

**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 September 30, 2005

or

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

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:

605,175 shares of common stock, par value \$5.00 per share,
outstanding as of November 11, 2005

COLONIAL VIRGINIA BANK

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

COLONIAL VIRGINIA BANK Balance Sheets

	(Unaudited) September 30, 2005	December 31, 2004
Assets:		
Cash and due from banks	\$ 2,661,889	\$ 2,252,740
Federal funds sold	3,251,776	3,429,975
Securities available for sale, at fair market value	8,036,095	5,450,360
Loans, net of allowance for loan losses of \$313,380 in 2005 and \$305,129 in 2004	37,295,209	29,399,114
Bank premises and equipment, net	3,999,522	2,374,454
Bank owned life insurance	1,024,352	512,032
Other assets	276,901	171,918
	<u>\$ 56,545,744</u>	<u>\$ 43,590,593</u>
Liabilities and Shareholders' Equity:		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	\$ 6,721,304	\$ 4,934,971
Savings and interest bearing demand deposits	14,185,994	11,191,954
Time deposits	24,852,261	16,817,293
Total deposits	<u>\$ 45,759,559</u>	<u>\$ 32,944,218</u>
Accrued expenses and other liabilities	235,581	142,264
Commitments and contingencies	-	-
Total liabilities	<u>\$ 45,995,140</u>	<u>\$ 33,086,482</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 605,175 shares	3,025,875	3,025,875
Capital surplus	9,050,243	9,050,243
Retained (deficit)	(1,453,419)	(1,544,734)
Accumulated other comprehensive (loss), net	(72,095)	(27,273)
Total shareholders' equity	<u>\$ 10,550,604</u>	<u>\$ 10,504,111</u>
Total liabilities and shareholders' equity	<u>\$ 56,545,744</u>	<u>\$ 43,590,593</u>

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Income

	(Unaudited)		(Unaudited)	
	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Interest and Dividend Income				
Interest and fees on loans	701,176	357,980	1,879,794	712,952
Interest on securities available for sale				
Taxable	75,513	51,455	190,683	103,264
Dividends	4,739	5,448	14,202	16,342
Interest on federal funds sold and other	23,761	14,804	86,546	59,517
Total interest income	<u>805,189</u>	<u>429,687</u>	<u>2,171,225</u>	<u>892,075</u>
Interest Expense				
Interest on deposits	238,932	97,040	605,406	214,986
Total interest expense	<u>238,932</u>	<u>97,040</u>	<u>605,406</u>	<u>214,986</u>
Net interest income	566,257	332,647	1,565,819	677,089
Provision for Loan Losses				
Net interest income after provision for loan losses	<u>0</u>	<u>73,132</u>	<u>10,000</u>	<u>206,239</u>
Total other income	<u>566,257</u>	<u>259,515</u>	<u>1,555,819</u>	<u>470,850</u>
Other Income				
Service charges on deposit accounts	11,271	9,033	33,486	20,430
Other service charges, commissions and fees	25,044	5,114	52,030	21,787
Total other income	<u>36,314</u>	<u>14,147</u>	<u>85,516</u>	<u>42,217</u>
Other Expense				
Salaries and employee benefits	276,582	259,596	808,284	773,522
Occupancy expense	50,200	51,236	141,494	157,725
Furniture and equipment expense	6,144	2,294	15,122	5,944
Data processing	93,762	90,935	281,478	199,585
Advertising	25,833	14,518	56,758	40,493
Professional fees	17,951	9,618	66,441	25,737
Stationery and supplies	7,646	5,983	20,995	21,479
Postage and freight	6,234	5,501	18,531	15,171
Regulatory assessments	4,570	3,559	11,088	11,136
Insurance	9,502	6,757	25,475	16,048
Taxes	20,497	6,766	57,115	35,760
Other operating expenses	21,275	12,571	47,239	35,951
Total other expense	<u>540,196</u>	<u>469,334</u>	<u>1,550,020</u>	<u>1,338,551</u>
Net Income (Loss) before income taxes	62,376	(195,672)	91,315	(825,484)
Income taxes	0	0	0	0
Net Income (Loss)	<u>62,376</u>	<u>(195,672)</u>	<u>91,315</u>	<u>(825,484)</u>
Earnings per share, basic and diluted	0.10	(0.32)	0.15	(1.36)

