THE BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

FORM 10-K

**[X] ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2009

or

[ ] TRANSITION REPORT UNDER SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to _____________

COLONIAL VIRGINIA BANK

(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	**75-3093106** (I.R.S. Employer Identification No.)
6720 Sutton Road **Gloucester, Virginia** (Address of principal executive offices)	**23061** (Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
None	n/a

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value $5.00 per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [   ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [   ]

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 X   No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)   Yes X   No __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [   ]

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 X

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. $25,687,374

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

610,175 shares of common stock, par value $5.00 per share,
outstanding as of March 30, 2010

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2010 Annual Meeting of Shareholders – Part III

COLONIAL VIRGINIA BANK

INDEX

PART I

PART II

PART III

PART IV

PART I

Item 1. Business

General

Colonial Virginia Bank (the "Bank") was organized under the laws of the Commonwealth of Virginia to engage in commercial and retail banking business. The Bank places special emphasis on serving the financial needs of small and medium sized businesses, professional concerns and individuals in the greater Middle Peninsula and Peninsula regions of Virginia and the county of New Kent, Virginia., which includes the counties of Gloucester, Mathews and Middlesex, and the Peninsula, which includes the cities of Hampton, Newport News, Williamsburg and Poquoson and the counties of James City and York, regions of Virginia and the county of New Kent.

The Bank was incorporated on December 17, 2002 and commenced operations on November 6, 2003 (inception), upon receipt of final approval from the Virginia State Corporation Commission's Bureau of Financial Institutions and the Federal Reserve Bank of Richmond. The Bank received approval for the issuance of deposit insurance from the Federal Deposit Insurance Corporation ("FDIC") on November 6, 2003.

The Bank is headquartered in Gloucester, Virginia. The Bank is a community bank principally serving the Virginia counties of Gloucester and New Kent. The Bank also provides banking services in the overall markets known as the Middle Peninsula of Virginia, which includes the counties of Gloucester, Mathews and Middlesex, and the Peninsula of Virginia, which includes the cities of Hampton, Newport News, Williamsburg and Poquoson and the counties of James City and York. The Bank's headquarters and Main Office are located at 6720 Sutton Road in Gloucester and the York River branch office is located at 1553 George Washington Memorial Highway (U.S. Route 17) in Gloucester Point. The New Kent branch, which opened June 25, 2009, is located at 7791 Invicta Lane, in a planned unit development called Maidstone Village, in New Kent. The office is approximately 45 miles from the Main Office. The Bank offers a full range of banking and related financial services, including checking, savings, certificates of deposit and other depository services, and commercial, real estate and consumer loans. The Bank is a community-oriented institution with substantial local ownership, focusing on providing a high level of responsive and personalized services to its customers, delivered in the context of a strong direct relationship between the customer and the Bank.

The Bank is subject to intense competition from existing bank holding companies, commercial banks and savings banks, which have been in business for many years and have established customer bases. Competition is increasingly coming from credit unions, whose field of membership and market expansion have benefited from loose regulatory restrictions. Credit unions were originally chartered to meet the financial needs of "people of modest means" and, as such, were granted a tax preference by Congress. This tax preference, coupled with an abandoning of existing exclusively for those of modest means, has changed dramatically the landscape of the financial services industry. Competition also comes from a variety of other non-bank businesses that offer financial services. Many of these competitors operate in the same geographic market where the Bank operates, are well-known with long-standing relationships with businesses and individuals in the communities, and are substantially larger with greater resources than the Bank.

The Bank is also subject to regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. The Bank's principal regulators are the Federal Reserve Bank of Richmond ("FRB") and the Virginia State Corporation Commission's Bureau of

Financial Institutions ("BFI"). As a consequence of the extensive regulation of commercial banking activities, the Bank's business is susceptible to state and federal legislation and regulations.

The Bank offers a full range of investment services, through a division of the Bank, Colonial Virginia Investment Services. These services have been offered through an affiliation with Community Bankers Securities ("CBS") since inception in 2005. In December 2009, the Bank terminated its affiliation with CBS. Current activities are conducted through a new affiliation with LPL Securities. Management considers this affiliation to offer broader customer desired services as well as greater income potential for the Bank. Further discussion of these activities is included below in Item 7, Management's Discussion and Analysis.

The Bank offers mortgage services under the name of Colonial Virginia Mortgage Company, LLC ("CVM"). CVM is owned 50% each by the Bank and Johnson Mortgage Company, LLC of Newport News, Virginia and is discussed further below in Item 7, Management's Discussion and Analysis. CVM makes and sells whole loans and is believed to be a good complement to the Bank's overall lending program. CVM was capitalized with $250,000, with each owner contributing $125,000.

The Bank also participates in a joint venture arrangement through the Virginia Bankers Association providing mortgage title insurance services to customers.

The Bank has no subsidiaries.

The Bank invests in certain U.S. Government and agency obligations and other investments permitted by applicable laws and regulations. The operating results of the Bank are highly dependent on net interest income, the difference between interest income earned on loans and investments and the cost of interest-bearing deposits and borrowed funds.

Through December 31, 2009, all deposit accounts of the Bank, except non-interest bearing transaction accounts, are insured up to $250,000 by the Deposit Insurance Fund ("DIF"), which is administered by the FDIC. Through December 31, 2009, non-interest bearing transaction accounts have unlimited deposit insurance coverage through the DIF. The Bank is a member of the FRB. The Bank is subject to the supervision, regulation and examination of the FRB and the DIF. The Bank is also subject to the regulations of the Board of Governors of the Federal Reserve System governing reserves required to be maintained against deposits.

Business Strategy

The Bank's officers, employees and members of the Board of Directors live and work in the local communities served by the Bank, including the Middle Peninsula and Peninsula regions and the New Kent county region of Virginia.

The Bank's Management and the Board believe that the existing and future banking market in the Middle Peninsula, Peninsula and New Kent communities represents an opportunity for locally owned and locally managed community banks. In view of the continuing trend in the financial services industry toward consolidation into larger, sometimes impersonal, statewide, regional and national institutions, the market exists for the personal and customized financial services that an independent, locally owned bank can offer. With the flexibility of its smaller size and through an emphasis on relationship banking, including personal attention and service, the Bank can be more responsive to the individual needs of its customers than its larger competitors. As a community-oriented and locally owned institution, the Bank can invest the majority of its loan resources in the community and will tailor its services to meet the banking and financial needs of its customers who live and do business in the Middle Peninsula, Peninsula and New Kent communities.

The Bank is engaged in a general commercial and retail banking business, serving the Middle Peninsula, Peninsula and New Kent areas. The Bank is currently focused on the Gloucester and New Kent County markets. The Bank offers a full range of banking and related financial services to individuals, small to medium sized businesses, entrepreneurs, and the professional community. The Bank is striving to develop personal banking relationships with its customers. The Bank's officers, employees and directors believe that the marketing of customized relationship banking services enables the Bank to establish a niche in the financial services marketplace in the Middle Peninsula and New Kent markets.

The Bank provides its customers with high quality, responsive and technologically advanced banking services. These services include loans that are priced on a deposit-based relationship and easy access to the Bank's decision makers. The Bank's current capitalization enables it to operate with a lending limit that should satisfy the credit needs of a large portion of its targeted market segment, which includes small businesses and individuals.

Location and Market Area

The Bank's Main Office is located at 6720 Sutton Road in Gloucester. Gloucester County is primarily a residential area with a work force commuting to other cities and counties. Several large retail establishments have operations located in Gloucester County, including a Wal-Mart Super Center, the Home Depot and Lowe's. General traffic volume and centrality of a banking location relative to recent growth trends of the market area indicate that this location will be convenient to the Bank's targeted customer base now and for the future. The Bank located its first branch ("York River") office at 1553 George Washington Memorial Highway (U.S. Route 17) in Gloucester Point, in the southern part of Gloucester County. This location is convenient to the commuting traffic patterns from the Middle Peninsula area to the Peninsula area.

On June 25, 2009, the Bank opened its second branch office ("New Kent") at 7791 Invicta Lane, in the Maidstone Village planned unit development, in New Kent County, Virginia. The office is approximately 35 miles from the Main Office.

The Gloucester market area supports a diverse, well-rounded economy. Gloucester and surrounding counties are served by a modern regional hospital facility, excellent school systems, and a comprehensive communications network. The Board of Directors believes that there are an ample number of newspaper, radio and television outlets that offer diverse and broad opportunities for effective advertising and public relations for the Bank. The area has seen an active housing market with a wide variety of housing types including single-family detached homes, duplexes, townhouses, and garden apartments. Gloucester County is comprised of 225 square miles of land area and 32 square miles of water area. As of 2008, the county's estimated population is in excess of 38,000, an increase of 11.1% over the 2000 census.

New Kent County is located in the Richmond-Petersburg region and is a part of the Richmond Metropolitan Statistical Area and, in 2006, was noted as one of the top 100 fastest growing counties in the nation by the Census Bureau. New Kent is served by an excellent school system and a comprehensive communications network. The Board of Directors believes that there are an ample number of newspaper, radio and television outlets that offer diverse and broad opportunities for effective advertising and public relations for the Bank. Although the economic recession has had generally a negative impact on housing starts in the New Kent trade area, the market has seen diverse housing activity. The Maidstone Village project is expected to be a future hub of housing activity. New Kent County is comprised of 210 square miles of land area and 14 square miles of water area. As of 2008, the county's estimated population is near 18,000, a 32.4% increase over the 2000 census.

Banking Services

The Bank receives deposits, makes consumer and commercial loans, issues drafts, and provides other services customarily offered by a commercial banking institution, such as business and personal checking and savings accounts, drive-in windows, and 24-hour automated teller machines. The Bank does not offer trust services and it is not anticipated that these services will be offered in the near future. The Bank is chartered as a state chartered commercial bank and is a member of the Federal Reserve System. Deposits are insured under the Federal Deposit Insurance Act to the limits provided there under. The Bank is independent of any affiliation with a bank holding company.

The Bank offers a full range of short-to-medium term commercial and personal loans. Commercial loans include both secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements) and purchase of equipment and machinery. Consumer loans include secured and unsecured loans for financing automobiles, home improvements, education and personal investments. The Bank originates and holds variable rate mortgage loans and real estate construction and acquisition loans. The Bank, through its subsidiary, CVM, originates and sells into the secondary market, fixed and variable rate mortgage loans.

The Bank's lending activities are subject to a variety of lending limits imposed by state law. While differing limits apply in certain circumstances based on the type of loan or the nature of the borrower (including the borrower's relationship to the Bank), in general, the Bank is subject to a loans-to-one borrower limit of an amount equal to 15% of the Bank's capital and surplus in the case of loans which are not fully secured by readily marketable or other permissible types of collateral. The Bank may voluntarily choose to impose a policy limit on loans to a single borrower that is less than the legal lending limit.

Other services offered by the Bank include issuance of cashier's checks, certain cash management and safe deposit box services, travelers' checks, direct deposit of payroll and social security checks and automatic drafts for various accounts. The Bank is associated with a shared network of automated teller machines that may be used by Bank customers throughout Virginia and other regions. The Bank also offers MasterCard and VISA credit card services through an agent program with another financial institution.

The Bank does not currently exercise trust powers. The Bank may establish a trust department in the future but cannot do so without prior regulatory approval. In the interim, the Bank may contract for the provision of trust services to its customers through an outside vendor.

Employees

As of December 31, 2009, the Bank had 36 full-time equivalent employees and 38 total employees. None of the Bank's employees were covered by a collective bargaining agreement. The Bank considers its relationship with its employees to be good. Several employees have been associated with senior management in previous employment positions. The Bank's management believes that these long-term working relationships will continue to contribute to its growth and success.

Effect of Adverse Economic Conditions

The Bank's business may be adversely affected by periods of economic slowdown or recession which may be accompanied by decreased demand for consumer credit and declining real estate values. Any material decline in real estate values reduces the ability of borrowers to use home equity to support borrowings and increases the loan-to-value ratios of loans previously made by the Bank, thereby weakening collateral coverage and increasing the possibility of a loss in the event of default. In addition, delinquencies, foreclosures and losses generally increase during economic slowdowns or recessions.

The Bank anticipates the majority of its depositors will be located in and doing business in the local markets and the Bank will lend a substantial portion of its capital and deposits to individuals and business borrowers in the primary market areas. Any factors adversely affecting the economy of these markets could, in turn, adversely affect the performance of the Bank.

Asset/Liability Management

Management strives to manage the maturity or repricing match between assets and liabilities. The degree to which the Bank is "mismatched" in its maturities is a primary measure of interest rate risk. In periods of stable interest rates, net interest income can be increased by financing higher yielding long-term mortgage loan assets with lower cost short-term deposits and borrowings. Although such a strategy may increase profits in the short run, it increases the risk of exposure to rising interest rates and can result in funding costs rising faster than asset yields.

Interest Rate Risk

Profitability may be directly affected by the levels of and fluctuations in interest rates, which affect the Bank's interest margin, its ability to earn a spread between interest received on its earning assets (investments and loans) and its funding costs on deposits and other borrowings. The profitability of the Bank could change dramatically, positively or negatively, if its yield on earning assets responds differently from its funding costs in a rapid and sustained shift in interest rates.

Interest margins are affected by several factors, one of which is the relationship of rate-sensitive earning assets to rate-sensitive interest bearing liabilities. This factor determines the effect that fluctuating interest rates will have on net interest income. Rate-sensitive earning assets and interest bearing liabilities are those which can be repriced to current market rates within a relatively short time. The Bank's objective in managing interest rate sensitivity is to achieve reasonable stability in the interest margin throughout interest rate cycles by maintaining the proper balance or rate-sensitive assets and liabilities. For further analysis and discussion of interest rate sensitivity, refer to the section entitled "Liquidity and Interest Rate Sensitivity Management" below.

An additional factor that affects the interest margin is the interest rate spread. The interest rate spread measures the difference between the average yield on interest earning assets and the average rate paid on interest bearing liabilities. This measurement is a more accurate reflection of the effect market interest rate movements have on interest rate-sensitive assets and liabilities.

