

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from _____ to _____

COLONIAL VIRGINIA BANK

(Exact name of registrant as specified in its charter)

Virginia

(State or other jurisdiction of
incorporation or organization)

75-3093106

(IRS Employer
Identification No.)

6720 Sutton Road
Gloucester, Virginia

(Address of principal executive offices)

23061

(Zip Code)

(804) 695-9300

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

610,175 shares of common stock, par value \$5.00 per share,
outstanding as of August 13, 2010

COLONIAL VIRGINIA BANK

INDEX

Part I. Financial Information	Page No.
Item 1. Financial Statements	
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Shareholders' Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3. Quantitative and Qualitative Disclosures About Market Risk	25
Item 4. Controls and Procedures	25
 Part II. Other Information	
Item 1. Legal Proceedings	25
Item 1A. Risk Factors	25
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 3. Defaults upon Senior Securities	25
Item 4. (Removed and Reserved)	25
Item 5. Other Information	25
Item 6. Exhibits	25
Signatures	26

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

COLONIAL VIRGINIA BANK Balance Sheets

	(unaudited) June 30, 2010	(audited) December 31, 2009
	<u> </u>	<u> </u>
Assets:		
Cash and due from banks	\$ 7,009,996	\$ 6,883,051
Federal funds sold	4,666,000	6,699,000
Securities available for sale, at fair market value	33,002,910	35,679,122
Securities held to maturity (fair market value of \$322,615 in 2010 and \$371,940 in 2009)	296,453	350,536
Restricted securities, at cost	997,800	998,650
Loans, net of allowance for loan losses of \$1,154,222 in 2010 and \$1,029,400 in 2009	69,032,459	65,145,113
Bank premises and equipment, net	4,727,151	4,831,848
Bank owned life insurance	2,808,406	2,760,693
Other assets	<u>1,609,894</u>	<u>1,982,494</u>
 Total assets	 <u><u>\$ 124,151,069</u></u>	 <u><u>\$ 125,330,507</u></u>
 Liabilities and Shareholders' Equity:		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	\$ 12,166,527	\$ 9,729,133
Savings and interest bearing demand deposits	33,052,751	34,655,977
Time deposits	<u>57,946,533</u>	<u>61,477,487</u>
Total deposits	\$ 103,165,811	\$ 105,862,597
 Federal Home Loan Bank borrowings	 7,500,000	 6,500,000
Accrued expenses and other liabilities	<u>1,337,945</u>	<u>1,320,101</u>
Total liabilities	<u><u>\$ 112,003,756</u></u>	<u><u>\$ 113,682,698</u></u>
 Shareholders' Equity:		
Preferred stock, par value \$5.00 per share, authorized 5,000,000 shares; no shares issued and outstanding	\$ -	\$ -
Common stock, par value \$5.00 per share, authorized 10,000,000 shares; issued and outstanding 610,175 shares	3,050,875	3,050,875
Capital surplus	9,139,425	9,139,425
Retained (deficit)	(655,979)	(889,309)
Accumulated other comprehensive income, net	<u>612,992</u>	<u>346,818</u>
Total shareholders' equity	<u><u>\$ 12,147,313</u></u>	<u><u>\$ 11,647,809</u></u>
 Total liabilities and shareholders' equity	 <u><u>\$ 124,151,069</u></u>	 <u><u>\$ 125,330,507</u></u>

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Operations

	(Unaudited)		(Unaudited)	
	Three Months	Three Months	Six Months	Six Months
	Ended	Ended	Ended	Ended
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Interest and Dividend Income				
Interest and fees on loans	\$1,208,825	\$1,139,877	\$2,406,299	\$2,282,492
Interest on securities available for sale				
Taxable	307,520	333,093	666,142	684,292
Tax exempt interest income	3,263	3,263	6,525	5,256
Dividends	5,760	5,426	11,547	10,144
Interest on federal funds sold and other	3,013	4,437	4,367	8,691
Total interest income	<u>\$1,528,381</u>	<u>\$1,486,096</u>	<u>\$3,094,880</u>	<u>\$2,990,875</u>
Interest Expense				
Interest on deposits	\$386,059	\$591,576	\$809,063	\$1,191,003
Interest on short-term borrowings	32,211	42,710	68,170	88,331
Total interest expense	<u>\$418,270</u>	<u>\$634,286</u>	<u>\$877,233</u>	<u>\$1,279,334</u>
Net interest income	\$1,110,111	\$851,810	\$2,217,647	\$1,711,541
Provision for Loan Losses				
	<u>73,050</u>	<u>272,050</u>	<u>139,100</u>	<u>313,100</u>
Net interest income after provision for loan losses	<u>\$1,037,061</u>	<u>\$579,760</u>	<u>\$2,078,547</u>	<u>\$1,398,441</u>
Other Income				
Service charges on deposit accounts	\$38,107	\$24,892	\$69,110	\$50,660
Income on bank owned life insurance	13,212	32,077	47,713	78,658
Net gain on sale of repossessions	7,342	0	7,342	0
Net gain on securities	36,395	0	40,907	5,244
Other service charges, commissions and fees	43,472	41,904	81,051	64,004
Total other income	<u>\$138,528</u>	<u>\$98,873</u>	<u>\$246,123</u>	<u>\$198,566</u>
Other Expense				
Salaries and employee benefits	\$577,303	\$511,872	\$1,135,324	\$972,729
Occupancy expense	65,100	54,092	129,502	101,272
Furniture and equipment expense	27,258	24,334	53,343	46,350
Data processing	116,573	115,643	233,962	236,183
Advertising	28,127	22,399	54,939	47,434
Professional fees	49,401	49,401	99,196	98,972
Stationery and supplies	9,121	19,925	21,338	33,876
Postage and freight	11,768	10,073	23,219	18,641
Regulatory assessments	50,286	91,172	100,867	114,546
Insurance	9,409	9,292	19,905	19,436
Franchise tax	16,677	19,193	34,009	37,490
Directors fees	19,400	22,000	36,400	38,800
Other operating expenses	32,492	26,485	58,436	70,978
Total other expense	<u>\$1,012,915</u>	<u>\$975,881</u>	<u>\$2,000,440</u>	<u>\$1,836,707</u>
Net Income (Loss) before income taxes	\$162,674	(\$297,248)	\$324,230	(\$239,700)
Income taxes (benefit)	50,700	(111,900)	90,900	(108,200)
Net Income (Loss)	<u>\$111,974</u>	<u>(\$185,348)</u>	<u>\$233,330</u>	<u>(\$131,500)</u>
Earnings (loss) per share, basic and diluted	\$0.18	(\$0.30)	\$0.38	(\$0.22)
Weighted Average Shares Outstanding, basic	610,175	610,175	610,175	610,175
Weighted Average Shares Outstanding, diluted	610,260	610,175	610,218	610,175

