

**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 June 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 August 13, 2007

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

COLONIAL VIRGINIA BANK

INDEX

Part I. Financial Information	Page No.
Item 1. Financial Statements	
Balance Sheets	3
Statements of Income	4
Statements of Changes in Shareholders' Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7
Item 2. Management's Discussion and Analysis or Plan of Operation	13
Item 3. Controls and Procedures	25
Part II. Other Information	
Item 1. Legal Proceedings	26
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	26
Item 3. Defaults upon Senior Securities	26
Item 4. Submission of Matters to a Vote of Security Holders	26
Item 5. Other Information	26
Item 6. Exhibits	26
Signatures	27

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

COLONIAL VIRGINIA BANK Balance Sheets

	(Unaudited) June 30, 2007	December 31, 2006
	<u>2007</u>	<u>2006</u>
Assets:		
Cash and due from banks	\$ 1,807,000	\$ 2,012,673
Federal funds sold	7,223,215	5,095,375
Securities available for sale, at fair market value	19,340,854	17,479,174
Securities held to maturity (fair market value of \$4,523,030 in 2007 and \$3,777,160 in 2006)	4,542,616	3,764,643
Loans, net of allowance for loan losses of \$344,573 in 2007 and \$329,462 in 2006	49,082,398	46,125,422
Bank premises and equipment, net	4,150,727	4,258,753
Bank owned life insurance	2,065,190	1,549,590
Other assets	<u>990,595</u>	<u>901,896</u>
 Total assets	 <u>\$ 89,202,595</u>	 <u>\$ 81,187,526</u>
Liabilities and Shareholders' Equity:		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	\$ 8,081,335	\$ 6,536,531
Savings and interest bearing demand deposits	13,945,679	14,508,711
Time deposits	<u>55,132,938</u>	<u>48,365,686</u>
Total deposits	\$ 77,159,952	\$ 69,410,928
Accrued expenses and other liabilities	879,086	749,861
Commitments and contingencies	-	-
Total liabilities	<u>\$ 78,039,038</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)	(663,048)	(821,595)
Accumulated other comprehensive income (loss), net	<u>(354,513)</u>	<u>(280,286)</u>
Total shareholders' equity	<u>\$ 11,163,557</u>	<u>\$ 11,026,737</u>
 Total liabilities and shareholders' equity	 <u>\$ 89,202,595</u>	 <u>\$ 81,187,526</u>

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Income

	(Unaudited)		(Unaudited)	
	Three Months	Three Months	Six Months	Six Months
	Ended	Ended	Ended	Ended
	June 30,	June 30,	June 30,	June 30,
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Interest and Dividend Income				
Interest and fees on loans	\$1,130,602	\$937,752	\$2,208,115	\$1,813,640
Interest on securities				
Taxable	274,520	125,746	526,379	225,852
Dividends	5,044	4,756	10,058	9,512
Interest on federal funds sold and other	127,364	108,744	234,587	174,508
Total interest and dividend income	<u>\$1,537,530</u>	<u>\$1,176,998</u>	<u>\$2,979,139</u>	<u>\$2,223,512</u>
Interest Expense				
Interest on deposits	\$767,587	\$455,657	\$1,467,881	\$841,736
Total interest expense	<u>\$767,587</u>	<u>\$455,657</u>	<u>\$1,467,881</u>	<u>\$841,736</u>
Net interest income	\$769,943	\$721,341	\$1,511,258	\$1,381,776
Provision for Loan Losses	<u>8,550</u>	<u>16,050</u>	<u>14,600</u>	<u>17,100</u>
Net interest income after provision for loan losses	<u>\$761,393</u>	<u>\$705,291</u>	<u>\$1,496,658</u>	<u>\$1,364,676</u>
Other Income				
Service charges on deposit accounts	22,306	13,652	44,316	26,222
Other service charges, commissions and fees	43,298	33,566	78,821	64,204
Total other income	<u>\$65,604</u>	<u>\$47,218</u>	<u>\$123,137</u>	<u>\$90,426</u>
Other Expense				
Salaries and employee benefits	\$402,269	\$337,641	\$808,176	\$670,720
Occupancy expense	49,483	51,384	89,781	98,293
Furniture and equipment expense	15,699	13,613	31,158	27,092
Data processing	108,368	103,651	213,467	204,242
Advertising	34,055	19,520	78,094	38,538
Professional fees	27,264	17,968	46,833	36,367
Stationery and supplies	10,037	8,368	23,113	18,716
Postage and freight	9,581	8,082	19,275	15,819
Regulatory assessments	16,612	5,028	23,837	9,935
Insurance	9,521	9,355	19,112	18,576
Taxes	15,612	25,125	31,332	45,981
Other operating expenses	44,843	35,398	77,070	68,980
Total other expense	<u>\$743,344</u>	<u>\$635,133</u>	<u>\$1,461,248</u>	<u>\$1,253,259</u>
Net Income before income taxes	\$83,653	\$117,376	\$158,547	\$201,843
Income taxes	0	0	0	0
Net Income	<u>\$83,653</u>	<u>\$117,376</u>	<u>\$158,547</u>	<u>\$201,843</u>
Earnings per share, basic and diluted	\$0.14	\$0.19	\$0.26	\$0.33
Weighted Average Shares Outstanding, basic	607,977	606,027	607,827	605,603
Weighted Average Shares Outstanding, diluted	617,006	612,222	616,739	612,865

