

**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, 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:

610,175 shares of common stock, par value \$5.00 per share,
outstanding as of November 13, 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) September 30, 2007	December 31, 2006
	<u> </u>	<u> </u>
Assets:		
Cash and due from banks	\$ 1,806,938	\$ 2,012,673
Federal funds sold	5,443,206	5,095,375
Securities available for sale, at fair market value	24,378,790	17,479,174
Securities held to maturity (fair market value of \$3,288,979 in 2007 and \$3,777,160 in 2006)	3,274,551	3,764,643
Loans, net of allowance for loan losses of \$358,694 in 2007 and \$329,462 in 2006	50,946,835	46,125,422
Bank premises and equipment, net	4,104,973	4,258,753
Bank owned life insurance	2,072,390	1,549,590
Other assets	<u>1,026,284</u>	<u>901,896</u>
 Total assets	 <u>\$ 93,053,967</u>	 <u>\$ 81,187,526</u>
 Liabilities and Shareholders' Equity:		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	\$ 7,602,480	\$ 6,536,531
Savings and interest bearing demand deposits	15,790,801	14,508,711
Time deposits	<u>57,156,460</u>	<u>48,365,686</u>
Total deposits	\$ 80,549,741	\$ 69,410,928
 Accrued expenses and other liabilities	 994,195	 749,861
Commitments and contingencies	<u>-</u>	<u>-</u>
Total liabilities	<u>\$ 81,543,936</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 610,175 shares in 2007 and 607,675 shares in 2006	3,050,875	3,038,375
Capital surplus	9,130,243	9,090,243
Retained (deficit)	(596,085)	(821,595)
Accumulated other comprehensive income (loss), net	<u>(75,002)</u>	<u>(280,286)</u>
Total shareholders' equity	<u>\$ 11,510,031</u>	<u>\$ 11,026,737</u>
 Total liabilities and shareholders' equity	 <u>\$ 93,053,967</u>	 <u>\$ 81,187,526</u>

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Income

	(Unaudited)		(Unaudited)	
	Three Months	Three Months	Nine Months	Nine Months
	Ended	Ended	Ended	Ended
	September 30,	September 30,	September 30,	September 30,
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Interest and Dividend Income				
Interest and fees on loans	\$1,171,442	\$998,072	\$3,379,558	\$2,811,712
Interest on securities available for sale				
Taxable	319,903	196,368	846,281	422,221
Dividends	5,102	4,790	15,160	14,303
Interest on federal funds sold and other	<u>108,837</u>	<u>116,333</u>	<u>343,424</u>	<u>290,842</u>
Total interest and dividend income	<u>\$1,605,284</u>	<u>\$1,315,563</u>	<u>\$4,584,423</u>	<u>\$3,539,078</u>
Interest Expense				
Interest on deposits	<u>\$807,832</u>	<u>\$562,867</u>	<u>\$2,275,712</u>	<u>\$1,404,604</u>
Total interest expense	<u>\$807,832</u>	<u>\$562,867</u>	<u>\$2,275,712</u>	<u>\$1,404,604</u>
Net interest income	\$797,452	\$752,696	\$2,308,711	\$2,134,474
Provision for Loan Losses	<u>21,050</u>	<u>11,050</u>	<u>35,650</u>	<u>28,150</u>
Net interest income after provision for loan losses	<u>\$776,402</u>	<u>\$741,646</u>	<u>\$2,273,061</u>	<u>\$2,106,324</u>
Other Income				
Service charges on deposit accounts	22,125	15,393	66,441	41,615
Other service charges, commissions and fees	<u>41,943</u>	<u>41,937</u>	<u>120,764</u>	<u>106,146</u>
Total other income	<u>\$64,068</u>	<u>\$57,330</u>	<u>\$187,205</u>	<u>\$147,761</u>
Other Expense				
Salaries and employee benefits	\$418,419	\$343,661	\$1,226,595	\$1,014,381
Occupancy expense	51,519	58,900	141,300	157,193
Furniture and equipment expense	18,521	14,690	49,679	41,782
Data processing	113,175	105,891	326,642	310,135
Advertising	36,742	22,560	114,836	61,098
Professional fees	30,368	17,968	77,201	54,336
Stationery and supplies	11,994	10,613	35,107	29,330
Postage and freight	8,432	8,857	27,707	24,677
Regulatory assessments	19,059	6,914	42,897	16,850
Insurance	9,472	9,729	28,583	28,306
Taxes	15,472	20,534	46,804	66,516
Other operating expenses	<u>40,335</u>	<u>37,782</u>	<u>117,405</u>	<u>106,760</u>
Total other expense	<u>\$773,508</u>	<u>\$658,099</u>	<u>\$2,234,756</u>	<u>\$1,911,364</u>
Net Income before income taxes	\$66,962	\$140,877	\$225,510	\$342,721
Income taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Income	<u>\$66,962</u>	<u>\$140,877</u>	<u>\$225,510</u>	<u>\$342,721</u>
Earnings per share, basic and diluted	\$0.11	\$0.23	\$0.37	\$0.56
Weighted Average Shares Outstanding, basic	610,175	607,675	608,618	607,675
Weighted Average Shares Outstanding, diluted	616,009	616,245	616,569	614,304