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2010
and June 30, 2009 (Unaudited)

	<u>Common Stock</u>	<u>Capital Surplus</u>	<u>Retained (Deficit)</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Comprehensive Income (Loss)</u>	<u>Total</u>
Balance at December 31, 2008	\$ 3,050,875	\$ 9,132,538	\$ (589,350)	\$ 307,708		\$ 11,901,771
Comprehensive loss:						
Net loss	--	--	(131,500)	--	\$ (131,500)	(131,500)
Other comprehensive income,						
Change in unrealized gain on securities available for sale, net of deferred taxes	--	--	--	--	76,696	
Reclassification adjustment, net of taxes	--	--	--	--	(3,461)	
Change in pension liability	--	--	--	--	(302)	
Other comprehensive income	--	--	--	72,933	<u>\$ 72,933</u>	72,933
Total comprehensive loss	--	--	--	--	<u>\$ (58,567)</u>	
Stock based compensation	--	4,591	--	--		4,591
Balance at June 30, 2009	<u>\$ 3,050,875</u>	<u>\$ 9,137,129</u>	<u>\$ (720,850)</u>	<u>\$ 380,641</u>		<u>\$ 11,847,795</u>
Balance at December 31, 2009	\$ 3,050,875	\$ 9,139,425	\$ (889,309)	\$ 346,818		\$ 11,647,809
Comprehensive income:						
Net income	--	--	233,330	--	\$ 233,330	233,330
Other comprehensive income,						
Change in unrealized gain on securities available for sale, net of deferred taxes	--	--	--	--	283,290	
Reclassification adjustment, net of taxes	--	--	--	--	(26,998)	
Change in pension liability	--	--	--	--	9,882	
Other comprehensive income	--	--	--	266,174	<u>\$ 266,174</u>	266,174
Total comprehensive income	--	--	--	--	<u>\$ 499,504</u>	
Balance at June 30, 2010	<u>\$ 3,050,875</u>	<u>\$ 9,139,425</u>	<u>\$ (655,979)</u>	<u>\$ 612,992</u>		<u>\$ 12,147,313</u>

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Cash Flows
For the Six Months Ended June 30, 2010
and June 30, 2009 (Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES	2010	2009
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	\$ 233,330	\$ (131,500)
Net amortization on investment securities	50,332	13,091
Depreciation and amortization	132,860	118,437
Provision for loan losses	139,100	313,100
Stock-based compensation	-	4,591
(Gain) on securities	(40,907)	(5,244)
Changes in assets and liabilities:		
Decrease (increase) in accrued interest and other assets	250,452	(157,635)
Increase in accrued expenses and other liabilities	17,845	25,647
Net cash provided by operating activities	\$ 783,012	\$ 180,487
 CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase) of securities available for sale	\$ (12,717,748)	\$ (8,437,324)
Principal paydowns of securities	4,438,127	3,348,356
Proceeds from calls and maturities of securities available for sale	9,655,000	3,027,794
Proceeds from sales of securities available for sale	1,733,812	-
Proceeds from calls and maturities of securities held to maturity	-	300,000
Cancellation of Federal Reserve Stock	850	-
Redemption of Federal Home Loan Bank Stock	-	28,800
Net (increase) in loans	(4,026,446)	(2,358,710)
(Increase) in bank owned life insurance	(47,713)	(77,281)
(Purchase) of premises and equipment	(28,163)	(922,107)
Net cash (used in) investing activities	\$ (992,281)	\$ (5,090,472)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand, savings, interest-bearing checking and money market deposits	\$ 834,168	\$ 5,649,161
Net increase (decrease) in time deposits	(3,530,954)	2,642,028
Net increase (decrease) in other borrowings	1,000,000	(2,500,000)
Net cash provided by (used in) financing activities	\$ (1,696,786)	\$ 5,791,189
 Net (decrease) increase in cash and cash equivalents	\$ (1,906,055)	\$ 881,204
 CASH AND CASH EQUIVALENTS		
Beginning	\$ 13,582,051	\$ 13,941,510
Ending	\$ 11,675,996	\$ 14,822,714
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 927,865	\$ 1,287,875
Cash paid for income taxes	\$ 134,178	\$ 139,540
 SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Unrealized gain on securities available for sale	\$ 388,321	\$ 110,962
Change in pension liability	\$ 9,882	\$ (302)

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Notes to Financial Statements
For the Six Months Ended June 30, 2010
and June 30, 2009 (Unaudited)

Note 1. General

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

In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Bank's financial position at June 30, 2010, the statements of operations for the three and six month periods ended June 30, 2010, and the changes in shareholders' equity and cash flows for the six months ended June 30, 2010. Financial statements are prepared in accordance with generally accepted accounting principles. Operating results for the three and six month periods ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The statements should be read in conjunction with the Notes to Financial Statements included in the Bank's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the Federal Reserve System.

Note 2. Securities

Amortized cost and fair values of securities available for sale at June 30, 2010, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 5,182,817	\$ 18,449	\$ -	\$ 5,201,266
Mortgage backed securities	25,378,745	994,111	(8,288)	26,364,568
Securities of states and political subdivisions	1,406,448	33,998	(3,370)	1,437,076
Total	<u>\$ 31,968,011</u>	<u>\$ 1,046,558</u>	<u>\$ (11,658)</u>	<u>\$ 33,002,910</u>

Amortized cost and fair values of securities held to maturity at June 30, 2010, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Mortgage backed securities	\$ 296,453	\$ 26,162	\$ -	\$ 322,615
Total	<u>\$ 296,453</u>	<u>\$ 26,162</u>	<u>\$ -</u>	<u>\$ 322,615</u>

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	<u>\$ 35,032,543</u>	<u>\$ 851,959</u>	<u>\$ (205,380)</u>	<u>\$ 35,679,122</u>

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	<u>\$ 350,536</u>	<u>\$ 21,404</u>	<u>\$ -</u>	<u>\$ 371,940</u>

At June 30, 2010 and December 31, 2009, approximately \$100,000 of securities were pledged to secure deposits of the Commonwealth of Virginia. At June 30, 2010 and December 31, 2009, approximately \$7,533,745 and \$9,159,294 of securities were pledged, respectively, to secure advances at the Federal Home Loan Bank.