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2007
and June 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 (loss):						
Net income	--	--	201,843	--	\$ 201,843	201,843
Other comprehensive income (loss):						
Unrealized (loss) on securities available for sale	--	--	--	(142,836)	(142,836)	(142,836)
Total comprehensive income	--	--	--	--	<u>\$ 59,007</u>	
Exercise of stock options	12,500	40,000				52,500
Balance at June 30, 2006	<u>\$ 3,038,375</u>	<u>\$ 9,090,243</u>	<u>\$ (1,188,346)</u>	<u>\$ (260,571)</u>		<u>\$ 10,679,701</u>
Balance at December 31, 2006	\$ 3,038,375	\$ 9,090,243	\$ (821,595)	\$ (280,286)		\$ 11,026,737
Comprehensive Income (loss):						
Net income	--	--	158,547	--	\$ 158,547	158,547
Other comprehensive income (loss):						
Unrealized (loss) on securities available for sale	--	--	--	(89,203)	(89,203)	(89,203)
Amortization of SFAS No. 158 Adjustment	--	--	--	14,976	14,976	14,976
Total comprehensive income	--	--	--	--	<u>\$ 84,320</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>\$ (663,048)</u>	<u>\$ (354,513)</u>		<u>\$ 11,163,557</u>

See Accompanying Notes to Financial Statements.

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

CASH FLOWS FROM OPERATING ACTIVITIES	2007	2006
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 158,547	\$ 201,843
Net (accretion) on investment securities	(50,372)	(11,233)
Depreciation and amortization	129,174	156,954
Provision for loan losses	14,600	17,100
Changes in assets and liabilities:		
(Increase) in accrued interest and other assets	(88,699)	(178,121)
Increase in accrued expenses and other liabilities	144,201	81,558
Net cash provided by operating activities	\$ 307,450	\$ 268,101
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available for sale	\$ (7,385,325)	\$ (4,324,122)
Principal paydowns of securities available for sale	861,885	528,662
Maturities of securities available for sale	3,708,302	1,759,207
Calls of securities available for sale	910,570	-
Purchase of securities held to maturity	(1,009,100)	(2,098,772)
Principal paydowns of securities held to maturity	45,935	-
Maturities of securities held to maturity	200,000	-
(Purchase) of Federal Reserve Stock	(10,750)	(850)
(Purchase) of bank owned life insurance	(500,000)	(500,000)
Increase in bank owned life insurance	(15,600)	(14,400)
Net (increase) in loans	(2,971,576)	(3,476,503)
Purchases of premises and equipment	(21,148)	(57,820)
Net cash (used in) investing activities	\$ (6,186,807)	\$ (8,184,598)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand, savings, interest-bearing checking and money market deposits	\$ 981,772	\$ 1,191,413
Net increase in time deposits	6,767,252	10,319,072
Proceeds from sale of stock	52,500	52,500
Net cash provided by financing activities	\$ 7,801,524	\$ 11,562,985
 Net increase in cash and cash equivalents	\$ 1,922,167	\$ 3,646,489
 CASH AND CASH EQUIVALENTS		
Beginning	\$ 7,108,048	\$ 7,687,037
Ending	\$ 9,030,215	\$ 11,333,526
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	1,442,381	781,508
 SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Unrealized (loss) on securities available for sale	(89,203)	(142,836)
Amortization of adjustment to initially apply SFAS No. 158	14,976	-

