

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

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2008

or

Transition Report pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the transition period from _____ to _____

COLONIAL VIRGINIA BANK

(Exact name of registrant 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

(Address of principal executive offices)

23061

(Zip Code)

(804) 695-9300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate 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 May 14, 2008

COLONIAL VIRGINIA BANK

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

COLONIAL VIRGINIA BANK Balance Sheets

	(Unaudited) March 31, 2008	December 31, 2007
	<u> </u>	<u> </u>
Assets:		
Cash and due from banks	\$ 6,400,343	\$ 2,174,513
Federal funds sold	5,937,555	2,756,458
Securities available for sale, at fair market value	28,066,616	26,533,407
Securities held to maturity (fair market value of \$1,875,391 in 2008 and \$3,227,514 in 2007)	1,851,064	3,203,906
Loans, net of allowance for loan losses of \$501,972 in 2008 and \$491,383 in 2007	55,045,834	53,658,504
Bank premises and equipment, net	3,717,447	3,753,744
Bank owned life insurance	2,096,733	2,089,533
Other assets	<u>1,062,984</u>	<u>1,290,036</u>
 Total assets	 <u>\$ 104,178,576</u>	 <u>\$ 95,460,101</u>
 Liabilities and Shareholders' Equity:		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	\$ 6,841,741	\$ 6,779,679
Savings and interest bearing demand deposits	13,576,703	13,376,847
Time deposits	<u>66,880,302</u>	<u>62,792,174</u>
Total deposits	\$ 87,298,746	\$ 82,948,700
 Accrued expenses and other liabilities	 1,091,503	 1,005,448
FHLB advances	<u>4,000,000</u>	<u>-</u>
Total liabilities	\$ 92,390,249	\$ 83,954,148
 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	3,050,875	3,050,875
Capital surplus	9,130,243	9,130,243
Retained (deficit)	(658,060)	(724,288)
Accumulated other comprehensive income, net	<u>265,269</u>	<u>49,123</u>
Total shareholders' equity	<u>\$ 11,788,327</u>	<u>\$ 11,505,953</u>
 Total liabilities and shareholders' equity	 <u>\$ 104,178,576</u>	 <u>\$ 95,460,101</u>

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Income

	(Unaudited)	
	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Interest and Dividend Income		
Interest and fees on loans	\$1,189,493	\$1,077,513
Interest on securities available for sale		
Taxable	365,115	251,858
Dividends	8,310	5,015
Interest on federal funds sold and other	52,137	107,223
Total interest and dividend income	<u>\$1,615,055</u>	<u>\$1,441,609</u>
Interest Expense		
Interest on deposits	\$878,519	\$700,293
Total interest expense	<u>\$878,519</u>	<u>\$700,293</u>
Net interest income	\$736,536	\$741,316
Provision for Loan Losses	<u>21,050</u>	<u>6,050</u>
Net interest income after provision for loan losses	<u>\$715,486</u>	<u>\$735,266</u>
Other Income		
Service charges on deposit accounts	\$23,143	\$22,009
Gain on called securities	63,726	0
Other service charges, commissions and fees	67,715	35,523
Total other income	<u>\$154,584</u>	<u>\$57,532</u>
Other Expense		
Salaries and employee benefits	\$449,346	\$405,907
Occupancy expense	45,656	40,299
Furniture and equipment expense	20,109	15,459
Data processing	115,702	105,099
Advertising	34,094	44,039
Professional fees	35,567	19,568
Stationery and supplies	10,493	13,076
Postage and freight	7,831	9,695
Regulatory assessments	20,389	7,225
Insurance	9,151	9,591
Franchise tax	16,758	15,719
Other operating expenses	38,746	32,227
Total other expense	<u>\$803,842</u>	<u>\$717,904</u>
Net Income before income taxes	\$66,228	\$74,894
Income taxes	0	0
Net Income	<u><u>\$66,228</u></u>	<u><u>\$74,894</u></u>
Earnings per share, basic and diluted	\$0.11	\$0.12
Weighted Average Shares Outstanding, basic	610,175	607,675
Weighted Average Shares Outstanding, diluted	610,568	617,108

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Changes in Shareholders' Equity
For the Three Months Ended March 31, 2008
and March 31, 2007 (Unaudited)