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 2007
and September 30, 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:						
Net income	--	--	342,721	--	\$ 342,721	342,721
Other comprehensive income:						
Unrealized gain on securities available for sale	--	--	--	16,385	16,385	16,385
Total comprehensive income	--	--	--	--	<u>\$ 359,106</u>	
Exercise of stock options	12,500	40,000				52,500
Balance at September 30, 2006	<u>\$ 3,038,375</u>	<u>\$ 9,090,243</u>	<u>\$ (1,047,468)</u>	<u>\$ (101,350)</u>		<u>\$ 10,979,800</u>
Balance at December 31, 2006	\$ 3,038,375	\$ 9,090,243	\$ (821,595)	\$ (280,286)		\$ 11,026,737
Comprehensive Income (loss):						
Net income	--	--	225,510	--	\$ 225,510	225,510
Other comprehensive income (loss):						
Unrealized (loss) on securities available for sale	--	--	--	182,820	182,820	182,820
Amortization of SFAS No. 158 Adjustment	--	--	--	22,464	22,464	22,464
Total comprehensive income	--	--	--	--	<u>\$ 430,794</u>	
Exercise of stock options	12,500	40,000				52,500
Balance at June 30, 2007	<u>\$ 3,050,875</u>	<u>\$ 9,130,243</u>	<u>\$ (596,085)</u>	<u>\$ (75,002)</u>		<u>\$ 11,510,031</u>

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Cash Flows
For the Nine Months Ended September 30, 2007
and September 30, 2006 (Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES	2007	2006
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 225,510	\$ 342,721
Net (accretion) on investment securities	(71,603)	(40,114)
Depreciation and amortization	197,548	236,796
Provision for loan losses	35,650	28,150
Changes in assets and liabilities:		
(Increase) in accrued interest and other assets	(124,388)	(361,282)
Increase in accrued expenses and other liabilities	266,798	165,492
Net cash provided by operating activities	\$ 529,515	\$ 371,763
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available for sale	\$ (14,792,658)	\$ (10,080,998)
Principal paydowns of securities available for sale	1,523,330	783,684
Maturities of securities available for sale	4,878,302	1,789,243
Calls of securities available for sale	1,736,410	-
Calls of securities held to maturity	1,000,000	-
Purchase of securities held to maturity	(1,009,100)	(2,098,772)
Principal paydowns of securities held to maturity	70,015	-
Maturities of securities held to maturity	450,000	-
(Purchase) of Federal Reserve Stock	(11,400)	(3,800)
(Increase) in bank owned life insurance	(522,800)	(522,200)
Net (increase) in loans	(4,857,063)	(2,297,483)
Purchases of premises and equipment	(43,768)	(83,060)
Net cash (used in) investing activities	\$ (11,578,732)	\$ (12,513,386)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand, savings, interest-bearing checking and money market deposits	\$ 2,348,039	\$ 443,285
Net increase in time deposits	8,790,774	15,676,615
Proceeds from exercise of stock options	52,500	52,500
Net cash provided by financing activities	\$ 11,191,313	\$ 16,172,400
 Net increase in cash and cash equivalents	\$ 142,096	\$ 4,030,777
 CASH AND CASH EQUIVALENTS		
Beginning	\$ 7,108,048	\$ 7,687,037
Ending	\$ 7,250,144	\$ 11,717,814
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	2,237,304	1,301,953
 SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Unrealized gain on securities available for sale	182,820	16,385
Amortization of adjustment to initially apply SFAS No. 158	22,464	-