The percentage of earning assets funded by interest bearing liabilities also affects the Bank's interest margin. The Bank's earning assets are funded by interest bearing liabilities, non-interest bearing demand deposits and shareholders' equity. The net return on earning assets funded by non-interest bearing demand deposits and shareholders' equity exceeds the net return on earning assets funded by interest bearing liabilities.

Asset Quality

Loans past due 30 to 89 days totaled $661,620, or 1.00% of total loans, at December 31, 2009, compared to $377,872, or 0.60% of total loans, at December 31, 2008. Loans past due 90 days or more and still accruing interest totaled $5,650 and $91,342 at December 31, 2009 and 2008, respectively.

Interest on most loans is billed monthly. Interest on loans held for investment by the Bank is accrued until the loans become 90 days or more past due. Nonaccrual loans totaled $156,421 at December 31, 2009. Repossessions totaled $70,000 at December 31, 2009. Total non-performing assets totaled 0.34% of total loans at December 31, 2009.

Competition

In the conduct of certain aspects of its banking business, the Bank encounters strong competition from other commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds and other financial institutions. A number of these competitors are well-established in the Middle Peninsula, Peninsula and New Kent areas. Competition for loans is keen, and pricing is important. Most of the Bank's competitors have substantially greater resources and higher lending limits than the Bank currently has and offer certain services, such as extensive and established branch networks and trust services that the Bank does not currently provide. Deposit competition also is strong, and the Bank may have to pay higher interest rates to attract deposits. General competition from the credit union community has grown in intensity in the recent past, placing even greater pressure on loan and deposit pricing. This has contributed to compression in the Bank's net interest margin. The adoption of legislation permitting nationwide interstate banking and branching could increase competition in the Bank's markets, and federal legislation recently adopted allows non-banking companies, such as insurance and investment firms, to establish or acquire banks.

The development of the Bank's business is based in large measure upon the belief that a locally owned and managed community bank can successfully compete with larger financial institutions that are not locally owned and managed. There is no assurance that the Bank will be able to continue to attract the necessary resources that are required to provide for ongoing profitability for the Bank.

There are numerous other existing banks and financial institutions in the Bank's market areas which are engaged in the type of business in which the Bank is engaged. The Bank competes with a variety of institutions, including other commercial banks, savings and loan associations, savings banks, credit unions, insurance companies, securities brokerage houses, and money market mutual funds for deposit accounts. Additional competition for deposits comes from corporate and governmental securities, which offer a high rate of interest. The Bank also competes with other commercial banks, savings and loan associations, savings banks, insurance companies, mortgage banking firms, and other lending institutions for origination of loans. These competitors of the Bank include larger, more established institutions, which will have available substantially greater resources, broader geographic markets and higher lending limits. The success of the Bank depends largely upon its ability to attract deposits and to make successful loans in competition with such other institutions. There can be no assurance that the competitive environment in which the Bank must operate will be favorable to the Bank's business or its plan of development. In addition, the Bank must compete with other banks and financial institutions for qualified personnel to staff its office or offices.

As of the most recent FDIC statistical data (June 30, 2009), the Bank had 20.3% of the total market share for Gloucester County, up from 19.8% at June 30, 2008. The 2009 percentage placed the Bank in third position in the ranking of the seven FDIC insured institutions in the Gloucester market.

Supervision and Regulation

General. The Bank is a Virginia state bank and a member of the Federal Reserve System, and its depositors are insured by the FDIC. The Federal Reserve and the Virginia State Corporation Commission and its Bureau of Financial Institutions (the "State") regulate and monitor the Bank's operations. The Bank is required to file with the Federal Reserve quarterly financial reports on the financial condition and performance of the organization. The Federal Reserve and the State conduct periodic onsite and offsite examinations of the Bank. The Bank must comply with a wide variety of reporting requirements and banking regulations. The laws and regulations governing the Bank generally have been promulgated to protect depositors and the deposit insurance funds and not to protect various shareholders. Additionally, the Bank must bear the cost of compliance with the reporting and regulations; these costs can be significant and have an effect on its financial performance.

The Federal Reserve, State and FDIC have the authority and responsibility to ensure that financial institutions are managed in a safe and sound manner. They have the authority to prevent the continuation of unsound and unsafe activities. Additionally, they must generally approve significant business activities undertaken by financial institutions. Typical examples of transactions requiring approval include branch locations, mergers, capital transactions and major organizational structure changes. Obtaining regulatory approval for these types of activities can be time consuming, expensive and ultimately may not be successful.

Insurance of Accounts, Assessments and Regulation by the FDIC. The Bank's deposit accounts are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation up to the maximum legal limits of the FDIC and it is subject to regulation, supervision and regular examination by the Virginia Bureau of Financial Institutions and the Federal Reserve. The regulations of these various agencies govern most aspects of the Bank's business, including required reserves against deposits, loans, investments, mergers and acquisitions, borrowings, dividends and location and number of branch offices. The laws and regulations governing the Bank generally have been promulgated to protect depositors and the deposit insurance funds, and not for the purpose of protecting shareholders.

The Federal Deposit Insurance Act (the FDIA) establishes a risk-based deposit insurance assessment system. Under applicable regulations, deposit premium assessments are determined based upon a matrix formed utilizing capital categories – "well capitalized," "adequately capitalized" and "undercapitalized" - defined in the same manner as those categories are defined for purposes of Section 38 of the FDIA. Each of these groups is then divided into three subgroups which reflect varying levels of supervisory concern, from those which are considered healthy to those which are considered to be of substantial supervisory concern. On February 15, 2006, Federal legislation to reform federal deposit insurance was enacted. This new legislation required, among other things, that FDIC adopt regulations increasing the maximum amount of federal deposit insurance coverage per separately insured individual retirement savings account depositor to $250,000 (with a cost of living adjustment to become effective in five years). The legislation also gave the FDIC greater discretion to identify the relative risks all institutions present to the deposit insurance fund and set risk-based premiums.

On November 2, 2006, the FDIC adopted final regulations establishing a risk-based assessment system that is intended to more closely tie each bank's deposit insurance assessments to the risk it poses to the deposit insurance fund. Under the new risk-based assessment system, which became effective in the beginning of 2007, the FDIC evaluates each bank's risk based on three primary factors: (1) its supervisory rating, (2) its financial ratios, and (3) its long-term debt issuer rating, if the bank has one. The new rates for most banks will vary between five and seven cents for every $100 of domestic deposits.

The Board of Directors of the FDIC voted in February 2009, to approve an amended restoration plan for the DIF. Recent bank failures have depleted the insurance fund to its lowest level since 1993, necessitating this action. "Deposit insurance remains a good value," said FDIC Chairman Sheila Bair. "Public confidence in the FDIC guarantee has helped assure a stable source of funding for banks in these troubled times."

Under the restoration plan approved in October 2008, the Board set a rate schedule to raise the DIF reserve ratio to 1.15 percent within five years. This action extended the restoration plan horizon to seven years in recognition of the current significant strains on banks and the financial system and the likelihood of a severe recession.

The amended restoration plan was accompanied by a final rule that sets assessment rates and makes adjustments that improve how the assessment system differentiates for risk. Currently, most banks are in the best risk category and pay between twelve and fourteen cents per $100 of deposits for deposit insurance. Under the final rule, banks in this category will pay initial base rates ranging from twelve to sixteen cents per $100 of deposits on an annual basis, beginning on April 1, 2009.

The Board adopted an interim rule imposing a 20 basis point emergency special assessment on the industry on June 30, 2009. The assessment was collected on September 30, 2009. The interim rule would also permit the Board to impose an emergency special assessment after June 30, 2009, of up to 10 basis points, if necessary to maintain public confidence in federal deposit insurance. Comments on the interim rule on special assessments are due no later than 30 days after publication in the Federal Register.

Changes to the assessment system include higher rates for institutions that rely significantly on secured liabilities, which may increase the FDIC's loss in the event of failure without providing additional assessment revenue. Under the final rule, assessments will be higher for institutions that rely significantly on brokered deposits but, for well-managed and well-capitalized institutions, only when accompanied by rapid asset growth. Brokered deposits, combined with rapid asset growth, have played a role in a number of costly failures, including some recent ones. The final rule would also provide incentives in the form of a reduction in assessment rates for institutions to hold long-term unsecured debt and, for smaller institutions, high levels of Tier 1 capital. In 2009, the Bank’s FDIC assessment totaled $174,824.

Bank Capital Adequacy Guidelines. The Federal Reserve Board has issued risk-based and leverage capital guidelines applicable to banking organizations that it supervises. Under the risk-based capital requirements, the Bank is generally required to maintain a minimum ratio of total capital to risk-weighted assets (including specific off-balance sheet activities, such as standby letters of credit) of 8%. At least half of the total capital (4%) must be composed of “Tier 1 Capital”, which is defined as common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles. The remainder may consist of “Tier 2 Capital”, which is defined as specific subordinated debt, some hybrid capital instruments and other qualifying preferred stock and a limited amount of the loan loss allowance. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics, with the categories ranging from 0% (requiring no risk-based capital) for assets such as cash and certain U.S. government and agency securities, to 100% for the bulk of assets which are typically held by a bank holding company, including certain multi-family residential and commercial real estate loans, commercial business loans and consumer loans. Residential first mortgage loans on one to four family residential real estate and certain seasoned multi-family residential real estate loans, which are not 90 days or more past due or nonperforming and which have been made in accordance with prudent underwriting standards, are assigned a 50% level in the risk-weighing system, as are certain privately issued mortgage backed securities representing indirect ownership of such loans.

In addition to the risk-based capital requirements, the Federal Reserve has established a minimum 4.0% Leverage Capital Ratio (Tier 1 Capital to total adjusted assets) requirement for the most highly rated banks, with an additional cushion of at least 100 to 200 basis points for all other banks, which effectively increases the minimum Leverage Capital Ratio for such other banks to a level of 4.0% to 6.0% or more. The highest rated banks are those that are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, those which are considered a strong banking organization. A bank having less than the minimum Leverage Capital Ratio requirement shall, within 60 days of the date as of which it fails to comply with such requirement, submit a reasonable plan describing the means and timing by which a bank shall achieve its minimum Leverage Capital Ratio requirement. A bank that fails to file such plan is deemed to be operating in an unsafe and unsound manner, and could subject that bank to a cease and desist order. Any insured depository institution with a Leverage Capital Ratio that is less than 2.0% is deemed to be operating in an unsafe or unsound condition pursuant to Section 8(a) of the FDIA and is subject to potential termination of deposit insurance. However, such an institution will not be subject to an enforcement proceeding solely on account of its capital ratios, provided it has entered into and is in compliance with a written agreement to increase its Leverage Capital Ratio and to take such other action as may be necessary for the institution to be operated in a safe and sound manner. The capital regulations also provide, among other things, for the issuance of a capital directive, which is a final order issued to a bank that fails to maintain minimum capital or to restore its capital to the minimum capital requirement within a specified time period. Such directive is enforceable in the same manner as a final cease and desist order.

Under these regulations, a state-chartered commercial bank will be:

- "well capitalized" if it has a Total Risk-Based Capital ratio of 10% or greater, a Tier 1 Risk-Based Capital ratio of 6% or greater, a Tier 1 leverage ratio of 5% or greater, and is not subject to any written capital order or directive;
- "adequately capitalized" if it has a Total Risk-Based Capital ratio of 8% or greater, a Tier 1 Risk-Based Capital ratio of 4% or greater, and a Tier 1 leverage ratio of 4% or greater (3% in certain circumstances) and does not meet the definition of "well capitalized;"
- "undercapitalized" if it has a Total Risk-Based Capital ratio of less than 8%, a Tier 1 Risk-Based Capital ratio of less than 4% or a Tier 1 leverage ratio of less than 4% (3% in certain circumstances).
- "significantly undercapitalized" if it has a Total Risk-Based Capital ratio of less than 6%, a Tier 1 Risk-Based Capital ratio of less than 3%, or a Tier 1 leverage ratio of less than 3%; or
- "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2%.

The risk-based capital standards of the Federal Reserve explicitly identify concentrations of credit risk and the risk arising from non-traditional activities, as well as an institution's ability to manage these risks, as important factors to be taken into account by the agency in assessing an institution's overall capital adequacy. The capital guidelines also provide that an institution's exposure to a decline in the economic value of its capital due to changes in interest rates be considered by the agency as a factor in evaluating a banking organization's capital adequacy.

Prompt Corrective Action. Immediately upon becoming undercapitalized, an institution shall become subject to the provisions of Section 38 of the FDIA, which: (a) restrict payment of capital distributions and management fees; (b) require that the appropriate federal banking agency monitor the condition of the institution and its efforts to restore its capital; (c) require submission of a capital restoration plan; (d) restrict the growth of the institution's assets; and (e) require prior approval of certain expansion proposals. The appropriate federal banking agency for an undercapitalized institution also may take any number of discretionary supervisory actions if the agency determines that any of these actions is necessary to resolve the problems of the institution at the least possible long term cost to the deposit insurance fund, subject in certain cases to specified procedures. These discretionary supervisory actions include: (a) requiring the institution to raise additional capital; (b) restricting transactions with affiliates; (c) requiring divestiture of the institution or the sale of the institution to a willing purchaser; and (d) any other supervisory action that the agency deems appropriate. These and additional mandatory and permissive supervisory actions may be taken with respect to significantly undercapitalized and critically undercapitalized institutions.

Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act (the "Act") implemented major changes to the statutory framework for providing banking and other financial services in the United States. The Act, among other things, eliminated many of the restrictions on affiliations among banks and securities firms, insurance firms and other financial service providers. A bank holding company that qualifies as a financial holding company will be permitted to engage in activities that are financial in nature or incident or complimentary to financial activities. The activities that the Act expressly lists as financial in nature include insurance activities, providing financial and investment advisory services, underwriting services and limited merchant banking activities.

