

**THE BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C. 20551**

**FORM 10-QSB**

**Quarterly Report under Section 13 or 15(d)  
of the Securities Exchange Act of 1934**

**For the quarterly period ended March 31, 2007**

or

**Transition Report under Section 13 or 15(d)  
of the Exchange Act**

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

**COLONIAL VIRGINIA BANK**

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

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

**75-3093106**  
(IRS Employer  
Identification No.)

**6720 Sutton Road**  
**Gloucester, Virginia 23061**  
(Address of principal executive offices)

**(804) 695-9300**  
(Issuer's telephone number)

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 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:

607,675 shares of common stock, par value \$5.00 per share,  
outstanding as of May 14, 2007

Transitional Small Business Disclosure Format (check one). Yes  No

# COLONIAL VIRGINIA BANK

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## PART I. FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

#### COLONIAL VIRGINIA BANK Balance Sheets

	(Unaudited) March 31, 2007	December 31, 2006
	<u>                    </u>	<u>                    </u>
<b>Assets:</b>		
Cash and due from banks	\$ 1,858,660	\$ 2,012,673
Federal funds sold	10,493,738	5,095,375
Securities available for sale, at fair market value	15,064,004	17,479,174
Securities held to maturity (fair market value of \$4,573,365 in 2007 and \$3,777,160 in 2006)	4,558,947	3,764,643
Loans, net of allowance for loan losses of \$336,561 in 2007 and \$329,462 in 2006	47,508,901	46,125,422
Bank premises and equipment, net	4,215,533	4,258,753
Bank owned life insurance	1,557,390	1,549,590
Other assets	<u>940,830</u>	<u>901,896</u>
 Total assets	 <u>\$ 86,198,003</u>	 <u>\$ 81,187,526</u>
 <b>Liabilities and Shareholders' Equity:</b>		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	\$ 6,498,562	\$ 6,536,531
Savings and interest bearing demand deposits	15,702,902	14,508,711
Time deposits	<u>52,004,467</u>	<u>48,365,686</u>
Total deposits	\$ 74,205,931	\$ 69,410,928
 Accrued expenses and other liabilities	 856,673	 749,861
Commitments and contingencies	<u>-</u>	<u>-</u>
Total liabilities	<u>\$ 75,062,604</u>	<u>\$ 70,160,789</u>
 Shareholders' Equity:		
Preferred stock, par value \$5.00 per share, authorized 5,000,000 shares; no shares issued and outstanding	\$ -	\$ -
Common stock, par value \$5.00 per share, authorized 10,000,000 shares; issued and outstanding 607,675 shares	3,038,375	3,038,375
Capital surplus	9,090,243	9,090,243
Retained (deficit)	(746,701)	(821,595)
Accumulated other comprehensive income (loss), net	<u>(246,518)</u>	<u>(280,286)</u>
Total shareholders' equity	<u>\$ 11,135,399</u>	<u>\$ 11,026,737</u>
 Total liabilities and shareholders' equity	 <u>\$ 86,198,003</u>	 <u>\$ 81,187,526</u>

See Accompanying Notes to Financial Statements.

**COLONIAL VIRGINIA BANK**  
**Statements of Income**

	(Unaudited)	
	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
<b>Interest and Dividend Income</b>		
Interest and fees on loans	\$ 1,077,513	\$ 875,888
Interest on securities available for sale		
Taxable	251,858	100,106
Dividends	5,015	4,756
Interest on federal funds sold and other	107,223	65,764
Total interest and dividend income	<u>\$ 1,441,609</u>	<u>\$ 1,046,514</u>
<b>Interest Expense</b>		
Interest on deposits	\$ 700,293	\$ 386,079
Total interest expense	<u>\$ 700,293</u>	<u>\$ 386,079</u>
Net interest income	\$ 741,316	\$ 660,435
<b>Provision for Loan Losses</b>	<u>6,050</u>	<u>1,050</u>
Net interest income after provision for loan losses	<u>\$ 735,266</u>	<u>\$ 659,385</u>
<b>Other Income</b>		
Service charges on deposit accounts	22,009	12,570
Other service charges, commissions and fees	35,523	30,638
Total other income	<u>\$ 57,532</u>	<u>\$ 43,208</u>
<b>Other Expense</b>		
Salaries and employee benefits	\$ 405,907	\$ 333,079
Occupancy expense	40,299	46,909
Furniture and equipment expense	15,459	13,479
Data processing	105,099	100,591
Advertising	44,039	19,018
Professional fees	19,568	18,399
Stationery and supplies	13,076	10,348
Postage and freight	9,695	7,737
Regulatory assessments	7,225	4,907
Insurance	9,591	9,221
Taxes	15,719	20,856
Other operating expenses	32,227	33,582
Total other expense	<u>\$ 717,904</u>	<u>\$ 618,126</u>
Net Income before income taxes	\$ 74,894	\$ 84,467
Income taxes	-	-
Net Income	<u>\$ 74,894</u>	<u>\$ 84,467</u>
Earnings per share, basic and diluted	\$ 0.12	\$ 0.14
Weighted Average Shares Outstanding, basic	607,675	605,175
Weighted Average Shares Outstanding, diluted	617,108	610,393

See Accompanying Notes to Financial Statements.

**COLONIAL VIRGINIA BANK**  
**Statements of Changes in Shareholders' Equity**  
**For the Three Months Ended March 31, 2007**  
**and March 31, 2006 (Unaudited)**

	<u>Common Stock</u>	<u>Capital Surplus</u>	<u>Retained (Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Comprehensive Income (Loss)</u>	<u>Total</u>
Balance at December 31, 2005	\$ 3,025,875	\$ 9,050,243	\$ (1,390,189)	\$ (117,735)		\$ 10,568,194
Comprehensive Income (Loss):						
Net income	--	--	84,467	--	\$ 84,467	84,467
Other comprehensive income (loss):						
Unrealized (loss) on securities available for sale	--	--	--	(72,508)	(72,508)	(72,508)
Total comprehensive income	--	--	--	--	\$ 11,959	
Balance at March 31, 2006	<u>\$ 3,025,875</u>	<u>\$ 9,050,243</u>	<u>\$ (1,305,722)</u>	<u>\$ (190,243)</u>		<u>\$ 10,580,153</u>
Balance at December 31, 2006	\$ 3,038,375	\$ 9,090,243	\$ (821,595)	\$ (280,286)		\$ 11,026,737
Comprehensive Income:						
Net income	--	--	74,894	--	\$ 74,894	74,894
Other comprehensive income:						
Unrealized gain on securities available for sale	--	--	--	26,280	26,280	26,280
Total comprehensive income	--	--	--	--	101,174	
Amortization of SFAS No. 158 adjustment	--	--	--	7,488		7,488
Balance at March 31, 2007	<u>\$ 3,038,375</u>	<u>\$ 9,090,243</u>	<u>\$ (746,701)</u>	<u>\$ (246,518)</u>		<u>\$ 11,135,399</u>

See Accompanying Notes to Financial Statements.