See Accompanying Notes to Financial Statements.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 10,596,503	\$ 12,777	\$ (60,029)	\$ 10,549,251
Mortgage backed securities	8,464,382	5,974	(113,396)	8,356,960
Securities of states and political subdivisions	98,362	-	(3,869)	94,493
Restricted stock	340,150	-	-	340,150
Total	<u>\$ 19,499,397</u>	<u>\$ 18,751</u>	<u>\$ (177,294)</u>	<u>\$ 19,340,854</u>

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 3,930,546	\$ 4,131	\$ (10,796)	\$ 3,923,881
Securities of states and political subdivisions	612,070	-	(12,921)	599,149
Total	<u>\$ 4,542,616</u>	<u>\$ 4,131</u>	<u>\$ (23,717)</u>	<u>\$ 4,523,030</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 June 30, 2007 and December 31, 2006, approximately \$100,000 of securities were pledged to secure deposits of the Commonwealth of Virginia.

For the six months ended June 30, 2007, proceeds from calls of securities available for sale totaled \$910,570. There were no proceeds from sales of securities available for sale for the six months ended June 30, 2007. There were no proceeds from sales and calls of securities available for sale for the six months ended June 30, 2006.

At June 30, 2007, 51 investment securities had an unrealized loss. The investment securities are obligations of entities that are excellent credit risks. The temporary impairment noted is the result of market conditions and does not reflect on the ability of the issuers to repay the obligations. There were 25 investment securities held at June 30, 2007 that had been in an unrealized loss position for greater than 12 months. These 25 securities had a total unrealized loss of \$116,350 and a market value of \$5,874,206 at June 30, 2007. The remaining 26 securities had a total unrealized loss of \$84,661 and a market value of \$11,279,037 at June 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.

June 30, 2007	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
Securities of U.S. government and federal agencies	\$6,394,987	(\$19,410)	\$3,477,018	(\$51,415)	\$9,872,005	(\$ 70,825)
Mortgage backed securities	4,884,050	(65,251)	2,302,695	(61,066)	7,186,745	(126,317)
Securities of states and political subdivisions	--	--	94,493	(3,869)	94,493	(3,869)
Total temporarily impaired securities	<u>\$11,279,037</u>	<u>(\$84,661)</u>	<u>\$5,874,206</u>	<u>(\$116,350)</u>	<u>\$17,153,243</u>	<u>(\$201,011)</u>

December 31, 2006	Less Than 12 Months		12 Months or More		Total	
	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>June 30,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Mortgage:		
Construction and land development	\$ 11,892,969	\$ 9,299,922
Residential real estate	14,935,018	13,329,893
Nonresidential	7,819,292	8,751,165
Commercial	9,938,403	9,997,371
Agricultural and Other Farm Loans	521,586	546,714
Consumer and All Other Loans	4,446,529	4,661,667
	<u>49,553,797</u>	<u>46,586,732</u>
Unearned income	126,826	131,848
Allowance for loan losses	344,573	329,462
Loans, net	<u>\$ 49,082,398</u>	<u>\$ 46,125,422</u>

Overdrafts totaling \$9,312 and \$14,618 at June 30, 2007 and December 31, 2006, respectively, were reclassified from deposits to loans.

Non-performing assets totaled \$73,911 at June 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>June 30,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>	<u>June 30,</u> <u>2006</u>
Balance at the beginning of the period (January 1)	\$ 329,462	\$ 316,372	\$ 316,372
Provision for loan losses	14,600	29,200	17,100
Loans charged off	(558)	(16,611)	(7,702)
Recoveries on loans previously charged off	1,069	501	277
Balance at the end of the period	<u>\$ 344,573</u>	<u>\$ 329,462</u>	<u>\$ 326,047</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.