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 2005
and September 30, 2004 (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, 2003	\$ 3,025,875	\$ 9,050,243	\$ (616,436)	\$ (792)		\$ 11,458,890
Comprehensive Income (Loss):						
Net income (loss)			(825,484)		\$ (825,484)	(825,484)
Other comprehensive income (loss):						
Unrealized gain on securities available for sale				15,069	15,069	15,069
Total comprehensive (loss)					\$ (810,415)	
Balance at September 30, 2004	<u>\$ 3,025,875</u>	<u>\$ 9,050,243</u>	<u>\$ (1,441,920)</u>	<u>\$ 14,277</u>		<u>\$ 10,648,475</u>
Balance at December 31, 2004	\$ 3,025,875	\$ 9,050,243	\$ (1,544,734)	\$ (27,273)		\$ 10,504,111
Comprehensive Income:						
Net income			91,315		\$ 91,315	91,315
Other comprehensive income (loss):						
Unrealized (loss) on securities available for sale				(44,822)	(44,822)	(44,822)
Total comprehensive income					46,493	
Balance at September 30, 2005	<u>\$ 3,025,875</u>	<u>\$ 9,050,243</u>	<u>\$ (1,453,419)</u>	<u>\$ (72,095)</u>		<u>\$ 10,550,604</u>

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Cash Flows
For the Nine Months Ended September 30, 2005
and September 30, 2004 (Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES	2005	2004
Reconciliation of net (loss) to net cash (used in) operating activities:		
Net income (loss)	\$ 91,315	\$ (825,484)
Net amortization of premium on investment securities	13,721	27,344
Depreciation and amortization	153,177	147,557
Provision for loan losses	10,000	206,239
Changes in assets and liabilities:		
(Increase) in accrued interest and other assets	(104,983)	(609,368)
Increase in accrued expenses and other liabilities	93,317	22,710
Net cash provided by (used in) operating activities	\$ 256,547	\$ (1,031,002)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available for sale	\$ (5,931,253)	\$ (9,784,986)
Principal paydowns of securities available for sale	1,283,525	1,361,659
Maturities of securities available for sale	2,000,000	3,000,000
Cancellation of Federal Reserve Stock	3,450	-
Net (increase) in loans	(7,906,095)	(20,843,441)
Purchase of bank owned life insurance	(512,320)	-
Purchases of premises and equipment	(1,778,245)	(392,154)
Net cash (used in) investing activities	\$ (12,840,938)	\$ (26,658,922)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand, savings, interest-bearing checking and money market deposits	\$ 4,780,373	\$ 9,851,089
Net increase in time deposits	8,034,968	9,319,127
Net increase in Fed funds purchased	-	-
Net cash provided by financing activities	\$ 12,815,341	\$ 19,170,216
 Net increase (decrease) in cash and cash equivalents	\$ 230,950	\$ (8,519,708)
 CASH AND CASH EQUIVALENTS		
Beginning	\$ 5,682,715	\$ 13,270,411
Ending	\$ 5,913,665	\$ 4,750,704
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	556,401	184,927
 SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Unrealized gain (loss) on securities available for sale	(44,822)	15,069

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Notes to Financial Statements
For the Nine Months Ended September 30, 2005
and September 30, 2004 (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 was in organization during the period from January 2, 2003 through November 5, 2003. The financial statements reflect the costs associated with the period prior to the opening of the Bank on November 6, 2003 as an accumulated deficit as of that date. These costs include salaries, legal and professional fees and other organizational expenditures. During this period, the Bank had a net loss of \$348,256.

The Bank commenced regular operations on November 6, 2003 and 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 a common stock offering ending on May 27, 2003, the Bank sold 605,175 shares of its common stock, par value \$5.00 per share, at \$20 per share. Of the proceeds, \$3,025,875 was credited to common stock and \$9,050,243 was credited to surplus, net of stock issuance costs of \$27,382.