For the six months ended June 30, 2010 and 2009, proceeds from calls of securities available for sale totaled \$7,655,000 and \$3,000,000, respectively. For the six months ended June 30, 2010 and 2009, proceeds from sales of securities available for sale totaled \$1,733,812 and \$0, respectively.

There were no calls of securities held to maturity for the six months ended June 30, 2010 and 2009, respectively. Proceeds from maturities of securities held to maturity for the six months ended June 30, 2010 and 2009 were \$0 and \$300,000, respectively.

At June 30, 2010, 6 investment securities had an unrealized loss. The investment securities are obligations of entities that are excellent credit risks. The temporary impairment noted is the result of market conditions and does not reflect on the ability of the issuers to repay the obligations. These 6 securities had a total unrealized loss of \$11,658 and a market value of \$3,233,882 at June 30, 2010. There were no investment securities held at June 30, 2010 that had been in an unrealized loss position for greater than 12 months. The Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases.

June 30, 2010	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
Securities of U.S. government and federal agencies	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Mortgage backed securities	2,730,122	(8,288)	--	--	2,730,122	(8,288)
Securities of states and political subdivisions	503,760	(3,370)	--	--	503,760	(3,370)
Total temporarily impaired securities	<u>\$3,233,882</u>	<u>(\$11,658)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$3,233,882</u>	<u>(\$11,658)</u>

December 31, 2009	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
Securities of U.S. government and federal agencies	\$6,185,750	(\$152,329)	\$ --	\$ --	\$6,185,750	(\$152,329)
Mortgage backed securities	3,421,195	(53,051)	--	--	3,421,195	(53,051)
Total temporarily impaired securities	<u>\$9,606,945</u>	<u>(\$205,380)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$9,606,945</u>	<u>(\$205,380)</u>

Note 3. Loans

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

	June 30, 2010	December 31, 2009
Mortgage:		
Construction and land development	\$ 12,255,057	\$ 12,622,629
Residential real estate	25,332,745	22,979,969
Nonresidential	15,158,077	14,292,963
Commercial	11,039,921	10,269,654
Agricultural and Other Farm Loans	222,000	408,000
Consumer and All Other Loans	6,341,799	5,748,752
	<u>70,349,599</u>	<u>66,321,967</u>
Unearned income	162,918	147,454
Allowance for loan losses	1,154,222	1,029,400
Loans, net	<u>\$ 69,032,459</u>	<u>\$ 65,145,113</u>

Overdrafts totaling \$28,823 and \$45,228 at June 30, 2010 and December 31, 2009, respectively, were reclassified from deposits to loans.

Non-performing assets totaled \$388,691 and \$226,421 at June 30, 2010 and December 31, 2009, respectively.

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

	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>	<u>June 30,</u> <u>2009</u>
Balance at the beginning of the period (January 1)	\$ 1,029,400	\$ 622,068	\$ 622,068
Provision for loan losses	139,100	730,200	313,100
Loans charged off	(22,778)	(325,202)	(111,221)
Recoveries on loans previously charged off	8,500	2,334	1,890
Balance at the end of the period	<u>\$ 1,154,222</u>	<u>\$ 1,029,400</u>	<u>\$ 825,837</u>

Note 4. Earnings Per Share

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

	Six months ended June 30, 2010		Three months ended June 30, 2010	
	Shares	Amount	Shares	Amount
Basic loss per share	610,175	\$ 0.38	610,175	\$ 0.18
Effect of dilutive securities:				
Stock Options	43		85	
Diluted loss per share	<u>610,218</u>	\$ 0.38	<u>610,260</u>	\$ 0.18
	Six months ended June 30, 2009		Three months ended June 30, 2009	
	Shares	Amount	Shares	Amount
Basic earnings per share	610,175	(\$ 0.22)	610,175	(\$ 0.30)
Effect of dilutive securities:				
Stock Options	-		-	
Diluted earnings per share	<u>610,175</u>	(\$ 0.22)	<u>610,175</u>	(\$ 0.30)

Basic earnings per share represents income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if potential dilutive common shares had been issued, as well as any adjustment to income that would result from issuance. For the six month period ended June 30, 2010, stock options representing 32,254 potential shares were excluded from the calculation of diluted earnings per share as their effect would have been anti-dilutive.

Note 5. Stock Based Compensation

As of June 30, 2010, the Bank had a stock based compensation plan. Compensation expense is recorded for all awards granted.

The fair value of each grant is estimated at the grant date using the Black-Scholes option-pricing model. There were no options granted in the six month periods ended June 30, 2010 and 2009, respectively. There were no options exercised in the six month periods ended June 30, 2010 and 2009, respectively.

The following summarizes the stock option activity for the six month period ended June 30, 2010:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Intrinsic Value of Unexercised In-the-Money Options (1)</u>
Options outstanding, January 1, 2010	34,604	\$ 20.81		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Options outstanding, June 30, 2010	<u>34,604</u>	<u>\$ 20.81</u>	4.46	
Options exercisable, June 30, 2010	<u>34,604</u>	<u>\$ 20.81</u>	4.46	\$ --

(1)The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on June 30, 2010. This amount changes based on changes in the market value of the Bank's stock.

Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations of the Bank for the six months ended June 30, 2010 should be read in conjunction with the Bank’s Financial Statements and the accompanying Notes to Financial Statements included in this report and in the Bank’s Annual Report on Form 10-K for the year ended December 31, 2009 (the “2009 Form 10-K”).

Executive Overview

The Bank is headquartered in Gloucester, Virginia. 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 of Virginia, as well as the Peninsula of Virginia. The Bank also has an investment division operating under the name of Colonial Virginia Investment Services. The Bank offers various mortgage products through both banking offices under the name of Colonial Virginia Mortgage, LLC (“CVM”). This entity is structured as a 50-50 joint venture with Johnson Mortgage Company, LLC (“JMC”). JMC is located in Newport News, Virginia.

The Bank’s results of operations are primarily dependent on net interest income, which is the difference between the income earned on our loans and investment portfolio and the cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by our allowance for loan losses, investment activities and other fees. Non-interest expense principally consists of salary and benefits, occupancy and equipment expenses, business development costs, professional fees, data processing expense and other expenses.