	Six months ended June 30, 2007		Three months ended June 30, 2007	
	Shares	Amount	Shares	Amount
Basic earnings per share	607,827	\$ 0.26	607,977	\$ 0.14
Effect of dilutive securities:				
Stock Options	8,912		9,029	
Diluted earnings per share	<u>616,739</u>	\$ 0.26	<u>617,006</u>	\$ 0.14

	Six months ended June 30, 2006		Three months ended June 30, 2006	
	Shares	Amount	Shares	Amount
Basic earnings per share	605,603	\$ 0.33	606,027	\$ 0.19
Effect of dilutive securities:				
Stock Options	7,262		6,195	
Diluted earnings per share	<u>612,865</u>	\$ 0.33	<u>612,222</u>	\$ 0.19

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 June 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 six month periods ended June 30, 2007 and 2006, respectively. The intrinsic value of stock options exercised was \$18,750 and \$13,750, respectively, for the six month periods ended June 30, 2007 and 2006.

The following summarizes the stock option activity for the six month period ended June 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, June 30, 2007	<u>34,854</u>	<u>21.28</u>	7	
Options exercisable, June 30, 2007	<u>34,854</u>	<u>21.28</u>	7	\$ 251,655

(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 June 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 six months ended June 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 June 30, 2007 was \$83,653 compared to \$117,376 for the same period in 2006. Net income for the six months ended June 30, 2007 totaled \$158,547 compared to \$201,843 for the six months ended June 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 only the accounting periods in which they are recorded. Therefore, more of the total expense will now be recorded in the earlier years than under previous accounting rules. Conversely, expense in the later years of the plan will be less than under previous accounting rules. As a result of the change, pension expense for the three and six months ended June 30, 2007 was \$40,419 and \$83,262 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 \$14,535 over \$19,520 in the same quarter in 2006. This effort has contributed to positive balance sheet growth (discussed below), albeit in the deposits area initially, with projected growth in loans in the future. Secondly, the Bank experienced an increase of \$9,878 (\$11,562 for the three months ended June 30, 2007 compared to \$1,684 for the three months ended June 30, 2006) in its FDIC deposit insurance premium for the current quarter as a result of strong deposit growth. Third, the Bank expensed \$7,500 in the current quarter to bolster the Allowance for Loan Losses, compared to \$0 for the same period in 2006. This was the result of growth in loan volume and not an identification of any losses imbedded in the loan portfolio. Lastly, the Bank expensed \$21,750 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 Rule 404, with which the Bank must comply in 2007 for the first time. Further discussion on this issue is included in Item 3 below. The combined effect of these additional expense increases total \$78,134.

For the six months ended June 30, 2007 and June 30, 2006, gross revenues, which are defined as interest income plus other income, were \$3.1 million and \$2.3 million, respectively, while gross expenses, which are defined as interest expense plus other expenses and the provision for loan losses, were \$2.9 million and \$2.1 million, respectively. Total average assets increased 18.80% from \$72.3 million for the year ended December 31, 2006 to \$85.9 million for the six months ended June 30, 2007. Average shareholders' equity increased 2.78% from \$10.8 million for the year ended December 31, 2006 to \$11.1 million for the six months ended June 30, 2007. The June 30, 2007 figure reflects the \$158,547 net income less an \$89,203 increase in other comprehensive income, including the unrealized loss on securities available for sale and the SFAS No. 158 Supplemental Executive Retirement Plan ("SERP") adjustment. This is discussed further below. Annualized return on average assets for the six months ended June 30, 2007 and June 30, 2006 was 0.37% and 0.61%, respectively. Annualized return on average equity for the six months ended June 30, 2007 and June 30, 2006 was 2.86% and 3.80%, respectively.

Total assets for the Bank increased to \$89.2 million at June 30, 2007, compared to \$81.2 million at December 31, 2006, representing an increase of \$8.0 million or 9.85%. Total net loans at June 30, 2007 were \$49.1 million, an increase of \$3.0 million, or 6.51%, from the December 31, 2006 amount of \$46.1 million. The provision for loan losses for the six months ended June 30, 2007 was \$14,600. The allowance for loan losses totaled \$344,573, or 0.70% of total loans outstanding, at June 30, 2007. The methodology for assessing the adequacy of the allowance is discussed further below.