To become eligible for these expanded activities, a bank holding company must qualify as a financial holding company. To qualify as a financial holding company, each insured depository institution controlled by the bank holding company must be well-capitalized, well-managed and have at least a satisfactory rating under the Community Reinvestment Act. In addition, the bank holding company must file with the Federal Reserve a declaration of its intention to become a financial holding company. The Bank presently has no plans to become a financial holding company.

Although the Act is considered one of the most significant banking laws since Depression-era statutes were enacted, because of its small size and recent organization, the Bank does not expect the Act to materially affect its products, services or other business activities. The Bank does not believe that the Act will have a material adverse impact on its operations. To the extent that it allows banks, securities firms and insurance firms to affiliate, the financial services industry may experience further consolidation. The Act may have the result of increasing competition that the Bank faces from larger institutions and other companies offering financial products and services, many of which may have substantially greater financial resources.

Payment of Cash Dividends. The Bank is subject to laws and regulations that limit the amount of dividends that it can pay. The amount of dividends that may be paid depends upon its earnings and capital position and is limited by federal and state law, regulations and policies. As a bank that is a member of the Federal Reserve System, the Bank must obtain prior written approval for any dividend if the total of all dividends declared in any calendar year would exceed the total of its net profits for that year combined with its retained net profits for the preceding two years. In addition, the Bank may not pay a dividend in an amount greater than its undivided profits then on hand after deducting its losses and bad debts. For this purpose, bad debts are generally defined to include the principal amount of loans which are in arrears with respect to interest by six months or more unless such loans are fully secured and in the process of collection. Moreover, for purposes of this limitation, the Bank is not permitted to add the balance of its allowance for loan losses account to its undivided profits then on hand, however, it may net the sum of its bad debts as so defined against the balance of its allowance for loan losses account and deduct from undivided profits only bad debts so defined in excess of that account. In addition, the Federal Reserve is authorized to determine under certain circumstances relating to the financial condition of a bank that the payment of dividends would be an unsafe and unsound practice and to prohibit payment thereof. The payment of dividends that deplete a bank's capital base could be deemed to constitute such an unsafe and unsound banking practice. The Federal Reserve has indicated that banking organizations generally pay dividends only out of current operating earnings.

In addition, under Virginia law, no dividend may be declared or paid out of the Virginia charter bank's paid-in capital. The Bank may be prohibited under Virginia law from the payment of dividends if the Virginia Bureau of Financial Institutions determines that a limitation of dividends is in the public interest and is necessary to ensure the Bank's financial soundness, and may also permit the payment of dividends not otherwise allowed by Virginia law.

Monetary Policy. Banking is a business which depends on interest rate differentials. In general, the differences between the interest paid by a bank on its deposits and its other borrowings and the interest received by a bank on loans extended to its customers and securities held in its investment portfolio constitute the major portion of the Bank's earnings. Thus, the Bank's earnings and growth will be subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve, which regulates the supply of money through various means including open market dealings in United States government securities. These dealings include the purchase and sale of securities to expand or contract the general liquidity in the financial system. Additionally, the Board of Governors of the Federal Reserve establishes a target Federal Fund Rate and the Discount Rate. The actions taken by the Federal Reserve System will dictate the general condition of interest rates in the market place.

The Bank's earnings are a function of differentials between interest rates. Depending on the organization's Asset / Liability strategy, actions taken by the Federal Reserve may have a positive or negative effect on the profitability of the organization. The Bank cannot predict the actions of the Federal Reserve nor can it guarantee that its Asset / Liability strategy is consistent with action taken by the Federal Reserve.

Community Reinvestment Act. The Community Reinvestment Act of 1977 requires that federal banking regulators evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. To the best knowledge of the Bank, it is meeting its obligations under this act.

Branching and Interstate Banking. The federal banking agencies are authorized to approve interstate bank merger transactions without regard to whether such transaction is prohibited by the law of any state, unless the home state of one of the banks has opted out of the interstate bank merger provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the Riegle-Neal Act) by adopting a law after the date of enactment of the Riegle-Neal Act and prior to June 1, 1997, which applies equally to all out-of-state banks and expressly prohibits merger transactions involving out-of-state banks. Interstate acquisitions of branches are permitted only if the law of the state in which the branch is located permits such acquisitions. Such interstate bank mergers and branch acquisitions are also subject to the nationwide and statewide insured deposit concentration limitations described in the Riegle-Neal Act.

The Riegle-Neal Act authorizes the federal banking agencies to approve interstate branching de novo by national and state banks in states which specifically allow for such branching. Virginia has enacted laws which permit interstate acquisitions of banks and bank branches and permit out-of-state banks to establish de novo branches.

Regulatory Enforcement Authority. Federal banking law grants substantial enforcement powers to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

Transactions with Affiliates. Transactions between banks and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any bank or entity that controls, is controlled by or is under common control with such bank. Generally, Section 23A (a) limits the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, and maintain an aggregate limit on all such transactions with affiliates to an amount equal to 20% of such capital stock and surplus, and (b) requires that all such transactions be on terms substantially the same, or at least as favorable, to the bank as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar other types of transactions. Section 23B applies to "covered transaction" as well as sales of assets and payments of money to an affiliate. These transactions must also be conducted on terms substantially the same, or at least as favorable, to the bank as those provided to non-affiliates.

Loans to Insiders. The Federal Reserve Act and related regulations impose specific restrictions on loans to directors, executive officers and principal shareholder of banks. Under Section 22(h) of the Federal Reserve Act, any loan to a director, an executive officer or to a principal shareholder of a bank, or to entities controlled by any of the foregoing, may not exceed, together with all outstanding loans to such persons or entities controlled by such person, the bank's loan to one borrower limit. Loans in the aggregate to insiders of the related interest as a class may not exceed two times the bank's unimpaired capital and unimpaired surplus until the bank's total assets equal or exceed $100 million, at which time the aggregate is limited to the bank's unimpaired capital and unimpaired surplus. Section 22(h) also prohibits loans above amounts prescribed by the appropriate federal banking agency to directors, executive officers, and principal shareholders of a bank or bank holding company, and to entities controlled by such persons, unless such loans are approved in advance by a majority of the Board of Directors of the bank with any "interested" director not participating in the voting. The Bank's loan amount, which includes all other outstanding loans to such person, as to which such prior board of director approval is required, must be the greater of $25,000 or 5% of capital and surplus (up to $500,000). Section 22(h) requires that loans to directors, executive officers and principal shareholders be made in terms and underwriting standards substantially the same as offered in comparable transactions to other persons.

Other Regulation. The Bank is subject to a variety of other regulations. State and federal laws restrict interest rates on loans, potentially affecting the Bank's income. The Truth in Lending Act and the Home Mortgage Disclosure Act impose information requirements on the Bank in making loans. The Equal Credit Opportunity Act prohibits discrimination in lending on the basis of race, creed, or other prohibited factors. The Fair Credit Reporting Act governs the use and release of information to credit reporting agencies. The Truth in Savings Act requires disclosure of yields and costs of deposits and deposit accounts. Other acts govern confidentiality of consumer financial records, automatic deposits and withdrawals, check settlement, endorsement and presentment, and reporting of cash transactions as required by the Internal Revenue Service.

USA Patriot Act of 2001. In October 2001, the USA Patriot Act of 2001 was enacted in response to the terrorist attacks in New York, Pennsylvania and Washington, D.C. which occurred on

September 11, 2001. The Patriot Act is intended to strengthen the ability of U.S. law enforcement agencies and the intelligence communities to work cohesively to combat terrorism on a variety of fronts. The potential impact of the Patriot Act on financial institutions of all kinds is significant and wide ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and imposes various regulations, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

Emergency Economic Stabilization Act of 2008. In response to the financial crisis affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, the EESA was signed into law on October 3, 2008. Pursuant to the EESA, the U.S. Treasury was given the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, Treasury Secretary Paulson, after consulting with the Federal Reserve and the FDIC, announced that the Department of the Treasury would purchase equity stakes in certain banks and thrifts. Under this program, known as the Capital Purchase Program, the Treasury made $250 billion of capital available to U.S. financial institutions in the form of preferred stock and warrants (from the $700 billion authorized by the EESA). The Treasury's standards with respect to executive compensation and corporate governance apply to institutions that are participating in the Capital Purchase Program.

Capital Purchase Plan Participation. The Bank did not participate in the Capital Purchase Plan, electing to forgo the issuance of any stock to the Federal government or apply for any other assistance or relief under the TARP.

American Recovery and Reinvestment Act of 2009. The ARRA was enacted on February 17, 2009. The ARRA includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, the ARRA amended EESA to impose certain additional executive compensation and corporate governance obligations on all current and future TARP Capital Purchase Program recipients. Because the Company is not a participant in the Capital Purchase Program, it is not subject to these obligations.

Future Regulatory Uncertainty. Because federal regulation of financial institutions changes regularly and is the subject of constant legislative debate, the Bank cannot forecast how federal regulation of financial institutions may change in the future and impact its operations. Although Congress in recent years has sought to reduce the regulatory burden on financial institutions with respect to the approval of specific transactions, the Bank fully expects that the financial institution industry will remain heavily regulated in the near future and that additional laws or regulations may be adopted further regulating specific banking practices.

Dependence on Key Personnel

The Bank's growth and development to date have been largely dependent upon the services of William J. Farinholt, President and Chief Executive Officer, and Kenneth E. Smith, Executive Vice President and Chief Financial Officer. The loss of Mr. Farinholt's or Mr. Smith's services for any reason could have a material adverse effect on the Bank. In May 2004, the Bank purchased $1,000,000 key man life insurance on each of these individuals. Mr. Farinholt has expressed his preliminary intention to retire as early as July 2011, after he turns age 65. The Board has already begun strategic planning for this possible event. Depth and succession of management is at the forefront of current strategic planning. No formal announcements are available at the time of this report.

Control by Certain Shareholders

Walter B. Hurley, Jr., a director of the Bank, is directly or indirectly beneficial owner of more than 5.0% of the outstanding common stock of the Bank. Mr. Hurley's ownership reached a level of 7.23% on August 8, 2007. The Bank is not aware of any other shareholder who owns more than 5.0% of the outstanding common stock of the Bank. As a group, the Board of Directors and the Bank's Executive Officers control 17.45% of the outstanding common stock of the Bank. Accordingly, such persons, if they were to act in concert, would not have majority control of the Bank, would not have the ability to approve certain fundamental corporate transactions or the election of the Board of Directors.

Item 2. Properties

The Bank's Main Office and operating headquarters are located at 6720 Sutton Road in Gloucester.

The Bank's York River branch office is located at 1553 George Washington Memorial Highway (U.S. Route 17) in Gloucester Point.

The Bank's New Kent branch office is located at 7791 Invicta Lane in New Kent.

The Main Office and the branch office properties are owned by the Bank.

The Bank's properties are in good operating condition and are adequate for the Bank's present and anticipated future needs.

Item 3. Legal Proceedings

The Bank is not a party to any pending legal proceeding outside the ordinary course of its business that could have a material impact on financial statements.

Item 4. (Removed and Reserved)

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Bank's common stock is listed on the Over the Counter Bulletin Board (www.otcbb.com) under the symbol of CNVB. The initial issue price of the January 27, 2003 stock offering of the Bank's common stock was $20.00 per share. The following table sets forth the high and low prices for transactions in the Bank's common stock known to the Bank in 2009 and 2008.

	High	Low
2009		
Fourth Quarter	$14.75	$12.50
Third Quarter	$17.70	$13.50
Second Quarter	$51.00	$13.25
First Quarter	$16.75	$13.25

	High	Low
2008		
Fourth Quarter	$17.45	$12.25
Third Quarter	$18.15	$16.65
Second Quarter	$21.95	$18.15
First Quarter	$22.75	$20.50

On June 30, 2009, an isolated trade of 400 shares was recorded at $51.00 per share. This isolated trade is considered an anomaly and not representative of the true trading range. Prior to that trade, a trade was made on June 8, 2009 for $18.00 per share. Subsequent to the June 30 trade, the next trade was July 6, 2009 for $17.70 per share. The Bank's stock is considered to be "thinly traded', meaning there is not consistent trading activity on a daily basis. This is due to the nature of younger community banks, whose shareholders typically purchase their shares with the intent to hold them as an intermediate to long-term stock.

The Bank has not paid any dividends on its Common Stock. The Bank intends to retain all of its earnings to finance its operations and does not anticipate paying cash dividends for the foreseeable future. Any decision made by the Board of Directors to declare dividends in the future will depend on the Bank's future earnings, capital requirements, financial condition, government regulations and other factors deemed relevant by the Board, as previously discussed in Item 1, Supervision and Regulations, Payment of Cash Dividends.

As of March 30, 2010, the Bank had approximately 832 shareholders of record.

The Bank did not repurchase any shares of its common stock during the fourth quarter of 2009.

During 2004, the Bank adopted an incentive stock plan ("the Plan") under which options may be granted to certain key employees and directors for purchase of the Bank's common stock. The effective date of the plan was June 16, 2004, with an expiration date of June 16, 2014. Further description of the Plan can be found elsewhere in this report under "Note 10 Stock Option Plan" of the audited Financial Statements.