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 September 30, 2005 and the statements of income for the three and nine months ended September 30, 2005, and the changes in shareholders' equity and cash flows for the nine months ended September 30, 2005. Financial statements are prepared in accordance with generally accepted accounting principles. Operating results for the nine month period ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. 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, 2004, as filed with the Federal Reserve System.

Note 2. Securities

Amortized cost and fair values of securities available for sale at September 30, 2005, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 2,543,843	\$ 321	\$ (30,944)	\$ 2,513,220
Mortgage backed securities	5,150,424	11,521	(53,174)	5,108,771
Securities of states and political subdivisions	97,924	180	-	98,104
Restricted stock	316,000	-	-	316,000
Total	<u>\$ 8,108,191</u>	<u>\$ 12,022</u>	<u>\$ (84,118)</u>	<u>\$ 8,036,095</u>

Amortized cost and fair values of securities available for sale at December 31, 2004, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 1,250,000	\$ -	\$ (12,900)	\$ 1,237,100
Mortgage backed securities	3,908,183	13,716	(28,089)	3,893,810
Restricted stock	319,450	-	-	319,450
Total	<u>\$ 5,477,633</u>	<u>\$ 13,716</u>	<u>\$ (40,989)</u>	<u>\$ 5,450,360</u>

At September 30, 2005 and December 31, 2004, no securities were pledged.

The amortized cost and fair value of securities available for sale at September 30, 2005, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

	Amortized Cost	Fair Value
One to five years	\$ 3,648,810	\$ 3,610,466
Five to ten years	2,703,378	2,665,304
After ten years	1,440,002	1,444,325
Other	316,000	316,000
Total	<u>\$ 8,108,190</u>	<u>\$ 8,036,095</u>

There were no proceeds from sales and calls of securities available for sale in the first nine months of 2005 or for the year ended December 31, 2004.

There were no securities held to maturity at September 30, 2005 or December 31, 2004.

At September 30, 2005, 25 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 ten investment securities held at September 30, 2005 that had been in an unrealized loss position for greater than 12 months. These ten securities had a total unrealized loss of \$45,836 and a market value of \$1,885,801 at September 30, 2005. The remaining 23 securities had a total unrealized loss of \$26,259 and a market value of \$5,834,294 at September 30, 2005.

Note 3. Loans

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

	<u>September 30,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
Mortgage:		
Construction and land development	\$ 6,932,710	\$ 6,277,640
Residential real estate	11,936,859	7,348,238
Nonresidential	7,334,951	5,110,932
Commercial	7,650,319	7,776,096
Agricultural and Other Farm Loans	499,980	415,000
Consumer and All Other Loans	<u>3,377,581</u>	<u>2,879,906</u>
	37,732,400	29,807,812
Unearned income	123,811	103,569
Allowance for loan losses	<u>313,380</u>	<u>305,129</u>
Loans, net	<u>\$ 37,295,209</u>	<u>\$ 29,399,114</u>

Overdrafts totaling \$13,321 and \$2,422 at September 30, 2005 and December 31, 2004, respectively, were reclassified from deposits to loans.

The Bank had no non-performing assets at September 30, 2005 or December 31, 2004.

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

	<u>September 30,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
Balance at the beginning of the period (January 1)	\$ 305,129	\$ 37,000
Provision for loan losses	10,000	270,590
Loans charged off	1,907	(2,590)
Recoveries on loans previously charged off	<u>158</u>	<u>129</u>
Balance at the end of the period	<u>\$ 313,380</u>	<u>\$ 305,129</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 diluted potential common stock. Potential dilutive common stock had no effect on income available to common shareholders.

	Nine months ended September 30, 2005		Three months ended September 30, 2005	
	Shares	Amount	Shares	Amount
Basic earnings per share	605,175	\$ 0.15	605,175	\$ 0.10
Effect of dilutive securities:				
Stock Options	1,382		2,810	
Diluted earnings per share	<u>606,557</u>	\$ 0.15	<u>607,985</u>	\$ 0.10

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. There were no stock options outstanding for the three and nine month periods ended September 30, 2004.