**COLONIAL VIRGINIA BANK**  
**Statements of Cash Flows**  
**For the Three Months Ended March 31, 2007**  
**and March 31, 2006 (Unaudited)**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	2007	2006
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 74,894	\$ 84,467
Net amortization (accretion) on investment securities	(22,117)	(2,654)
Depreciation and amortization	63,256	77,923
Provision for loan losses	6,050	1,050
Changes in assets and liabilities:		
(Increase) in accrued interest and other assets	(38,934)	(102,185)
Increase in accrued expenses and other liabilities	114,299	76,100
Net cash provided by operating activities	\$ 197,448	\$ 134,701
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of securities available for sale	\$ (1,384,424)	\$ (3,377,665)
Principal paydowns of securities available for sale	252,319	240,578
Maturities of securities available for sale	2,708,302	1,015,867
Calls of securities available for sale	884,774	-
Purchase of securities held to maturity	(1,009,100)	-
Principal paydowns of securities held to maturity	22,293	-
Maturities of securities held to maturity	200,000	-
(Purchase) of Federal Reserve Stock	(4,900)	(500)
(Increase) in bank owned life insurance	(7,800)	(7,200)
Net (increase) in loans	(1,389,529)	(2,023,372)
Purchases of premises and equipment	(20,036)	(27,598)
Net cash provided by (used in) investing activities	\$ 251,899	\$ (4,179,889)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in demand, savings, interest-bearing checking and money market deposits	\$ 1,156,222	\$ 382,683
Net increase in time deposits	3,638,781	4,337,884
Net cash provided by financing activities	\$ 4,795,003	\$ 4,720,567
 Net increase in cash and cash equivalents	\$ 5,244,350	\$ 675,379
 <b>CASH AND CASH EQUIVALENTS</b>		
Beginning	\$ 7,108,048	\$ 7,687,037
Ending	\$ 12,352,398	\$ 8,362,417
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	695,350	357,761
 <b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES</b>		
Unrealized gain (loss) on securities available for sale	26,280	(72,508)
Amortization of adjustment to initially apply SFAS No. 158	7,488	-

See Accompanying Notes to Financial Statements.

**COLONIAL VIRGINIA BANK**  
**Notes to Financial Statements**  
For the Three Months Ended March 31, 2007  
and March 31, 2006 (Unaudited)

**Note 1. General**

Colonial Virginia Bank (the Bank) was organized under the laws of the Commonwealth of Virginia to engage in a general banking business serving the community in and around Gloucester County, Virginia. The Bank is a member of the Federal Reserve System and the Federal Deposit Insurance Corporation. It is subject to the regulations of the Federal Reserve System and the State Corporation Commission of Virginia. Consequently, it undergoes periodic examinations by these regulatory authorities.

In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Bank's financial position at March 31, 2007, and the statements of income, changes in shareholders' equity and cash flows for the three months ended March 31, 2007. Financial statements are prepared in accordance with generally accepted accounting principles. Operating results for the three month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. The statements should be read in conjunction with the Notes to Financial Statements included in the Bank's Annual Report on Form 10-KSB for the year ended December 31, 2006, as filed with the Federal Reserve System.

**Note 2. Securities**

Amortized cost and fair values of securities available for sale at March 31, 2007, were as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized (Losses)</b>	<b>Fair Value</b>
Securities of U.S. government and federal agencies	\$ 10,522,653	\$ 29,110	\$ (32,058)	\$ 10,519,705
Mortgage backed securities	4,151,818	7,260	(45,898)	4,113,180
Securities of states and political subdivisions	98,293	-	(1,474)	96,819
Restricted stock	334,300	-	-	334,300
Total	<u>\$ 15,107,064</u>	<u>\$ 36,370</u>	<u>\$ (79,430)</u>	<u>\$ 15,064,004</u>

Amortized cost and fair values of securities held to maturity at March 31, 2007, were as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized (Losses)</b>	<b>Fair Value</b>
Securities of U.S. government and federal agencies	\$ 3,923,268	\$ 14,697	\$ (321)	\$ 3,937,644
Mortgage backed securities	635,679	42	-	635,721
Total	<u>\$ 4,558,947</u>	<u>\$ 14,739</u>	<u>\$ (321)</u>	<u>\$ 4,573,365</u>

Amortized cost and fair values of securities available for sale at December 31, 2006, were as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized (Losses)</b>	<b>Fair Value</b>
Securities of U.S. government and federal agencies	\$ 13,104,246	\$ 27,980	\$ (44,762)	\$ 13,087,464
Mortgage backed securities	4,016,634	3,971	(54,548)	3,966,057
Securities of states and political subdivisions	98,234	-	(1,981)	96,253
Restricted stock	329,400	-	-	329,400
Total	<u>\$ 17,548,514</u>	<u>\$ 31,951</u>	<u>\$ (101,291)</u>	<u>\$ 17,479,174</u>

Amortized cost and fair values of securities held to maturity at December 31, 2006, were as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized (Losses)</b>	<b>Fair Value</b>
Securities of U.S. government and federal agencies	\$ 2,906,830	\$ 12,857	\$ (892)	\$ 2,918,795
Mortgage backed securities	657,940	581	-	658,521
Securities of states and political subdivisions	199,873	-	(29)	199,844
Total	<u>\$ 3,764,643</u>	<u>\$ 13,438</u>	<u>\$ (921)</u>	<u>\$ 3,777,160</u>

At March 31, 2007 and December 31, 2006, approximately \$100,000 of securities were pledged to secure deposits of the Commonwealth of Virginia.

For the three months ended March 31, 2007, proceeds from calls of securities available for sale totaled \$884,774. There were no proceeds from sales of securities available for sale for the three months ended March 31, 2007. There were no proceeds from sales and calls of securities available for sale for the three months ended March 31, 2006.