Item 6. Selected Financial Data

Not required.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the financial statements, accompanying notes and selected financial data appearing elsewhere in this Annual Report on Form 10-K and may contain certain forward-looking statements that are based on current management expectations. Generally, verbs in the future tense and the words, "believe," "expect," "anticipate," "intends," "opinion," "potential" and similar expressions identify forward-looking statements. Examples of this forward-looking information can be found in, but are not limited to, the expected effects of accounting pronouncements and government regulation applicable to the Bank's operations, the discussion of allowance for loan losses, litigation and any quantitative and qualitative disclosure about market and interest rate risk. The actual results of the Bank could differ materially from those management expectations. The forward-looking statements contained herein speak only as of the date of this Annual Report on Form 10-K, and, except as may be required by applicable law and regulation, the Bank does not undertake, and specifically disclaims any obligation, to publicly update or revise such *statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.*

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 counties of Gloucester and New Kent, but also providing banking services in the overall market known as the Middle Peninsula, as well as the Peninsula. The Bank also has an investment division operating under the name of Colonial Virginia Investment Services. The Bank began offering a full suite of mortgage services October 1, 2006, through Colonial Virginia Mortgage, LLC ("CVM"). CVM is owned jointly with Johnson Mortgage Company, LLC, of Newport News, Virginia, and each owner possesses 50% ownership. CVM was capitalized with $250,000, with each owner contributing $125,000. CVM makes and sells whole loans, and it is believed to be a good complement to the Bank's overall lending program by expanding the suite of loan products to include fixed rate permanent mortgage loans. A significant enhancement to the Bank's construction lending practices will be the ability to offer single closing construction to permanent mortgage lending. This feature is attractive among customers for convenience and reduced overall costs.

The Bank's results of operations are primarily dependent on net interest income, which is the difference between the income earned on loans and the investment portfolio and the cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by the allowance for loan losses and non-interest income from such activities as investment and mortgage services and other customer service fees. Non-interest expense principally consists of salaries 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 a materially different financial condition or results of operations is a reasonable likelihood.

Allowance for Loan and Lease Losses

The Bank monitors and maintains an allowance for loan and lease losses ("ALLL") 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 uses an internal risk rating system and assigns a numeric rating to each loan based on multiple criteria, including but not limited to a borrower's credit history (evidenced by credit bureau reporting), collateral and its supporting value, type of work or industry in which the borrower is involved, and any noted exceptions to internal policy. Varying percentages of outstanding balances by risk rating are used in determining the adequacy of the ALLL.

The ALLL consists of two components, allocated and unallocated. The Bank evaluates various loans individually for impairment. 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.

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

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

Executive Overview

The financial sector continues under tremendous pressure from major loan loss and other asset quality concerns, as well as the compression of net interest margins. Financial results clearly reflect the recessionary pressures of soft loan demand and low capital expenditures by the majority of commercial businesses within the Bank's market. The Bank has not suffered as significantly from such asset quality issues or loan charge-offs compared to the financial services industry as a whole and, in fact, enjoys a strong loan portfolio with minimal delinquencies and manageable loss exposure. The Bank has not been caught up in the sub-prime mortgage lending or problem real estate development loans. The Bank has cautiously targeted growth that not only attempts to maximize net interest margins, but also protects overall asset quality. While there was much publicity of the "bailout" of the financial services industry and the Troubled Asset Relief Program ("TARP"), the Bank elected not to apply for or participate in this program. The Board of Directors and management determined that more traditional means of capital generation (i.e. issuance of common stock and/or retained earnings) were more appropriate for the long-term strategic plans of the Bank. The Bank is also well capitalized for both the current balance sheet, as well as growth for the foreseeable future.

Management continues its scrutiny when purchasing mortgage-backed securities issued by the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC") with more emphasis on geographical distribution of the mortgages and avoiding areas of the country where mortgage foreclosures are significantly higher. In addition, bonds issued in 2003 and prior, with amortizing repayment schedules, are considered to be more acceptable risks since the underlying mortgages would have originated prior to the much publicized "real estate bubble." Newer issued mortgage-backed bonds are being considered when the underlying collateral is 10 year amortizing loans, since the credit underwriting standards are much more stringent for individual applicants, adding stability to the cash flows of these bonds.

Net loss of $299,959 or $0.49 per share assuming dilution, was recorded for the year ended December 31, 2009, compared with net income of $134,938, or $0.22 per share assuming dilution, for the year ended December 31, 2008.

For the years ended December 31, 2009 and 2008, gross revenues, which are defined as interest income plus other income, were $6.4 million and $6.9 million, respectively, while gross expenses, which are defined as interest expense plus other expenses, the provision for loan losses and the provision for income taxes, were $6.7 million and $6.8 million, respectively.

Total average assets increased 12.3% from the December 31, 2008 amount of $104.0 million to $116.8 million at December 31, 2009. Average shareholders' equity increased 2.6% to $11.9 million in 2009. Return on average assets and equity at December 31, 2009 were (0.25%) and (2.47%), respectively.

Total assets for the Bank increased to $125.3 million at December 31, 2009, compared to $110.8 million at December 31, 2008, representing an increase of $14.5 million or 13.1%. This level is somewhat misleading inasmuch as the Bank experienced an influx in deposits from estate settlement funds for some of its existing customers in December 2009. These funds are expected to be short-term in nature. Therefore, the $6.7 million reflected in overnight Federal funds sold at December 31, 2009 is somewhat inflated and management expects that average total assets will shrink during the first quarter of 2010. Total net loans at December 31, 2009 were $65.1 million, an increase of $3.0 million, or 4.8%, from the December 31, 2008 amount of $62.1 million. The provision for loan losses in 2009 was $730,200, compared to $239,200 in 2008. This dramatic increase is not reflective of a corresponding dramatic decrease in overall loan quality and is discussed further below. The allowance for loan and lease losses totaled $1,029,400 or 1.55% of total loans outstanding at December 31, 2009 and $622,068 or 0.99% of total loans outstanding at December 31, 2008.

The investment portfolio increased 36.5% to $37.0 million at December 31, 2009 compared to $27.1 million at December 31, 2008. Management continues an investment strategy of employing excess liquidity in securities with yields that will enhance overall interest earnings without creating undue extension or interest rate risk. Extension risk is the potential for actual cash flows to either lengthen or shorten compared to projected cash flows based on interest rate fluctuations. The Bank continues its posture of not attempting to forecast interest rates in a vacuum. Fluctuations in the market value of the Bank's portfolio have increased the Bank's unrealized gain position on securities available for sale of $397,211, net of taxes, at December 31, 2008 to $426,742, net of taxes, at December 31, 2009. The level of extension, interest rate and market value 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 cash flows and maturities of individual bonds.

The composition of the Bank's investment securities portfolio reflects the Bank's investment strategy of maximizing portfolio yields commensurate with risk and liquidity considerations. The primary objectives of the Bank's investment strategy are to maintain an appropriate level of liquidity and to provide a tool to assist in controlling the Bank's interest rate sensitivity position while, at the same time, producing adequate levels of interest income. The Bank's investment securities are classified into one of two categories based upon Management's intent to hold the investment securities: (i) investment securities held to maturity or; (ii) investment securities available for sale. Investment securities held in a trading account are required to be reported at fair value, with unrealized gains and losses included in earnings. Investment securities designated to be held to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts, with such amortization and accretion being determined by the interest rate method. The Bank has the ability, and it is Management's intention, to hold these securities to maturity. Management of the maturity of the portfolio is necessary to provide liquidity and control interest rate risk. Investment securities available for sale are recorded at fair value. Increases and decreases in the net unrealized gain or loss on the investment securities available for sale portfolio are reflected as adjustments to the carrying value of the portfolio and as an adjustment, net of tax, to accumulated other comprehensive income.

Fair values of investment securities available for sale are based primarily on quoted or other independent market prices. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of instruments with similar characteristics or discounted case flows.

Customer deposits generated through the Bank's three retail offices are the largest source of funds used to support asset growth. Total deposits increased $19.1 million to $105.9 million at December 31, 2009 from $86.8 million at December 31, 2008. Of the total deposit level, time deposits totaled $61.5 million at December 31, 2009, a decrease of $1.1 million from $62.6 million at December 31, 2008.

Deposit pricing pressure which occurred during most of 2008 had lingering effects on the Bank's overall cost of funds through most of 2009. This pricing pressure was a constant challenge to the Bank's net interest margin goals. Therefore, the Bank selectively allowed more expensive time deposits to be redeemed without renewal. The selective process involved analysis of "total customer relationship" and resulted in a more restrictive pricing strategy for those customers with exclusively rate dependent certificate of deposit ("CD") time deposits as the sum total of their relationship with the Bank. Pricing strategies have become more focused on the effect on net interest margins as opposed to balance sheet growth. Asset supporting funding continues to expand to various sources. Alternative funding sources are discussed elsewhere in this report.

Shareholders' equity totaled $11.6 million at December 31, 2009. This amount represents a decrease of 2.5% from the December 31, 2008 amount of $11.9 million. The book value per common share was $19.09 at December 31, 2009 and $19.51 at December 31, 2008.

Growth levels continue to be encouraging. Pricing practices have continued to be more aggressive in an effort to maximize loan yields. While this aggressive lending posture is intended to enhance overall asset yield and resultant net interest income, management has maintained credit quality at the forefront of its underwriting practices.

Net Interest Income

Net interest income is the Bank's primary source of earnings and represents the difference between interest and fees earned on earning assets and the interest expense paid on deposits and other interest bearing liabilities. Net interest income totaled $3.6 million for the year ended December 31, 2009, compared to $3.3 million for the year ended December 31, 2008. Average earning assets increased $10.7 million from $95.3 million for the year ended December 31, 2008 to $106.0 million for the year ended December 31, 2009. Average interest bearing deposits and short-term borrowings increased $11.7 million from $84.0 million for the year ended December 31, 2008 to $95.7 million for the year ended December 31, 2009. Total interest expense was $2.4 million for the year ended December 31, 2009, compared to $3.2 million for the year ended December 31, 2008, primarily a result of declining rates on renewing CDs. The net interest margin (net interest income expressed as a percentage of average earning assets)("NIM"), on a tax equivalent basis, was 3.42% for the year ended December 31, 2009 compared to 3.43% for the year ended December 31, 2008.

The Bank has historically practiced the "flooring" of variable rate loans (contractually limiting how much the individual loan rate can decrease regardless of decreases in market rates) which mitigates NIM compression when market rates drop sharply as they did in 2007 and 2008. The relative stability of market rates during 2009 allowed the Bank to reprice many of its higher cost CDs. This contributed to the NIM remaining relatively stable throughout 2009.

The Bank's absolute volume of earning assets is below its desired level for long-term balance sheet management. It is noted that by opening the Bank with two offices at the same time and completing the permanent buildings for both locations in 2005, substantial amounts of investment funds were directed to fixed assets (non-earning assets). The Bank opened its second branch office in June 2009, resulting in an additional investment of funds in the permanent building and equipment. These offices are spacious, modern facilities and are considered to position the Bank well for expanded operations well into the future. Management continues its focus on increasing earning assets as a percentage of total assets.

The Bank utilizes asset liability management modeling software to assist 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 are designed to 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. It is, however, important to point out that the Bank is not immune to both market rates in general and the shape of the market's yield curve or the slope of the graph that plots interest rates over time. The effect and impact of the yield curve on maturing assets and liabilities can be profound when the yield curve is "inverted" which means that interest rates which normally increase over extended time horizons instead are higher in the shorter term maturities and lower in longer term maturities. The Bank's model is able to forecast repricing symmetry or asymmetry of administered deposits, such as money market, NOW and savings.

Non-interest Income

Non-interest income totaled $409,808 for the year ended December 31, 2009, compared to $491,353 for the year ended December 31, 2008. The primary components of non-interest income include service charges on deposit accounts, ATM and debit card transaction fees, income on bank owned life insurance, commissions on credit life insurance, checkbook sales, title insurance, merchant services income, investment and mortgage services income and net gains (losses) on the sale of repossessions and net gains (losses) on securities.

Service charges on deposit accounts totaled $109,429 and $86,543 for the years ended December 31, 2009 and 2008, respectively. Net gain on securities totaled $19,633 for the year ended December 31, 2009, compared to $206,813 for the year ended December 31, 2008. The 2008 amount is somewhat distorted due to both the volume of "called" bonds in 2008, which had been purchased at a discount, and a decision to sell bonds at a gain in December 2008 to facilitate loan loss provisions. Merchant services income totaled $12,637 and $17,709 for the years ended December 31, 2009 and 2008, respectively.

Income on bank owned life insurance (“BOLI”) totaled $143,738 and $28,800 for the years ended December 31, 2009 and 2008, respectively. The Bank cancelled and surrendered two policies with Lincoln Life Insurance (one each on Messrs. Farinholt and Smith) which were purchased in 2004 in connection with the Supplemental Executive Retirement Plan (“SERP”), discussed below in Note 11. The surrendered proceeds were reinvested in a policy for Mr. Farinholt with John Hancock Insurance Company and a policy for Mr. Smith with Northwestern Mutual Life Insurance Company. The result was the combination of a cash value accelerator clause in the two Lincoln policies at surrender and improved yields in the two new policies.

Investment services income totaled $24,136 for the year ended December 31, 2009, compared to $36,801 for the year ended December 31, 2008, reflective of the recessionary economy and investor resistance to be active in the market.

The mortgage division contributed a loss of $4,645 in 2009. While the loss is disappointing, in the current economy, many mortgage companies have become severely unprofitable and have even failed. The broad nationwide softening of mortgage loan originations has inhibited general growth of CVM’s mortgage operations. The Bank is, however, confident that CVM will continue to contribute to long-term non-interest income, as well as compliment total product offerings and expand customer relationships.

Non-interest Expense

Non-interest expense includes employee-related costs, occupancy and equipment expense and other overhead. Total non-interest expense increased $0.5 million from $3.3 million for the year ended December 31, 2008 to $3.8 million for the year ended December 31, 2009.

Salaries and employee benefits totaled $2.1 million in the year ended December 31, 2009, compared to $1.8 million for the year ended December 31, 2008. The increase is due to the hiring of a Compliance Officer and additional staff for the New Kent branch office. Occupancy and furniture and equipment expenses totaled $351,566 and $289,773 for the years ended December 31, 2009 and 2008, respectively. Stationery and supplies expenses totaled $66,539 and $40,024 for the years ended December 31, 2009 and 2008, respectively. These increases can be attributed to the opening of the New Kent branch office.

FDIC insurance assessments increased from $60,385 for the year ended December 31, 2008 to $174,824 for the year ended December 31, 2009, due to an increase in the assessment calculation and a “Special Assessment” expensed in the second quarter 2009.

