2014
Annual Review
Middletown Valley Bank

Middletown
Valley Bank®

Dear Shareholders

On behalf of the directors and employees, I am proud to present the following summary of our 2014 results. As President and CEO of your bank, I am pleased with the progress we have made to date and extremely grateful for the support of you, the shareholder. Specifically, I am thankful for the shareholder support of making additional shares available as well as your vote of confidence in purchasing shares during our capital raise. It has been a true pleasure to speak with many of you to discuss the tremendous opportunity we have before us and explain our vision of community banking via the "Absolutely Exceptional Experience".

The stark reality in community banking today is that size matters. Community banks face a growing regulatory burden as well as rising costs in all areas, but particularly salaries and benefits which include competing for talent and rising health insurance costs. Our vision puts the customer relationship first which requires both the talent to manage those relationships and a strong combination of products and support staff to back up those relationship managers. It all equates to higher overhead and necessitates the bank grow to cover those costs in order to remain highly profitable.

Much of our 2014 effort focused on being poised for growth. We took steps to expand into the Hagerstown market with the approval of our first branch location in Hagerstown. We have continued to upgrade our staff in all areas with skill sets the bank has not had previously. The additional capital raised will lead directly to enhanced profitability as we take advantage of growth opportunities and benefit from improved economies of scale. Perhaps nothing represents our efforts to be poised for growth more than the re-branding efforts of 2014.

On Saturday May 3rd, four branches entertained in excess of 1,000 people for the introduction and launch of our new logo and brand. The look and feel is fresh and has been noticed throughout our Frederick and Washington county markets. The new logo is a symbol representing the new strategy and culture: a visual representation of the new look and feel of your bank. Beyond the logo, our people continue to establish personal connections to their customers and our communities which reinforce the brand. The combined hours that our 60 employees contributed to the community exceeded 800 in 2014.

"The new logo is a symbol representing the new strategy and culture: a visual representation of the new look and feel of your bank."

Middletown Valley Bank was proud to be heavily involved in many area events including being the lead sponsor of the Middletown Sesquicentennial Celebration and a co-lead of Hagerstown's Krumpes/Middletown Valley Bank donut drop on New Year's Eve. The Bank has increased its contributions budget providing strong support to the Meritus Foundation, Frederick Memorial Hospital, Frederick and Hagerstown Community Colleges, and the ARC of both Frederick and Washington Counties, among others. Beyond the dollars are the energy and enthusiasm our employees, directors, and their families bring in support of local events. The smiles and great attitude are noticed by those we assist and the attendees at these events. This is the strongest reinforcement of our brand and provides great exposure which translates into relationships allowing for growth.

2014 efforts included continued improvement of our product line up with the introduction of ACH, online cash management and other business related deposit services. For consumers, we launched the Middletown Valley Bank mobile app to allow customers to transfer money and pay bills from their mobile phones 24 hours a day, seven days a week. We also expanded our line of highly competitive mortgage products. Additionally, many customers began to take advantage of the prior year product improvements by opting in to increase the value of their debit card, opening an environmentally friendly e-checking account, or signing their business up for remote deposit capture or ACH origination.

During the year we continued the prior year initiative to focus on improving our customer contacts and interactions. We also continued to reevaluate all of our processes for potential efficiency improvement. Our conversion to sending our quarterly shareholder information via email was included in that effort. If you haven't provided us your email as yet, please do so now to prevent interruption in communications to you as a shareholder.

The volume and pace of improvement demand strong financial and risk management to ensure profitability during the process. We have implemented an enhanced budgeting software and process. We are now able to assign financial responsibility and accountability at the business unit level. Also, the evolution of the bank's risk monitoring and measurement systems continued during the year. The reporting shows that we have reduced risk in the areas of credit quality, liquidity, capital adequacy, interest rate risk, and operational risk related to fraud. During the year, we enhanced our systems which monitor transactions for potential fraud. In 2015, we will be moving our internal networks to a hosted network solution which gives us scalability and cost containment as our network needs grow in the coming years.