At March 31, 2007, 35 investment securities had an unrealized loss. The investment securities are obligations of entities that are excellent credit risks. The temporary impairment noted is the result of market conditions and does not reflect on the ability of the issuers to repay the obligations. There were 25 investment securities held at March 31, 2007 that had been in an unrealized loss position for greater than 12 months. These 25 securities had a total unrealized loss of \$78,149 and a market value of \$6,119,124 at March 31, 2007. The remaining 8 securities had a total unrealized loss of \$1,601 and a market value of \$3,040,274 at March 31, 2007. The Bank has the intent and the ability to hold these securities until such time as there is a recovery of the unrealized loss or until maturity.

<b>March 31, 2007</b>	<b>Less Than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
<b>Description of Securities</b>	<b>Fair Value</b>	<b>Unrealized (Losses)</b>	<b>Fair Value</b>	<b>Unrealized (Losses)</b>	<b>Fair Value</b>	<b>Unrealized (Losses)</b>
Securities of U.S. government and federal agencies	\$2,462,436	(\$661)	\$3,520,619	(\$31,717)	\$5,983,055	(\$32,378)
Mortgage backed Securities	577,838	(940)	2,501,686	(44,958)	3,079,524	(45,898)
Securities of states and political subdivisions	-	-	96,819	(1,474)	96,819	(1,474)
Total temporarily impaired securities	<u>\$3,040,274</u>	<u>(\$1,601)</u>	<u>\$6,119,124</u>	<u>(\$78,149)</u>	<u>\$9,159,398</u>	<u>(\$79,750)</u>
<b>December 31, 2006</b>	<b>Less Than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
<b>Description of Securities</b>	<b>Fair Value</b>	<b>Unrealized (Losses)</b>	<b>Fair Value</b>	<b>Unrealized (Losses)</b>	<b>Fair Value</b>	<b>Unrealized (Losses)</b>
Securities of U.S. government and federal agencies	\$5,609,010	(\$3,237)	\$3,239,080	(\$42,417)	\$8,848,090	(\$45,654)
Mortgage backed Securities	130,516	(20)	2,786,039	(54,528)	2,916,555	(54,548)
Securities of states and political subdivisions	199,844	(29)	96,253	(1,981)	296,097	(2,010)
Total temporarily impaired securities	<u>\$5,939,370</u>	<u>(\$3,286)</u>	<u>\$6,121,373</u>	<u>(\$98,926)</u>	<u>\$12,060,742</u>	<u>(\$102,212)</u>

**Note 3. Loans**

The consolidated loan portfolio was composed of the following at the dates indicated:

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Mortgage:		
Construction and land development	\$ 11,217,203	\$ 9,299,922
Residential real estate	13,444,396	13,329,893
Nonresidential	8,001,617	8,751,165
Commercial	10,501,805	9,997,371
Agricultural and Other Farm Loans	612,586	546,714
Consumer and All Other Loans	4,199,226	4,661,667
	<u>47,976,833</u>	<u>46,586,732</u>
Unearned income	131,371	131,848
Allowance for loan losses	336,561	329,462
Loans, net	<u>\$ 47,508,901</u>	<u>\$ 46,125,422</u>

Overdrafts totaling \$16,163 and \$14,618 at March 31, 2007 and December 31, 2006, respectively, were reclassified from deposits to loans.

The Bank had no non-performing assets at March 31, 2007 or December 31, 2006.

An analysis of the allowance for loan losses was as follows for the periods indicated:

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>	<u>March 31,</u> <u>2006</u>
Balance at the beginning of the period (January 1)	\$ 329,462	\$ 316,372	\$ 316,372
Provision for loan losses	6,050	29,200	1,050
Loans charged off	(7)	(16,611)	(1,317)
Recoveries on loans previously charged off	1,056	501	15
Balance at the end of the period	<u>\$ 336,561</u>	<u>\$ 329,462</u>	<u>\$ 316,120</u>

**Note 4. Earnings Per Share**

The following table shows the weighted average number of shares used in computing earnings per share and the effect on weighted average number of shares of dilutive potential common stock. Potential dilutive common stock had no effect on income available to common shareholders.

	Three months ended March 31, 2007		Three months ended March 31, 2006	
	Shares	Amount	Shares	Amount
Basic earnings per share	607,675	\$ 0.12	605,175	\$ 0.14
Effect of dilutive securities:				
Stock Options	9,433		5,218	
Diluted earnings per share	<u>617,108</u>	\$ 0.12	<u>610,393</u>	\$ 0.14

Basic earnings per share represents income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from issuance.

**Note 5. Stock Based Compensation**

As of March 31, 2007, the Bank had a stock-based compensation plan. The Bank accounts for the plan under the recognition and measurement principles of the Accounting Principles Board (“APB”) Opinion 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant.

Prior to January 1, 2006, the Bank accounted for stock based compensation utilizing the intrinsic value method in accordance with the provision of APB Opinion 25 and related interpretations. Accordingly, no compensation expense was recognized for the stock option plan because the exercise prices of stock options granted equaled or exceeded the market price of the underlying stock on the dates of grants. As disclosed in the Bank’s Current Report on Form 8-K, dated December 29, 2005, vesting of previously issued stock options was accelerated to December 29, 2005 for options granted February 2005.

Effective January 1, 2006, the Bank adopted the fair value recognition provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123R, “Share-Based Payment”, using a modified version of prospective application. Under this method, compensation expense is recorded for all awards granted after the date of adoption and for the unvested portion of previously granted awards that were outstanding as of the beginning of the period of adoption.

The fair value of each grant is estimated at the grant date using the Black-Scholes option-pricing model. There were no stock options granted in 2007 and 2006. There were no stock options exercised in the three month periods ended March 31, 2007 and 2006.

The following summarizes the stock option activity for the three month period ended March 31, 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Intrinsic Value of Unexercised In-the-Money Options
Options outstanding, January 1, 2007	37,354	21.26		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Options outstanding, March 31, 2007	37,354	21.26	7	
Options exercisable, March 31, 2007	37,354	21.26	7	\$ 289,120

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

The following discussion and analysis of the financial condition and results of operations of the Bank for the three months ended March 31, 2007 should be read in conjunction with the Bank's Financial Statements and the accompanying Notes to Financial Statements included in this report, as well as in the Bank's Annual Report on Form 10-KSB as of December 31, 2006 (the "2006 Form 10-KSB").