Critical Accounting Policies

General

The financial condition and results of operations presented in the Financial Statements, the accompanying Notes to Financial Statements and this section are, to a large degree, dependent upon the accounting policies of the Bank. The selection and application of these accounting policies involve judgments, estimates, and uncertainties that are susceptible to change.

Presented below is discussion of those accounting policies that management believes are the most important (“Critical Accounting Policies”) to the portrayal and understanding of the Bank’s financial condition and results of operations. The Critical Accounting Policies require management’s most difficult, subjective and complex judgments about matters that are inherently uncertain. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of materially different financial condition or results of operations is a reasonable likelihood.

Allowance for Loan Losses

The Bank monitors and maintains an allowance for loan losses to absorb an estimate of probable losses inherent in the loan portfolio. The Bank maintains policies and procedures that address the systems of controls over the following areas of maintenance of the allowance: the systematic methodology used to determine the appropriate level of the allowance to provide assurance that the systems are maintained in accordance with accounting principles generally accepted in the United States of America; the accounting policies for loan charge-offs and recoveries; the assessment and measurement of impairment in the loan portfolio; and the loan grading system.

The Bank evaluates various loans individually for impairment. Loans evaluated individually for impairment include non-performing loans, such as loans on non-accrual, loans past due by 90 days or more, restructured loans and other loans selected by management. The evaluations are based upon discounted expected cash flows or collateral valuations. If the evaluation shows that a loan is individually impaired, then a specific reserve is established for the amount of impairment. If a loan evaluated individually is not impaired, then the loan is assessed for potential loss with a group of loans that have similar characteristics.

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

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

Financial Summary

Net income for the three and six month periods ended June 30, 2010 was \$111,974 and \$233,330, respectively, or \$0.18 and \$0.38, respectively, per share assuming dilution. This compares to a net loss for the three and six month periods ended June 30, 2009 of \$185,348 and \$131,500, respectively, or (\$0.30) and (\$0.22), respectively, per share assuming dilution. The Bank continues to enjoy the lower interest rate environment allowing for downward re-pricing of higher cost, longer term certificates of deposit (“CDs”), decreasing its overall cost of funds. The average rate on interest-bearing liabilities during the first six months of 2010 was 1.74%, a significant reduction from an average rate of 2.79% for the same period last year.

The provision for possible loan loss expense was \$73,050 and \$139,100 for the three and six month periods ended June 30, 2010, respectively, compared to \$272,050 and \$313,100 for the same periods in 2009, respectively. The Bank provides for potential future loan losses (charge-offs) through the allowance for loan and lease losses (“ALLL”). This reserve is created through the provision for loan losses. A major factor in the decrease was the Bank’s overall conservative underwriting practices, evidenced by a reduction in its non-performing assets (“NPAs”), despite the effect of the continuing recessionary economic conditions, nationally, statewide and locally. Additionally, the second quarter

2009 provision represented a substantial increase, pursuant to regulatory directed peer group comparison of the Bank's ALLL in relation to total loans and adversely classified assets. The Bank's efforts to reduce overall exposure within adversely classified assets has enjoyed measurable success as noted in the reduction of NPAs, year over year. Thus, the provision for loan loss expense was reduced. The Bank, having been a de novo bank in November 2003, uses its own loan loss experience in conjunction with peer group banks to determine an appropriate reserve balance. Considering its own charge-off loss experiences, the current ALLL is considered to be at a prudent level.

For the three and six month periods ended June 30, 2010, gross revenues, which are defined as interest income plus other income, were \$1.7 million and \$3.3 million, respectively, compared to \$1.6 million and \$3.2 million, respectively, for the three and six month periods ended June 30, 2009. Gross expenses, which are defined as interest expense plus other expenses, the provision for loan losses and the provision for income taxes, were \$1.6 million and \$3.1 million, respectively, for the three and six month periods ended June 30, 2010, resulting in net income of \$111,974 and \$233,330, respectively. Comparatively, gross expenses for the three and six month periods ended June 30, 2009 totaled \$1.8 million and \$3.3 million, respectively, resulting in net loss of \$185,348 and \$131,500, respectively. Total average assets increased 8.3% from \$112.6 million for the six months ended June 30, 2009 to \$122.0 million for the six months ended June 30, 2010. Average shareholders' equity decreased 0.8% from \$12.0 million for the six months ended June 30, 2009 to \$11.9 million for the six months ended June 30, 2010. Annualized return on average assets for the six month periods ended June 30, 2010 and 2009 was 0.39% and (0.23%), respectively. Annualized return on average equity for the six month periods ended June 30, 2010 and 2009 was 3.97% and (2.15%), respectively.

Total assets for the Bank totaled \$124.2 million at June 30, 2010, compared to \$125.3 million at December 31, 2009, representing a decrease of \$1.1 million or 0.9%. Total net loans at June 30, 2010 were \$69.0 million, an increase of \$3.9 million, or 6.0%, from the December 31, 2009 amount of \$65.1 million. While greater growth potentially could occur, the Bank's philosophy has been to not compromise its underwriting standards and sound credit quality for the sake of growth, in order to foster stable earnings without the interruption of unexpected loan losses. The ALLL totaled \$1,154,222, or 1.64% of total loans outstanding, at June 30, 2010. The methodology for assessing the adequacy of the ALLL is discussed elsewhere in this report.

The investment portfolio decreased 7.5% to \$33.3 million at June 30, 2010 compared to \$36.0 million at December 31, 2009. Management continues to believe that yields in the loan portfolio are preferable to general investment yields within the bond market. General yields within the bond market have declined slightly. As market yields have declined and prices increased, the Bank's level of unrealized gains in the portfolio enhance the Bank's flexibility to sell bonds, if necessary, for liquidity purposes. Management, however, continues a general philosophy of selling bonds only on a selective basis. The levels of interest rate risk and market risk are considered manageable relative to overall balance sheet management.

