76	0.75
Money market checking	30,645	432	1.88	28,852	622	2.87
Savings	6,744	17	0.34	5,962	26	0.58
IRAs	7,178	247	4.59	6,493	214	4.39
CDs	87,484	2,957	4.51	71,694	2,585	4.81
Repurchase agreements & FFS	18,638	253	1.81	17,799	523	3.92
FHLB borrowings	17,073	530	4.14	9,739	372	5.09
Long-term debt	4,124	157	5.08	2,810	149	7.07
<b>Total interest-bearing liabilities</b>	<b>187,866</b>	<b>4,657</b>	<b>3.31</b>	<b>156,810</b>	<b>4,567</b>	<b>3.88</b>
Other liabilities	1,527			1,097		
<b>Total liabilities</b>	<b>210,492</b>			<b>177,569</b>		
<b>Stockholders equity</b>						
Common stock	1,578			1,468		
Paid-in capital	19,740			17,720		
Retained earnings	4,669			3,171		
Accumulated other comprehensive income	(425)			(385)		
<b>Total stockholders equity</b>	<b>25,562</b>			<b>21,974</b>		
<b>Total liabilities and stockholders equity</b>	<b>\$ 236,054</b>			<b>\$ 199,543</b>		

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Net interest spread		3.09		3.16	
Impact of non-interest bearing funds on margin		.42		.53	
Net interest income-margin		\$ 5,663	3.51%	\$ 5,026	3.69%



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### **Non-Interest Income**

Service charges on deposit accounts generate the core of the bank's non-interest income. Non-interest income totaled \$479 in the third quarter of 2008 compared to \$441 in the third quarter of 2007.

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

The bank is continually searching for ways to increase non-interest income. Two areas in which MVB has made progress are Visa debit card income, which increased \$13 from the third quarter of 2007 through increased card penetration to existing and new customers, and income on loans held for sale, which increased by \$36 from the third quarter of 2007, a product of the bank's presence in the Harrison County market, as well as increased focus on this area in the Marion County market.

### **Non-Interest Expense**

For the third quarter of 2008, non-interest expense totaled \$2.5 million compared to \$1.7 million in the third quarter of 2007. MVB's efficiency ratio was 102.88% for the third quarter of 2008 compared to 73.39% for the third quarter of 2007. Without the impact of the \$700 FHLMC preferred stock impairment, the 2008 third quarter efficiency ratio would have been 74.08%. This ratio measures the efficiency of non-interest expenses incurred in relationship to net interest income plus non-interest income.

Salaries and benefits totaled \$1.0 million for the quarter ended September 30, 2008 compared to \$918 for the quarter ended September 30, 2007. This increase in salaries and benefits reflects MVB's additional staffing for the Berkeley County office, which opened in August 2007, and adjustments to existing personnel. MVB had 75 full-time equivalent personnel at September 30, 2008 compared to 71 full-time equivalent personnel as of September 30, 2007. This increase is mainly due to the addition of staff for the new office. Management will continue to strive to find new ways of increasing efficiencies and leveraging its resources, while effectively optimizing customer service.

For the quarters ended September 30, 2008 and 2007, occupancy expense totaled \$136 and \$105, respectively. This increase is a result of the addition of the Berkeley County office.

Equipment expense totaled \$102 in the third quarter of 2008 compared to \$99 for the third quarter of 2007. Included in equipment expense is depreciation of furniture, fixtures and equipment of \$65 for the quarter ended September 30, 2008 and \$62 for the quarter ended September 30, 2007.

Data processing costs totaled \$144 in the third quarter of 2008 compared to \$157 in the third quarter of 2007. This decrease is due to a refund received from MVB's internet banking services provider.

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### **Return on Average Assets and Average Equity**

Returns on average assets (ROA) and average equity (ROE) were (.51)% and (4.73)% for the third quarter of 2008 compared to .78% and 7.45% in the third quarter of 2007. 2008 third quarter ROA and ROE without the FHLMC preferred stock impairment would have been .56% and 5.23% respectively.