### **Executive Overview**

The Bank is headquartered in Gloucester, Virginia and conducts its primary operations through the Bank. The Bank is a community bank principally serving the Virginia county of Gloucester, but also providing banking services in the overall market known as the Middle Peninsula of Virginia, as well as the Peninsula of Virginia. The Bank also has an investment division operating under the name of Colonial Virginia Investment Services.

The Bank's results of operations are primarily dependent on net interest income, which is the difference between interest and fees earned on earning assets and the interest expense paid on deposits and other interest bearing liabilities. Results of operations are also affected by our allowance for loan losses, investment activities and other fees. Non-interest expense principally consists of salary and benefits, occupancy and equipment expenses, business development costs, professional fees, data processing expense and other expenses.

### **Critical Accounting Policies**

#### *General*

The financial condition and results of operations presented in the Financial Statements, the accompanying Notes to Financial Statements and this section are, to a large degree, dependent upon the accounting policies of the Bank. The selection and application of these accounting policies involve judgments, estimates, and uncertainties that are susceptible to change.

Presented below is discussion of those accounting policies that management believes are the most important ("Critical Accounting Policies") to the portrayal and understanding of the Bank's financial condition and results of operations. The Critical Accounting Policies require management's most difficult, subjective and complex judgments about matters that are inherently uncertain. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of materially different financial condition or results of operations is a reasonable likelihood.

#### *Allowance for Loan Losses*

The Bank monitors and maintains an allowance for loan losses to absorb an estimate of probable losses inherent in the loan portfolio. The Bank maintains policies and procedures that address the systems of controls over the following areas of maintenance of the allowance: the systematic methodology used to determine the appropriate level of the allowance to provide assurance that the systems are maintained in accordance with accounting principles generally accepted in the United States of America; the accounting policies for loan charge-offs and recoveries; the assessment and measurement of impairment in the loan portfolio; and the loan grading system.

The Bank evaluates various loans individually for impairment as required by Statement of Financial Accounting Standards ("SFAS") No. 114, Accounting by Creditors for Impairment of a Loan, and SFAS No. 118, Accounting by Creditors for Impairment of a Loan – Income Recognition and

Disclosures. Loans evaluated individually for impairment include non-performing loans, such as loans on non-accrual, loans past due by 90 days or more, restructured loans and other loans selected by management. The evaluations are based upon discounted expected cash flows or collateral valuations. If the evaluation shows that a loan is individually impaired, then a specific reserve is established for the amount of impairment. If a loan evaluated individually is not impaired, then the loan is assessed for impairment under SFAS No. 5, Accounting for Contingencies (“SFAS 5”), with a group of loans that have similar characteristics.

For loans without individual measures of impairment, the Bank makes estimates of losses for groups of loans as required by SFAS 5. Loans are grouped by similar characteristics, including the type of loan, the assigned loan grade and the general collateral type. A loss rate reflecting the expected loss inherent in a group of loans is derived based upon estimates of default rates for a given loan grade, the predominant collateral type for the group and the terms of the loan. The resulting estimate of losses for groups of loans are adjusted for relevant environmental factors and other conditions of the portfolio of loans, including: borrower and industry concentrations; levels and trends in delinquencies, charge-offs and recoveries; changes in underwriting standards and risk selection; level of experience, ability and depth of lending management; and national and local economic conditions.

The amounts of estimated impairment for individually evaluated loans and groups of loans are added together for a total estimate of loan losses. This estimate of losses is compared to the allowance for loan losses of the Bank as of the evaluation date and, if the estimate of losses is greater than the allowance, an additional provision to the allowance would be made. If the estimate of losses is less than the allowance, the degree to which the allowance exceeds the estimate is evaluated to determine whether the allowance falls outside a range of estimates. If the estimate of losses is below the range of reasonable estimates, the allowance would be reduced by way of a credit to the provision for loan losses. The Bank recognizes the inherent imprecision in estimates of losses due to various uncertainties and variability related to the factors used, and therefore a reasonable range around the estimate of losses is derived and used to ascertain whether the allowance is too high or too low. If different assumptions or conditions were to prevail and it is determined that the allowance is not adequate to absorb the new estimate of probable losses, an additional provision for loan losses would be made, which amount may be material to the Financial Statements. Further discussion of the adequacy and analysis of the level of the allowance for loan losses is included below.

## **Financial Summary**

Net income for the three months ended March 31, 2007 was \$74,894 compared to \$84,468 for the same period in 2006. The primary cause for the decline is related to an accounting rules change issued by the Financial Accounting Standards Board (“FASB”), or Statement of Financial Accounting Standards (“SFAS”) No. 158. SFAS No. 158 addressed the accounting periods in which pension expenses and corresponding accrued liabilities are recognized. The total expense during the working life of the plan does not change, but only the accounting periods in which they are recorded. Therefore, more of the total expense will now be recorded in the earlier years than under previous accounting rules. Conversely, expense in the later years of the plan will be less than under previous accounting rules. As a result of the change, pension expense for the current quarter was \$42,843 greater than the same period in 2006.

For these same two periods, gross revenues, which are defined as interest income plus other income, were \$1.5 million and \$1.1 million, respectively, while gross expenses, which are defined as interest expense plus other expenses and the provision for loan losses, were \$1.4 million and \$1.0 million, respectively. Total average assets increased 16.0% from \$72.3 million for the year ended December 31, 2006 to \$83.9 million for the three months ended March 31, 2007. Average shareholders’ equity increased 1.9% from \$10.8 million for the year ended December 31, 2006 to \$11.0 million for the three

months ended March 31, 2007. The March 31, 2007 figure reflects the \$74,894 net income plus a \$33,768 decrease in the other comprehensive loss, including the unrealized loss on securities available for sale and the SFAS No. 158 Supplemental Executive Retirement Plan (“SERP”) adjustment. This is discussed further below. Annualized return on average assets for the three months ended March 31, 2007 and March 31, 2006 was 0.36% and 0.53%, respectively. Annualized return on average equity for the three months ended March 31, 2007 and March 31, 2006 was 2.71% and 3.19%, respectively.

Total assets for the Bank increased to \$86.2 million at March 31, 2007, compared to \$81.2 million at December 31, 2006, representing an increase of \$5.0 million or 6.2%. Total net loans at March 31, 2007 were \$47.5 million, an increase of \$1.4 million, or 3.0%, from the December 31, 2006 amount of \$46.1 million. The Bank has experienced a general softening of loan demand over the past twelve months. As a result, the loan to deposit ratio has declined from 66.93% at December 31, 2006 to 64.48% at March 31, 2007. The provision for loan losses for the three months ended March 31, 2007 was \$6,050. The allowance for loan losses totaled \$336,561, or 0.70% of total loans outstanding, at March 31, 2007. The methodology for assessing the adequacy of the allowance is discussed further below.