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Notes to Financial Statements
For the Nine Months Ended September 30, 2007
and September 30, 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 September 30, 2007, the statements of income for the three and nine months ended September 30, 2007, and the changes in shareholders' equity and cash flows for the nine months ended September 30, 2007. Financial statements are prepared in accordance with generally accepted accounting principles. Operating results for the three and nine month periods ended September 30, 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 September 30, 2007, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 12,832,266	\$ 102,259	\$ (19,721)	\$ 12,914,804
Mortgage backed securities	10,993,822	81,204	(47,954)	11,027,072
Securities of states and political subdivisions	98,422	-	(2,308)	96,114
Restricted stock	340,800	-	-	340,800
Total	<u>\$ 24,265,310</u>	<u>\$ 183,463</u>	<u>\$ (69,983)</u>	<u>\$ 24,378,790</u>

Amortized cost and fair values of securities held to maturity at September 30, 2007, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 2,686,528	\$ 20,201	\$ -	\$ 2,706,729
Mortgage backed securities	588,023	-	(5,773)	582,250
Total	<u>\$ 3,274,551</u>	<u>\$ 20,201</u>	<u>\$ (5,773)</u>	<u>\$ 3,288,979</u>

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
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:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
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 September 30, 2007 and December 31, 2006, approximately \$100,000 of securities were pledged to secure deposits of the Commonwealth of Virginia.

For the nine months ended September 30, 2007, proceeds from calls of securities available for sale totaled \$1,736,410. There were no proceeds from sales of securities available for sale for the nine months ended September 30, 2007. There were no proceeds from sales and calls of securities available for sale for the nine months ended September 30, 2006.

At September 30, 2007, 29 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 21 investment securities held at September 30, 2007 that had been in an unrealized loss position for greater than 12 months. These 21 securities had a total unrealized loss of \$52,104 and a market value of \$4,290,208 at September 30, 2007. The remaining 8 securities had a total unrealized loss of \$23,652 and a market value of \$2,954,520 at September 30, 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.

September 30, 2007	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
Securities of U.S. government and federal agencies	\$ 100,220	(\$ 315)	\$2,037,194	(\$19,406)	\$2,137,414	(\$ 19,721)
Mortgage backed securities	2,854,300	(23,337)	2,156,900	(30,390)	5,011,200	(53,727)
Securities of states and political subdivisions	--	--	96,114	(2,308)	96,114	(2,308)
Total temporarily impaired securities	<u>\$ 2,954,520</u>	<u>(\$23,652)</u>	<u>\$4,290,208</u>	<u>(\$52,104)</u>	<u>\$7,244,728</u>	<u>(\$75,756)</u>

December 31, 2006	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
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>September 30,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Mortgage:		
Construction and land development	\$ 13,226,116	\$ 9,299,922
Residential real estate	14,836,044	13,329,893
Nonresidential	7,853,458	8,751,165
Commercial	10,563,577	9,997,371
Agricultural and Other Farm Loans	496,586	546,714
Consumer and All Other Loans	4,457,475	4,661,667
	<u>51,433,257</u>	<u>46,586,732</u>
Unearned income	127,728	131,848
Allowance for loan losses	358,694	329,462
Loans, net	<u>\$ 50,946,835</u>	<u>\$ 46,125,422</u>

Overdrafts totaling \$51,988 and \$14,618 at September 30, 2007 and December 31, 2006, respectively, were reclassified from deposits to loans.

Non-performing assets totaled \$30,000 at September 30, 2007. The Bank had no non-performing assets at December 31, 2006.

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

	<u>September 30,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>	<u>September 30,</u> <u>2006</u>
Balance at the beginning of the period (January 1)	\$ 329,462	\$ 316,372	\$ 316,372
Provision for loan losses	35,650	29,200	28,150
Loans charged off	(9,259)	(16,611)	(37,366)
Recoveries on loans previously charged off	2,841	501	277
Balance at the end of the period	<u>\$ 358,694</u>	<u>\$ 329,462</u>	<u>\$ 307,433</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 potential dilutive common stock. Potential dilutive common stock had no effect on income available to common shareholders.