Deposits decreased \$2.7 million (2.5%) to \$103.2 million at June 30, 2010 from \$105.9 million at December 31, 2009. Time deposits totaled \$57.9 million at June 30, 2010, a decrease of \$3.6 million (5.9%) from \$61.5 million at December 31, 2009. Management has purposely controlled deposit growth due to continued pressure on retail CD pricing from some larger financial institutions which are suffering liquidity stresses. The costs of some of these higher priced CDs would continue to compress the net interest margin to an unacceptable level. Therefore, the Bank has declined to grow its deposit base through these CDs with higher interest rates unless the overall customer relationship (i.e. other lower cost deposits or strong loan balances) can justify the higher priced CD. Savings, NOW and MMA deposits decreased \$1.6 million (4.6%), totaling \$33.1 million June 30, 2010 compared to \$34.7 million December 31, 2009. This decrease is a reflection of consumers carrying lower deposit balances in general and the

affect of MMA customers seeking higher yield through CDs or other investments. Management plans to continue to avoid growth for the sake of growth, unless pricing decisions on increased funding sources can reasonably result in use of those funds at an appropriate interest spread.

Shareholders' equity totaled \$12,147,313 at June 30, 2010. This amount represents an increase of 4.3% from the December 31, 2009 amount of \$11,647,809, due in part, to the net income amount of \$233,330 noted above. Another component of shareholders' equity is accumulated other comprehensive income. This amount reflected an increase of \$266,174 since December 31, 2009, comprised primarily of an increase in the net unrealized gain on AFS securities, which totaled \$256,292. Average shareholders' equity remained level at \$11.9 million for the year ended December 31, 2009 and for the six months ended June 30, 2010. The June 30, 2010 figure reflects the \$233,330 net income plus a \$266,174 increase in other comprehensive income, including the unrealized gains on securities available for sale and the Supplemental Executive Retirement Plan ("SERP") adjustment. The book value per common share was \$19.91 at June 30, 2010 and \$19.09 at December 31, 2009.

Net Interest Income

Net interest income for the three and six month periods ended June 30, 2010 totaled \$1,110,111 and \$2,217,647, respectively, representing an increase of \$258,301 (30.3%) and \$506,106 (29.6%), respectively, over the same periods in 2009. Average earning assets increased \$6.5 million (6.3%) from \$102.6 million for the first six months of 2009 to \$109.1 million for the first six months of 2010. Average interest bearing liabilities increased \$9.2 million (10.0%) from \$91.7 million for the first six months of 2009 to \$100.9 million for the first six months of 2010. The net interest margin (net interest income expressed as a percentage of average earning assets) ("NIM") was 4.07% for the six months ended June 30, 2010 compared to 3.34% for the six months ended June 30, 2009.

The Bank continues a significant reliance on fixed rate consumer CDs as a majority component of its funding strategy. Many of these CDs have maturities of 13 to 17 months, thus creating an inherent mismatch in re-pricing intervals between immediately re-priceable assets. This could result in an increase in the NIM should interest rates rise in the short-term. The prolonged lower level rate environment has afforded the Bank the ability to reduce its overall cost of funds, while not experiencing continued parallel reduction of asset yields. Evidence of the benefits of the Bank's pricing discipline in its funding strategy is reflected in the average cost of other time deposits (CDs) decreasing from 3.17% at June 30, 2009 to 2.13% at June 30, 2010. This has occurred while the yield on average total loans has decreased from 7.07% to 6.91% over the same period. The Bank's continued practice of flooring variable rate loans (contractually limiting how much the individual loan rate can decrease regardless of decreases in market rates) has mitigated the sharp decreases in market rates that occurred in 2008. In the face of the current Prime rate of 3.25%, the Bank has altered its use of "Prime" as a pricing index, specifically the variance between Prime and the individual loan's contract rate. Where a loan might have historically been priced at Prime plus 0.50% or Prime plus 1.00%, similar loans are being priced at Prime plus 2.25% to Prime plus 3.50%, with rate floors at the original rate. Should market rates begin to increase, the rates on these loans will begin to rise off of their floor rate more quickly.

Loan demand has remained stable during the first six months of 2010, despite the vast publicity of the weakening economy, which bodes well for overall improving yields on average earning assets. However, because of the weakened economy, pricing for the best quality loans has become increasingly competitive in the Bank's market. The Bank has maintained its strategic decision to manage liquidity in a more balanced fashion through alternative funding sources such as the Federal Home Loan Bank of Atlanta ("FHLB"), not relying completely on excess levels of asset liquidity in the form of overnight Fed funds sales. Additionally, brokered CDs continue to provide an economically priced and efficient source of liquidity.

The Bank utilizes asset liability management (“ALM”) modeling software to aid in the identification and management of interest rate risk. This software provides tools for identifying re-pricing intervals, maturities and cash flows of interest earning assets and interest bearing liabilities. In addition, income simulations are performed applying interest rate shocks to interest sensitive assets and liabilities. Modeling techniques may enable the Bank to minimize significant swings or variations in net interest income during periods of substantial fluctuations in market rates. The Bank does not specifically attempt to predict interest rate movements.

Due to the adjusting of the variance to Prime on floored loans, discussed above, the Bank’s balance sheet structure has become slightly asset sensitive, affording the Bank potential opportunities to expand its NIM further.

Non-interest Income

The primary components of non-interest income include service charges on deposit accounts, ATM transaction fees, commissions on credit life insurance, checkbook sales, title insurance, investment services income, mortgage division income and net gains on securities. Included in the deposit fee income are fees for overdrafts and non-sufficient funds return items on checking accounts. The current consumer regulation reform environment includes certain potential restrictions (ultimately reductions) on fees charged for overdrafts under “overdraft protection” programs offered by many banks. In these programs, customers enjoy the privilege of knowing that their overdrafts will always be paid up to a certain pre-determined amount. The Bank does not offer such a program; thus, each overdraft is considered for final payment or possible return of the check as non-sufficient funds (for which the Bank charges fees per item considered). The Bank does not anticipate that the new regulations will pose a risk of significant reduction in its historical fee level for these services. For the three and six month periods ended June 30, 2010, non-interest income of \$138,528 and \$246,123, respectively, represented an increase of \$39,655 (40.1%) and \$47,557 (24.0%), respectively, over the three and six month periods ended June 30, 2009. Primary components of the increase are increased fees from debit card activities and increases in gains on securities. These gains were the result of both called and sold securities. The Bank continues its general investment philosophy of buying securities with the intent to hold to maturity. However, the current rate environment has produced substantial potential gains. The Bank routinely monitors these potential gains for sale opportunities that could enhance the total return value of these securities.