The investment portfolio increased 12.74% to \$23.9 million at June 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 \$7.8 million to \$77.2 million at June 30, 2007 from \$69.4 million at December 31, 2006. Time deposits totaled \$55.1 million at June 30, 2007, an increase of \$6.7 million

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

Shareholders' equity was \$11.2 million at June 30, 2007. This amount represents an increase of 1.82% from the December 31, 2006 amount of \$11.0 million. The book value per common share was \$18.37 at June 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 six months ended June 30, 2007 totaled \$769,943 and \$1,511,258, respectively, representing an increase of \$48,602 (6.74%) and \$129,482 (9.37%), respectively, over the same periods in 2006. Average earning assets increased \$18.5 million from \$59.2 million for the first six months of 2006 to \$77.7 million for the first six months of 2007. Average interest bearing liabilities increased \$18.2 million from \$49.2 million for the first six months of 2006 to \$67.4 million for the first six months of 2007. The net interest margin (net interest income expressed as a percentage of average earning assets) was 3.89% for the six months ended June 30, 2007 compared to 4.67% for the six months ended June 30, 2006.

The cause of the most recent compression of the NIM is related to 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 twelve 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 twelve 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. Over the next two quarters, three year adjustable rate mortgages ("ARMs"), totaling \$5.7 million will be repricing upward more than 100 basis points. Over this same six month horizon, the CDs that will be repricing total \$26.8 million at an average rate of 5.27%. It is expected that the repricing rates of these CDs should be relatively flat compared to their existing rates. As a result, management expects a reversal of the downward trend of the past twelve months.

Although average earning assets increased slightly more than average interest bearing liabilities, the mix of average earning assets has shifted from a higher percentage of higher yielding loans to a higher percentage of lower yielding securities and overnight Fed funds sold. As a percentage of average earning assets, securities and overnight Fed funds sold represented 38.2% of average earning assets at June 30, 2007, compared to 30.0% at June 30, 2006. Average loans as a percentage of average earning assets declined from 69.9% at June 30, 2006 to 61.8% at June 30, 2007. The average yield on securities of 5.18% and Fed funds sold of 5.20% for the six months ended June 30, 2007 compares to the average yield

on net total loans of 9.21%. The increasing level of lower yielding earning assets has moderately hampered the NIM.

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. The Bank markets 10 and 13 month CDs to manage the interest rate risk associated with being asset sensitive, should the FOMC actually decrease short-term rates within the next twelve months. The Bank also continues its practice of including interest rate floors in new variable rate loan instruments. This measure is designed to guard against exposure to reduced interest income associated with possible falling rates in the future. Bond purchases also are being made with maturities to protect investment yields beyond the next twelve months. The Bank believes that these steps should provide for reduction of further NIM compression.

Non-interest Income

The primary components of non-interest income include service charges on deposit accounts, ATM transaction fees, commissions on credit life insurance, checkbook sales and title insurance. For the three months and six months ended June 30, 2007, non-interest income of \$65,604 and \$123,137, respectively, represented an \$18,386 (38.94%) and \$32,711 (36.17%) 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 \$22,306 and \$44,316, respectively, for the first three and six months of 2007, compared to \$13,652 and \$26,222, respectively, for the same periods in 2006, an increase of 63.39% and 69.00%, 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 June 30, 2007, the division had 152 accounts representing 88 households, with \$6.8 million in assets under management. For the three and six months ended June 30, 2007, investment income totaled \$3,312 and \$7,916, 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 \$8,681 to non-interest income in the first six 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. 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 six months ended June 30, 2007 totaled \$743,344 and \$1,461,248, respectively. This represents an increase of 17.04% and 16.60%, respectively, over non-interest expense of \$635,133 and \$1,253,259, respectively, for the same periods of 2006. Two primary factors contributed to the increase. First, salary and employee benefits increased \$64,628 (19.14%) and \$137,456 (20.50%), respectively, when comparing the three months and six months ended June 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. 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 \$40,419 and \$83,262, respectively, for the three and six months ended June 30, 2007, as discussed elsewhere in this report, represented 62.54% and 60.57% of the increase, respectively. Second, advertising costs increased \$14,535 (74.46%) and \$39,556 (102.64%), respectively, when comparing the three and six months ended June 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 June 30, 2007, the Bank's efficiency ratio was 89.41% compared to 85.13% at June 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 \$3.43 million per employee at June 30, 2007 compared to \$2.80 million at June 30, 2006.