	Nine months ended September 30, 2007		Three months ended September 30, 2007	
	Shares	Amount	Shares	Amount
Basic earnings per share	608,618	\$ 0.37	610,175	\$ 0.11
Effect of dilutive securities:				
Stock Options	7,951		5,834	
Diluted earnings per share	<u>616,569</u>	\$ 0.37	<u>616,009</u>	\$ 0.11

	Nine months ended September 30, 2006		Three months ended September 30, 2006	
	Shares	Amount	Shares	Amount
Basic earnings per share	607,675	\$ 0.56	607,675	\$ 0.23
Effect of dilutive securities:				
Stock Options	6,629		8,570	
Diluted earnings per share	<u>614,304</u>	\$ 0.56	<u>616,245</u>	\$ 0.23

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 potential dilutive common shares had been issued, as well as any adjustment to income that would result from issuance.

Note 5. Stock Based Compensation

As of September 30, 2007, the Bank had a stock based compensation plan. 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 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 the modified 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 options to acquire an aggregate of 2,500 shares of common stock exercised in the nine month periods ended September 30, 2007 and 2006, respectively. The intrinsic value of stock options exercised was \$18,750 and \$11,250, respectively, for the nine month periods ended September 30, 2007 and 2006.

The following summarizes the stock option activity for the nine month period ended September 30, 2007:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Intrinsic Value of Unexercised In-the-Money Options</u>
Options outstanding, January 1, 2007	37,354	21.26		
Granted	-	-		
Exercised	2,500	21.00		
Forfeited	-	-		
Options outstanding, September 30, 2007	<u>34,854</u>	<u>21.28</u>	7	
Options exercisable, September 30, 2007	<u>34,854</u>	<u>21.28</u>	7	\$ 42,531

(1)The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on September 30, 2007. This amount changes based on changes in the market value of the Bank's stock. The fair value (present value of the estimated future benefit to the option holder) of each option grant is estimated on the date of grant using the Black-Scholes option pricing model.

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 and nine months ended September 30, 2007 should be read in conjunction with the Bank's Financial Statements and the accompanying Notes to Financial Statements included in this report and in the Bank's Annual Report on Form 10-KSB for the year ended 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 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 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 September 30, 2007 was \$66,962 compared to \$140,877 for the same period in 2006. Net income for the nine months ended September 30, 2007 totaled \$225,510 compared to \$342,721 for the nine months ended September 30, 2006. The primary cause for the decline is related to an accounting rule 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 the accounting periods in which they are recorded do change. 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 three and nine months ended September 30, 2007 was \$38,634 and \$121,896 greater, respectively, than the same periods in 2006. This negative comparison will persist throughout 2007 until the Bank has reported four consecutive quarters under the new accounting guidelines.

Several other factors contributed to the earnings decline, primarily the following increases in operating expenses. First, the Bank made a strategic decision to expand a formal advertising and marketing campaign to more rapidly grow its market share through brand identification and public visibility. In the current quarter, this campaign resulted in an increase in total advertising costs of \$14,182 over \$22,560 in the same quarter in 2006. This effort has contributed to positive balance sheet growth (discussed below), with results earlier this year producing growth in total deposits, but also yielding measurable loan growth in the latter portion of the current quarter. Second, the Bank experienced an increase of \$11,135 (\$13,000 for the three months ended September 30, 2007 compared to \$1,865 for the three months ended September 30, 2006) in its FDIC deposit insurance premium for the current quarter as a result of strong deposit growth and a change in the FDIC formula for calculating insurance premiums. Third, the Bank expensed \$20,000 in the current quarter to bolster the Allowance for Loan and Lease Losses (ALLL), compared to \$0 for the same period in 2006. This was primarily the result of growth in loan volume and not a specific identification of any losses imbedded in the loan portfolio, as the Bank continues to enjoy strong asset quality. Last, the Bank expensed \$24,750 in audit fees in the current quarter compared to \$14,850 during the same period in 2006 resulting from increased audit coverage required by the Sarbanes-Oxley Act, with which the Bank must comply in 2007 for the first time. These combined expense increases total \$93,851. Absent these increases, the Bank's operations would have reflected net income of \$160,813, or a \$19,936 (14.2%) increase over the same period in 2006.