Note 5. Stock Based Compensation

As of September 30, 2005, 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. The following illustrates the effect on net income and earnings per share for the three and nine month periods ended September 30, 2005 had the fair value recognition provisions of the Financial Accounting Standards Board (“FASB”) Statement No. 123, *Accounting for Stock-Based Compensation*, been adopted.

	Nine Months Ended September 30, 2005	Three Months Ended September 30, 2005
Net income, as reported	\$ 91,315	\$ 62,376
Deduct: total stock-based compensation Expense determined based on fair value method of awards, net	(143,326)	(31,918)
Pro forma net (loss)	<u>\$ (52,011)</u>	<u>\$ 30,458</u>
Basic and diluted earnings per share:		
As reported	<u>\$ 0.15</u>	<u>\$ 0.10</u>
Pro forma	<u>\$ (0.09)</u>	<u>\$ 0.05</u>

The fair value of each grant is estimated at the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions for grants in 2005: price volatility of 4.97%, risk-free interest rate of 4.21%, expected dividend yield of 0% and expected lives of 10 years. There were no options outstanding for the three and nine month periods ended September 30, 2004.

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

Executive Overview

The Bank began as a de novo operation on November 6, 2003, although it did not open to the public until November 13, 2003. The Bank's initial business plan included opening two offices at the November 2003 opening. This plan included substantial commitment to experienced, highly qualified personnel and the associated overhead expense. The opening of the second office did not occur until December 26, 2003, resulting in material overhead expense without corresponding opportunity for revenue production. This is discussed further below under "Non-interest Expense." Discussions of traditional analytical factors may be distorted during these early stages of operation. Therefore, the following discussion of analytical factors should be viewed in light of the dynamics of a start-up operation experiencing rapid deposit growth and the challenge to develop a high quality, high yielding loan portfolio. Originally, management projected a significant concentration in retail consumer lending. However, the Bank has experienced more commercial loan activity. Although this was not due to a definitive directional shift, members of management had previously cultivated many of these new commercial relationships while with their previous bank, Peninsula Trust Bank, Incorporated in the same community. Thus, the customer-directed move of these relationships has been welcomed by management. Growth of the consumer segment has been steady, but typically involves smaller balance loans.

Our results of operations are primarily dependent on net interest income, which is the difference between the income earned on our loans and investment portfolio and the cost of funds, consisting of the interest paid on deposits and borrowings. 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 equipments expenses, business development costs, professional fees, data processing expense and other expenses.

The Bank moved into the permanent building at its branch location on March 25, 2005. Moderate delays in the completion of this building resulted in challenges for customer traffic around the construction activities. Therefore, while operating from a temporary trailer at that location, growth was stunted from original target levels. The new facility is spacious and should provide an atmosphere for efficient employee performance and customer comfort through significant growth. Increases in the ratio of customers to employees should reduce the overhead expense burden and enhance overall operating efficiency.

The Bank moved into the permanent building at its Main Office on October 8, 2005. This resulted in a consolidation of back office operations personnel from a remote location together with Main Office retail personnel. This is expected to not only improve personnel efficiency, but also improve customer convenience. As discussed below, the elimination of various expenses of temporary quarters such as rent will help offset increased depreciation of the new Main Office.

The following discussion and analysis of the financial condition and results of operations of the Bank for the three and nine months ended September 30, 2005 should be read in conjunction with the Bank's Financial Statements and the accompanying Notes to Financial Statements included in this report. The absolute level of all areas of operation have not reached targeted levels for a seasoned institution. However, the trend lines in virtually all areas of the Bank are positive. Although this report does not present national peer group data, Management believes that both the level and trend of operations are favorable compared to peer performance for de novo financial institutions.

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. 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.