The investment portfolio decreased 7.5% to \$19.6 million at March 31, 2007 compared to \$21.2 million at December 31, 2006, through maturities or principal paydowns of amortizing bonds, as there have been no sales. The current investment strategy is to employ excess liquidity in securities whose yields will enhance overall interest earnings without creating undue interest rate risk. However, current yields in the bond market are below the overnight Fed funds rate, which creates a disincentive to purchase bonds at this time. Management does not consider it prudent to reach for higher yields that can only be obtained by taking undue interest rate risk or the risk of maturities beyond acceptable ranges. The Bank continues its posture of not attempting to forecast interest rates in a vacuum. The predominant economic opinion of the nation’s leading forecasters has indicated that the Federal Open Market Committee (“FOMC”) will likely maintain rates level over the next several months and possibly begin to reduce rates before the end of 2007. The levels of interest rate risk and market risk are considered manageable relative to overall balance sheet management. The Bank does not rely on funds from the bond portfolio for primary liquidity beyond the respective maturity of individual bonds. Therefore, the unrealized losses do not represent a risk of actually becoming realized losses during the life of these bonds.

Deposits increased \$4.8 million to \$74.2 million at March 31, 2007 from \$69.4 million at December 31, 2006. Time deposits totaled \$52.0 million at March 31, 2007, an increase of \$3.6 million from \$48.4 million at December 31, 2006. The Bank has continued to promote its 10 and 13 month CDs with the most attractive rates. Management believes that these maturities will best mitigate interest rate risk within the funding side of the balance sheet should the FOMC begin reducing rates before the end of 2007. The Bank would be able to reduce its cost of funds sooner rather than later in a falling rate environment as these 10 and 13 month CDs reach their renewal/repricing dates. Management continues to avoid growth for the sake of growth, unless pricing decisions on increased funding sources can reasonably result in use of those funds at an appropriate interest spread. The softened loan demand mentioned above and weaker yields available in the overall bond market make high cost deposits less attractive.

Shareholders’ equity totaled \$11.1 million at March 31, 2007. This amount represents an increase of 0.9% from the December 31, 2006 amount of \$11.0 million. The book value per common share was \$18.32 at March 31, 2007 and \$18.15 at December 31, 2006.

## **Net Interest Income**

Net interest income is the Bank’s primary source of earnings and represents the difference between interest and fees earned on earning assets and the interest expense paid on deposits and other

interest bearing liabilities. Net interest income for the three month period ended March 31, 2007 totaled \$741,316, representing an increase of \$80,881 (12.2%) over the same period in 2006. Average earning assets increased \$19.5 million from \$56.3 million for the first three months of 2006 to \$75.8 million for the first three months of 2007. Average interest bearing liabilities increased \$19.2 million from \$46.5 million for the first three months of 2006 to \$65.7 million for the first three months of 2007. The net interest margin (net interest income expressed as a percentage of average earning assets) (“NIM”) was 3.91% for the three months ended March 31, 2007 compared to 4.69% for the three months ended March 31, 2006.

The cause of the most recent compression of the NIM is three-fold. First, the FOMC’s decisions to hold rates level over the past seven months slowed the increasing yield of the floating rate segment of the loan portfolio. Second, CDs used to fund many of those floating rate loans have been steadily repricing upward in rate and resulting interest costs. Third, the decline is directly related to the declining loan to deposit ratio resulting from the softened loan demand. Although average earning assets increased slightly more than average interest bearing liabilities, the mix of average earning assets has shifted from a higher percentage of higher yielding loans to a higher percentage of lower yielding securities and overnight Fed funds sold. As a percentage of average earning assets, securities and overnight Fed funds sold represented 37.6% of average earning assets at March 31, 2007, compared to 27.5% at March 31, 2006. Average loans as a percentage of average earning assets declined from 72.5% at March 31, 2006 to 62.4% at March 31, 2007. The average yield on securities of 5.09% and Fed funds sold of 5.14% for the current quarter compares to the average yield on net total loans equaling 9.12%. Therefore, the increasing level of lower yielding earning assets has hampered the NIM. Over the next two quarters, repricing of three year adjustable rate mortgages (“ARMs”) is expected to reprice upward more than 100 basis points compared to repricing CDs, which are projected to reprice upwards no more than 50 basis points. This should bode well for the NIM and reverse the downward trend of the past six months.

The Bank utilizes asset liability management modeling software to aid in the identification and management of interest rate risk. This software provides tools for identifying repricing intervals, maturities and cash flows of interest earning assets and interest bearing liabilities. In addition, income simulations are performed applying interest rate shocks to interest sensitive assets and liabilities. Modeling techniques may enable the Bank to minimize significant swings or variations in net interest income during periods of substantial fluctuations in market rates. The Bank does not specifically attempt to predict interest rate movements.

The Bank’s current balance sheet structure continues to be moderately asset sensitive. This condition means that assets may reprice more quickly than liabilities and, in a rising rate environment, interest income would increase more quickly than interest expense. Conversely, when interest rates fall, interest income would decrease more quickly than interest expense. As discussed above, the moderately asset sensitive position has resulted in compression in the NIM. Through the use of the modeling techniques mentioned above, management is closely monitoring the volumes of interest bearing liabilities that are scheduled for repricing within the next 90 day, 180 day and one year intervals. The Bank markets 10 and 13 month CDs to manage the interest rate risk associated with being asset sensitive, should the FOMC actually decrease short-term rates within the next twelve months. The Bank also continues its practice of including interest rate floors in new variable rate loan instruments. This measure is designed to guard against exposure to reduced interest income associated with possible falling rates in the future. Bond purchases also are being made with maturities to protect investment yields beyond the next twelve months. The Bank believes that these steps should provide for reduction of further NIM compression.

## **Non-interest Income**

The primary components of non-interest income include service charges on deposit accounts, ATM transaction fees, commissions on credit life insurance, checkbook sales and title insurance. For the three months ended March 31, 2007, non-interest income of \$57,532 represented a \$14,324 (33.2%) increase over the same period in 2006. The convenience of drive-up ATMs has yielded an increase in non-customer use of the Bank's ATM with resulting increases in non-interest fee income.