Strategic competitive decisions at the Bank’s inception were made regarding product offerings, such as internet and telephone banking, ATM and debit cards, check imaging and optical file storage, all of which resulted in substantial initial investment in technology. Along with the decision discussed above regarding personnel, these technology decisions are expected to produce long-term efficiencies and competitive necessities. However, such initial financial investments require more critical mass of customer accounts when such a heavy reliance is placed on net interest income for overall profitability.

As discussed further below in Item 9A, Controls and Procedures, the Bank became subject to full compliance in 2007 to the Sarbanes-Oxley Act of 2002 (“SOX”). Specifically, Section 404 of SOX requires a much expanded validation of the Bank’s systems of internal controls over financial reporting compared to the current environment in which the Bank operates. In 2009, the Bank expensed $31,175 for audit services directly associated with SOX compliance, compared to $45,379 expensed in 2008. Although the direct audit expenses are down slightly, the personnel burden and associated "unidentifiable and unrecoverable" expense of employee inefficiency affects overall earnings efficiency.

Non-GAAP Financial Measures

A measure of the extent to which the Bank's revenues are absorbed by non-interest expenses is expressed as the efficiency ratio. The efficiency ratio is calculated by dividing non-interest expenses by the sum of total non-interest income and net interest income for the period. This is a non-GAAP financial measure, which we believe provides important information about our operational efficiency. Comparison of our efficiency ratio with those of other companies may not be possible because other companies may calculate the ratio differently. As the Bank matures, an efficiency ratio of 60 to 65% is targeted. At December 31, 2009, the Bank's efficiency ratio was 95.06% compared to 92.84% at December 31, 2008.

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 $3.5 million per employee at December 31, 2009, compared to $4.1 million at December 31, 2008. Unfortunately, due to the demands of increased levels of internal control associated with SOX, the Bank has had to augment operational staff to satisfy infrastructure needs to maintain a satisfactory internal control environment. Management had previously attempted to offset the need for staff through the use of technology.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses ("ALLL") at December 31, 2009 was $1,029,400, compared to $622,068 at December 31, 2008. The allowance for loan losses was 1.55% of total loans outstanding at December 31, 2009, compared to 0.99% at December 31, 2008. The provision for loan losses was $730,200 for the year ended December 31, 2009, compared to $239,200 for the year ended December 31, 2008. The provision for loan and lease 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 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 ALLL. The dramatic increase for 2009 was due to two primary factors. First, the national economic recession crisis has affected the Bank's primary market, although not as severely as many other regions in the country. Management uses multi-level stratification for the segment of the ALLL calculation which addresses local economic conditions. These factors include unemployment levels, median house prices, median income levels and residential housing permits, to name a few. Housing starts in the Bank's market, as measured by construction permits, declined in 2009 and local unemployment increased, although still below the state average. Therefore, the methodology used by the Bank for evaluating the adequacy of its ALLL required an increase in the provision expense and ALLL reflective of the declining economic factors. Second, the Bank's impairment analysis indicated the need for an increase of approximately $214,000 in specific reserves on impaired loans. Absent the difficult economic factors, identifiable loss exposure embedded within the portfolio is considered to be adequately covered by the ALLL. The Bank has not been affected by the nationwide "sub-prime" mortgage crisis since it is not active in sub-prime lending. Loans past due, 90 days and over, totaled $5,650 at December 31, 2009, compared to $91,342 at December 31, 2008. Repossessions totaled $70,000 at December 31, 2009, compared to $0 at December 31, 2008. Management does not anticipate material losses in either of these categories.

Management uses an internal credit risk rating system which includes six "pass" grades, as well as four adverse grades. All existing loans have been assigned an individual risk rating. Management not only incorporates these ratings into its methodology for evaluating the adequacy of the ALLL, but also into pricing strategies. This methodology also reflects the provision for loan loss expense to accommodate only the risks associated with this evaluation exercise.

Capital Resources

Shareholders' equity at December 31, 2009 and December 31, 2008 was $11.6 million and $11.9 million, respectively. The 2009 amount includes "accumulated other comprehensive income" of $346,818. This amount is comprised of a credit amount of $426,742 of unrealized gains on available for sale securities, net of tax, and $79,924 representing the unamortized debit balance on a one-time lump sum adjustment to accrued pension liability pursuant to applicable accounting guidance, net of tax (discussed elsewhere in this report). Total common shares outstanding at December 31, 2009 were 610,175.

At December 31, 2009, the Bank's tier 1 and total risk-based capital ratios were 14.1% and 15.2%, respectively, compared to 15.5% and 16.1% at December 31, 2008. The Bank's leverage ratio was 9.1% at December 31, 2009, compared to 10.9% at December 31, 2008. 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 and Interest Rate Sensitivity

The primary functions of asset and liability management are to (1) assure adequate liquidity; (2) maintain an appropriate balance between interest-sensitive assets and interest-sensitive liabilities; (3) maximize the profit of the Bank; and (4) reduce risks to the Bank's capital. Liquidity management involves the ability to meet day-to-day cash flow requirements of the Bank's customers, whether they are depositors wishing to withdraw funds or borrowers requiring funds to meet their credit needs. Without proper liquidity management, the Bank would not be able to perform the primary function of a financial intermediary and would, therefore, not be able to meet the needs of the communities it serves. Management believes that the Bank maintains overall liquidity sufficient to satisfy its depositors' requirements and to meet its customers' credit needs. Interest rate risk management focuses on the maturity structure of assets and liabilities and their repricing characteristics during changes in market interest rates. Effective interest rate sensitivity management ensures that both assets and liabilities respond to changes in interest rates within an acceptable time frame, thereby minimizing the effect of such interest rate movements on the net interest margin.

The asset portion of the balance sheet provides liquidity primarily from two sources. These sources are principal payments and maturities and sales relating to loans, and maturities and principal payments from the investment portfolio. Other short-term investments such as federal funds sold are additional sources of liquidity. Loans, maturing or repricing in one year or less, totaled $30.5 million at December 31, 2009. Investment securities that are forecast to mature or reprice over the next twelve months total $4.6 million, or 12.4% of the investment portfolio as of December 31, 2009.

Although the majority of the securities portfolio has legal final maturities longer than 10 years, the portfolio consists of securities that are readily marketable and easily convertible into cash. As of

December 31, 2009, due to call options, scheduled principal payments, and projected pre-payments, the bond portfolio had an expected average maturity of approximately 2.65 years, with approximately 87% expected to be repaid within 5 years at current rates. It is important to note that bond cash flows are extremely sensitive to and dependent on market interest rate fluctuations; therefore, the projected average maturities or "average lives" are subject to routine changes. Management does not rely solely upon the investment portfolio to generate cash flows to fund loans or for other cash requirements. Instead, these activities are funded by cash flows from operating activities and increases in deposits and short-term borrowings.

The liability portion of the balance sheet provides liquidity through interest bearing and non-interest bearing deposit accounts.

The Bank also maintains additional sources of liquidity through federal funds guidance lines with correspondent banks, which totaled $4.8 million at December 31, 2009. The Bank terminated its previous 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). To replace this potential funding source, the Bank joined the Federal Home Loan Bank of Atlanta ("FHLB") in the fourth quarter of 2007. The Bank has various borrowing options through the FHLB under a line of credit of slightly in excess of $23 million, although such borrowings require collateralization by means of pledging investment securities or certain loans secured by real estate. The Bank actually began exercising options under the FHLB line of credit during 2008. Management used advances under the line as replacement for more expensive consumer CDs in the local market. FHLB borrowings totaled $6.5 million at December 31, 2009. Additionally, the Bank became a member of the Certificate of Deposit Account Registry Service ("CDARS"). This program allows the Bank to increase insurance coverage for its deposit customers. In addition, the program allows the Bank to increase excess liquidity, as well as generate liquidity when needed. The Bank has not established a Federal Reserve Discount Window relationship to date, but plans to executive documents for such a relationship in 2010. This will provide another source of liquidity through Discount Window borrowings.

At December 31, 2009, cash, interest bearing deposits with financial institutions, federal funds sold and securities available for sale were 39.6% of total deposits and liabilities. Management, under 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 available for sale securities, and unused lines of credit). The policy requires that this ratio be equal to or greater than 15% of total assets. At December 31, 2009, this ratio was 43.9%. Core deposit levels 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 52.5% or greater as a percentage of total assets. At December 31, 2009, this percentage was 67.0%.

In 2007, the Bank began participating in a CD program with the Treasurer of Virginia, administered through Community Bankers Bank of Virginia ("CBB"). Since CBB manages this program for the State of Virginia, these deposits are considered "brokered" deposits. As of December 31, 2009, the Bank held no deposits under this program. The Bank held $2.6 million, or 2.5% of total deposits, in other brokered deposits on December 31, 2009. These funds were used to replace higher cost retail CDs. The brokered CD market is considered a viable source of liquidity and the Bank has included it in its liquidity policy, with a cap limit not to exceed 15% of total deposits.

Off-Balance Sheet Arrangements

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

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

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

The Bank maintains funds on deposit at correspondent banks which at times exceed the federally insured limits. Management of the Bank monitors the balance in these accounts and periodically assesses the financial condition of correspondent banks. The Bank has expanded its continuous monitoring of the financial condition of all of the correspondent banks with which it does business. Both current data and trend analysis are monitored for key financial ratios such as asset quality, earnings and capital. In a move to enhance the strength of the financial services industry, the FDIC implemented the Temporary Liquidity Guarantee Program ("TLGP") in October 2008. This essentially provided expanded insurance coverage for 100% non-interest bearing transactions, such as the Bank maintains with its correspondent banks. The two primary correspondent accounts are with Compass Bank and Community Bankers Bank ("CBB"), both of whom are participants in the FDIC's TLGP. Therefore, the Bank considers its level of risk with these correspondent banks to be manageable.

Future Events and Other Matters

The Bank began offering its remote merchant deposit capture for its commercial customers in April 2009. The initial plan was to start slowly and offer the product to the Bank's best existing customers. In the future, this product will enhance the Bank's ability to attract valuable new commercial deposits from areas where the Bank has no physical presence by allowing "non-cash" deposits to be transmitted electronically, eliminating the need for the commercial customer to come to the Bank. This may help the Bank grow without the costly effect of bricks and mortar full service branch offices. Because other competitors have gradually begun to offer similar products, the Bank also believes that such a step was needed to retain existing valuable commercial customers.

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;
- the successful management of interest rate risk;
- changes in general economic and business conditions in the Bank's market area;
- the ability to continue to attract low cost core deposits to fund asset growth;
- reliance on the Bank's management team, including its ability to attract and retain key personnel;
- maintaining capital levels adequate to support the Bank's growth;
- competition with other banks and financial institutions, and companies outside of the banking industry, including those companies that have substantially greater access to capital and other resources;
- 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;
- managing the cost and implementation on new technology required to compete and to meet increasing regulatory requirements
- changes in banking and other laws and regulations applicable to the Bank; and
- demand, development and acceptance of new products and services.

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

	Year Ended December 31, 2009			Year Ended December 31, 2008		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets:						
Interest earning assets:						
Securities						
Taxable	$31,652,084	$ 1,427,029	4.51%	$31,544,590	$ 1,686,371	5.35%
Tax exempt	271,480	17,850	6.58%	--	--	--
Total securities	31,923,564	1,444,879	4.53%	31,544,590	1,686,371	5.35%
Federal funds sold	7,001,573	17,483	0.25%	3,636,748	85,334	2.35%
Deposits at other banks	1,886,201	1,738	0.09%	1,864,711	28,528	1.53%
Loans, net	65,222,897	4,580,828	7.02%	58,224,885	4,630,892	7.95%
Total earning assets	106,034,235	6,044,928	5.70%	95,270,934	6,431,125	6.75%
Less: allowance for loan losses	(759,979)			(533,355)		
Total non-earning assets	11,533,132			9,235,486		
Total assets	116,807,388			103,973,065		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Checking	4,969,516	66,785	1.34%	4,056,411	59,252	1.46%
Savings and money market deposits	17,408,798	288,501	1.66%	10,550,946	218,617	2.07%
Other time	64,451,776	1,890,729	2.93%	64,508,999	2,763,254	4.28%
Total interest bearing deposits	86,830,090	2,246,015	2.59%	79,116,356	3,041,122	3.84%
FHLB borrowings	8,900,000	174,568	1.96%	4,923,169	125,934	2.56%
Total interest bearing liabilities	95,730,090	2,420,583	2.53%	84,039,525	3,167,056	3.77%
Noninterest bearing liabilities:						
Demand deposits	8,010,380			7,275,077		
Other non-interest bearing Liabilities	1,149,844			1,083,555		
Total liabilities	104,890,314			92,398,157		
Stockholders' equity	11,917,074			11,574,908		
Total liabilities and stockholders' equity	$116,807,388			$103,973,065		
Net Interest Income		$ 3,624,345			$3,264,069	
Interest rate spread (1)			3.17%			2.98%
Net Interest Margin (2)			3.42%			3.43%

(1) Interest spread is the average yield earned on earning assets, calculated on a fully taxable equivalent basis assuming a federal tax rate of 34%, 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 8. Financial Statements and Supplementary Data

COLONIAL VIRGINIA BANK

Gloucester, Virginia

FINANCIAL REPORT

DECEMBER 31, 2009

C O N T E N T S

Yount
Hyde &
Barbour
Certified Public Accountants
and Consultants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Colonial Virginia Bank
Gloucester, Virginia

We have audited the accompanying balance sheets of Colonial Virginia Bank as of December 31, 2009 and 2008, and the related statements of operations, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colonial Virginia Bank as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assessment of the effectiveness of Colonial Virginia Bank's internal control over financial reporting as of December 31, 2009, included in the accompanying Management's Report on Internal Control over Financial Reporting and, accordingly, we do not express an opinion thereon.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 30, 2010