For the nine months ended September 30, 2007 and September 30, 2006, gross revenues, which are defined as interest income plus other income, were \$4.8 million and \$3.7 million, respectively, while gross expenses, which are defined as interest expense plus other expenses and the provision for loan losses, were \$4.5 million and \$3.3 million, respectively. Total average assets increased 21.58% from \$72.3 million for the year ended December 31, 2006 to \$87.9 million for the nine months ended September 30, 2007. Average shareholders' equity increased 3.70% from \$10.8 million for the year ended December 31, 2006 to \$11.2 million for the nine months ended September 30, 2007. The September 30, 2007 figure reflects the \$225,510 net income plus a \$205,284 decrease in other comprehensive loss, including the unrealized gain 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 nine months ended September 30, 2007 and September 30, 2006 was 0.34% and 0.66%, respectively. Annualized return on average equity for the nine months ended September 30, 2007 and September 30, 2006 was 2.69% and 4.27%, respectively.

Total assets for the Bank increased to \$93.1 million at September 30, 2007, compared to \$81.2 million at December 31, 2006, representing an increase of \$11.9 million or 14.66%. Total net loans at September 30, 2007 were \$50.9 million, an increase of \$4.8 million, or 10.41%, from the December 31, 2006 amount of \$46.1 million. The provision for loan losses for the nine months ended September 30, 2007 was \$35,650. The allowance for loan losses totaled \$358,694, or 0.70% of total loans outstanding, at September 30, 2007. The methodology for assessing the adequacy of the allowance is discussed further below.

The investment portfolio increased 30.66% to \$27.7 million at September 30, 2007 compared to \$21.2 million at December 31, 2006. The current investment strategy is to employ excess liquidity in securities whose yields will enhance overall interest earnings without creating undue interest rate risk. Management continues to believe that yields in the loan portfolio are preferable to general investment yields within the bond market. However, current yields in the bond market have improved slightly relative to the overnight Fed funds rate. The Bank continues its posture of not attempting to forecast interest rates in a vacuum; however, activities of the Federal Open Market Committee ("FOMC") are monitored closely. 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, any unrealized losses reflected relative to current market value do not represent a risk of actually becoming realized losses during the life of these bonds.

Deposits increased \$11.1 million to \$80.5 million at September 30, 2007 from \$69.4 million at December 31, 2006. Time deposits totaled \$57.2 million at September 30, 2007, an increase of \$8.8 million from \$48.4 million at December 31, 2006. The FOMC reduced its target Fed funds rate by 50 basis points on September 18, 2007, which resulted in a corresponding reduction in the "Prime Rate". The Bank had already begun promoting 6 and 7 month maturity CDs during the current quarter. To mitigate interest rate risk within the funding side of the balance sheet, the Bank will be able to reduce its cost of funds sooner rather than later in what could become a falling rate environment as these 6 and 7 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 \$11.5 million at September 30, 2007. This amount represents an increase of 4.54% from the December 31, 2006 amount of \$11.0 million. The book value per common share was \$18.86 at September 30, 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 and nine months ended September 30, 2007 totaled \$797,452 and \$2,308,711, respectively, representing an increase of \$44,756 (5.95%) and \$174,237 (8.16%), respectively, over the same periods in 2006. Average earning assets increased \$17.3 million from \$62.2 million for the first nine months of 2006 to \$79.5 million for the first nine months of 2007. Average interest bearing liabilities increased \$16.8 million from \$51.9 million for the first nine months of 2006 to \$68.7 million for the first nine months of 2007. The net interest margin (net interest income expressed as a percentage of average earning assets) ("NIM") was 3.87% for the nine months ended September 30, 2007 compared to 4.58% for the nine months ended September 30, 2006.