2014 was an important year in our long-term plan and the results were extremely positive. Earnings began to bounce back as predicted although still reflect the continued preparation for the future. While the financial results are the numerical representation of our performance to date, what is difficult to see in the numbers is the tremendous effort, growth, and dedication of our employees and directors during 2014. Throughout the organization, our people accept and rise to meet challenges on a regular basis. Striving for the "Absolutely Exceptional Experience" guides our daily performance and shapes our annual financial performance. The final 2014 financial statements (after tax adjustments) are provided separately in this review. Highlights are noted throughout.

“Beyond the dollars are the energy and enthusiasm our employees, directors, and their families bring in support of local events.”

MVB in the Community

Community Free Clinic
MUDD Volleyball

Teamwork
Fellowship
Fun
Charity

What's NXT
Krumpe's Donut Drop

Employees in Action

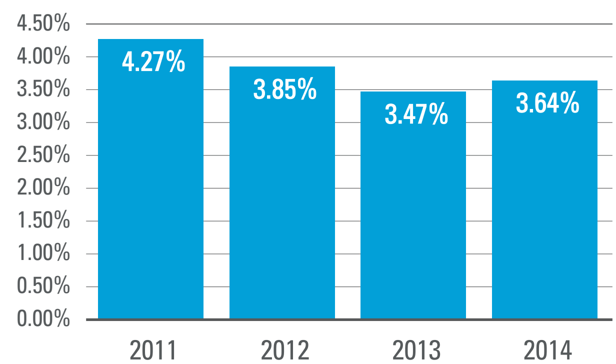
HEAL
Color Splash

Net Interest Income

The effects of strong loan growth and the change in asset mix were demonstrated in the year over year increase in net interest income of $645,120. We were able to increase interest income by $654,659 while limiting the interest expense increase to $5,539.

Margin

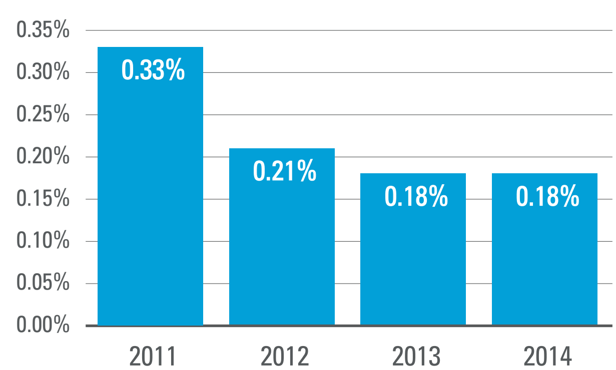
The bank's net interest margin has improved year over year as a result of a larger portion of the balance sheet being invested in loans rather than securities which typically have a lower yield than loans. Looking at the margin from a historical perspective, the margin has been impacted by the timing of its investments. Both the substantial growth in the loan portfolio and nearly the entire securities portfolio purchases have been within the past 27 months: a period of low interest rates. Typically, both portfolios would reflect a blending of interest rates over a period of five to seven years. Nearly the entire commercial loan portfolio was originated in the current rate environment. With the change in bank strategy, the securities portfolio was restructured in the latter half of 2012 to strategically prepare for a rising rate environment and to fund loan demand. Margins have been compressed and are expected to be so until a blended yield across different interest rate environments is realized. The 2014 net interest margin was 3.64% versus 3.47% in 2013.



Net Interest Income to Average Earning Assets

Cost of Funds

While the bank grew deposits nearly $9 million, a healthy 6.3%, the bank was able to maintain its advantage versus peers in a low cost of funds. The cost of funds was held flat at 18 basis points due to the substantial portion of the growth being in demand deposits and lower-yielding savings accounts.



Net Interest Income to Average Earning Assets

Provision for Loan Losses

Where the bank needed to provision $408,618 in 2013 for potential loan losses, the bank was able to recover some of the allowance for loan loss previously set aside during 2014. The allowance is an estimate of future loan losses and the aggressive work on troubled loans combined with an improving economy justified recovery of previous provision in the amount of $221,975 even with the $22.8 million in loan growth. The allowance estimate is based on a percentage of loans which rises and falls with changing economic times and on reserve amounts specific to troubled loans. The bank was able to reduce the troubled loans requiring specific reserve by improving several loans for upgrade and moving other troubled loans out of the bank.