Allowance for Loan Losses

The allowance for loan losses at June 30, 2007 was \$344,573, compared to \$329,462 at December 31, 2006. The allowance for loan losses was 0.70% of total loans outstanding at June 30, 2007, compared to 0.71% at December 31, 2006. The provision for loan losses was \$14,600 for the six months ended June 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 potential loan losses that, in Management's judgment, is adequate to absorb probable losses inherent in the Bank's loan

portfolio. Accordingly, the provision expense will vary from period to period based on Management's ongoing assessment of the adequacy of the Allowance for Loan and Lease Losses ("ALLL"). Asset quality continues to be strong. As of June 30, 2007, the Bank had only one nonaccrual loan totaling \$67,600. Loans past due 90 days or more and still accruing interest at the end of the second quarter 2007 totaled \$6,311. Management believes that the ALLL is adequate to cover credit losses inherent in the loan portfolio at June 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." The methodology incorporates factors associated with general economic conditions within the Bank's market, such as employment statistics, housing starts, and building permits. Another element incorporates a potential loss factor for unsecured credit. Although the Bank only extends unsecured credit to its highest rated customers, any unforeseen reversals experienced by a borrower with unsecured credit could result in a higher risk of potential loss. The methodology also reflects the provision for loan loss expense to accommodate only the risks associated with this evaluation exercise. Using the current methodology, the ALLL has a small surplus balance above the identified embedded risk. Management considers it prudent to maintain a moderate surplus until such time as the loan portfolio is more seasoned and the risk rating methodology has been validated by bank regulators and external loan review activities.

Capital Resources

Shareholders' equity at June 30, 2007 totaled \$11.2 million compared to \$11.0 million at December 31, 2006. Total common shares outstanding at June 30, 2007 were 610,175.

At June 30, 2007, the Bank's tier 1 and total risk-based capital ratios were 18.89% and 19.45%, respectively, compared to 20.18% and 20.77% at December 31, 2006. The Bank's leverage ratio was 13.08% at June 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 June 30, 2007, cash, interest-bearing deposits with financial institutions, federal funds sold and securities available for sale were 34.5% 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 June 30, 2007, this ratio was 39.8%. 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 June 30, 2007, this percentage was 63.9%. The Bank also maintains additional sources of liquidity through "Federal funds purchase" guidance lines with correspondent banks, which totaled \$7.1 million at June 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.

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 six months ended June 30, 2007, there have been no material changes outside the ordinary course of the Bank's business in the contractual obligations specified in "Note 9. Financial Instruments with Off-Balance Sheet Risk" in the 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
- changes in general economic and business conditions in the Bank's market area;
- the ability to successfully manage the Bank's growth or implement its growth strategies if it is unable to identify attractive markets, locations or opportunities to expand in the future;
- changing trends in customer profiles and behavior;
- problems with technology utilized by the Bank;
- changes in banking and other laws and regulations applicable to the Bank;
- demand, development and acceptance of new products and services; and
- maintaining capital levels adequate to support the Bank's growth.

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

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

	Six Months Ended June 30, 2007			Six Months Ended June 30, 2006		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets:						
Interest earning assets:						
Securities						
Taxable	20,716,108	536,437	5.18%	10,265,979	235,364	4.59%
Total securities	20,716,108	536,437	5.18%	10,265,979	235,364	4.59%
Federal funds sold	9,016,611	234,587	5.20%	7,500,892	174,508	4.65%
Loans, net	47,975,291	2,208,115	9.21%	41,396,506	1,813,640	8.76%
Total earning assets	77,708,010	2,979,139	7.67%	59,163,377	2,223,512	7.52%
Less: allowance for loan losses	(337,106)			(318,630)		
Total non-earning assets	8,538,859			7,788,776		
Total assets	85,909,763			66,633,523		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Checking	3,560,177	26,033	1.46%	3,307,284	17,849	1.08%
Savings and money market deposits	11,833,096	123,940	2.09%	10,151,759	91,341	1.80%
Other time	51,977,651	1,317,908	5.07%	35,760,592	732,546	4.10%
Total interest bearing deposits	67,370,924	1,467,881	4.36%	49,219,635	841,736	3.42%
Total interest bearing liabilities	67,370,924	1,467,881	4.36%	49,219,635	841,736	3.42%
Noninterest bearing liabilities:						
Demand deposits	6,611,865			6,465,713		
Other non-interest bearing Liabilities	821,741			323,709		
Total liabilities	74,804,530			56,009,057		
Stockholders' equity	11,105,233			10,624,466		
Total liabilities and stockholders' equity	85,909,763			66,633,523		
Net Interest Income		1,511,258			1,381,776	
Interest rate spread ⁽¹⁾			3.31%			4.10%
Net Interest Margin ⁽²⁾			3.89%			4.67%