For the three and six month periods ended June 30, 2010, investment services income totaled \$16,246 and \$29,341, respectively, compared to \$4,713 and \$8,027, respectively, for the three and six month periods ended June 30, 2009. There are modest signs that consumers are participating in the improving stock market by increasing their trading activity. The Bank’s mortgage services division, CVM, experienced a loss of \$8,106 and \$14,168, respectively, for the three and six month periods ended June 30, 2010, compared to income of \$6,754 and a loss of \$305, respectively, for the same periods in 2009. Although refinance activity has begun to increase, mortgage activity generally has been slower due to overall weaker economic conditions and reduced home sales.

Non-interest Expense

Non-interest expense for the three and six month periods ended June 30, 2010 totaled \$1,012,915 and \$2,000,440, respectively, compared to \$975,881 and \$1,836,707, respectively, for the three and six month periods ended June 30, 2009. The primary factor contributing to the increase in non-interest expense is an increase in salaries and employee benefits expense of \$162,595 for the six month period ended June 30, 2010, due to the hiring of a Compliance Officer and additional staff for the New Kent

branch office. The provision for income taxes totaled \$50,700 and \$90,900, respectively, for the three and six month periods ended June 30, 2010, compared to (\$111,900) and (\$108,200), respectively, for the same periods in 2009.

Non-GAAP Financial Measure

A measure of the extent to which the Bank's revenues are absorbed by non-interest expenses is expressed as the efficiency ratio. The efficiency ratio is calculated by dividing non-interest expenses by the sum of total non-interest income and net interest income for the period. This is a non-GAAP financial measure, which Management believes provides important information about the Bank's operational efficiency. Comparison of our efficiency ratio with those of other companies may not be possible because other companies may calculate the ratio differently. As the Bank matures, an efficiency ratio of 60% to 65% is targeted. For the six months ended June 30, 2010, the Bank's efficiency ratio was 82.35% compared to 96.29% at June 30, 2009.

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 \$3.4 million per employee at June 30, 2010 and \$3.5 million per employee at June 30, 2009.

Allowance for Loan Losses

The allowance for loan losses at June 30, 2010 was \$1,154,222, compared to \$1,029,400 at December 31, 2009. The allowance for loan losses was 1.64% of total loans outstanding at June 30, 2010, compared to 1.55% at December 31, 2009. The provision for loan losses was \$73,050 and \$139,100, respectively, for the three and six month periods ended June 30, 2010, compared to \$272,050 and \$313,100, respectively, for the same periods in 2009. The provision for loan losses represents management's judgment of the current period cost of credit risk inherent in the Bank's loan portfolio. Specifically, the provision represents the amount charged against current period earnings to achieve an allowance for loan losses that, in management's judgment, is adequate to absorb probable losses inherent in the Bank's loan portfolio. Accordingly, the provision expense will vary from period to period based on management's ongoing assessment of the adequacy of the Allowance for Loan and Lease Losses ("ALLL"). Asset quality is considered satisfactory. As of June 30, 2010, the Bank had no foreclosed properties and no repossessed properties, compared to no foreclosed properties and two repossessed properties totaling \$8,092 at June 30, 2009. Nonaccrual loans totaled \$388,691 at June 30, 2010, compared to \$430,524 at June 30, 2009. Loans past due 90 days or more and still accruing interest at June 30, 2010 totaled \$192,803, compared to \$73,212 at June 30, 2009. As discussed above, the struggling economy mandates that management establish and maintain a solid ALLL. Management believes that the ALLL is adequate to cover credit losses inherent in the loan portfolio at June 30, 2010. The Bank does not engage in "sub-prime lending."

Management uses a risk-rating system that includes six "pass" (or acceptable) grades, as well as four adverse grades. All loans are evaluated and assigned a risk rating at the time the loan is made. Periodic subsequent review assesses the loan's performance as well as changes in the borrower's financial condition. Management incorporates these ratings into its methodology for evaluating the adequacy of the ALLL, as well as its pricing strategies. The methodology was developed as a part of management's compliance with applicable accounting requirements, discussed above in "Critical Accounting Policies." Those loans with whom the borrower's financial condition has deteriorated to a level that results in an adverse risk rating are evaluated individually for impairment. This evaluation is performed monthly and incorporated into the ALLL adequacy analysis, reflecting any respective loss potential for each loan. The methodology also incorporates factors associated with general economic conditions within the Bank's market, such as employment statistics, housing starts, and building permits. Another element

incorporates a potential loss factor for concentrations of credit, such as unsecured loans. Although the Bank only extends unsecured credit to its highest rated customers, any unforeseen reversals experienced by a borrower with unsecured credit could result in a higher risk of potential loss. Although the ALLL methodology is designed to comply with GAAP standards, the current banking regulatory environment has a “safety and soundness” focus that has refocused on the ALLL’s general relationship to total loans outstanding.

Capital Resources

Shareholders’ equity at June 30, 2010 totaled \$12,147,313 compared to \$11,647,809 at December 31, 2009. Total common shares outstanding at June 30, 2010 were 610,175.

At June 30, 2010, the Bank’s tier 1 and total risk-based capital ratios were 14.12% and 15.20%, respectively, compared to 14.09% and 15.16% at December 31, 2009. The Bank’s leverage ratio was 9.45% at June 30, 2010, compared to 9.13% at December 31, 2009. The Bank has deliberately controlled, even restricted, growth of the balance sheet through disciplined deposit pricing (discussed elsewhere in this report), which has protected and enhanced the overall leverage position relative to 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 volatile economic conditions, such as the lingering recession plaguing the entire country, as well as the local region in which the Bank operates. There has been an implied message from regulatory authorities that capital standards may be increased in light of the many banks that have not been able to withstand the vagaries of the recent and continuing recessionary pressures. The Bank is positioned for moderate growth of the balance sheet at current capital levels. However, should minimum capital requirements be increased, the Bank may be forced to raise additional capital in the open market. The current market environment reflects the majority of community banks’ stock is trading at a level below book value (total stockholders’ equity divided by the total number of shares outstanding). Therefore, it is not advantageous to existing stockholders to have a public offering at an offering price below book value, although regulatory pressure may require the additional capital in order to grow the Bank.