### **Overview of the Statement of Condition**

MVB's interest-earning assets, interest-bearing liabilities, and stockholders' equity changed significantly during the third quarter of 2008 compared to 2007. The most significant areas of change between the quarters ended September 30, 2008 and September 30, 2007 were as follows: net loans increased to an average balance of \$190.7 million from \$167.4 million, interest-bearing liabilities grew to an average balance of \$191.3 million from \$168.4 million, and stockholders' equity increased to an average balance of \$25.9 million from \$22.3 million. These trends reflect the continued growth of MVB.

Total assets at September 30, 2008 were \$245.9 million or an increase of \$15.8 million since December 31, 2007. Asset growth has occurred primarily in the loan portfolio, with loans increasing by \$6.2 million in Harrison County and \$7.6 million in Berkeley and Jefferson Counties.

Deposits totaled \$171.5 million at September 30, 2008 or an increase of \$14.0 million since December 31, 2007. Repurchase agreements totaled \$19.2 million and have decreased \$618 since December 31, 2007.

Stockholders' equity has increased approximately \$2.0 million from December 31, 2007, due to earnings for the nine months ended September 30, 2008 of \$271 and accumulated other comprehensive gain of \$96 and proceeds from stock offering of \$1.7 million.

### **Cash and Cash Equivalents**

Cash and cash equivalents totaled \$7.6 million as of September 30, 2008 compared to \$4.9 million as of December 31, 2007.

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

### **Investment Securities**

Investment securities totaled \$28.1 million as of September 30, 2008 and \$27.8 million as of December 31, 2007. Government sponsored agency securities comprise the majority of the portfolio.

Management monitors the earnings performance and liquidity of the investment portfolio on a regular basis through Asset/Liability Committee meetings. The group also monitors net interest income, sets pricing guidelines, and manages interest rate risk for the bank. Through active balance sheet management and analysis of the investment securities portfolio, the bank maintains sufficient liquidity to satisfy depositor 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.

**Table of Contents****Loans**

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

The following table details total loans outstanding as of:

(Dollars in thousands)	Sept. 30 2008	December 31 2007
Commercial and nonresidential real estate	\$ 140,132	\$ 128,535
Residential real estate	40,729	42,030
Consumer and other	13,217	10,972
<b>Total loans</b>	<b>\$ 194,078</b>	<b>\$ 181,537</b>

**Loan Concentration**

At September 30, 2008, commercial loans comprised the largest component of the loan portfolio. The majority of commercial loans that are not secured by real estate 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 loan portfolio through review of the monthly delinquency reports and through the Loan Review Committee. The Loan Review Committee is responsible for the determination of the adequacy of the allowance for loan losses. Their analysis involves both experience of the portfolio to date and the makeup of the overall portfolio. Specific loss estimates are derived for individual loans based on specific criteria such as current delinquency status, related deposit account activity, where applicable, local market rumors, which are generally based on some factual information, and changes in the local and national economy. While local market rumors are not measurable or perhaps not readily supportable, historically, this form of information can be an indication of a potential problem. The allowance for loan losses is further based upon the internal risk rating assigned to the various loan types within the portfolio.

**Funding Sources**

MVB considers a number of alternatives, including but not limited to deposits, short-term borrowings, and long-term borrowings when evaluating funding sources. Traditional deposits continue to be the most significant source of funds for the bank, reaching \$171.5 million at September 30, 2008.

Non interest bearing deposits remain a core funding source for MVB. At September 30, 2008, non-interest bearing deposits totaled \$22.1 million compared to \$19.1 million at December 31, 2007. Management intends to continue to focus on finding ways to increase the bank's base of non-interest bearing funding sources.

Interest-bearing deposits totaled \$149.4 million at September 30, 2008 compared to \$138.3 million at December 31, 2007. Average interest-bearing liabilities totaled \$191.3 million during the third quarter of 2008 compared to \$168.4 million for the third quarter of 2007. Average non-interest bearing demand deposits totaled \$20.9 million for the third quarter of 2008 compared to \$20.6 million for

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the third quarter of 2007. Management will continue to emphasize deposit gathering in 2008 by offering outstanding customer service and competitively priced products. Management will also concentrate on balancing deposit growth with adequate net interest margin to meet MVB's strategic goals.