⁽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**

	Six Months Ended June 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	20,716,108	536,437	5.18%	14,276,464	703,413	4.93%
Total securities	20,716,108	536,437	5.18%	14,276,464	703,413	4.93%
Federal funds sold	9,016,611	234,587	5.20%	7,972,441	395,273	4.96%
Loans, net	47,975,291	2,208,115	9.21%	42,450,983	3,833,360	9.03%
Total earning assets	77,708,010	2,979,139	7.67%	64,699,888	4,932,046	7.62%
Less: allowance for loan losses	(337,106)			(317,873)		
Total non-earning assets	8,538,859			7,956,252		
Total assets	85,909,763			72,338,267		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Checking	3,560,177	26,033	1.46%	3,243,021	41,840	1.29%
Savings and money market deposits	11,833,096	123,940	2.09%	10,206,041	199,989	1.96%
Other time	51,977,651	1,317,908	5.07%	40,962,245	1,827,816	4.46%
Total interest bearing deposits	67,370,924	1,467,881	4.36%	54,411,307	2,069,645	3.80%
Total interest bearing liabilities	67,370,924	1,467,881	4.36%	54,411,307	2,069,645	3.80%
Noninterest bearing liabilities:						
Demand deposits	6,611,865			6,784,833		
Other non-interest bearing Liabilities	821,741			364,196		
Total liabilities	74,804,530			61,560,336		
Stockholders' equity	11,105,233			10,777,931		
Total liabilities and stockholders' equity	85,909,763			72,338,267		
Net Interest Income		1,511,258			2,862,401	
Interest rate spread ⁽¹⁾			3.31%			3.82%
Net Interest Margin ⁽²⁾			3.89%			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 June 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 accounting/audit 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 such that the Bank's external accounting/audit firm can provide audited financials for the year ended 2007 based on reliance of the existing control environment and resultant financial disclosures.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

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

On June 20, 2007, the Bank issued 2,500 shares of its common stock following the exercise of stock options by one of its directors. The exercise price of the stock options was \$21.00. The Bank relied upon Section 3(a)(2) of the Securities Act of 1933 for the exemption from registration for this issuance.

Item 3. Defaults upon Senior Securities

None

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

The Annual Meeting of Shareholders of Colonial Virginia Bank was held on May 9, 2007.

The following twelve directors were elected to serve a one year term each expiring at the 2008 annual meeting of shareholders, as follows:

	<u>Votes For</u>	<u>Withheld Authority</u>
(1) Hal D. Bourque	412,762	250
(2) Charles F. Dawson	409,062	3,950
(3) William J. Farinholt	412,762	250
(4) Joseph F. Fary	412,062	950
(5) William D. Fary	412,062	950
(6) Robert D. Foster	412,162	850
(7) Walter B. Hurley, Jr.	412,762	250
(8) Joseph A. Lombard, Jr.	412,362	650
(9) James L. Miller, Jr.	409,062	3,950
(10) Kenneth E. Smith	412,762	250
(11) Elsa C. Verbyla	409,062	3,950
(12) David G. Walker	412,762	250

The shareholders voted to ratify the appointment of Yount, Hyde & Barbour, P.C. as independent public accountants to audit the books and accounts of the Bank for fiscal year 2007, as follows.

(1) For:	410,662
(2) Against:	0
(3) Abstain:	2,350
(4) Broker Non-Votes:	0

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: August 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 June 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: August 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 June 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: August 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 June 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: August 13, 2007

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

Date: August 13, 2007