	<u>Common Stock</u>	<u>Capital Surplus</u>	<u>Retained (Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Comprehensive Income</u>	<u>Total</u>
Balance at December 31, 2006	\$ 3,038,375	\$ 9,090,243	\$ (821,595)	\$ (280,286)		\$ 11,026,737
Comprehensive income:						
Net income	--	--	74,894	--	\$ 74,894	74,894
Other comprehensive income,						
Change in unrealized loss on securities available for sale	--	--	--	--	26,280	
Change in pension liability	--	--	--	--	7,488	
Other comprehensive income	--	--	--	33,768	<u>\$ 33,768</u>	33,768
Total comprehensive income	--	--	--	--	<u>\$ 108,662</u>	
Exercise of stock options	--	--	--	--		--
Balance at March 31, 2007	<u>\$ 3,038,375</u>	<u>\$ 9,090,243</u>	<u>\$ (746,701)</u>	<u>\$ (246,518)</u>		<u>\$ 11,135,399</u>
Balance at December 31, 2007	\$ 3,050,875	\$ 9,130,243	\$ (724,288)	\$ 49,123		\$ 11,505,953
Comprehensive income:						
Net income	--	--	66,228	--	\$ 66,228	66,228
Other comprehensive income,						
change in unrealized gain on securities available for sale	--	--	--	--	208,658	
Change in pension liability	--	--	--	--	7,488	
Other comprehensive income	--	--	--	216,146	<u>\$ 216,146</u>	216,146
Total comprehensive income	--	--	--	--	<u>\$ 282,374</u>	
Exercise of stock options	--	--	--	--		--
Balance at March 31, 2008	<u>\$ 3,050,875</u>	<u>\$ 9,130,243</u>	<u>\$ (658,060)</u>	<u>\$ 265,269</u>		<u>\$ 11,788,327</u>

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Cash Flows
For the Three Months Ended March 31, 2008
and March 31, 2007 (Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES	2008	2007
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 66,228	\$ 74,894
Net amortization (accretion) on investment securities	(9,221)	(22,117)
Depreciation and amortization	64,935	63,256
Provision for loan losses	21,050	6,050
Gain on securities	(63,726)	-
Changes in assets and liabilities:		
Decrease (increase) in accrued interest and other assets	119,562	(38,934)
Increase in accrued expenses and other liabilities	93,545	114,299
Net cash provided by operating activities	\$ 292,373	\$ 197,448
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available for sale	\$ (8,652,718)	\$ (1,384,424)
Principal paydowns of securities	735,586	274,612
Proceeds from calls and maturities of securities available for sale	6,967,101	3,593,076
Purchase of securities held to maturity	-	(1,009,100)
Proceeds from calls and maturities of securities held to maturity	1,347,857	200,000
(Purchase) cancellation of Federal Reserve Stock	2,200	(4,900)
(Purchase) of Federal Home Loan Bank Stock	(191,300)	-
Net (increase) in loans	(1,408,380)	(1,389,529)
(Increase) in bank owned life insurance	(7,200)	(7,800)
Purchases of premises and equipment	(28,638)	(20,036)
Net cash (used in) provided by investing activities	\$ (1,235,492)	\$ 251,899
 CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand, savings, interest-bearing checking and money market deposits	\$ 261,918	\$ 1,156,222
Net increase in time deposits	4,088,128	3,638,781
Net increase in other borrowings	4,000,000	-
Proceeds from exercise of stock options	-	-
Net cash provided by financing activities	\$ 8,350,046	\$ 4,795,003
 Net increase in cash and cash equivalents	\$ 7,406,927	\$ 5,244,350
 CASH AND CASH EQUIVALENTS		
Beginning	\$ 4,930,971	\$ 7,108,048
Ending	\$ 12,337,898	\$ 12,352,398
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	894,197	695,350
 SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Unrealized gain on securities available for sale	316,146	26,280
Amortization of adjustment to initially apply SFAS No. 158	7,488	7,488

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Notes to Financial Statements
For the Three Months Ended March 31, 2008
and March 31, 2007 (Unaudited)

Note 1. General

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

In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Bank's financial position at March 31, 2008, the statements of income for the three months ended March 31, 2008, and the changes in shareholders' equity and cash flows for the three months ended March 31, 2008. Financial statements are prepared in accordance with generally accepted accounting principles. Operating results for the three month period ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. 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, 2007, as filed with the Federal Reserve System.