Non-Interest Income

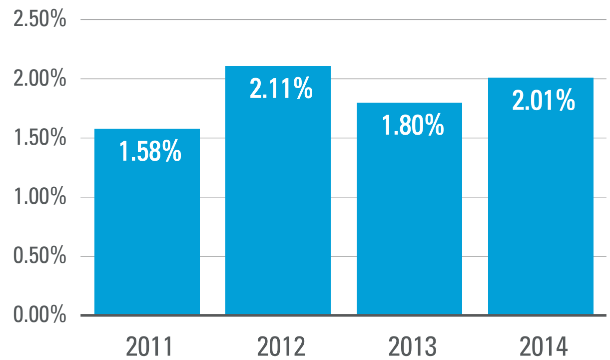
Our efforts to increase non-interest income produced growth of $81,822, or 9.2% in 2014. With the 2013 addition of business debit cards and merchant services, usage continues to grow providing fee income growth. Additionally, bank investments in Bank Owned Life Insurance have increased non-interest income. In 2014, the gains on the sale of secondary market mortgages increased $55,636 over the previous year. For the year, non-interest income was 0.58% of average earning assets.

Non-Interest Expense

Non-interest expense totals grew nearly $1.1 million reflecting a full year of investment in talent and due to the tremendous investment made in upgrading all areas of the bank. As a percentage of average assets, the expense rose to 3.76% which compares to 3.47% in 2013 and is slightly above our peers due to the plans we are implementing. The investment payoff is reflected in the increase in net interest income and fee income. We expect that it will take two more years of loan originations and product maturity to optimize the impact of the investments.

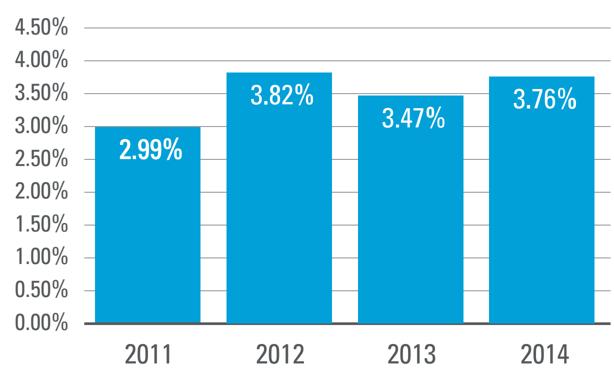
Personnel Expense

The addition of talent is carefully monitored with our personnel overhead position. For the year 2014, the bank's salary and benefits as a percentage of average earning assets was 2.01%, just 10 basis points above our peer group.



Salary & Benefits Expenses to Average Earning Assets

"Our efforts to increase non-interest income produced growth of 9.2%."



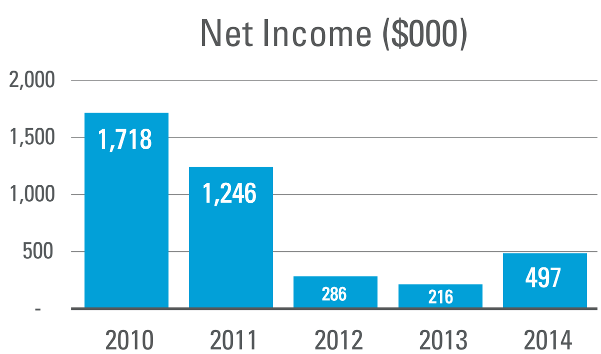
Non-Interest Expense to Average Earning Assets

Profitability

The bank net income grew to $497,262 in 2014 from $215,797 the prior year as we have turned the corner in our plan to return Middletown Valley Bank to a highly profitable community bank. Dividends of $64,858 were paid during the year, an increase of $16,882 or 35% over 2013. The board of directors increased the per share dividend to $0.02 per share from a comparative $0.0125 after the July 31st four-for-one stock split effected in the form of a dividend. This was a 60% increase in the per share dividend.