Financial Summary

Net income for the three months ended September 30, 2005 was \$62,376 compared to a net loss of \$195,672 for the same period in 2004. Net income for the nine months ended September 30, 2005 totaled \$91,315 compared to a net loss of \$825,484 for the nine months ended September 30, 2004. For these same two periods, gross revenues, which are defined as interest income plus other income, were \$2,256,741 and \$934,292, respectively, while gross expenses, which are defined as interest expense plus other expenses and the provision for loan losses, were \$2,165,426 and \$1,759,776, respectively. The Bank has steadily built the revenue stream through developing an attractive yielding loan portfolio in contrast to lower yielding investment securities and overnight type liquidity instruments. Discussed further below is the effect of the evolving loan portfolio on the trend line of net interest earnings. Total average assets increased 53.4% from \$32.2 million for the year ended December 31, 2004 to \$49.4 million for the nine months ended September 30, 2005. Average shareholders' equity decreased 3.4% from \$10.9 million for the year ended December 31, 2004 to \$10.5 million for the nine months ended September 30, 2005, although period end shareholders' equity increased from \$10,504,111 on December 31, 2004 to \$10,550,604 on September 30, 2005. The September 30, 2005 figure reflects the \$91,315 net income less a \$44,822 increase in the "Unrealized Losses on Securities Available for Sale." This is discussed further below. Annualized return (loss) on average assets for the nine months ended September 30, 2005 and September 30, 2004 was 0.25% and (3.73%), respectively. Annualized return (loss) on average equity for the nine months ended September 30, 2005 and September 30, 2004 was 1.16% and (10.03%), respectively.

Total assets for the Bank increased to \$56.5 million at September 30, 2005, compared to \$43.6 million at December 31, 2004, representing an increase of \$12.9 million or 29.6%. Total net loans at September 30, 2005 were \$37.3 million, an increase of \$7.9 million, or 26.9%, from the December 31, 2004 amount of \$29.4 million. The provision for loan losses for the nine months ended September 30, 2005 was \$10,000. The allowance for loan losses was \$313,380, or 0.83% of total loans outstanding, at September 30, 2005. The methodology for assessing the adequacy of the allowance is discussed further below.

The investment portfolio increased 45.5% to \$8.0 million at September 30, 2005 compared to \$5.5 million at December 31, 2004. The current investment strategy is to employ excess liquidity in securities whose yields will enhance overall interest earnings without creating undue interest rate risk. With moderate increases in market interest rates over the next twelve months, investment maturities are targeted between two to four years. Other investment considerations include tax strategies that include certain government agency issuers, where a tax preferred status may enhance overall yield. Steadily increasing rates over the past 15 months have resulted in an increase in the unrealized losses on securities available for sale. The Bank's investment strategy is to buy securities and hold to maturity, although they are designated available for sale ("AFS") as discussed above. The level of interest rate risk and market risk are considered manageable relative to overall balance sheet management.

Deposits increased \$12.9 million to \$45.8 million at September 30, 2005 from \$32.9 million at December 31, 2004. Time deposits totaled \$24.9 million at September 30, 2005, an increase of \$8.1 million from \$16.8 million at December 31, 2004. The most popular maturity among new time deposits with customers is 13 months. Management does not consider growth for the sake of growth to be in the best interest of the Bank, unless pricing decisions on funding sources can reasonably result in employment of those funds at appropriate interest spreads to produce a desired target of 4.50% for its net interest margin. The net interest margin is discussed below.

Shareholders' equity was \$10,550,603 at September 30, 2005. This amount represents an increase of 0.44% from the December 31, 2004 amount of \$10,504,111. The book value per common share was \$17.43 at September 30, 2005 and \$17.36 at December 31, 2004.

Growth levels continue to be encouraging. The composition of balance sheet growth has been more commercial than consumer in nature, which has reflected lower than expected yields in the loan portfolio. Management, however, has vigilantly monitored the cost of funds associated with the growth. The Bank typically employs new deposit funds through new loans. As discussed further below, the Bank has been able to continuously increase net interest income. The steady growth of the loan portfolio and expansion of the investment portfolio in the first nine months of 2005 have enhanced overall interest income.