Note 2. Securities

Amortized cost and fair values of securities available for sale at March 31, 2008, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 7,280,727	\$ 182,345	\$ (25,613)	\$ 7,437,459
Mortgage backed securities	19,165,114	416,226	(4,692)	19,576,648
Securities of states and political subdivisions	348,555	3,304	-	351,859
Restricted stock	700,650	-	-	700,650
Total	<u>\$ 27,495,046</u>	<u>\$ 601,875</u>	<u>\$ (30,305)</u>	<u>\$ 28,066,616</u>

Amortized cost and fair values of securities held to maturity at March 31, 2008, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 1,301,649	\$ 14,041	\$ -	\$ 1,315,690
Mortgage backed securities	549,415	10,286	-	559,701
Total	<u>\$ 1,851,064</u>	<u>\$ 24,327</u>	<u>\$ -</u>	<u>\$ 1,875,391</u>

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 12,161,125	\$ 160,930	\$ (5,071)	\$ 12,316,984
Mortgage backed securities	13,256,816	115,703	(16,416)	13,356,103
Securities of states and political subdivisions	348,492	845	(567)	348,770
Restricted stock	511,550	-	-	511,550
Total	<u>\$ 26,277,983</u>	<u>\$ 277,478</u>	<u>\$ (22,054)</u>	<u>\$ 26,533,407</u>

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 2,633,471	\$ 24,901	\$ -	\$ 2,658,372
Mortgage backed securities	570,435	-	(1,293)	569,142
Total	<u>\$ 3,203,906</u>	<u>\$ 24,901</u>	<u>\$ (1,293)</u>	<u>\$ 3,227,514</u>

At March 31, 2008 and December 31, 2007, approximately \$1,610,000 and \$1,100,000 of securities were pledged, respectively, to secure deposits of the Commonwealth of Virginia.

For the three months ended March 31, 2008 and March 31, 2007, proceeds from calls of securities available for sale totaled \$5,185,588 and \$884,774, respectively. There were no proceeds from sales of securities available for sale for the three months ended March 31, 2008 and March 31, 2007.

For the three months ended March 31, 2008 and March 31, 2007, proceeds from calls of securities held to maturity totaled \$1,347,857 and \$0, respectively.

At March 31, 2008, 9 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 2 investment securities held at March 31, 2008 that had been in an unrealized loss position for greater than 12 months. These 2 securities had a total unrealized loss of \$130 and a market value of \$150,905 at March 31, 2008. The remaining 7 securities had a total unrealized loss of \$30,175 and a market value of \$3,236,140 at March 31, 2008. 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.

March 31, 2008	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	\$ 1,978,750	(\$ 25,613)	\$ --	\$ --	\$1,978,750	(\$ 25,613)
Mortgage backed securities	1,257,390	(4,562)	150,905	(130)	1,408,295	(4,692)
Securities of states and political subdivisions	--	--	--	--	--	--
Total temporarily impaired securities	<u>\$ 3,236,140</u>	<u>(\$30,175)</u>	<u>\$ 150,905</u>	<u>(\$ 130)</u>	<u>\$3,387,045</u>	<u>(\$30,305)</u>

December 31, 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)
Obligations of U.S. government and federal agencies	\$999,800	(\$71)	\$1,245,000	(\$5,000)	\$2,244,800	(\$5,071)
Mortgage backed securities	2,435,339	(5,937)	1,307,855	(11,772)	3,743,194	(17,709)
Securities of states and political subdivisions	97,925	(567)	--	--	97,925	(567)
Total temporarily impaired securities	<u>\$3,533,064</u>	<u>(\$6,575)</u>	<u>\$2,552,855</u>	<u>(\$16,772)</u>	<u>\$6,085,919</u>	<u>(\$23,347)</u>

Note 3. Loans

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

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Mortgage:		
Construction and land development	\$ 13,919,304	\$ 13,481,473
Residential real estate	15,358,007	15,032,853
Nonresidential	9,668,943	9,227,496
Commercial	12,042,172	11,580,579
Agricultural and Other Farm Loans	511,386	545,586
Consumer and All Other Loans	4,166,287	4,407,673
	<u>55,666,099</u>	<u>54,275,660</u>
Unearned income	118,293	125,773
Allowance for loan losses	501,972	491,383
Loans, net	<u>\$ 55,045,834</u>	<u>\$ 53,658,504</u>

Overdrafts totaling \$41,816 and \$14,767 at March 31, 2008 and December 31, 2007, respectively, were reclassified from deposits to loans.