The cause of the most recent compression of the NIM continues to be the fact that the FOMC last increased its targeted short-term rate (Fed funds rate) on June 29, 2006. At that time (June 30, 2006), the Bank had approximately \$24.6 million in loans whose rate changed continuously with the prime rate, which is directly related to the FOMC's Fed funds target rate. The rates on these loans have, therefore, remained relatively stable during the past 15 months. During the same period, the Bank's primary funding source has been consumer CDs. As of June 30, 2006, the Bank had approximately \$38.9 million in CDs which would reprice over the next 12 to 15 months with an average rate of 4.31%. These CDs have been gradually repricing upwards between 75 and 120 basis points. This has resulted in cost of funds increasing more rapidly than yields on earning assets. Also, CDs, by volume, have increased faster than loans. Thus, some of the excess CD deposit growth has been employed in earnings assets such as bonds and Fed funds, with yields below that of loans. Three year adjustable rate mortgages ("ARMs"), totaling \$3.4 million will be repricing upward 50 to 75 basis points over the next three months. Over this same three month horizon, the CDs that will be repricing total \$9.7 million at an average rate of 5.18%. It is expected that the repricing rates of these CDs should reflect a reduction of 10 basis points compared to their existing rates. As mentioned above, on September 18, 2007, the FOMC did reduce its target rate for overnight funds (resulting in a corresponding reduction in the prime rate). This had an immediate negative impact on the NIM, but with the efforts to promote shorter term CDs and purchase longer term bonds, the negative impact on the NIM is considered manageable.

The continued softening of loan demand has resulted in a higher percentage of earning assets being employed in either overnight Fed funds sales or bonds, both of which have lower yields than the average loan. As discussed elsewhere in this report, management has been more aggressive in its purchase of bonds to both maximize yields and protect against falling rates. Additionally, the addition of another commercial lender should enhance loan production.

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 in the less-than-twelve-month horizon. 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. However, beyond twelve months, fixed rate liabilities begin to demonstrate more rate sensitivity (or repricing volatility) than do variable rate assets. 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. As discussed above, the Bank has begun marketing 6 and 7 month CDs to manage the interest rate risk associated with being asset sensitive, should the FOMC continue to 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. Management became more aggressive during the current quarter in its purchase of bonds with maturities and/or call protection beyond 12 months to protect investment yields against the effects of the anticipated falling rate environment. 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. The Bank has expanded its base of debit card users among its depositors, which has continued to produce an increase in non-interest income from network interchange fees. The Bank itself does not have an added service fee for debit card use in order to entice depositors to use their debit cards. In addition to the increase in fees, the increase of electronic payments has a positive effect on the efficiency of the Bank's check processing due to the reduction of handling paper checks. For the three and nine months ended September 30, 2007, non-interest income of \$64,068 and \$187,205, respectively, represented an \$6,738 (11.75%) and \$39,444 (26.70%) increase, respectively, over the same periods in 2006. The convenience of Drive-up ATMs has yielded an increase in non-customer use of the Bank's ATMs with resulting increases in non-interest fee income.

Service charges on deposit accounts totaled \$22,125 and \$66,441, respectively, for the first three and nine months of 2007, compared to \$15,393 and \$41,615, respectively, for the same periods in 2006, an increase of 43.73% and 59.66%, respectively. 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 September 30, 2007, the division had 164 accounts representing 97 households, with \$7.8 million in assets under management. For the three and nine months ended September 30, 2007, investment income totaled \$8,392 and \$16,309, respectively. For the three and nine months ended September 30, 2006, investment income totaled \$12,434 and \$21,000, respectively. 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 \$8,186 to non-interest income in the first nine months of 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. CVM's current practice is to commit to permanent mortgages only upon pre-purchase commitment from secondary market investors; therefore, the Bank, in any warehouse line arrangement, would not be incurring any extended interest rate risk. 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 and nine months ended September 30, 2007 totaled \$773,508 and \$2,234,756, respectively. This represents an increase of 17.54% and 16.92%, respectively, over non-interest expense of \$658,099 and \$1,911,364, respectively, for the same periods of 2006. Two primary factors contributed to the increase. First, salary and employee benefits increased \$74,758 (21.75%) and \$212,214 (20.92%), respectively, when comparing the three months and nine months ended September 30, 2007 to the same periods in 2006. The increase is the result of the addition of staff, general salary increases and rising insurance costs. One important staff increase during the current quarter was the addition of a new loan officer who previously worked for the Federal Farm Credit Bank for 30 years. This individual brings valuable experience in agricultural and real estate lending, as well as sound commercial financial analysis and underwriting. Typical with this type of hiring, a financial investment is made in human resources that includes a lagging benefit in the form of revenue generation. It is anticipated this individual will assist the Bank in restoring the loan to deposit ratio to the 70 to 75% range and enhance the NIM. 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 increase in pension expense associated with SFAS No. 158 of \$38,634 and \$121,896, respectively, for the three and nine months ended September 30, 2007, as discussed elsewhere in this report, represented 51.68% and 57.44% of the increase, respectively.