Service charges on deposit accounts totaled \$22,009 for the first three months of 2007, compared to \$12,570 for the same period in 2006, an increase of 75.1%. This increase is attributable to the continuing growth in the number of new accounts, as there were no specific fee rate increases.

The Bank's investment services division, begun in the fourth quarter of 2005, continues to attract new customers and expand existing bank relationships. As of March 31, 2007, the division had 138 accounts representing 81 households, with \$6.0 million in assets under management. For the three months ended March 31, 2007, investment income totaled \$4,604. This division is expected to contribute to long-term non-interest income as critical mass of the associated customer base produces transaction revenues sufficient to more than offset overhead costs.

The Bank's mortgage services division, Colonial Virginia Mortgage, LLC ("CVM"), contributed \$5,723 to non-interest income in the first quarter 2007. This is expected to increase as monthly volumes of mortgages originated increase. CVM's projected income is expected to enhance the Bank's non-interest income. In addition, the Bank will begin to provide a portion of CVM's warehouse line of credit. This line of credit will enable CVM to fund its mortgages at closing until they are sold to secondary market investors, a period which is typically seven to twenty-five days. This practice is expected to enhance the Bank's interest income and offset the overall softened loan demand.

## **Non-interest Expense**

Non-interest expense for the three months ended March 31, 2007 totaled \$717,904. This represents an increase of 16.1% over non-interest expense of \$618,125 for the same period of 2006. Two primary factors contributed to the increase. First, salary and employee benefits increased \$72,828 for the three months ended March 31, 2007. Salaries and benefits totaled \$405,907 for the three months ended March 31, 2007, compared to \$333,079 for the same period of 2006, an increase of 21.9%. The increase is the result of the addition of staff, general salary increases and rising insurance costs. After holding a tight line on salary increases in the early years of the Bank's life, salaries were increased effective January 1, 2007 to keep the Bank competitive with market conditions. Additionally, the increased pension expense of \$42,843 associated with SFAS No. 158, discussed elsewhere in this report, represented 58.8% of the increase. Second, advertising costs increased \$25,021 for the three months ended March 31, 2007. Advertising costs totaled \$44,039 for the three months ended March 31, 2007, compared to \$19,018 for the same period in 2006, an increase of 131.6%. The Bank engaged a marketing consulting firm in January 2007 and launched a new advertising campaign, including a radio jingle and expanded print media advertising. The effort is intended to expand the Bank's geographic market without the need and expense of additional physical locations.

## **Non-GAAP Financial Measure**

A measure of the extent to which the Bank's revenues are absorbed by non-interest expenses is expressed as the efficiency ratio. The efficiency ratio is calculated by dividing non-interest expenses by the sum of total non-interest income and net interest income for the period. This is a non-GAAP financial measure, which Management believes provides important information about the Bank's operational

efficiency. Comparison of our efficiency ratio with those of other companies may not be possible because other companies may calculate the ratio differently. As a de novo bank, it is expected that this ratio will be extremely high in early periods of operation due to the myriad of startup expenses. As the Bank matures, an efficiency ratio of 60% to 65% is targeted. At March 31, 2007, the Bank's efficiency ratio was 89.87% compared to 87.85% at March 31, 2006. The increase is associated with the increased pension expense resulting from SFAS No. 158, discussed above, and the decline in the NIM, also discussed above.

Still another indicator of the appropriate use of personnel is the measurement of assets expressed as millions of dollars of assets per employee. This measurement was \$3.32 million per employee at March 31, 2007 compared to \$2.63 million at March 31, 2006.

### **Allowance for Loan Losses**

The allowance for loan losses at March 31, 2007 was \$336,561, compared to \$329,462 at December 31, 2006. The allowance for loan losses was 0.70% of total loans outstanding at March 31, 2007, compared to 0.71% at December 31, 2006. The provision for loan losses was \$6,050 for the three months ended March 31, 2007. The provision for loan losses represents Management's judgment of the current period cost of credit risk inherent in the Bank's loan portfolio. Specifically, the provision represents the amount charged against current period earnings to achieve an allowance for potential loan losses that, in Management's judgment, is adequate to absorb probable losses inherent in the Bank's loan portfolio. Accordingly, the provision expense will vary from period to period based on Management's ongoing assessment of the adequacy of the Allowance for Loan and Lease Losses ("ALLL"). Asset quality continues to be strong. As of March 31, 2007, the Bank had only one nonaccrual loan totaling \$8,236, which was subsequently (on April 2, 2007), brought current by the borrower and returned to an accruing status. There were no loans past due 90 days or more and still accruing interest at the end of the first quarter 2007. Management believes that the ALLL is adequate to cover credit losses inherent in the loan portfolio at March 31, 2007.

Management uses a risk-rating system that includes six "pass" (or acceptable) grades, as well as four adverse grades. All loans are evaluated and assigned a risk rating at the time the loan is made. Periodic subsequent review assesses the loan's performance as well as changes in the borrower's financial condition. Management incorporates these ratings into its methodology for evaluating the adequacy of the ALLL, as well as its pricing strategies. The methodology was developed as a part of management's compliance with accounting requirements within SFAS No. 5 and SFAS No. 114, discussed above in "Critical Accounting Policies." The methodology incorporates factors associated with general economic conditions within the Bank's market, such as employment statistics, housing starts, and building permits. Another element incorporates a potential loss factor for unsecured credit. Although the Bank only extends unsecured credit to its highest rated customers, any unforeseen reversals experienced by a borrower with unsecured credit could result in a higher risk of potential loss. The methodology also reflects the provision for loan loss expense to accommodate only the risks associated with this evaluation exercise. Using the current methodology, the ALLL has a small surplus balance above the identified embedded risk. Management considers it prudent to maintain a moderate surplus until such time as the loan portfolio is more seasoned and the risk rating methodology has been validated by bank regulators and external loan review activities.

### **Capital Resources**

Shareholders' equity at March 31, 2007 totaled \$11.1 million compared to \$11.0 million at December 31, 2006. Total common shares outstanding at March 31, 2007 were 607,675.

At March 31, 2007, the Bank's tier 1 and total risk-based capital ratios were 19.22% and 19.80%, respectively, compared to 20.18% and 20.77% at December 31, 2006. The Bank's leverage ratio was 13.32% at March 31, 2007, compared to 14.14% at December 31, 2006. The Bank raised in excess of \$12.0 million in initial capital prior to opening, resulting in skewed capital ratios, compared to industry averages, until such time as the Bank's asset base grows to fully leverage initial capital. The Bank's capital structure places it above the regulatory guidelines, which affords the Bank the opportunity to take advantage of business opportunities while ensuring that it has the resources to protect against risk inherent in its business. This level of capital also provides sufficient resources during the business development stage.