COLONIAL VIRGINIA BANK
Balance Sheets
December 31, 2009 and 2008

Assets	**2009**	**2008**
Cash and due from banks	$ 6,883,051	$ 10,116,510
Federal funds sold	6,699,000	3,825,000
Securities available for sale, at fair market value	35,679,122	25,329,308
Securities held to maturity (fair market value of $371,940 in 2009 and $807,289 in 2008)	350,536	790,373
Restricted securities, at cost	998,650	1,017,850
Loans, net of allowance for loan losses of $1,029,400 in 2009 and $622,068 in 2008	65,145,113	62,120,125
Bank premises and equipment, net	4,831,848	3,987,464
Bank owned life insurance	2,760,693	2,618,333
Other assets	1,982,494	966,939
Total assets	$125,330,507	$ 110,771,902
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing demand deposits	$ 9,729,133	$ 7,187,310
Savings and interest-bearing demand deposits	34,655,977	17,026,196
Time deposits	61,477,487	62,575,457
Total deposits	$105,862,597	$ 86,788,963
Federal Home Loan Bank borrowings	6,500,000	11,000,000
Accrued expenses and other liabilities	1,320,101	1,081,168
Total liabilities	$113,682,698	$ 98,870,131
Shareholders' Equity		
Preferred stock, par value $5 per share, authorized 5,000,000 shares; no shares issued and outstanding	$ - -	$ - -
Common stock, par value $5 per share, authorized 10,000,000 shares; issued and outstanding 610,175 shares	3,050,875	3,050,875
Capital surplus	9,139,425	9,132,538
Retained (deficit)	(889,309)	(589,350)
Accumulated other comprehensive income	346,818	307,708
Total shareholders' equity	$ 11,647,809	$ 11,901,771
Total liabilities and shareholders' equity	$125,330,507	$ 110,771,902

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK

Statements of Operations

For the Years Ended December 31, 2009 and 2008

	2009	2008
Interest and Dividend Income		
Interest and fees on loans	$ 4,580,829	$ 4,630,892
Interest on securities		
Taxable	1,404,122	1,652,142
Tax exempt interest income	11,781	- -
Dividends	22,907	34,229
Interest on federal funds sold	19,220	113,862
Total interest and dividend income	$ 6,038,859	$ 6,431,125
Interest Expense		
Interest on deposits	$ 2,246,015	$ 3,041,122
Interest on FHLB borrowings	174,568	125,934
Total interest expense	$ 2,420,583	$ 3,167,056
Net interest income	$ 3,618,276	$ 3,264,069
Provision for Loan Losses	730,200	239,200
Net interest income after provision for loan losses	$ 2,888,076	$ 3,024,869
Other Income		
Service charges on deposit accounts	$ 109,429	$ 86,543
Income on bank owned life insurance	143,738	28,800
Net gain on securities	19,633	206,813
Other service charges, commissions and fees	137,008	169,197
Total other income	$ 409,808	$ 491,353
Other Expenses		
Salaries and employee benefits	$ 2,062,612	$ 1,779,178
Occupancy expense	249,531	204,362
Furniture and equipment expense	102,035	85,411
Data processing	466,411	469,163
Advertising	93,786	125,402
Professional fees	187,274	172,730
Stationery and supplies	66,539	40,024
Postage and freight	38,064	35,419
Regulatory assessments	207,431	88,081
Insurance	40,613	36,302
Franchise tax	75,876	65,177
Directors fees	69,800	74,400
Charitable contributions	11,620	19,880
Other operating expenses	158,975	99,081
Total other expenses	$ 3,830,567	$ 3,294,610

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK

Statements of Operations

(Continued)

For the Years Ended December 31, 2009 and 2008

	2009	2008
Net income (loss) before income taxes	$ (532,683)	$ 221,612
Income Tax Provision (Benefit)	(232,724)	86,674
Net income (loss)	$ (299,959)	$ 134,938
Earnings (loss) per Share, basic	$ (0.49)	$ 0.22
Earnings (loss) per Share, diluted	$ (0.49)	$ 0.22
Weighted Average Shares Outstanding, basic	610,175	610,175
Weighted Average Shares Outstanding, diluted	610,175	610,743

See Accompanying Notes to Financial Statements.

Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2009 and 2008

	Common Stock	Capital Surplus	Retained (Deficit)	Accumulated Other Compre-hensive Income	Compre-hensive Income (Loss)	Total
Balance at December 31, 2007	$ 3,050,875	$ 9,130,243	$ (724,288)	$ 49,123		$ 11,505,953
Comprehensive income:						
Net income	- -	- -	134,938	- -	$ 134,938	134,938
Other comprehensive income:						
Change in unrealized gain on securities available for sale (net of tax $188,097)	- -	- -	- -	- -	365,130	- -
Reclassification adjustment (net of tax $70,316)	- -	- -	- -	- -	(136,497)	- -
Change in pension liability (net of tax $15,430)	- -	- -	- -	- -	29,952	- -
Other comprehensive income	- -	- -	- -	258,585	258,585	258,585
Total comprehensive income	- -	- -	- -	- -	$ 393,523	- -
Stock-based compensation	- -	2,295	- -	- -		2,295
Balance at December 31, 2008	$ 3,050,875	$ 9,132,538	$ (589,350)	$ 307,708		$ 11,901,771
Comprehensive (loss):						
Net (loss)	- -	- -	(299,959)	- -	$ (299,959)	(299,959)
Other comprehensive income:						
Change in unrealized gain on securities available for sale (net of tax $21,888)	- -	- -	- -	- -	42,488	- -
Reclassification adjustment (net of tax $6,675)	- -	- -	- -	- -	(12,958)	- -
Change in pension liability (net of tax $4,935)	- -	- -	- -	- -	9,580	- -
Other comprehensive income	- -	- -	- -	39,110	39,110	39,110
Total comprehensive (loss)	- -	- -	- -	- -	$ (260,849)	- -
Stock-based compensation	- -	6,887	- -	- -		6,887
Balance at December 31, 2009	$ 3,050,875	$ 9,139,425	$ (889,309)	$ 346,818		$ 11,647,809

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK

Statements of Cash Flows

For the Years Ended December 31, 2009 and 2008

Cash Flows From Operating Activities	**2009**	**2008**
Reconciliation of net income (loss) to net cash provided by (used in) operating activities:		
Net income (loss)	$ (299,959)	$ 134,938
Net amortization (accretion) on investment securities	43,747	(13,517)
Deferred income tax benefit	(235,440)	(17,369)
Depreciation and amortization	259,169	255,424
Provision for loan losses	730,200	239,200
Stock based compensation	6,887	2,295
(Gain) on securities	(19,633)	(206,813)
Changes in assets and liabilities:		
Decrease (increase) in accrued interest and other assets	(800,264)	207,255
Increase in accrued expenses and other liabilities	253,448	121,102
Net cash provided by (used in) operating activities	$ (61,845)	$ 722,515
Cash Flows From Investing Activities		
Purchases of securities available for sale	$ (26,638,834)	$ (21,007,972)
Principal paydowns of securities	6,906,526	4,497,690
Proceeds from calls and maturities of securities available for sale	8,025,002	9,755,741
Proceeds from sales of securities available for sale	1,517,959	8,079,509
Proceeds from calls and maturities of securities held to maturity	300,000	2,347,858
(Purchase) of Federal Reserve Bank stock	(9,600)	- -
(Purchase) redemption of Federal Home Loan Bank stock	28,800	(506,300)
Net (increase) in loans	(3,755,188)	(8,700,821)
Increase in bank owned life insurance	(142,360)	(528,800)
Purchases of premises and equipment	(1,103,553)	(489,144)
Net cash (used in) investing activities	$ (14,871,248)	$ (6,552,239)
Cash Flows From Financing Activities		
Net increase in demand, savings, interest-bearing checking and money market deposits	$ 20,171,604	$ 4,056,980
Net (decrease) in time deposits	(1,097,970)	(216,717)
Net increase (decrease) in other borrowings	(4,500,000)	11,000,000
Net cash provided by financing activities	$ 14,573,634	$ 14,840,263
Net increase (decrease) in cash and cash equivalents	$ (359,459)	$ 9,010,539
Cash and Cash Equivalents		
Beginning	13,941,510	4,930,971
Ending	$ 13,582,051	$ 13,941,510

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK

Statements of Cash Flows (continued)
For the Years Ended December 31, 2009 and 2008

	2009	2008
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 2,453,472	$ 3,299,394
Cash paid for income taxes	$ 153,988	$ -
Supplemental Disclosure of Noncash Activities		
Unrealized gain on securities available for sale	$ 44,743	$ 346,414
Change in pension liability	$ 14,515	$ 45,382

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Significant Accounting Policies

The accounting and reporting policies of Colonial Virginia Bank (the "Bank") are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The more significant of these policies are summarized below.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing balances with banks and federal funds sold. Generally, federal funds are purchased and sold for one day periods.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Other restricted securities, such as Federal Reserve Bank and Federal Home Loan Bank stock, are carried at cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Management evaluates securities for other than temporary impairment on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (i) the Bank intends to sell the security or (ii) it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis. If, however, the Bank does not intend to sell the security and it is not more-than-likely that the Bank will be required to sell the security before recovery, management must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income.

For equity securities carried at cost as restricted securities, impairment is considered to be other-than-temporary based on the Bank's ability and intent to hold the investment until a recovery of fair value. Other-than-temporary impairment of an equity security results in a write-down that must be included in income.

Loans

The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial loans throughout the Middle Peninsula area of Virginia. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination and commitment fees and certain direct costs are deferred and the net amount is amortized as an adjustment of the related loan's yield. The Bank is amortizing these amounts over the loan's contractual life.

The accrual of interest on mortgage, commercial and consumer loans is discontinued at the time the loan becomes 90 days delinquent unless the credit is well-secured and in process of collection. Non-performing loans are placed either in nonaccrual status pending further collection efforts or charged off if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on loans in nonaccrual status is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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 uses an internal risk rating system and assigns a numeric rating to each loan based on multiple criteria, including but not limited to a borrower's credit history (evidenced by credit bureau reporting), collateral and its supporting value, type of work or industry in which the borrower is involved, and any noted exceptions to internal policy. Varying percentages of outstanding balances by risk rating are used in determining the adequacy of the allowance. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures. Impairments are charged to the allowance.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the assets' estimated useful lives. Estimated useful lives range from 10 to 39 years for buildings and 3 to 7 years for furniture, fixtures and equipment.

Foreclosed Properties and Repossessed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale. They are initially recorded at the lower of the Bank's cost or the assets' fair market value at the date of foreclosure, less estimated selling costs thus establishing a new cost basis. Subsequent to foreclosure, valuations of the assets are periodically performed by management. Adjustments are made to the lower of the carrying amount or fair market value of the assets less selling costs. Revenue and expenses from operations and valuation changes are included in net expenses from repossessed assets. The Bank had no foreclosed properties or repossessed assets at December 31, 2008. Repossessed assets (comprised of farm equipment) totaled $70,000 at December 31, 2009.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate, the valuation allowance of deferred tax assets, and the fair value of financial instruments.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carry forwards, and tax credit carry forwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income.

Advertising Costs

The Bank follows the policy of charging the production costs of advertising to expense as incurred. The Bank expensed $93,786 and $125,402 for advertising costs for the years ended December 31, 2009 and 2008, respectively.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities and minimum pension liability adjustments, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Earnings Per Share

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 reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate solely to outstanding stock options, and are determined using the treasury stock method.

Stock-Based Compensation

Authoritative accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Authoritative accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. The Bank measures the cost of employee services received in exchange for stock options based on the grant-date fair value of the award and recognizes the cost over the period the employee is required to provide services for the award. Authoritative accounting guidance permits entities to use any option-pricing model that meets the fair value objective in the Statement.

Adoption of New Accounting Standards

The Bank has adopted accounting guidance related to U.S. generally accepted accounting principles (GAAP) - Financial Accounting Standards Board (FASB) Accounting Standards Certification (ASC) 105, Generally Accepted Accounting Principles. This guidance establishes FASB ASC as the source of authoritative U.S. GAAP recognized by FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. FASB ASC supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in FASB ASC has become non-authoritative. FASB will no longer issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates (ASUs), which will serve to update FASB ASC, provide background information about the guidance and provide the basis for conclusions on the changes to FASB ASC. FASB ASC is not intended to change U.S. GAAP or any requirements of the SEC.

The Bank adopted new guidance impacting Financial Accounting Standards Board (FASB) Topic 805: *Business Combinations* (Topic 805) on January 1, 2009. This guidance requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. The adoption of the new guidance did not have a material impact on the Bank's financial statements.

In April 2009, the FASB issued new guidance impacting Topic 805. This guidance addresses application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This guidance was effective for business combinations entered into on or after January 1, 2009. This guidance did not have a material impact on the Bank's financial statements.

In April 2009, the FASB issued new guidance impacting FASB Topic 820: *Fair Value Measurements and Disclosures* (Topic 820). This interpretation provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This also includes guidance on identifying circumstances that indicate a transaction is not orderly and requires additional disclosures of valuation inputs and techniques in interim periods and defines the major security types that are required to be disclosed. This guidance was effective for interim and annual periods ending after June 15, 2009, and should be applied prospectively. The adoption of the standard did not have a material impact on the Bank's financial statements.

In April 2009, the FASB issued new guidance impacting FASB Topic 320-10: *Investments – Debt and Equity Securities*. This guidance amends GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This guidance was effective for interim and annual periods ending after June 15, 2009, with earlier adoption permitted for periods ending after March 15, 2009. The Bank did not have any cumulative effect adjustment related to the adoption of this guidance.

In May 2009, the FASB issued new guidance impacting FASB Topic 855: *Subsequent Events*. This update provides guidance on management's assessment of subsequent events that occur after the balance sheet date through the date that the financial statements are issued. This guidance is generally consistent with current accounting practice. In addition, it requires certain additional disclosures. This guidance was effective for periods ending after June 15, 2009 and had no impact on the Bank's financial statements.