Second, advertising costs increased \$14,182 (62.86%) and \$53,738 (87.95%), respectively, when comparing the three and nine months ended September 30, 2007 to the same periods in 2006. 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 September 30, 2007, the Bank's efficiency ratio was 89.54% compared to 83.75% at September 30, 2006. The increase is associated with the increased pension expense resulting from SFAS No. 158, as 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 September 30, 2007 compared to \$2.99 million at September 30, 2006.

Allowance for Loan Losses

The allowance for loan losses at September 30, 2007 was \$358,694, compared to \$329,462 at December 31, 2006. The allowance for loan losses was 0.70% of total loans outstanding at September 30, 2007, compared to 0.71% at December 31, 2006. The provision for loan losses was \$35,650 for the nine months ended September 30, 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 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. Asset quality continues to be strong. As of September 30, 2007, the Bank had one repossessed property totaling \$30,000. Loans past due 90 days or more and still accruing interest at the end of the third quarter 2007 totaled \$661. Management believes that the ALLL is adequate to cover credit losses inherent in the loan portfolio at September 30, 2007. The Bank does not engage in "sub-prime lending".

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." Pursuant to SFAS No. 114, those loans with whom the borrower's financial condition has deteriorated to a level that results in an adverse risk rating are evaluated individually for impairment. This evaluation is performed monthly and incorporated into the ALLL adequacy analysis, reflecting any respective loss potential for each loan. The methodology also 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 concentrations of credit, such as unsecured loans. 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. 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. During the most recent regulatory and internal independent loan review, there were no material disagreements with the Bank's internal risk ratings. There was a general consensus that the Bank's ALLL was below peer group levels but appeared to be adequate for currently identifiable loss risk.

Capital Resources

Shareholders' equity at September 30, 2007 totaled \$11.5 million compared to \$11.0 million at December 31, 2006. Total common shares outstanding at September 30, 2007 were 610,175.

At September 30, 2007, the Bank's tier 1 and total risk-based capital ratios were 18.35% and 18.92%, respectively, compared to 20.18% and 20.77% at December 31, 2006. The Bank's leverage ratio was 12.59% at September 30, 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 September 30, 2007, cash, interest-bearing deposits with financial institutions, federal funds sold and securities available for sale were 37.1% 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 September 30, 2007, this ratio was 41.6%. 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 continue to reflect declines in 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 September 30, 2007, this percentage was 64.2%. The Bank also maintains additional sources of liquidity through "Federal funds purchase" guidance lines with correspondent banks, which totaled \$7.1 million at September 30, 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. Currently, the Bank is able to generate sufficient deposits within its local market at rates more attractive than national trends without being required to pay a premium.

During the current quarter, the Bank filed an application with the Federal Home Loan Bank of Atlanta. Subsequent to the close of the quarter, the application was approved. Membership will provide additional sources of funding for the Bank, often with terms more flexible and economical than consumer deposits. Therefore, both liquidity and net interest earnings should benefit from this relationship.

Other Matters

In May 2007, the Bank completed its conversion to Check 21, the method used for its check collection. 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 nine months ended September 30, 2007, there has been no material change 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 Bank's Annual Report on Form 10-KSB for the year ended December 31, 2006.