Non-performing assets totaled \$35,000 and \$62,610 at March 31, 2008 and December 31, 2007, respectively.

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

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>	<u>March 31,</u> <u>2007</u>
Balance at the beginning of the period (January 1)	\$ 491,383	\$ 329,462	\$ 329,462
Provision for loan losses	21,050	190,700	6,050
Loans charged off	(11,336)	(31,621)	(7)
Recoveries on loans previously charged off	875	2,842	1,056
Balance at the end of the period	<u>\$ 501,972</u>	<u>\$ 491,383</u>	<u>\$ 336,561</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.

	Three months ended March 31, 2008		Three months ended March 31, 2007	
	Shares	Amount	Shares	Amount
Basic earnings per share	610,175	\$ 0.11	607,675	\$ 0.12
Effect of dilutive securities:				
Stock Options	393		9,433	
Diluted earnings per share	<u>610,568</u>	\$ 0.11	<u>617,108</u>	\$ 0.12

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 March 31, 2008, 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 2008 and 2007. There were no options exercised in the three month periods ended March 31, 2008 and 2007, respectively.

The following summarizes the stock option activity for the three month period ended March 31, 2008:

	<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, 2008	32,354	\$ 21.30		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Options outstanding, March 31, 2008	<u>32,354</u>	<u>\$ 21.30</u>	6.45	
Options exercisable, March 31, 2008	<u>32,354</u>	<u>\$ 21.30</u>	6.45	\$ --

(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 March 31, 2008. 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 OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations of the Bank for the three months ended March 31, 2008 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, 2007 (the "2007 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 March 31, 2008 totaled \$66,228 compared to \$74,894 for the same period in 2007. Several factors contributed to the earnings decline, primarily the following increases in operating expenses. First, the Bank experienced an increase of \$43,439 in salaries and employee benefits expense. Second, the Bank expensed \$30,350 in audit fees in the current quarter, compared to \$15,750 during the same period in 2007, resulting from increased audit coverage required by the Sarbanes-Oxley Act. Third, the Bank experienced an increase of \$13,164 in its FDIC deposit insurance premium for the first quarter as a result of strong deposit growth and a change in the FDIC formula for calculating insurance premiums. These combined expense increases total \$71,203. Absent these increases, the Bank’s operations would have reflected net income of \$137,431, or a \$62,537 (83.5%) increase over the same period in 2007.

For the three months ended March 31, 2008 and March 31, 2007, gross revenues, which are defined as interest income plus other income, were \$1.8 million and \$1.5 million, respectively, while gross expenses, which are defined as interest expense plus other expenses and the provision for loan losses, were \$1.7 million and \$1.4 million, respectively. Total average assets increased 9.7% from \$89.5

million for the year ended December 31, 2007 to \$98.2 million for the three months ended March 31, 2008. Average shareholders' equity increased 2.7% from \$11.3 million for the year ended December 31, 2007 to \$11.6 million for the three months ended March 31, 2008. The March 31, 2008 figure reflects the \$66,228 net income plus a \$216,145 increase in other comprehensive income, 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 three months ended March 31, 2008 and March 31, 2007 was 0.27% and 0.36%, respectively. Annualized return on average equity for the three months ended March 31, 2008 and March 31, 2007 was 2.28% and 2.71%, respectively.

Total assets for the Bank increased to \$104.2 million at March 31, 2008, compared to \$95.5 million at December 31, 2007, representing an increase of \$8.7 million or 9.1%. Total net loans at March 31, 2008 were \$55.0 million, an increase of \$1.3 million, or 2.4%, from the December 31, 2007 amount of \$53.7 million. The provision for loan losses for the three months ended March 31, 2008 was \$21,050. The allowance for loan losses totaled \$501,972, or 0.90% of total loans outstanding, at March 31, 2008. The methodology for assessing the adequacy of the allowance is discussed further below.