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 totaled \$1,565,819 for the first nine months of 2005, compared to \$677,089 for the same period in 2004, an increase of 131.3%. Average earning assets increased \$17.6 million from \$25.8 million for the first nine months of 2004 to \$43.4 million for the first nine months of 2005. Average interest bearing liabilities increased \$17.5 million from \$15.2 million for the first nine months of 2004 to \$32.7 million for the first nine months of 2005. Total interest expense was \$605,406 for the first nine months of 2005, compared to \$214,986 for the first nine months of 2004. The net interest margin, on a tax equivalent basis, was 4.81% for the nine months ended September 30, 2005 compared to 3.50% for the nine months ended September 30, 2004. With a rising rate environment, the Bank was able to enjoy more rapid increases in interest income than interest expense.

With customers selecting the 13 and 17 month maturity CDs in the early months of operation, renewals of the deposits in the first nine months of 2005 have reflected an increase in the cost of funds. As a result, moderate fluctuation has occurred in the net interest margin. However, management believes that fluctuations are contained within a reasonable range and do not subject future earnings to material volatility.

During the second quarter 2004, the Bank began utilizing asset liability management modeling software. 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.

As discussed above, the Bank has aggressively attempted to employ excess liquidity through expansion of the loan and investment portfolios in order to enhance yield on earning assets. The Bank's current balance sheet structure, moderately asset sensitive, is well positioned for the rising rate environment that is being forecast for the near term. 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. The moderately asset sensitive position should enhance net interest earnings in the event of continued increased rates in the future. Through the use of the modeling techniques mentioned above, management is monitoring closely the volumes of interest bearing liabilities that are scheduled for repricing within the next 90 and 180 day intervals. However, since two of the more popular maturities of choice among CD customers in the Bank's early months were 13 and 17 months, significant numbers of accounts are repricing in the near future. These accounts originated prior to the onset of the Federal Open Market Committee's ("FOMC") steady increase in short-term rates. Therefore, some of the increases in interest income, due to asset sensitivity, will be buffered by increasing interest expense. The Bank has become more aggressive in implementing interest rate floors in new variable rate loan instruments. This measure is designed to guard against future falling rates.

Noninterest 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. Non-interest income totaled \$85,516 for the first nine months of 2005, an increase of 102.6% over the non-interest income for the first nine months of 2004 of \$42,217. As mentioned above, the completion of the permanent facility for the Bank's Gloucester Point branch has improved parking lot traffic flow. The convenience of the Drive-up ATM has yielded an increase in non-customer use of the Bank's ATM with resulting increases in fee income.

Service charges on deposit accounts totaled \$33,486 for the first nine months of 2005, compared to \$20,430 for the same period in 2004, an increase of 63.9%. This increase is attributable to the continuing growth in the number of new accounts, as there were no specific fee rate increases.

The Bank employed an individual in September 2005 to provide investment brokerage services through Community Bankers Securities. The individual is a native of Gloucester County and has worked in and around the Bank's general market for several years. Thus, he is expected to build an attractive portfolio of customers in the near future. This is projected to expand the overall customer base of the Bank and enhance non-interest income. Additionally, the Bank continues its exploration of mortgage banking services. Implementation of such services is expected before year-end. However, increased non-interest income is not projected before 2006.

Non-interest Expense

Non-interest expense for the first nine months of 2005 totaled \$1,550,020. This represents a 15.8% increase over non-interest expense of \$1,338,551 for the first nine months of 2004. Two primary factors contributed to the increase. First, data processing costs reflected a \$81,893 (41.0%) increase. The Bank entered into an outsourcing arrangement with its core data processing vendor prior to the Bank's opening. The contract included an "incubation" period for de novo companies whereby monthly charges would be waived for the first nine months of operation. The waiver period included six of the first nine months ended September 30, 2004, while the current nine months reflects full charges.