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 of this Statement 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. The Bank is in the process of evaluating the impact SFAS 159 may have 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 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
- problems with technology utilized by the Bank;
- changes in general economic and business conditions in the Bank’s market area;
- 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**

	Nine Months Ended September 30, 2007			Nine Months Ended September 30, 2006		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets:						
Interest earning assets:						
Securities						
Taxable	22,043,595	861,441	5.21%	12,162,305	436,525	4.79%
Total securities	22,043,595	861,441	5.21%	12,162,305	436,525	4.79%
Federal funds sold	8,835,904	343,424	5.18%	8,004,739	290,841	4.84%
Loans, net	48,657,280	3,379,558	9.26%	42,023,877	2,811,712	8.92%
Total earning assets	79,536,779	4,584,423	7.69%	62,190,921	3,539,078	7.59%
Less: allowance for loan losses	(339,853)			(321,574)		
Total non-earning assets	8,715,587			7,890,142		
Total assets	87,912,513			69,759,489		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Checking	3,662,848	40,206	1.46%	3,273,734	29,885	1.22%
Savings and money market deposits	11,781,734	186,170	2.11%	10,085,741	143,085	1.89%
Other time	53,302,318	2,049,336	5.13%	38,540,822	1,231,634	4.26%
Total interest bearing deposits	68,746,900	2,275,712	4.41%	51,900,297	1,404,604	3.61%
Total interest bearing liabilities	68,746,900	2,275,712	4.41%	51,900,297	1,404,604	3.61%
Noninterest bearing liabilities:						
Demand deposits	7,146,733			6,827,513		
Other non-interest bearing Liabilities	852,482			339,588		
Total liabilities	76,746,115			59,067,398		
Stockholders' equity	11,166,398			10,692,091		
Total liabilities and stockholders' equity	87,912,513			69,759,489		
Net Interest Income		2,308,711			2,134,474	
Interest rate spread ⁽¹⁾			3.27%			3.98%
Net Interest Margin ⁽²⁾			3.87%			4.58%

⁽¹⁾ 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.

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

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

	Nine Months Ended September 30, 2007			Year Ended December 31, 2006		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets:						
Interest earning assets:						
Securities						
Taxable	22,043,595	861,441	5.21%	14,276,464	703,413	4.93%
Total securities	22,043,595	861,441	5.21%	14,276,464	703,413	4.93%
Federal funds sold	8,835,904	343,424	5.18%	7,972,441	395,273	4.96%
Loans, net	48,657,280	3,379,558	9.26%	42,450,983	3,833,360	9.03%
Total earning assets	79,536,779	4,584,423	7.69%	64,699,888	4,932,046	7.62%
Less: allowance for loan losses	(339,853)			(317,873)		
Total non-earning assets	8,715,587			7,956,252		
Total assets	87,912,513			72,338,267		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Checking	3,662,848	40,206	1.46%	3,243,021	41,840	1.29%
Savings and money market deposits	11,781,734	186,170	2.11%	10,206,041	199,989	1.96%
Other time	53,302,318	2,049,336	5.13%	40,962,245	1,827,816	4.46%
Total interest bearing deposits	68,746,900	2,275,712	4.41%	54,411,307	2,069,645	3.80%
Total interest bearing liabilities	68,746,900	2,275,712	4.41%	54,411,307	2,069,645	3.80%
Noninterest bearing liabilities:						
Demand deposits	7,146,733			6,784,833		
Other non-interest bearing Liabilities	852,482			364,196		
Total liabilities	76,746,115			61,560,336		
Stockholders' equity	11,166,398			10,777,931		
Total liabilities and stockholders' equity	87,912,513			72,338,267		
Net Interest Income		2,308,711			2,862,401	
Interest rate spread ⁽¹⁾			3.27%			3.82%
Net Interest Margin ⁽²⁾			3.87%			4.42%

⁽¹⁾ 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.

⁽²⁾ 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 September 30, 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.

The Bank will be subject to full compliance with the Sarbanes-Oxley Act of 2002 ("SOX") for the fiscal year 2007, pending consideration currently before the U.S. Congress and the SEC. 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 has contracted with an independent consulting firm to provide the SOX 404 document phase of management's attestation of the current internal control environment. The engagement will also include testing of the internal controls to facilitate Bank management's attestation of the internal control infrastructure of the Bank related to 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 13, 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 September 30, 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: November 13, 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 September 30, 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: November 13, 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 September 30, 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: November 13, 2007

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

Date: November 13, 2007