Liquidity

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

At June 30, 2010, cash, interest-bearing deposits with financial institutions, federal funds sold and securities available for sale were 37.2% of total deposits and liabilities. Management, through a Board approved Liquidity and Funding Policy, routinely monitors the Bank’s liquidity position using various schedules and reports. A “Short-term Funds Availability Ratio” computes short-term assets (cash and due from banks, overnight Fed funds and other cash equivalents, market value of securities available for sale, and unused lines of credit) as a percentage of total assets. The policy requires that this ratio be equal to or greater than 15% of total assets. At June 30, 2010, this ratio was 41.1%. This excess, however, is skewed somewhat in that it includes all AFS securities. Some of these securities (identified as AFS) experience fluctuations in market values based on interest rate trends and as of the end of the current quarter reflected a net unrealized gain of \$683,034, compared to a net unrealized gain of \$426,742 at December 30, 2009.

Thus, they could not only be considered candidates to be sold to generate liquidity through their principal proceeds, but also contribute substantial additional income to the Bank's profit and loss picture. Some of these securities are amortizing mortgage backed issues that produce routine monthly cash flows. Excess liquidity in the current low interest rate environment is considered a drag on overall earnings. Therefore, management has intentionally allowed this portion of the balance sheet to shrink in order to foster growth of earning assets. As mentioned above, some of the excess liquidity has been used to absorb deposit runoff in the form of the redemption of high cost deposits for which adequate asset employment was not available.

Liability funding sources are also monitored. Demand and savings deposits, interest bearing and non-interest bearing, time deposits under \$100,000 are monitored with a targeted level of 52.5% or greater as a percentage of total assets. At June 30, 2010, this percentage was 66.5%. The Bank also maintains additional sources of liquidity through "Federal funds purchased" guidance lines with correspondent banks, which totaled \$5.3 million at June 30, 2010. In October 2007, the Bank joined the Federal Home Loan Bank ("FHLB"). The FHLB offers many services, but the primary service utilized by the Bank is the FHLB's loan programs. As of June 30, 2010, FHLB advances totaled \$7.5 million. The advances include two loans totaling \$1.5 million each, at fixed rates of 0.66% for one year, 1.20% for two years, respectively; one loan totaling \$2.0 million, at a fixed rate of 2.67% for three years and the fourth loan totaling \$2.5 million, at a fixed rate of 1.91% for two years. The Bank's current line of credit with the FHLB is \$24,370,000, thus, providing \$16,870,000 of additional availability. The Bank will not abandon its primary purpose of being a community bank and corporate partner to the markets it serves. However, utilization of alternative funding that is more economically priced will, over the long-term, bode well for net interest earnings. As a part of the ever increasing regulatory scrutiny, documentation of the overall liquidity position has increased in a parallel manner. The current regulatory environment dictates such exercises as stress testing scenarios for liquidity planning. The Bank also has recently expanded its use of more complex monitoring tools for forecasting usage of committed lines of credit, particularly consumer home equity lines of credit ("HELOCs"). The monitoring of these commitments is important in two primary ways. First the liquidity required to fund them must be available. Secondly, with the troubled economy and increasing unemployment rates, consumers are more likely to draw on their HELOC for simple living expenses at a time when their respective credit quality might be deteriorating. Therefore, management uses these monitoring tools for both liquidity and credit quality purposes. The Board approves and reviews wholesale funding sources not only for amount available, but also periodic testing by drawing on the lines of credit mentioned above.

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. However, refer to the discussion above concerning liquidity and credit quality issues within the Bank's HELOCs. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if

deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, owner-occupied real estate and income-producing commercial properties. During the six months ended June 30, 2010, there has been no material change outside the ordinary course of the Bank's business in the contractual obligations specified in "Note 9." Financial Instruments with Off-Balance Sheet Risk" in the Bank's Annual Report on Form 10-K for the year ended December 31, 2009.

The Bank maintains funds on deposit at correspondent banks which, at times, exceed the federally insured limits. Management of the Bank monitors the balance in these accounts and periodically assesses the financial condition of correspondent banks.

Recent Accounting Pronouncements

In 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 Updated ("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 adoption of the new guidance did not have a material impact on the Bank's 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 adoption of the new guidance did not have a material impact on the Bank's financial statements.

In October 2009, the FASB issued Accounting Standards Update No. 2009-15 (ASU 2009-15), "Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing." ASU 2009-15 amends Subtopic 470-20 to expand accounting and reporting guidance for own-share lending arrangements issued in contemplation of convertible debt issuance. ASU 2009-15 is effective for fiscal years beginning on or after December 15, 2009 and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The adoption of the new guidance did not have a material impact on the Bank's 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 adoption of the new guidance did not have a material impact on the Bank's financial statements.

In January 2010, the FASB issued Accounting Standards Update 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 adoption of the new guidance did not have a material impact on the Bank's financial statements.

In February 2010, the FASB issued Accounting Standards Update No. 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 adoption of the new guidance did not have a material impact on the Bank's financial statements.

In February 2010, the FASB issued Accounting Standards Update No. 2010-09, "Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements." ASU 2010-09 addresses both the interaction of the requirements of Topic 855 with the SEC's reporting requirements and the intended breadth of the reissuance disclosures provisions related to subsequent events. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. ASU 2010-09 is effective immediately. The adoption of the new guidance did not have a material impact on the Bank's financial statements.

In July 2010, the FASB issued ASU 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The new disclosure guidance will significantly expand the existing requirements and will lead to greater transparency into a company's exposure to credit losses from lending arrangements. The extensive new disclosures of information as of the end of a reporting period will become effective for both interim and annual reporting periods ending after December 15, 2010. Specific items regarding activity that occurred before the issuance of the ASU, such as the allowance rollforward and modification disclosures, will be required for periods beginning after December 15, 2010. The Bank is currently assessing the impact that ASU 2010-20 will have on its financial statements.

Caution About Forward Looking Statements

Certain information contained in this discussion may include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are generally identified by phrases such as "the Bank expects," "the Bank believes" or words of similar import.

Such forward-looking statements involve known and unknown risks including, but not limited to, the following factors:

- risks inherent in making loans such as repayment risks and fluctuating collateral values;
- changes in general economic and business conditions in the Bank's market area;
- 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;
- maintaining capital levels adequate to support the Bank's growth;
- the successful management of interest rate risk;
- changes in banking and other laws and regulations applicable to the Bank;
- reliance on the Bank's management team, including its ability to attract and retain key personnel;
- changing trends in customer profiles and behavior;

- managing the cost and implementation of new technology required to compete and to meet increasing regulatory requirements;
- 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; and
- the ability to continue to attract low cost core deposits to fund asset growth.