Additionally, audit and accounting fees increased from \$19,350 in the first nine months of 2004 to \$58,050 in the first nine months of 2005, a 200.0% increase. The increase was due, in part, to a greater expense associated with a full year of operation in 2004 compared to only 45 days for year-end 2003. Coupled with this, the Bank began in 2005 a new accrual for expanded internal audit coverage. It is anticipated that a greater 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 Securities and Exchange Commission has extended until 2007 compliance with SOX 404 for smaller companies such as the Bank. Management determined to proceed cautiously and conservatively in preparation for the potential impact of greater audit coverage by accruing \$13,500 during the first half of 2005. This accrual is expected to be absorbed by expanded internal audit coverage in the second half of 2005. Management believes that the professional fees associated with full SOX compliance could approximate \$85,000 to \$100,000 annually in the future.

Total non-interest expense also includes employee-related costs, occupancy and equipment expense and other overhead. Salaries and employee benefits totaled \$808,284 in the first nine months of 2005, compared to \$773,522 for the first nine months of 2004, an increase of 4.5%. The Bank hired highly experienced staff to begin operations. This strategy creates substantial non-interest expense in the short term, but is projected to build customer relationships more quickly and enhance long term earnings performance for the Bank.

Occupancy of the permanent building for the Bank's branch (discussed above) has enhanced overall convenience and efficiency. Modest increases in associated overhead expenses are projected to be absorbed through expanded loan revenues in the near future. Additional services will also be offered to produce offsetting non-interest income.

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 we believe provides important information about our 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 the myriad of startup expenses. As the Bank matures, an efficiency ratio of 60% to 65% is targeted. At September 30, 2005, the Bank's efficiency ratio was 93.86% compared to 186.09% at September 30, 2004. 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 \$2.57 million per employee September 30, 2005 compared to \$1.90 million at September 30, 2004.

Allowance for Loan Losses

The allowance for loan losses at September 30, 2005 was \$313,380, compared to \$305,129 at December 31, 2004. The allowance for loan losses was 0.83% of total loans outstanding at September 30, 2005, compared to 1.03% at December 31, 2004. The cause for the decrease is discussed below. The provision for loan losses was \$10,000 for the nine months ended September 30, 2005. Management believes that the allowance for loan losses is adequate to cover credit losses inherent in the loan portfolio at September 30, 2005.

Management revised the Loan Policy during the third quarter 2004 to expand the Bank's credit risk rating system. The risk-rating system has been revised and was approved by the Board on October 12, 2004. The current system now includes six "pass" grades, as well as four adverse grades. All existing loans were re-evaluated and assigned new risk ratings. Management not only incorporates these ratings into its methodology for evaluating the adequacy of the Allowance for Loan and Lease Losses (ALLL), but also into pricing strategies. This methodology also reflects the provision for loan loss expense to accommodate only the risks associated with this evaluation exercise. During the Bank's first full year of operation, management established an initial ALLL approximating 1.0% of total loans, until such time as

the loan portfolio has seasoned to a degree that embedded risk can be more accurately identified. Using the current methodology, the ALLL has a small surplus balance above the identified embedded risk, although the ratio has fallen below the 1.0% threshold. Therefore, the Bank has reduced provision expense additions to the ALLL. The more static level of the ALLL, while the loan portfolio has continued to grow, has resulted in a declining ratio of the ALLL as a percentage of total loans. Management will 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 September 30, 2005 was \$10.6 million compared to \$10.5 million at December 31, 2004. Total common shares outstanding at September 30, 2005 were 605,175.

At September 30, 2005, the Bank's tier 1 and total risk-based capital ratios were 25.3% and 26.1%, respectively, compared to 32.3% and 33.2% at December 31, 2004. The Bank's leverage ratio was 20.2% at September 30, 2005, compared to 26.1% at December 31, 2004. 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 September 30, 2005, cash, interest-bearing deposits with financial institutions, federal funds sold and securities available for sale were 24.7% 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). The policy requires that this ratio be equal to or greater than 15% of total assets. At September 30, 2005, this ratio was 33.3%. 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 September 30, 2005, this percentage was 69.0%. The Bank also maintains additional sources of liquidity through "federal funds purchase" guidance lines with correspondent banks, which totaled \$5.2 million at September 30, 2005. Management believes that it is prudent to periodically test or validate availability of such backup alternative funding sources. Accordingly, the Bank drew down or borrowed \$1,000,000 from one of its correspondent banks in June 2005. This short-term borrowing was outstanding as of June 30, 2005, but was repaid during the first week of July 2005.