The investment portfolio increased 0.7% to \$29.9 million at March 31, 2008 compared to \$29.7 million at December 31, 2007. The current investment strategy is to employ excess liquidity in securities whose yields will enhance overall interest earnings without creating undue interest rate risk. During the current quarter, the Bank experienced significant redemption within the investment portfolio due to "calls", (the option of the bond issuer to redeem the bond early, primarily when interest rates decline), in the face of the declining rate environment. The Bank aggressively increased its purchasing activity to compensate for the early redemptions from the calls. Investment decisions were targeted at securities with less call or early redemption risk. However, even this aggressive purchase mentality was effective only in maintaining the portfolio at previous levels. 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 \$4.4 million to \$87.3 million at March 31, 2008 from \$82.9 million at December 31, 2007. Time deposits totaled \$66.9 million at March 31, 2008, an increase of \$4.1 million from \$62.8 million at December 31, 2007. 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 is currently using short-term deposits 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 \$11.8 million at March 31, 2008. This amount represents an increase of 2.6% from the December 31, 2007 amount of \$11.5 million. The book value per common share was \$19.32 at March 31, 2008 and \$18.86 at December 31, 2007.

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 months ended March 31, 2008 totaled \$736,536, representing a decrease of \$4,780 (0.6% decrease) over the same period in 2007. Average earning assets increased \$14.1 million from \$75.8 million for the first three months of 2007 to \$89.9 million for the first three months of 2008. Average interest bearing liabilities increased \$13.4 million from \$65.7 million for the first three months of 2007 to \$79.1 million for the first three months of 2008. The net interest margin (net interest income expressed as a percentage of average earning assets) ("NIM") was 3.28% for the three months ended March 31, 2008 compared to 3.91% for the three months ended March 31, 2007.

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 level of variable rate loans has grown to approximately \$30 million as of March 31, 2008. 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. This condition was exacerbated by the FOMC's decision to begin reducing interest rates in September 2007. On September 18, 2007, the FOMC reduced its target rate for overnight funds 50 basis points (resulting in a corresponding reduction in the prime rate). The FOMC continued its practice of reducing short-term interest rates. Another 25 basis point rate cut was announced October 31, 2007, followed by another 25 basis point cut on December 11, 2007. Then, as a result of the deepening credit crunch in the U.S., triggered by the "sub-prime" mortgage crisis, the FOMC exercised its prerogative to act in an emergency manner by slashing its targeted Fed funds rate by 75 basis points on January 22, 2008. This was an unprecedented move for the FOMC. Then, less than two weeks later, at its regularly scheduled meeting on January 30, 2008, the FOMC reduced rates another 50 basis points. Subsequently, at its regularly scheduled meeting on March 18, 2008, the FOMC slashed rates another 75 basis points. During this cycle of reducing rates, CDs were still repricing upwards from rates that originated in late 2006. Despite the use of sophisticated asset liability modeling software, this volatile interest rate environment, coupled with the typical funding structure of most community banks (i.e. a reliance on predominantly fixed rate CDs) has created extraordinary challenges for Management to maintain stable net interest income. The balance of 2008 will evidence a persistence of this challenge; however, repricing of CDs in a downward fashion should produce some relief and possible improvement of the NIM.

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, title insurance, investment services income, mortgage division income and net gains on called securities. For the three months ended March 31, 2008, non-interest income of \$154,584, represented a \$97,052 (168.7%) over the same period in 2007, details of which are discussed below.

For the three months ended March 31, 2008, investment services income totaled \$12,784 compared to \$4,604 for the three months ended March 31, 2007, a 177.7% increase. The cause of the increase is the result of increasing volumes of sales activities within the investment services division. The Bank continues to expand relationships of existing deposit and loan customers attracting additional investment services customers.

The Bank's mortgage services division, Colonial Virginia Mortgage, LLC ("CVM"), contributed \$20,247 to non-interest income in the first three months of 2008, compared to \$5,723 in the first three months of 2007, a 253.8% increase from steadily increasing volumes of mortgage loan originations. This is expected to continue 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 month periods ended March 31, 2008 and March 31, 2007, totaled \$803,842 and \$717,904, respectively. This represents an increase of 12.0%. Three primary factors contributed to the increase. First, the Bank experienced an increase of \$43,439 in salaries and employee benefits expense. Second, the Bank expensed \$30,350 in audit fees in the current quarter, compared to \$15,750 during the same period in 2007, resulting from increased audit coverage required by

the Sarbanes-Oxley Act. Third, the Bank experienced an increase of \$13,164 in its FDIC deposit insurance premium for the first quarter as a result of strong deposit growth and a change in the FDIC formula for calculating insurance premiums.

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 the Bank matures, an efficiency ratio of 60% to 65% is targeted. At March 31, 2008, the Bank's efficiency ratio was 90.23% compared to 89.87% at March 31, 2007. 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 \$3.72 million per employee at March 31, 2008 compared to \$3.32 million at March 31, 2007.