We are proud to have accomplished all that we have to date without a year of negative earnings during the process. I appreciate your interest from the beginning in understanding our plans and goals through this process. Tremendous effort has gone toward restructuring the balance sheet, improving the product lineup, and preparing the bank for balance sheet growth. Future income statements will reflect the continued growth in net interest income and fee income from our efforts. As our customer base grows, we will work to add support staff in the most efficient and prudent manner.

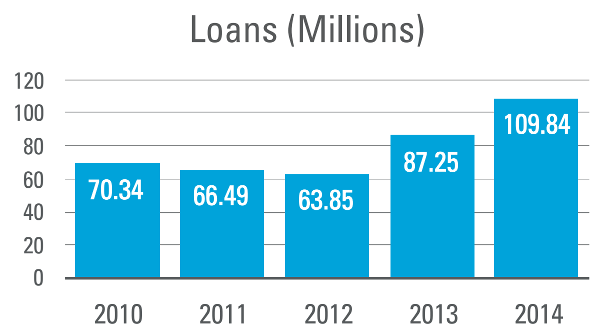
We believe the bank will return to profitability in the tradition of Middletown Valley Bank and success beyond any previously known.



Balance Sheet Growth

2014 performance substantially completed the change in the mix of earning assets to more loans and less securities. We were also able to attain healthy balance sheet growth with total assets reaching a year-end high of $175.3 million, an increase of $15 million, or 9.4%, year over year.

Net Loans grew 26.2%, or $22.8 million, during 2014. This is on top of the 2013 growth of $23.4 million, or 36%. The loan growth was mostly in commercial loans and the commercial product enhancements allow the bank to meet the needs of the customer providing us large commercial deposit accounts and fee income. Loans are now better than 2/3 of our earning assets where they were below 46% of earning assets at year end 2012.



"We are proud to have accomplished all that we have to date without a year of negative earnings during the process."

Total investment securities were down as a result of funding loans. The investment portfolio ended the year at $37.9 million down from $52.7 million at year end 2013. The investment portfolio is now primarily structured for cash flow supplementation and as a liquidity cushion.

Cash and Federal Funds was $16.4 million on December 31, which was substantially higher than the prior year's $8.4 million in part because of a larger volume of loan settlements anticipated at the time.

Deposits grew the previously mentioned $9 million, or 6.3% in 2014. This compares to growth of $8 million (6.6%) the prior year. In each of the community markets we serve, Middletown Valley Bank is growing deposits. In fact, the market share data at June 30, 2014 showed the bank growing deposits in the prior year an amount equal to or greater than 76% of the market growth for the year. The cost of funds was held flat at 18 basis points due to the substantial portion of the growth being in demand deposits and lower-yielding savings accounts. Improving existing relationships and creating new ones are keys to our success and to maintaining low-cost funding. New and enhanced relationships also provide a great opportunity to cross-sell other products and services, further strengthening future balance sheet and profitability growth.

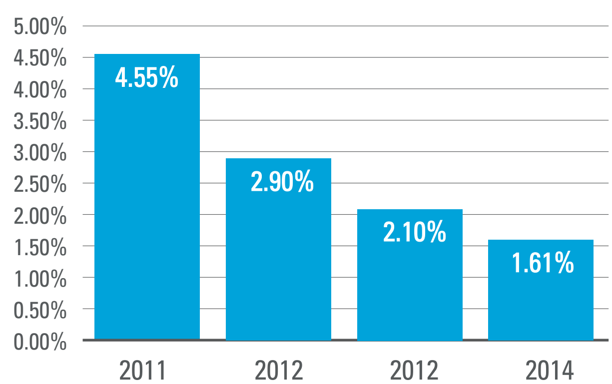
The bank is poised to drive loan and deposit growth in 2015 and is already seeing the impact of our announcing the 2015 opening of the Hagerstown branch.