During the fourth quarter 2004, the Bank entered into 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.

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.

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 May 2005, the Financial Accounting Standards Board (“FASB”) issued Statement No. 154 (“SFAS No. 154”), “Accounting Changes and Error Corrections - A Replacement of APB Opinion No. 20 and FASB Statement No. 3.” The new standard changes the requirements for the accounting for and reporting of a change in accounting principle. Among other changes, SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also provides that (1) a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a “restatement”. The new standard is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Bank does not anticipate this revision will have a material effect on its financial statements.

On December 16, 2004, FASB issued Statement No. 123R (revised 2004), “Share-Based Payment” (FAS 123R), that addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company’s equity instruments or that may be settled by

the issuance of such equity instruments. FAS 123R eliminates the ability to account for share-based compensation transactions using the intrinsic method and requires that such transactions be accounted for using a fair-value-based method and recognized as expense in the consolidated statement of income. The effective date of FAS 123R (as amended by the SEC) is for annual periods beginning after June 15, 2005. The provisions of FAS 123R do not have an impact on the Bank's results of operations at the present time; however, to the extent the Bank issues future options that are not fully vested before January 1, 2006, those options will be recognized in compensation expense.

In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107). SAB 107 expresses the views of the SEC staff regarding the interaction of FAS 123R and certain SEC rules and regulations and provides the SEC staff's view regarding the valuation of share-based payment arrangements for public companies. SAB 107 does not impact the Bank's results of operations at the present time.

In November 2003, the Emerging Issues Task Force (the "EITF" or "Task Force") published Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The Task Force discussed the meaning of other-than-temporary impairment and its application to certain investments carried at cost. The Task Force requested that the FASB staff consider other impairment models within U.S. Generally Accepted Accounting Principles ("GAAP") when developing its views. The Task Force also requested that the scope of the impairment issue be expanded to include equity investments and investments subject to FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and that the issue be addressed by the Task Force as a separate EITF issue. At the EITF meeting, the Task Force reached a consensus on one issue that certain quantitative and qualitative disclosures should be required for securities accounted for under Statement No. 115 that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. The FASB ratified the consensus on that one issue at its November 2004 meeting. In September 2004, the FASB directed its staff to issue two proposed FASB Staff Positions ("FSP"): Proposed FSP EITF Issue 03-1-a, which provides guidance for the application of paragraph 16 of EITF Issue 03-1 to debt securities that are impaired because of interest rate and/or sector spread increases, and Proposed FSP EITF Issue 03-1-b, which delays the effective date of Issue 03-1 for debt securities that are impaired because of interest rate and/or sector spread increases. In June 2005, the FASB reached a decision whereby it declined to provide additional guidance on the meaning of other-than-temporary impairment. The FASB directed its staff to issue EITF Issue 03-1-a as final and to draft a new FSP that will replace EITF Issue 03-1. The final FSP (retitled FAS 115-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments") would be effective for other-than-temporary impairment analysis conducted in periods beginning after September 15, 2005. The Bank does not anticipate this revision will have a material effect on its financial statements.

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 ability to continue to attract low cost core deposits to fund asset growth;
- 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;
- problems with technology utilized by the Bank;
- the successful management of interest rate risk;
- reliance on third party relationship with Community Bankers Securities for regulatory compliant, accurate and timely processing of securities transactions associated with the Bank's investment brokerage service offerings;
- reputational risk associated with new investment brokerage service offerings;
- 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;
- changes in banking and other laws and regulations applicable to the Bank;
- changes in general economic and business conditions in the Bank's market area;
- demand, development and acceptance of new products and services;
- changing trends in customer profiles and behavior;
- maintaining cost controls and asset qualities as the Bank opens or acquires new branches; 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.

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 Bank's last fiscal quarter that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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: November 11, 2005

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 September 30, 2005 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: November 11, 2005

/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 September 30, 2005 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: November 11, 2005

/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 September 30, 2005 (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: November 11, 2005

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

Date: November 11, 2005