Allowance for Loan Losses

The allowance for loan losses at March 31, 2008 was \$501,972, compared to \$491,383 at December 31, 2007. The allowance for loan losses was 0.90% of total loans outstanding at March 31, 2008, compared to 0.91% at December 31, 2007. The provision for loan losses was \$21,050 for the three months ended March 31, 2008. 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 ("ALLL"). Asset quality continues to be strong. As of March 31, 2008, the Bank had one repossessed property totaling \$35,000. Loans past due 90 days or more and still accruing interest at the end of the first quarter 2008 totaled \$109,151. Management believes that the ALLL is adequate to cover credit losses inherent in the loan portfolio at March 31, 2008. 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 March 31, 2008 totaled \$11.8 million compared to \$11.5 million at December 31, 2007. Total common shares outstanding at March 31, 2008 were 610,175.

At March 31, 2008, the Bank's tier 1 and total risk-based capital ratios were 16.90% and 17.64%, respectively, compared to 17.51% and 18.26% at December 31, 2007. The Bank's leverage ratio was 11.72% at March 31, 2008, compared to 12.13% at December 31, 2007. The Bank raised in excess of \$12.0 million in initial capital prior to opening, resulting in skewed capital ratios, compared to industry averages, until such time as the Bank's asset base grows to fully leverage initial capital. The Bank's capital structure places it above the regulatory guidelines, which affords the Bank the opportunity to take advantage of business opportunities while ensuring that it has the resources to protect against risk inherent in its business. This level of capital also provides sufficient resources during the business development stage.

Liquidity

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

At March 31, 2008, cash, interest-bearing deposits with financial institutions, federal funds sold and securities available for sale were 43.8% of total deposits and liabilities. Management, through a Board approved Liquidity and Funding Policy, routinely monitors the Bank's liquidity position using various schedules and reports. A "Short-term Funds Availability Ratio" computes short-term assets (cash and due from banks, overnight funds and other cash equivalents, market value of securities available for sale, and unused lines of credit) as a percentage of total assets. The policy requires that this ratio be equal to or greater than 15% of total assets. At March 31, 2008, this ratio was 45.6%. 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, time deposits under \$100,000 are monitored with a targeted level of 60% or greater as a percentage of total assets. At March 31, 2008, this percentage was 57.9%. The Bank also maintains additional sources of liquidity through "Federal funds purchase" guidance lines with correspondent banks, which totaled \$7.1 million at March 31, 2008. In October 2007, the Bank joined the Federal Home Loan Bank of Atlanta ("FHLB"). The FHLB offers many services, but the primary service to be utilized by the Bank will be the FHLB's loan programs. During the current quarter, the Bank took two loan positions, borrowing \$2.0 million with

each position, at fixed rates of 2.3625% for two years and 2.67% for three years, respectively. These rates compared quite favorably to the Bank's average cost of two and three year CDs of greater than 3.50%. The Bank will not abandon its primary purpose of being a community bank and corporate partner to the markets it serves. However, utilization of alternative funding that is more economically priced will, over the long-term, bode well for net interest earnings.

Off-Balance Sheet Arrangements

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

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

Since many of the loan commitments and letters of credit may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, owner-occupied real estate and income-producing commercial properties. During the three months ended March 31, 2008, 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, 2007.

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 December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations" (SFAS 141(R)). The Standard will significantly change the financial accounting and reporting of business combination transactions. SFAS 141(R) establishes the criteria for how an acquiring entity in a business combination recognizes the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. Acquisition related costs including finder's fees, advisory, legal, accounting valuation and other professional and consulting fees are required to be expensed as incurred. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 and early implementation is not permitted. The Bank does not expect the implementation to have a material impact on its financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No.160, "Noncontrolling Interests in Consolidated Financial Statements" (SFAS 160). SFAS 160 requires the

Bank (Company) to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Bank does not expect the implementation of SFAS 160 to have a material impact on its financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133” (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Bank does not expect the implementation of SFAS 161 to have a material impact 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**