1101 Professional Court
Hagerstown, MD 21740

Credit Quality

The number one concern related to the rapid loan growth is maintaining strong credit quality standards. We are pleased that our troubled loans and past due loans are shrinking during this period of rapid loan growth. The bank follows stringent loan documentation and monitoring processes and is aggressively managing problem loans. The result of the effort was improvement in all measurements of problem loans. Non-performing loans as a percentage of total loans were reduced from 2.10% to 1.61%. The percentage of loans past due 30-89 days was reduced from 0.94% to 0.56%. Loans past due 90+ days or more were reduced from 0.02% to 0.00%. Loans on non-accrual were reduced from 2.08% to 1.61% and represent an ongoing challenge negatively affecting earnings. Efforts made to reduce the non-accrual loans will continue in 2015, with many efforts coming to fruition.

The Allowance for Loan Loss ended 2014 at 1.42% of loans for the reasons discussed earlier. In summary, the decrease in the percentage is related to the improving economic outlook and the hard work done on addressing our troubled loans.



Net Loan Loss Exposure
Non-Performing Loans to Total Loans

Interest Rate Risk & Loan Diversification

The bank has been implementing a long-term plan to reduce the interest rate risk we face related to the timing of re-pricing our investments versus the re-pricing of our funding sources.

The diversification of the loan portfolio is a major component of that effort. Commercial loans typically have shorter terms which allow that portion of the loan portfolio to re-price more frequently. One method of measuring our progress is the average duration of our loan portfolio in years. In 2014, the average duration was further lowered from 12.58 to 10.53 years. The long-term goal is to reduce the average loan duration to between 6 and 7 years by continuing to grow the commercial and consumer loan portfolios and reducing the residential mortgage portfolio.

It should be noted that the bank continues to meet the needs of the residential mortgage borrower through a competitive secondary market mortgage program. The program offers the best possible market rate to the borrower and reduces interest rate risk to the bank through the sale of the mortgage shortly after origination. This will also be a strong source of future revenue for the bank. The bank also offers portfolio mortgage products of adjustable rate mortgages (ARMs) which reduce the overall loan duration and therefore interest rate risk.

Capital Adequacy

The bank ended the year with strong capital of 12.0% of assets due mostly to the additional capital raised during the fourth quarter. Other contributors to the year over year rise from 10.7% are the organic growth of earnings less dividends paid and the improved position of the investment portfolio. Lower interest rates at December 31 reduced the unrealized loss position of the investment portfolio. Rising rates in the future will increase the unrealized loss position as the market desires higher returns. The effect on capital of such change is another reason for our goal of limiting the portion of earning assets in securities. The end of year book value per share was $19.12, up from $17.86 the previous year-end on a comparative basis.

The current capital position is another factor establishing that Middletown Valley Bank is poised for growth. I believe we have built a foundation for a larger, stronger, more profitable bank going forward. I thank you for your patience during this process and am proud of the foundation we have built to date. The progress is a testament to the hard work of our employees and directors. There is considerable improvement in our overall risk position and we have positive momentum in both the balance sheet and income statement. Investment will continue as we continue to evolve and change as the needs of the industry, customers, and community require.

Thank you for your support in our pursuit of the *"Absolutely Exceptional Experience"*.