Along with traditional deposits, MVB has access to both repurchase agreements, which are corporate deposits secured by pledging securities from the investment portfolio, and Federal Home Loan Bank borrowings to fund its operations and investments. At September 30, 2008, repurchase agreements totaled \$19.2 million compared to \$19.8 million at December 31, 2007. In addition to the aforementioned funds alternatives, MVB has access to more than \$39.1 million through additional advances from the Federal Home Loan Bank of Pittsburgh, a \$3.0 million line of credit with Silverton Bank, N.A., the ability to readily sell jumbo certificates of deposits to other banks, access to the Federal Reserve discount window, access to CDARS and the ability to issue brokered deposits.

### **Capital/Stockholders Equity**

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

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

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

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

In 2006, MVB completed a public offering of 725,000 shares totaling \$11.6 million.

In March 2007, MVB formed a statutory business trust for the purpose of issuing \$4 million in trust preferred capital securities with the proceeds invested in MVB Bank, Inc. This was done primarily to increase the lending limit of the bank. The securities mature in 30 years and are redeemable by the Company after five years. The securities are at an interest cost of 1.62% over the three month LIBOR rate which is reset quarterly.

In April 2008 MVB completed a public offering of more than 100,000 shares which provided \$2.4 million in additional capital.

At September 30, 2008, accumulated other comprehensive (loss) totaled \$(467) compared to \$(309) at December 31, 2007. This change relates to the FHLMC preferred stock impairment.

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

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Bank regulators have established risk-based capital requirements designed to measure capital adequacy. Risk-based capital ratios reflect the relative risks of various assets banks hold in their portfolios. A weight category of 0% (lowest risk assets), 20%, 50%, or 100% (highest risk assets) is assigned to each asset on the balance sheet. Detailed information concerning MVB's risk-based capital ratios can be found in Note 14 of the Notes to the Consolidated Financial Statements of MVB's 2007 Form 10-KSB. At September 30, 2008, MVB and its banking subsidiary's risk-based capital ratios exceeded the minimum standards for a well capitalized financial institution.

## **Commitments**

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

Loan commitments are made to accommodate the financial needs of MVB's customers. MVB uses the same underwriting standards in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties. The total amount of loan commitments outstanding at September 30, 2008 and December 31, 2007 was \$32.7 million and \$43.1 million, respectively.

## **Market Risk**

There have been no material changes in market risks faced by MVB since December 31, 2007. For information regarding MVB's market risk, refer to MVB's Annual Report to Shareholders for the year ended December 31, 2007.

## **Effects of Inflation on Financial Statements**

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

## **Future Outlook**

The bank's results of operations in the third quarter of 2008 are not representative of how the bank has truly performed during a time that has been very challenging for many financial institutions. MVB recognized a loss of \$306 for the third quarter due to the impairment of \$700 in FHLMC preferred stock held by the bank. Without this impairment, MVB's earnings would have been \$338 versus \$335 in the third quarter of 2007. MVB's emphasis in future periods will be to do those things that have made the bank successful thus far. The critical challenge for the bank in the future is to attract core deposits to fund growth in the new markets through continued delivery of the most outstanding customer service with the highest quality products and technology.

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### **Item 3. Controls and Procedures**

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

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

### **Evaluation of disclosure controls and procedures**

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

### **Changes in internal controls**

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

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Part II. Other Information

**Item 5. Other Information**

None.

**Item 6. Exhibits**

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

Exhibit 3.1 Articles of Incorporation

Exhibit 3.1-1 Articles of Incorporation Amendment

The following exhibit was filed with Form 10-QSB, filed August 11, 2008.

Exhibit 3.2 Bylaws

- (b) The following exhibits are filed herewith.

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

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

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

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

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SIGNATURES

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

November 13, 2008

MVB Financial Corp.

By: /s/ James R. Martin  
James R. Martin  
President and Chief Executive Officer

By: /s/ Eric L. Tichenor  
Eric L. Tichenor  
Chief Financial Officer

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