	Three months Ended March 31, 2008			Three months Ended March 31, 2007		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets:						
Interest earning assets:						
Securities						
Taxable	\$27,300,374	\$ 373,425	5.47%	\$20,172,611	\$ 256,873	5.09%
Total securities	27,300,373	373,425	5.47%	20,172,611	256,873	5.09%
Federal funds sold	6,355,100	48,995	3.08%	8,338,253	107,223	5.14%
Deposits at other banks	872,051	3,142	1.44%	--	--	--
Loans, net	55,335,170	1,189,493	8.60%	47,255,593	1,077,513	9.12%
Total earning assets	89,862,695	1,615,055	7.19%	75,766,457	1,441,609	7.61%
Less: allowance for loan losses	(500,521)			(332,489)		
Total non-earning assets	8,813,258			8,472,295		
Total assets	98,175,432			83,906,263		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Checking	3,441,432	13,017	1.51%	3,401,867	12,481	1.47%
Savings and money market deposits	9,467,699	48,807	2.06%	12,230,237	64,358	2.10%
Other time	65,647,571	813,059	4.95%	50,030,373	623,454	4.98%
Total interest bearing deposits	78,556,702	874,883	4.45%	65,662,477	700,293	4.27%
Short term borrowings	527,472	3,636	2.76%	--	--	--
Total interest bearing liabilities	79,084,174	878,519	4.44%	65,662,477	700,293	4.27%
Noninterest bearing liabilities:						
Demand deposits	6,424,601			6,415,225		
Other non-interest bearing Liabilities	1,035,176			779,334		
Total liabilities	86,543,951			72,857,036		
Stockholders' equity	11,631,481			11,049,227		
Total liabilities and stockholders' equity	\$98,175,432			\$83,906,263		
Net Interest Income		\$ 736,536			\$ 741,315	
Interest rate spread ⁽¹⁾			2.75%			3.34%
Net Interest Margin ⁽²⁾			3.28%			3.91%

⁽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**

	Three months Ended March 31, 2008			Year Ended December 31, 2007		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets:						
Interest earning assets:						
Securities						
Taxable	\$27,300,374	\$ 373,425	5.47%	\$23,756,233	\$1,249,201	5.26%
Total securities	27,300,373	373,425	5.47%	23,756,233	1,249,201	5.26%
Federal funds sold	6,355,100	48,995	3.08%	7,698,161	396,230	5.15%
Deposits at other banks	872,051	3,142	1.44%	--	--	--
Loans, net	55,335,170	1,189,493	8.60%	49,690,083	4,574,446	9.21%
Total earning assets	89,862,695	1,615,055	7.19%	81,144,477	6,219,877	7.67%
Less: allowance for loan losses	(500,521)			(348,550)		
Total non-earning assets	8,813,258			8,732,791		
Total assets	98,175,432			89,528,718		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Checking	3,441,432	13,017	1.51%	3,605,565	53,296	1.48%
Savings and money market deposits	9,467,699	48,807	2.06%	11,580,932	245,608	2.12%
Other time	65,647,571	813,059	4.95%	55,066,253	2,832,625	5.14%
Total interest bearing deposits	78,556,702	874,883	4.45%	70,252,750	3,131,529	4.46%
Short term borrowings	527,472	3,636	2.76%	--	--	--
Total interest bearing liabilities	79,084,174	878,519	4.44%	70,252,750	3,131,529	4.46%
Noninterest bearing liabilities:						
Demand deposits	6,424,601			7,102,908		
Other non-interest bearing Liabilities	1,035,176			895,571		
Total liabilities	86,543,951			78,251,229		
Stockholders' equity	11,631,481			11,277,489		
Total liabilities and stockholders' equity	\$98,175,432			\$89,528,718		
Net Interest Income		\$ 736,536			\$3,088,348	
Interest rate spread ⁽¹⁾			2.75%			3.21%
Net Interest Margin ⁽²⁾			3.28%			3.81%

⁽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. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

Item 4. CONTROLS AND PROCEDURES

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

The Bank's management is also responsible for establishing and maintaining adequate internal control over financial reporting. There were no changes in the Bank's internal control over financial reporting identified in connection with the evaluation of it that occurred during the quarter that ended March 31, 2008 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Not applicable to smaller reporting companies.

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
(Registrant)

Date: May 14, 2008

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-Q for the period ended March 31, 2008 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 registrant as of, and for, the periods presented in this report;
4. The registrant'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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant'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
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: May 14, 2008

/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-Q for the period ended March 31, 2008 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 registrant as of, and for, the periods presented in this report;
4. The registrant'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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant'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
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: May 14, 2008

/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-Q for the period ended March 31, 2008 (the "Form 10-Q") 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-Q 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-Q 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-Q.

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

Date: May 14, 2008

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

Date: May 14, 2008