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

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

	Six months ended June 30, 2010			Six months ended June 30, 2009		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets:						
Interest earning assets:						
Securities						
Taxable	\$34,364,929	677,688	3.94%	\$29,442,323	\$ 694,437	4.72%
Tax Exempt (1)	300,000	9,887	6.59%	240,576	7,964	6.62%
Total securities	34,664,929	687,575	3.97%	29,682,899	702,401	4.73%
Federal funds sold	3,355,973	3,644	0.22%	5,682,586	7,248	0.26%
Deposits at other banks	1,391,350	723	0.10%	2,646,380	1,442	0.11%
Loans, net	69,643,421	2,406,299	6.91%	64,550,042	2,282,492	7.07%
Total earning assets	109,055,673	3,098,241	5.68%	102,561,907	2,993,583	5.84%
Less: allowance for loan losses	(1,083,195)			(630,652)		
Total non-earning assets	13,994,666			10,676,735		
Total assets	121,967,144			112,607,990		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Checking	7,355,800	31,169	0.85%	4,664,394	32,922	1.41%
Savings and money market deposits	27,765,261	152,999	1.10%	13,268,038	135,691	2.05%
Other time	58,710,968	624,895	2.13%	64,476,292	1,022,390	3.17%
Total interest bearing deposits	93,832,029	809,063	1.72%	82,408,724	1,191,003	2.89%
Short term borrowings	7,085,110	68,170	1.92%	9,328,729	88,331	1.89%
Total interest bearing liabilities	100,917,139	877,233	1.74%	91,737,453	1,279,334	2.79%
Noninterest bearing liabilities:						
Demand deposits	7,789,759			7,739,011		
Other non-interest bearing Liabilities	1,338,731			1,159,953		
Total liabilities	110,045,629			100,636,417		
Stockholders' equity	11,921,515			11,971,573		
Total liabilities and stockholders' equity	\$121,967,144			\$112,607,990		
Net Interest Income		\$ 2,221,008			\$ 1,714,249	
Interest rate spread ⁽²⁾			3.94%			3.05%
Net Interest Margin ⁽³⁾			4.07%			3.34%

(1) Income and yields are reported on a tax equivalent basis assuming a federal tax rate of 34%.

(2) 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.

(3) Net interest margin is the net interest income, calculated on a fully tax equivalent basis assuming a federal tax rate of 34%, expressed as a percentage of average earning assets.

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

	Six months ended June 30, 2010			Year ended December 31, 2009		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets:						
Interest earning assets:						
Securities						
Taxable	\$34,364,929	677,688	3.94%	\$31,652,084	\$ 1,427,029	4.51%
Tax Exempt (1)	300,000	9,887	6.59%	271,480	17,850	6.58%
Total securities	34,664,929	687,575	3.97%	31,923,564	1,444,879	4.53%
Federal funds sold	3,355,973	3,644	0.22%	7,001,573	17,483	0.25%
Deposits at other banks	1,391,350	723	0.10%	1,886,201	1,738	0.09%
Loans, net	69,643,421	2,406,299	6.91%	65,222,897	4,580,828	7.02%
Total earning assets	109,055,673	3,098,241	5.68%	106,034,235	6,044,928	5.70%
Less: allowance for loan losses	(1,083,195)			(759,979)		
Total non-earning assets	13,994,666			11,533,132		
Total assets	121,967,144			116,807,388		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Checking	7,355,800	31,169	0.85%	4,969,516	66,785	1.34%
Savings and money market deposits	27,765,261	152,999	1.10%	17,408,798	288,501	1.66%
Other time	58,710,968	624,895	2.13%	64,451,776	1,890,729	2.93%
Total interest bearing deposits	93,832,029	809,063	1.72%	86,830,090	2,246,015	2.59%
Short term borrowings	7,085,110	68,170	1.92%	8,900,000	174,568	1.96%
Total interest bearing liabilities	100,917,139	877,233	1.74%	95,730,090	2,420,583	2.53%
Noninterest bearing liabilities:						
Demand deposits	7,789,759			8,010,380		
Other non-interest bearing Liabilities	1,338,731			1,149,844		
Total liabilities	110,045,629			104,890,314		
Stockholders' equity	11,921,515			11,917,074		
Total liabilities and stockholders' equity	\$121,967,144			\$116,807,388		
Net Interest Income		\$ 2,221,008			\$ 3,624,345	
Interest rate spread ⁽²⁾			3.94%			3.17%
Net Interest Margin ⁽³⁾			4.07%			3.42%

(1) Income and yields are reported on a tax equivalent basis assuming a federal tax rate of 34%.

(2) 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.

(3) Net interest margin is the net interest income, calculated on a fully tax equivalent basis assuming a federal tax rate of 34%, expressed as a percentage of average earning assets.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

Item 4. CONTROLS AND PROCEDURES

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

The Bank's management is also responsible for establishing and maintaining adequate internal control over financial reporting. There were no changes in the Bank's internal control over financial reporting identified in connection with the evaluation of it that occurred during the quarter that ended June 30, 2010 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Not applicable to smaller reporting companies.

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

None

Item 3. Defaults upon Senior Securities

None

Item 4. (Removed and Reserved)

Item 5. Other Information

None

Item 6. Exhibits

- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer
- 32.1 Statement of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. § 1350

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COLONIAL VIRGINIA BANK
(Registrant)

Date: August 13, 2010

By: /s/ Kenneth E. Smith
Kenneth E. Smith (on behalf of the Bank and
as principal financial officer)
Executive Vice President and
Chief Financial Officer

EXHIBIT INDEX

Exhibits

- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer
- 32.1 Statement of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. § 1350

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

I, William J. Farinholt, certify that:

1. I have reviewed the Quarterly Report on Form 10-Q for the period ended June 30, 2010 of Colonial Virginia Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2010

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

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

I, Kenneth E. Smith, certify that:

1. I have reviewed the Quarterly Report on Form 10-Q for the period ended June 30, 2010 of Colonial Virginia Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2010

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

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

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 2010 (the "Form 10-Q") of Colonial Virginia Bank (the "Bank"), we, William J. Farinholt, Chief Executive Officer of the Bank, and Kenneth E. Smith, Chief Financial Officer of the Bank, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to our knowledge:

- (a) the Form 10-Q fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (b) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Bank as of and for the periods presented in the Form 10-Q.

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

Date: August 13, 2010

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

Date: August 13, 2010