Kindest Regards,

Robert E. Goetz, Jr.
President & CEO

MVB
Schedule of Financial Statements

Statements of Condition

BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

ASSETS	2014	2013
Cash and due from banks	$7,419,924	$4,491,080
Federal funds sold	9,008,258	3,950,407
FHLB Stock	152,300	–
Securities available for sale, at fair value	37,881,140	52,659,748
Loans held for sale	255,000	546,396
Loans, net of allowance for loan losses of $1,584,283 (2014) and $1,771,378 (2013)	109,838,003	86,702,405
Bank premises and equipment, net	4,306,315	4,471,794
Accrued interest receivable	374,014	389,830
Refundable income taxes	100,020	120,042
Deferred taxes, net	953,155	1,401,351
Other real estate owned, net	215,523	253,000
Bank owned life insurance	4,292,523	4,180,275
Other assets	542,872	1,131,485
TOTAL ASSETS	$175,339,047	$160,297,813
LIABILITIES		
Deposits:		
Demand	$46,591,711	$45,110,310
Interest-bearing demand	44,768,691	40,536,786
Savings	39,196,575	36,886,286
IRA savings accounts	5,264,034	5,050,620
Time and IRA	15,336,631	14,615,543
Total deposits	151,157,642	142,199,545
Accrued interest payable	3,217	2,774
Unaccepted stock subscriptions	328,871	–
Other liabilities	1,097,075	921,431
TOTAL LIABILITIES	152,586,805	143,123,750
SHAREHOLDERS' EQUITY		
Preferred stock, $1 par value; 1,000,000 shares authorized; no shares issued and outstanding	–	–
Common stock, $1 par value; 4,000,000 shares authorized; 1,092,733 shares issued and outstanding at December 31, 2014; $10 par value; 240,000 shares authorized, issued and outstanding at December 31, 2013	1,092,733	2,400,000
Common stock, subscribed not yet issued	1,869,809	–
Surplus	6,435,862	2,600,000
Retained earnings	13,506,513	13,074,109
Accumulated other comprehensive income (loss)	(152,675)	(826,176)
Treasury stock, 1,043 shares (2013)	–	(73,870)
TOTAL SHAREHOLDERS' EQUITY	22,752,242	17,174,063
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$175,339,047	$160,297,813

Statements of Income

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
INTEREST INCOME		
Interest and fees on loans	$4,865,019	$4,006,506
Interest on investment securities:		
U.S. government	104,746	266,922
Mortgage backed	472,483	572,937
Municipal	140,434	80,225
Other interest	7,425	8,858
TOTAL INTEREST INCOME	5,590,107	4,935,448
INTEREST EXPENSE		
Interest on deposits:		
Savings	18,868	18,707
Interest-bearing demand	96,235	95,609
Time	64,540	59,812
Interest on purchased funds	143	119
TOTAL INTEREST EXPENSE	179,786	174,247
NET INTEREST INCOME	5,410,321	4,761,201
PROVISION FOR (RECOVERY OF) LOAN LOSSES	(221,975)	408,618
NET INTEREST INCOME AFTER PROVISION FOR (RECOVERY OF) LOAN LOSSES	5,632,296	4,352,583
OTHER INCOME		
Service charges on deposit accounts	500,834	479,671
VISA check card income	248,665	228,496
Gain (loss) on sales and calls of securities, available for sale	(9,644)	22,085
Gain on sales of loans	71,989	16,353
Bank owned life insurance income	112,248	106,872
Other operating income	49,683	38,476
	973,775	891,953
OTHER EXPENSES		
Salaries and employee benefits	3,082,660	2,527,423
Supplemental employee retirement plan expense	52,682	57,257
Occupancy expense	420,778	376,253
Equipment expense	348,201	296,633
Loss on sale and impairment of other real estate owned	75,900	9,143
Data and item processing expense	874,202	869,516
FDIC Insurance expense	126,311	117,570
Other operating expense	954,349	741,899
	5,935,083	4,995,694
INCOME BEFORE INCOME TAXES	670,988	248,842
INCOME TAXES	173,726	33,045
NET INCOME	$497,262	$215,797

Additional Schedules

CHANGES IN EQUITY CAPITAL	2014	2013
Total equity capital as of December 31, prior year	$17,174,063	$18,170,875
Net Income (Loss)	497,262	215,797
Plus: Sale of common stock	4,391,736	0
Plus: Sale of treasury stock	102,938	4,500
Less: Purchase of treasury stock	(22,400)	(70,000)
Less: Cash dividends declared on common stock	(64,858)	(47,976)
Less: Reclassification Adjustment	5,840	(13,375)
Change in Unrealized Gain/(Loss) on AFS Securities	667,661	(1,085,758)
Total Equity capital end of current period	$22,752,242	$17,174,063