In August 2009, the FASB issued new guidance impacting Topic 820. This guidance is intended to reduce ambiguity in financial reporting when measuring the fair value of liabilities. This guidance was effective for the first reporting period (including interim periods) after issuance and had no impact on the Bank's financial statements.

In September 2009, the FASB issued new guidance impacting Topic 820. This creates a practical expedient to measure the fair value of an alternative investment that does not have a readily determinable fair value. This guidance also requires certain additional disclosures. This guidance is effective for interim and annual periods ending after December 15, 2009. The adoption of the new guidance did not have a material impact on the financial statements.

In October 2009, the Securities and Exchange Commission issued Release No. 33-99072, *Internal Control over Financial Reporting in Exchange Act Periodic Reports of Non-Accelerated Filers.* Release No. 33-99072 delays the requirement for non-accelerated filers to include an attestation report of their independent auditor on internal control over financial reporting with their annual report until the fiscal year ending on or after June 15, 2010.

Accounting Standards Not Yet Effective

In June 2009, the FASB issued new guidance relating to the accounting for transfers of financial assets. The new guidance, which was issued as SFAS No. 166, *Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140*, was adopted into Codification in December 2009 through the issuance of Accounting Standards Update (ASU) 2009-16. The new standard provides guidance to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The Bank will adopt the new guidance in 2010 and is evaluating the impact it will have, if any, on its financial statements.

In June 2009, the FASB issued new guidance relating to the variable interest entities. The new guidance, which was issued as SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, was adopted into Codification in December 2009. The objective of the guidance is to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. SFAS No. 167 is effective as of January 1, 2010. The Bank does not expect the adoption of the new guidance to have a material impact on its financial statements.

In January 2010, the FASB issued ASU 2010-04, *Accounting for Various Topics – Technical Corrections to SEC Paragraphs*. ASU 2010-04 makes technical corrections to existing SEC guidance including the following topics: accounting for subsequent investments, termination of an interest rate swap, issuance of financial statements - subsequent events, use of residential method to value acquired assets other than goodwill, adjustments in assets and liabilities for holding gains and losses, and selections of discount rate used for measuring defined benefit obligation. The Bank does not expect the adoption of ASU 2010-04 to have a material impact on its financial statements.

In January 2010, the FASB issued ASU 2010-05, *Compensation – Stock Compensation (Topic 718): Escrowed Share Arrangements and the Presumption of Compensation*. ASU 2010-05 updates existing guidance to address the SEC staff's views on overcoming the presumption that for certain shareholders escrowed share arrangements represent compensation. The Bank does not expect the adoption of ASU 2010-05 to have a material impact on its financial statements.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Bank does not expect the adoption of ASU 2010-06 to have a material impact on its financial statements.

In February 2010, the FASB issued ASU 2010-08, *Technical Corrections to Various Topics*. ASU 2010-08 clarifies guidance on embedded derivatives and hedging. ASU 2010-08 is effective for interim and annual periods beginning after December 15, 2009. The Bank does not expect the adoption of ASU 2010-08 to have a material impact on its financial statements.

Note 2. Securities

Amortized cost and fair values of securities available for sale at December 31, 2009, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	$ 8,334,364	$ - -	$ (152,329)	$ 8,182,035
Mortgage-backed securities	25,999,132	829,093	(53,051)	26,775,174
Securities of states and political subdivisions	699,047	22,866	- -	721,913
Total	$ 35,032,543	$ 851,959	$ (205,380)	$ 35,679,122

Notes to Financial Statements

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	$ 4,000,011	$ 64,771	$ (12,141)	$ 4,052,641
Mortgage-backed securities	20,628,698	564,117	(17,735)	21,175,080
Securities of states and political subdivisions	98,763	2,824	- -	101,587
Total	$ 24,727,472	$ 631,712	$ (29,876)	$ 25,329,308

Amortized cost and fair values of securities held to maturity at December 31, 2009, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Mortgage-backed securities	$ 350,536	$ 21,404	$ - -	$ 371,940
Total	$ 350,536	$ 21,404	$ - -	$ 371,940

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	$ 299,862	$ 2,259	$ - -	$ 302,121
Mortgage-backed securities	490,511	14,657	- -	505,168
Total	$ 790,373	$ 16,916	$ - -	$ 807,289

Notes to Financial Statements

Securities pledged to secure deposits of the Commonwealth of Virginia totaled approximately $100,000 and $1,605,000 at December 31, 2009 and 2008, respectively. Securities pledged to secure advances at the Federal Home Loan Bank totaled approximately $9,159,294 and $12,750,044 at December 31, 2009 and 2008, respectively.

The amortized cost and fair value of securities available for sale and held to maturity at December 31, 2009, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One to five years	$ 4,968,767	$ 5,099,859	$ --	$ --
Five to ten years	10,173,774	10,216,641	--	--
After ten years	19,890,002	20,362,622	350,536	371,940
Total	$ 35,032,543	$ 35,679,122	$ 350,536	$ 371,940

For the years ended December 31, 2009 and 2008, proceeds from sales and calls of securities available for sale totaled $9,517,959 and $15,254,591, respectively. Gross realized gains of $19,633 and $191,559 and gross realized losses of $0 and $297 were recognized on those sales and calls, respectively.

For the years ended December 31, 2009 and 2008, proceeds from calls of securities held to maturity totaled $0 and $2,347,858, respectively. Gross realized gains of $0 and $15,551, respectively, were recognized on those calls and there were no gross realized losses.

At December 31, 2009, twelve investment securities had an unrealized loss of $205,380 and a market value of $9,606,945. 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 no investment securities held at December 31, 2009 that had been in an unrealized loss position for greater than 12 months. The Bank does not intend to sell these securities and it is not more-than-likely that the Bank will be required to sell the securities before recovery of its amortized cost.

2009	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	$6,185,750	($152,329)	$ - -	$ - -	$6,185,750	($152,329)
Mortgage-backed securities	3,421,195	(53,051)	- -	- -	3,421,195	(53,051)
Total temporarily Impaired securities	$9,606,945	($205,380)	$ - -	$ - -	$9,606,945	($205,380)

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	$1,982,500	($12,141)	$ - -	$ - -	$1,982,500	($12,141)
Mortgage-backed securities	1,002,812	(17,735)	- -	- -	1,002,812	(17,735)
Total temporarily Impaired securities	$2,985,312	($29,876)	$ - -	$ - -	$2,985,312	($29,876)

Note 3. Loans

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

	December 31, 2009	December 31, 2008
Mortgage:		
Construction and land development	$ 12,622,629	$ 15,071,017
Residential real estate	22,979,969	18,387,347
Nonresidential	14,292,963	12,119,703
Commercial	10,269,654	11,187,153
Agricultural and other farm loans	408,000	519,802
Consumer and all other loans	5,748,752	5,579,933
	$ 66,321,967	$ 62,864,955
Allowance for loan losses	1,029,400	622,068
Unearned income	147,454	122,762
Loans, net	$ 65,145,113	$ 62,120,125

Overdrafts totaling $45,228 and $31,744 at December 31, 2009 and 2008, respectively, were reclassified from deposits to loans.

The following is a summary of information pertaining to impaired and non-accrual loans:

	December 31, 2009	December 31, 2008
	(in thousands)	
Impaired loans without a valuation allowance	$ 3,229	$ 75
Impaired loans with a valuation allowance	1,619	281
Total impaired loans	$ 4,848	$ 356
Valuation allowance related to impaired loans	$ 289	$ 75
Non-accrual loans excluded from impaired loans	$ 12	$ 6
Total loans past due ninety days or more and still accruing	$ 6	$ 91

	Years Ended December 31, 2009	Years Ended December 31, 2008
	(in thousands)	
Average investment in impaired loans	$ 3,745	$ 704
Interest income recognized on impaired loans	$ 289	$ 24
Interest income recognized on a cash basis on impaired loans	$ 289	$ 24

No additional funds are committed to be advanced in connection with impaired loans.

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

	December 31, 2009	December 31, 2008
Balance at the beginning of the period	$ 622,068	$ 491,383
Provision for loan losses	730,200	239,200
Loans charged off	(325,202)	(111,978)
Recoveries on loans previously charged off	2,334	3,463
Balance at the end of the period	$ 1,029,400	$ 622,068

Note 4. Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	December 31, 2009	December 31, 2008
Bank building and improvements	$ 3,044,055	$ 2,072,511
Land and land improvements	1,787,963	1,442,676
Furniture, fixtures and equipment	1,471,310	1,252,714
Construction in progress	11,884	452,608
	$ 6,315,212	$ 5,220,509
Less accumulated depreciation	1,483,364	1,233,045
	$ 4,831,848	$ 3,987,464

Depreciation expense for the years ended December 31, 2009 and 2008 totaled $259,169 and $255,424, respectively.

As of December 31, 2009, the Bank had no lease agreements.

Note 5. Borrowings

The Bank had $6,500,000 in fixed-rate Federal Home Loan Bank borrowings at December 31, 2009. The weighted-average interest rate on the borrowings was 2.28% at December 31, 2009, with rates ranging from 1.91% to 2.67%. The advances mature as follows: 2010, $4,500,000 and 2011, $2,000,000. See Note 2 for information on securities pledged as collateral for these borrowings. The FHLB provides a floating credit facility to the Bank, computed as 20% of total assets at each quarter-end. As of December 31, 2009, the total amount available to borrow was $23,670,000.

The Bank has unsecured lines of credit with correspondent banks totaling $4,800,000 available for overnight borrowing. No balances were outstanding on these lines at December 31, 2009 or 2008.

Note 6. Related Party Transactions

In the normal course of business, the Bank extends credit to directors and executive officers. The aggregate amount of outstanding loans at December 31, 2009 and 2008 totaled $2,954,128 and $2,356,517, respectively. During the year ended December 31, 2009, total principal additions were $1,056,245 and total principal repayments were $458,634.

Deposits from related parties totaled $12,783,970 and $7,209,285 at December 31, 2009 and 2008, respectively.

Note 7. Time Deposits

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2009 and 2008 was $21,896,086 and $26,800,243, respectively.

At December 31, 2009, the scheduled maturities on certificates of deposit are as follows:

2010	$ 49,602,277
2011	10,972,995
2012	472,498
2013	381,243
2014	48,474
	$ 61,477,487

The Bank obtains certain deposits through the efforts of third-party brokers. At December 31, 2009 and 2008, brokered deposits totaled $2,631,000 and $6,145,000, respectively, and were included in time deposits on the Bank's balance sheets.

Note 8. Income Taxes

The Bank files income tax returns in the U.S. federal jurisdiction. With few exceptions, the Bank is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2006.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2009 and 2008 are presented below:

	December 31,	
	2009	**2008**
Deferred Tax Assets:		
Allowance for loan losses	$ 312,766	$ 191,517
Deferred compensation	289,620	208,158
Pension adjustment	41,166	61,538
Contributions carryover	111,016	84,483
	$ 754,568	$ 545,696
Deferred Tax Liabilities:		
Bank premises and equipment	31,273	37,466
Unrealized gains on securities	219,837	204,624
	$ 251,110	$ 242,090
Net Deferred Tax Assets	$ 503,461	$ 303,606

The provision (benefit) for income taxes charged to operations for the years ended December 31, 2009 and 2008:

	2009	**2008**
Current tax expense	$ 2,716	$ 104,043
Deferred tax (benefit)	(235,440)	(17,369)
Income tax provision (benefit)	$ (232,724)	$ 86,674

The reasons for the differences between income tax provision (benefit) and the amount computed by applying the statutory federal income tax rate are as follows:

	December 31, 2009	December 31, 2008
Income taxes computed at the applicable federal income tax rate	$ (181,113)	$ 75,348
Increase (decrease) resulting from		
Tax exempt income	(52,566)	(9,792)
Gain on redemption of life insurance	- -	21,593
Other	955	(475)
	$ (232,724)	$ 86,674

Contribution carry forwards totaling approximately $326,519 expire December 31, 2012.

Note 9. Financial Instruments with Off-Balance-Sheet Risk

The Bank is party to credit related 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 commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31, 2009 (in thousands)	December 31, 2008 (in thousands)
Commitments to grant loans	$ 2,740	$ 1,031
Unfunded commitments under lines of credit	10,868	12,225
Commercial and standby letters of credit	191	356

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments, if deemed necessary.

The Bank maintains its cash accounts in several correspondent banks. The amount by which cash on deposit in those banks exceeds the federally insured limits totaled $909,286 and $9,259,304 at December 31, 2009 and 2008, respectively.

Note 10. Stock Option Plan

During 2004, the Bank adopted an incentive stock plan under which options may be granted to certain key employees and directors for purchase of the Bank's common stock. The effective date of the plan was June 16, 2004, with an expiration date of June 16, 2014. The plan reserves for issuance 75,000 shares of the Bank's voting common stock. At December 31, 2009, 35,396 shares remained available for granting under the plan. The stock option plan requires that options be granted at an exercise price equal to at least 100% of the fair market value of the common stock on the date of the grant. Such options are generally not exercisable until one year from the date of issuance. The options will expire in no more than ten years after the date of grant. Compensation expense recognized in 2009 and 2008 totaled $6,887 and $2,295, respectively. There is no remaining compensation expense to be recognized on non-vested options.

A summary of the status of the Bank's stock option plan is presented below:

	2009			2008	
	Shares	**Average Exercise Price**	**Aggregate Intrinsic Value (1)**	**Shares**	**Average Exercise Price**
Outstanding at beginning of year	34,604	$ 20.81		32,354	$ 21.30
Granted	- -	- -		2,350	14.10
Exercised	- -	- -		- -	- -
Expired/forfeited	- -	- -		(100)	22.00
Outstanding at end of year	34,604	$ 20.81	$ -	34,604	$ 20.81
Options exercisable, end of year	34,604	$ 20.81	$ - -	32,254	$ 21.30
Weighted average fair value of options granted during the year	$ - -			$ 3.91	

(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 December 31, 2009. This amount changes based on changes in the market value of the Bank's stock.