## **Liquidity**

Liquidity represents an institution's ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest-bearing deposits with banks, federal funds sold, short-term investments, securities classified as available for sale and loans and securities maturing within one year. As a result of the Bank's management of liquid assets and the ability to generate liquidity through liability funding, management believes that the Bank maintains overall liquidity sufficient to satisfy its depositors' requirements and meet its customers' credit needs.

At March 31, 2007, cash, interest-bearing deposits with financial institutions, federal funds sold and securities available for sale were 34.6% of total deposits and liabilities. Management, through a Board-approved Liquidity and Funding Policy, routinely monitors the Bank's liquidity position using various schedules and reports. A "Short-term Funds Availability Ratio" computes short-term assets (cash and due from banks, overnight funds and other cash equivalents, market value of securities available for sale, and unused lines of credit) as a percentage of total assets. The policy requires that this ratio be equal to or greater than 15% of total assets. At March 31, 2007, this ratio was 40.0%. The softened loan demand discussed above has contributed to this increased level of liquidity. This excess, however, is skewed somewhat in that it includes all securities classified as available for sale. Some of these securities were purchased in 2004 when interest rates were significantly lower than current rates. Therefore, the majority of these securities have experienced declining market value as rates have increased. Thus, they are not considered first candidates to be sold to generate liquidity. Some of these securities are amortizing mortgage backed issues that produce routine monthly cash flows. Liability funding sources are also monitored. Demand and savings deposits, interest bearing and non-interest bearing, and time deposits under \$100,000 are monitored with a targeted level of 60% or greater as a percentage of total assets. At March 31, 2007, this percentage was 64.6%. The Bank also maintains additional sources of liquidity through "Federal funds purchase" guidance lines with correspondent banks, which totaled \$7.1 million at March 31, 2007.

The Bank participates in an arrangement with QwickRate, a nationally organized program whereby financial institutions may publish interest rates for CDs of various maturities and attract deposits from other investors (predominantly credit unions). There are no "brokers" or associated "broker fees." The arrangement provides community banks with a vehicle for providing both alternate funding for liquidity purposes, as well as additional asset/liability, interest rate risk management tools. The Bank monitors weekly, the rates offered through QwickRate to determine the most economical sources of funds. To date, local market deposits have proven to be as stable and economical as national market funds. However, both from a funding and interest rate risk perspective, management will maintain the QwickRate relationship as a viable balance sheet management tool.

## **Other Matters**

As reported previously, the Bank was involved in a check fraud scam that resulted in one of its customers presenting two separate checks for deposit (\$63,140 in November 2005 and \$96,742.75 in December 2005). Both checks were identified as having had the payee altered. The Bank settled a claim for the \$96,742.75 check in the third quarter of 2006 and subsequently filed a claim under its insurance bond subject to a \$25,000 deductible. On March 1, 2007, the Bank received a demand claim from the paying bank, Northern Trust (“Northern”), on the \$63,140 check. The claim was made under certain provisions of the Uniform Commercial Code (“UCC”) regarding certain warranties between paying banks and receiving banks, or the bank of first deposit, which was the Bank. Therefore, the Bank honored the claim of Northern and refunded the \$63,140. The Bank has filed an amendment to its initial claim (filed in 2006 and discussed earlier in the 2006 Form 10-KSB) with its insurance carrier, with no additional deductible being applied to the Bank’s insurance benefit. The total expense recognized by the Bank and included in the 2006 financial results was the \$25,000 deductible. No further expense is expected to be incurred.

In May 2007, the Bank is scheduled to convert the method used for its check collection to “Check 21.” Check 21 became effective October 2004, but did not require all banks to participate. This method of check collection involves the exchange of electronic images of paper checks and is designed to speed up the passing of funds between paying and receiving banks in an effort to minimize float and curtail check fraud. It is also anticipated that it will allow the Bank to better control personnel costs as it reduces the labor intensive process of handling paper checks. Management believes that this will enhance operational efficiency and further mitigate fraud risks.

## **Off-Balance Sheet Arrangements**

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include loan commitments, standby letters of credit and documentary letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

The Bank’s exposure to credit loss in the event of non-performance by the other party of these loan commitments and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Since many of the loan commitments and letters of credit may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer’s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management’s credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, owner-occupied real estate and income-producing commercial properties. During the three months ended March 31, 2007, there were no material changes outside the ordinary course of the Bank’s business in the contractual obligations specified in “Note 9. Financial Instruments with Off-Balance Sheet Risk” in the 2006 Form 10-KSB.

The Bank maintains funds on deposit at correspondent banks which at times exceed the federally insured limits. Management of the Bank monitors the balance in these accounts and periodically assesses the financial condition of correspondent banks.

## **Recent Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but may change current practice for some entities. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The Bank does not expect the implementation of SFAS 157 to have a material impact on its financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (SFAS 159). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument and is irrevocable. SFAS 159 is effective as of the beginning of an entity’s first fiscal year that begins 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 SFAS 157, “Fair Value Measurements”. The Bank is in the process of evaluating the impact this statement may have on its financial statements but does not intend to adopt early.

## **Caution About Forward Looking Statements**

Certain information contained in this discussion may include “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are generally identified by phrases such as “the Bank expects,” “the Bank believes” or words of similar import.

Such forward-looking statements involve known and unknown risks including, but not limited to, the following factors:

- risks inherent in making loans such as repayment risks and fluctuating collateral values;
- reliance on the Bank’s management team, including its ability to attract and retain key personnel;
- the successful management of interest rate risk;
- competition with other banks and financial institutions, and companies outside of the banking industry, including those companies that have substantially greater access to capital and other resources;
- the ability to continue to attract low cost core deposits to fund asset growth;
- managing the cost and implementation on new technology required to compete and to meet increasing regulatory requirements
- changes in general economic and business conditions in the Bank’s market area;
- the ability to successfully manage the Bank’s growth or implement its growth strategies if it is unable to identify attractive markets, locations or opportunities to expand in the future;
- changing trends in customer profiles and behavior;

- problems with technology utilized by the Bank;
- changes in banking and other laws and regulations applicable to the Bank;
- demand, development and acceptance of new products and services; and
- maintaining capital levels adequate to support the Bank's growth.