PAST DUE AND NONACCRUAL LOANS, LEASES AND OTHER ASSETS	2014	2013
Past due 90 days or more and still accruing:		
Real Estate Loans	$4,929	$17,819
Installment Loans	0	0
Commercial (time and demand) and all other loans	0	0
Total	$4,929	$17,819
Nonaccrual:		
Real Estate Loans	$1,774,438	$1,848,551
Installment Loans	0	0
Commercial (time and demand) and all other loans	18,596	0
Total	$1,793,034	$1,848,551
Total Debt Restructure Loans (TDR's)	$1,973,049	$2,598,255
TOTAL NON-PERFORMING LOANS	$3,771,012	$4,464,625
Non Performing Loans to Total Loans	4.23%	5.01%

CHANGES IN ALLOWANCE FOR LOAN AND LEASE LOSSES	2014	2013
Balance as of December 31, prior year	$1,771,378	$1,583,354
Recoveries	42,700	451
Less: Charge-offs	(7,820)	(221,046)
Provision for Loan and Lease Losses	(221,975)	408,619
Balance as of December 31, year end	$1,584,283	$1,771,378

Board of Directors

JAMES H. CLAPP - Chairman of the Board
Committees: Governance (Chair) and Audit Committee (Note: as Chairman of the Board can sit on any Committee Meeting)

ROBERT E. GOETZ, JR. - President & CEO
Committees: Directors Loan Committee and Board Asset Liability Committee (ALCO) - Attends all Committee Meetings

JOHN T. ROUTZAHN, III - Vice Chair
Committees: Board ALCO and Audit Committee (Chair)

RICHARD L. KEFAUVER
Committees: Directors Loan (Chair) and Personnel & Compensation Committee

JAMES G. PIERNE
Committees: Board ALCO (Chair) and Audit Committee

A. DENNIS REMSBURG
Committees: Personnel & Compensation Committee (Chair) and Governance Committee

J. THOMAS ROUTZAHN, JR.
Committees: Governance Committee, Directors Loan Committee, Audit Committee

JOHN J. RUDY
Committees: Personnel & Compensation Committee, Directors Loan Committee, Community Reinvestment Act (CRA) Committee

TODD M. SNOOK
Committees: Personnel & Compensation Committee, Directors Loan Committee, Board ALCO

2014 Executive Officers

Robert E. Goetz, Jr.
President & Chief Executive Officer

J. Michael Hill
Executive Vice President & Chief Operating Officer

Harold H. Hoffman, Jr.
Senior Vice President & Chief Lending Officer

Dawn R. Woods
Corporate Secretary

2014 Corporate Officers

George T. Chaney
Vice President - Commercial Relationship Manager

M. Scott Durant
Vice President - Client Relationship Officer

Linda D. Kinslow
Vice President - Deposit & Loan Operations

Chad M. Tasker
Vice President - IT & Bank Network Support

Dustin A. Watson
Vice President - Credit & Loan Administration

Whitney L. Dangerfield
Assistant Vice President - Human Resources & Branch Administration

Kevin M. Delauter
Assistant Vice President - Assistant Corporate Secretary

Paul E. Fink
Assistant Vice President - Security Officer
Compliance/BSA/Privacy Officer

Rebecca E. Auldridge
Banking Officer - Retail Branch Manager

Melissa F. Delauter
Banking Officer - Retail Branch Manager

Susan Y. Grove
Banking Officer - Retail Branch Manager

Tina M. McDonald
Banking Officer - Retail Branch Manager

Kristi E. Neuschafer
Banking Officer - Retail Branch Manager & Residential Mortgage Banker

Sabrina K. Wine
Banking Officer - Retail Branch Manager & Marketing Coordinator

L. Kay Moser
Banking Officer - Loan Servicing

Absolutely Exceptional Experiences

MAIN OFFICE BRANCH
24 West Main Street/P.O. Box 75
Middletown, MD 21769
301.371.6700

MIDDLETOWN BRANCH
803 East Main Street
Middletown, MD 21769
301.371.6060

JEFFERSON BRANCH
3848 Jefferson Pike
Jefferson, MD 21755
301.473.8660

MYERSVILLE BRANCH
3001 Ventrie Court
Myersville, MD 21773
301.293.3400

BOONSBORO BRANCH
6721 Old National Pike
Boonsboro, MD 21713
301.432.3925

HAGERSTOWN BRANCH
1101 Professional Court
Hagerstown, MD 21740
COMING SOON