Information pertaining to options outstanding at December 31, 2009 is as follows:

	Options Outstanding and Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$14.10 - $22.00	34,604	4.96 years	$ 20.81

Note 11. Employee Benefits

In October 2004, the Bank implemented a Supplemental Executive Retirement Plan ("SERP") in order to attract future executives and retain current executives as well as to provide additional deferred compensation benefits for such employees. Currently, these benefits are available only to the Bank's Chief Executive Officer and Chief Financial Officer. Under the SERP plan, each of the executive officers is entitled to receive retirement benefits in an amount that is based on a fixed percentage of their final three year average of total salary including bonuses, if any, depending on their age at retirement (giving effect to certain present value calculations and salary increase assumptions). Given the executives remain at the Bank until they reach age 65, they will be entitled to receive the maximum benefit of 55% of their final three years' average salary. These benefits become payable upon the officer's retirement and will be paid to the individual over a period of 15 years commencing with the first year following the retirement. Because the SERP plan also provides death benefits, no retirement benefits are paid following the death of the executive.

The Bank records periodic accruals for the cost of providing such benefits by charges to income. The amount expensed is impacted by actuarial assumptions including an annual discount rate of 6.00% and an assumed annual salary increase of 3.00%. The Bank expensed $229,730 and $215,367 during the years ended December 31, 2009 and 2008, respectively, for the SERP plan. Due to changes in accounting guidance during 2006, which required an initial implementation adjustment of $210,946 recorded as a reduction in accumulated other comprehensive income. This amount will be amortized into expense over the period in which the two covered executive officers reach full retirement age of 65. Amortization included in expense in 2009 and 2008 totaled $14,515 and $29,957, respectively.

In order to fund the SERP plan, the Bank purchased life insurance policies aggregating $6.5 million on the lives of the executives included in the SERP plan. The Bank is the owner and beneficiary of these policies. The policies had an aggregate cash surrender value to the Bank of $2,760,693 and $2,618,833 at December 31, 2009 and 2008, respectively, which is reflected in other assets on the Bank's Balance Sheets.

	2009	2008
Change in Benefit Obligation		
Projected Benefit Obligation, Beginning of the Year	$ 767,763	$ 582,348
Service cost	154,309	144,750
Interest cost	40,978	40,665
Projected Benefit Obligation, End of the Year	$ 963,050	$ 767,763
Amounts Recognized in the Balance Sheet		
Other liabilities, accrued SERP liability	$ 963,050	$ 767,763
Amounts Recognized in Accumulated Other Comprehensive Loss		
Accrued SERP liability	$ 121,090	$ 151,042
Deferred income tax benefit	(41,166)	(61,538)
	$ 79,924	$ 89,504
Components of Net Periodic Benefit Cost		
Service cost	$ 154,309	$ 144,750
Interest cost	40,978	40,665
Amortization of prior service cost	34,443	29,952
Net Periodic Benefit Cost	$ 229,730	$ 215,367
Other Changes in Benefit Obligations Recognized in Other Comprehensive Loss (Income)		
Amortization of prior service cost	$ (14,515)	$ (45,382)

Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Loss (Income)	$ 215,215	$ 169,985

The following benefit payments reflecting the appropriate expected future service are expected to be paid:

	Pension Benefits (in thousands)
2011	$ 46
2012	92
2013 – 2017	497

401(k) Plan

The Bank currently has a 401(k) defined contribution plan applicable to all eligible employees. Currently, the Bank does not make contributions to the Plan, but may in the future based on the discretion of the Board of Directors. Employees may elect to contribute to the Plan an amount up to 100% of their salary, not to exceed the maximum contribution allowed by the Internal Revenue Service. There is no Bank common stock included in the 401(k) Plan assets.

Note 12. Regulatory Requirements

Under regulatory guidelines, the Bank may pay dividends only out of its retained earnings. However, regulatory authorities may limit the payment of dividends by any bank when it is determined that such a limitation is necessary to ensure financial soundness. At December 31, 2009, there are no retained earnings available from which to pay dividends.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, financial institutions must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. A financial institution's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require financial institutions to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2009, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2009, the most recent notification from the Federal Reserve Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios as of December 31, 2009 and 2008 are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amounts in Thousands)			
As of December 31, 2009:						
Total Capital (to Risk Weighted Assets)	$ 12,154	15.16%	$ 6,416	8.00%	$ 8,020	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$ 11,301	14.09%	$ 3,208	4.00%	$ 4,812	6.00%
Tier 1 Capital (to Average Assets)	$ 11,301	9.13%	$ 4,950	4.00%	$ 6,188	5.00%
As of December 31, 2008:						
Total Capital (to Risk Weighted Assets)	$ 12,061	16.10%	$ 5,992	8.00%	$ 7,490	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$ 11,594	15.48%	$ 2,996	4.00%	$ 4,494	6.00%
Tier 1 Capital (to Average Assets)	$ 11,594	10.94%	$ 4,240	4.00%	$ 5,301	5.00%

Note 13. Fair Value of Assets and Liabilities

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The following describes the valuation techniques used by the Bank to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

<u>Securities available for sale</u>: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2). Restricted stock is carried at cost based on the redemption provision of the Federal Reserve Bank and Federal Home Loan Bank and is therefore excluded from the following table.

The following table presents the balances (in thousands) of financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2009:

		Fair Value Measurements at December 31, 2009 Using		
Description	Balance as of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities	$35,679	$ - -	$35,679	$ - -

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Bank to measure certain financial assets recorded at fair value on a nonrecurring basis in the financial statements:

Impaired Loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Statements of operations.

The following table summarizes our financial assets (in thousands) that were measured at fair value on a nonrecurring basis during the period.

		Fair Value Measurements at December 31, 2009 Using		
Description	Balance as of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	$1,330	$ --	$762	$568

The following methods and assumption were used by the Bank in estimating fair value disclosures for financial instruments:

Cash, short-term investments and federal funds sold: The carrying amounts of cash and short-term instruments approximate fair values. The carrying amounts of interest-bearing deposits maturing within 90 days approximate their fair values.

Loans: For certain homogeneous categories of loans, such as some residential mortgages, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits: The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowings: Fair values are estimated using discounted cash flow analyses based on current market rates for similar types of borrowing arrangements.

Accrued interest: The carrying amounts of accrued interest approximate fair value.

Off-balance-sheet instruments: Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of standby letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At December 31, 2009 and 2008, the fair value of loan commitments and standby letters of credit were immaterial.

The estimated fair values and related carrying amounts of the Bank's financial instruments are as follows:

	2009		**2008**	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)		(In Thousands)	
Financial Assets:				
Cash and short-term investments	$13,582	$13,582	$13,942	$13,942
Securities, available for sale	35,679	35,679	25,329	25,329
Securities, held to maturity	351	372	790	807
Loans, net	65,145	65,558	62,120	62,684
Accrued interest receivable	447	447	421	421
Financial Liabilities:				
Deposits	$105,863	$106,561	$86,789	$87,037
FHLB advances and other debt	6,500	6,593	11,000	11,134
Accrued interest payable	200	200	233	233

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Bank's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

Note 14. Earnings (Loss) Per Share

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

	2009		**2008**	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings (loss) per share	610,175	$(0.49)	610,175	$ 0.22
Effect of dilutive securities,				
Stock options	- -		568	
Diluted earnings (loss) per share	610,175	$(0.49)	610,743	$ 0.22

During the year ended December 31, 2009, options representing 34,604 shares on average were excluded from the calculation of diluted earnings per share because their impact would be anti-dilutive.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act.

In order to evaluate the effectiveness of internal control over financial reporting, as required by Rule 13(a)-15(c) of the Exchange Act, management conducted an assessment using the criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that as of December 31, 2009, our internal control over financial reporting was effective.

This annual report does not include an attestation report of the Bank's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Bank's registered public accounting firm pursuant to temporary rules of the Securities and Exchange commission that permit the company to provide only management's report in this annual report.

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 December 31, 2009 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

As permitted by Instruction G(3) to Form 10-K, the information required by this Item is incorporated by reference to the Bank's definitive Proxy Statement for the 2010 Annual Meeting of Shareholders to be filed within 120 days after the end of the fiscal year.

Item 11. Executive Compensation

As permitted by Instruction G(3) to Form 10-K, the information required by this Item is incorporated by reference to the Bank's definitive Proxy Statement for the 2010 Annual Meeting of Shareholders to be filed within 120 days after the end of the fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

As permitted by Instruction G(3) to Form 10-K, the information required by this Item is incorporated by reference to the Bank's definitive Proxy Statement for the 2010 Annual Meeting of Shareholders to be filed within 120 days after the end of the fiscal year.

Item 13. Certain Relationships and Related Transactions, and Director Independence

As permitted by Instruction G(3) to Form 10-K, the information required by this Item is incorporated by reference to the Bank's definitive Proxy Statement for the 2010 Annual Meeting of Shareholders to be filed within 120 days after the end of the fiscal year.

Item 14. Principal Accounting Fees and Services

As permitted by Instruction G(3) to Form 10-K, the information required by this Item is incorporated by reference to the Bank's definitive Proxy Statement for the 2010 Annual Meeting of Shareholders to be filed within 120 days after the end of the fiscal year.

PART IV

Item 15. Exhibits, Financial Statement Schedules

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of Bank, incorporated herein by reference to Exhibit 2(a) to the Form 10-SB, as filed by the Bank with the Federal Reserve of April 29, 2004.
3.2	Bylaws of the Bank, incorporated herein by reference to Exhibit 2(b) to the Form 10-SB, as filed by the Bank with the Federal Reserve of April 29, 2004.
10.1	Executive Employment Agreement, effective as of August 5, 2003, between William J. Farinholt and the Bank, incorporated herein by reference to Exhibit 6(a) to the Form 10-SB, as filed by the Bank with the Federal Reserve of April 29, 2004.
10.2	Executive Employment Agreement, effective as of August 5, 2003 between Kenneth E. Smith and the Bank, incorporated herein by reference to Exhibit 6(b) to the Form 10-SB, as filed by the Bank with the Federal Reserve of April 29, 2004.
10.3	Equity Compensation Plan, incorporated herein by reference to Exhibit 6(c) to the Form 10-SB, as filed by the Bank with the Federal Reserve of April 29, 2004.
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 Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COLONIAL VIRGINIA BANK

Date: March 30, 2010

By: /s/ Kenneth E. Smith
Kenneth E. Smith
Executive Vice President and
Chief Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated

Signature	Title	Date
/s/ William J. Farinholt William J. Farinholt	President & Chief Executive Officer (Principal Executive Officer)	March 30, 2010
/s/ Kenneth E. Smith Kenneth E. Smith	Executive Vice President & Chief Financial Officer (Principal Financial Officer)	March 30, 2010
/s/ Kathleen C. Healy Kathleen C. Healy	Vice President & Accounting Officer (Principal Accounting Officer)	March 30, 2010
/s/ Hal D. Bourque Hal D. Bourque	Director	March 30, 2010
/s/ William J. Farinholt William J. Farinholt	Director	March 30, 2010
/s/ Charles F. Dawson Charles F. Dawson	Director	March 30, 2010
/s/ Joseph A. Lombard, Jr. Joseph A. Lombard, Jr.	Director	March 30, 2010

Signature	Title	Date
/s/ Kenneth E. Smith Kenneth E. Smith	Director	March 30, 2010
/s/ Joseph F. Fary Joseph F. Fary	Director	March 30, 2010
/s/ William D. Fary William D. Fary	Director	March 30, 2010

EXHIBIT INDEX

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of Bank, incorporated herein by reference to Exhibit 2(a) to the Form 10-SB, as filed by the Bank with the Federal Reserve of April 29, 2004.
3.2	Bylaws of the Bank, incorporated herein by reference to Exhibit 2(b) to the Form 10-SB, as filed by the Bank with the Federal Reserve of April 29, 2004.
10.1	Executive Employment Agreement, effective as of August 5, 2003, between William J. Farinholt and the Bank, incorporated herein by reference to Exhibit 6(a) to the Form 10-SB, as filed by the Bank with the Federal Reserve of April 29, 2004.
10.2	Executive Employment Agreement, effective as of August 5, 2003 between Kenneth E. Smith and the Bank, incorporated herein by reference to Exhibit 6(b) to the Form 10-SB, as filed by the Bank with the Federal Reserve of April 29, 2004.
10.3	Equity Compensation Plan, incorporated herein by reference to Exhibit 6(c) to the Form 10-SB, as filed by the Bank with the Federal Reserve of April 29, 2004.
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

Exhibit 31.1

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

I, William J. Farinholt, certify that:

1. I have reviewed this annual report on Form 10-K of Colonial Virginia Bank for the year ended December 31, 2009;

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 smaller reporting company as of, and for, the periods presented in this report;

4. The smaller reporting company'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 smaller reporting company 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 smaller reporting company, 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 assurances 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 smaller reporting company'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;

    (d) Disclosed in this report any change in the smaller reporting company's internal control over financial reporting that occurred during the smaller reporting company's most recent fiscal quarter (the smaller reporting company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the smaller reporting company's internal control over financial reporting; and

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

Date: March 30, 2010

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

Exhibit 31.2

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

I, Kenneth E. Smith, certify that:

1. I have reviewed this annual report on Form 10-K of Colonial Virginia Bank for the year ended December 31, 2009;

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 smaller reporting company as of, and for, the periods presented in this report;

4. The smaller reporting company'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 smaller reporting company 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 smaller reporting company, 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 assurances 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 smaller reporting company'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;

   (d) Disclosed in this report any change in the smaller reporting company's internal control over financial reporting that occurred during the smaller reporting company's most recent fiscal quarter (the smaller reporting company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the smaller reporting company's internal control over financial reporting; and

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

Date: March 30, 2010

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

Exhibit 32.1

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2009 (the "Form 10-K") 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-K 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-K 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-K.

By: /s/ William J. Farinholt Date: March 30, 2010
William J. Farinholt
Chief Executive Officer

By: /s/ Kenneth E. Smith Date: March 30, 2010
Kenneth E. Smith
Chief Financial Officer