Although the Bank believes that its expectations with respect to the forward-looking statements are based upon reliable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Bank will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

**AVERAGE BALANCES, INTEREST INCOME  
AND EXPENSES, AVERAGE YIELDS AND RATES**

	March 31, 2007			March 31, 2006		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
<b>Assets:</b>						
Interest earning assets:						
Securities - taxable	20,172,611	256,873	5.09%	9,463,367	104,862	4.43%
Federal funds sold	8,338,253	107,223	5.14%	6,047,090	65,764	4.35%
Deposits at other banks	---	---	---	---	---	---
Loans, net	47,255,593	1,077,513	9.12%	40,788,567	875,888	8.59%
Total earning assets	75,766,457	1,441,609	7.61%	56,299,024	1,046,514	7.44%
Less: allowance for loan losses	(332,489)			(316,252)		
Total non-earning assets	8,472,295			7,602,518		
Total assets	83,906,263			63,585,289		
<b>Liabilities and Stockholders' Equity:</b>						
Interest bearing liabilities:						
Checking	3,401,867	12,481	1.47%	3,245,243	8,002	0.99%
Savings and money market deposits	12,230,237	64,358	2.10%	9,578,452	41,652	1.74%
Other time	50,030,373	623,455	4.98%	33,679,697	336,426	4.00%
Total interest bearing deposits	65,662,477	700,293	4.27%	46,503,391	386,079	3.32%
Short term borrowings	---	---	---	---	---	---
Total interest bearing liabilities	65,662,477	700,293	4.27%	46,503,391	386,079	3.32%
Noninterest bearing liabilities:						
Demand deposits	6,415,225			6,189,067		
Other non-interest bearing liabilities	779,334			293,767		
Total liabilities	72,857,036			52,986,225		
Stockholders' equity	11,049,228			10,599,065		
Total liabilities and stockholders' equity	83,906,263			63,585,289		
Net Interest Income		741,316			660,435	
Interest rate spread <sup>(1)</sup>			3.34%			4.11%
Net Interest Margin <sup>(2)</sup>			3.91%			4.69%

<sup>(1)</sup> Interest spread is the average yield earned on earning assets, calculated on a fully taxable equivalent basis, less the average rate incurred on interest-bearing liabilities.

<sup>(2)</sup> Net interest margin is the net interest income, expressed as a percentage of average earning assets.

### **Item 3. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, the Bank carried out an evaluation, under the supervision and with the participation of the Bank's management, including the Bank's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Bank's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Bank's Chief Executive Officer and Chief Financial Officer concluded that the Bank's disclosure controls and procedures are effective in timely alerting them to material information relating to the Bank required to be included in the Bank's periodic filings with the Board of Governors of the Federal Reserve System.

The Bank's management is also responsible for establishing and maintaining adequate internal control over financial reporting. There were no changes in the Bank's internal control over financial reporting identified in connection with the evaluation of it that occurred during the quarter that ended March 31, 2007 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

The Bank's systems of internal control are commensurate with the Bank's relative size as a small public company and, as such, are moderately restricted by the Bank's limited size of staff. Management utilizes detective controls (controls that can be reasonably expected to identify inappropriate, improper or inaccurate financial entries) in the form of extensive reconciliations of general ledger accounts, many of which are performed daily, others weekly or monthly. Due to the limited staff, the absolute segregation of duties to effect ideal preventive controls (controls that are designed to disallow inappropriate, improper or inaccurate financial entries before they are posted to any general ledger accounts) is also limited. Management believes that its risk management practices are appropriate for the Bank's current environment and limited size, but will continue to add staff and increase the level of preventive controls as profits increase. It is anticipated that a greater accounting and audit burden will be experienced in the future regarding the impact of the Sarbanes-Oxley Act of 2002 ("SOX"). Specifically, Section 404 of SOX requires a much expanded validation of the Bank's systems of internal controls over financial reporting compared to the current environment in which the Bank operates. The Bank will be subject to full compliance in 2007, unless proposed changes providing relief for small companies, such as the Bank, are adopted.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

None

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

### **Item 3. Defaults upon Senior Securities**

None

### **Item 4. Submission of Matters to a Vote of Security Holders**

None

### **Item 5. Other Information**

None

### **Item 6. Exhibits**

31.1 Rule 13a-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a) Certification of Chief Financial Officer

32.1 Statement of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. § 1350

## **SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**COLONIAL VIRGINIA BANK**  
(Small Business Issuer)

Date: May 14, 2007

By:     /s/ Kenneth E. Smith      
Kenneth E. Smith (on behalf of the Bank and  
as principal financial officer)  
Executive Vice President and  
Chief Financial Officer

## EXHIBIT INDEX

### **Exhibits**

- |      |   |
|------|---|
| 31.1 | Rule 13a-14(a) Certification of Chief Executive Officer                                       |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer                                       |
| 32.1 | Statement of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. § 1350 |

**Rule 13a-14(a) Certification of Chief Executive Officer**

I, William J. Farinholt, certify that:

1. I have reviewed the Quarterly Report on Form 10-QSB for the period ended March 31, 2007 of Colonial Virginia Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 14, 2007

/s/ William J. Farinholt

William J. Farinholt  
Chief Executive Officer

**Rule 13a-14(a) Certification of Chief Financial Officer**

I, Kenneth E. Smith, certify that:

1. I have reviewed the Quarterly Report on Form 10-QSB for the period ended March 31, 2007 of Colonial Virginia Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 14, 2007

/s/ Kenneth E. Smith  
Kenneth E. Smith  
Chief Financial Officer

**Statement of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. § 1350**

In connection with the Quarterly Report on Form 10-QSB for the period ended March 31, 2007 (the "Form 10-QSB") of Colonial Virginia Bank (the "Bank"), we, William J. Farinholt, Chief Executive Officer of the Bank, and Kenneth E. Smith, Chief Financial Officer of the Bank, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to our knowledge:

- (a) the Form 10-QSB fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (b) the information contained in the Form 10-QSB fairly presents, in all material respects, the financial condition and results of operations of the Bank as of and for the periods presented in the Form 10-QSB.

By: /s/ William J. Farinholt  
William J. Farinholt  
Chief Executive Officer

Date: May 14, 2007

By: /s/ Kenneth E. Smith  
Kenneth E. Smith  
Chief Financial Officer

Date: May 14, 2007