

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 September 30, 2009

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 November 13, 2009

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	26
Item 4. Controls and Procedures	26
 Part II. Other Information	
Item 1. Legal Proceedings	26
Item 1A. Risk Factors	26
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	26
Item 3. Defaults upon Senior Securities	26
Item 4. Submission of Matters to a Vote of Security Holders	26
Item 5. Other Information	26
Item 6. Exhibits	26
Signatures	27

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

COLONIAL VIRGINIA BANK Balance Sheets

	(Unaudited) September 30, 2009	December 31, 2008
	<u> </u>	<u> </u>
Assets:		
Cash and due from banks	\$ 3,367,517	\$ 10,116,510
Federal funds sold	4,268,000	3,825,000
Securities available for sale, at fair market value	35,979,595	26,347,158
Securities held to maturity (fair market value of \$398,105 in 2009 and \$807,289 in 2008)	374,757	790,373
Loans, net of allowance for loan losses of \$896,545 in 2009 and \$622,068 in 2008	65,739,153	62,120,125
Bank premises and equipment, net	4,884,899	3,987,464
Bank owned life insurance	2,714,742	2,618,333
Other assets	<u>1,063,603</u>	<u>966,939</u>
 Total assets	 <u>\$ 118,392,266</u>	 <u>\$ 110,771,902</u>
 Liabilities and Shareholders' Equity:		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	\$ 6,541,333	\$ 7,187,310
Savings and interest bearing demand deposits	25,987,990	17,026,196
Time deposits	<u>64,305,933</u>	<u>62,575,457</u>
Total deposits	\$ 96,835,256	\$ 86,788,963
 Accrued expenses and other liabilities	 1,125,316	 1,081,168
FHLB Advances	<u>8,500,000</u>	<u>11,000,000</u>
Total liabilities	<u>\$ 106,460,572</u>	<u>\$ 98,870,131</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	9,138,660	9,132,538
Retained (deficit)	(762,772)	(589,349)
Accumulated other comprehensive income, net	<u>504,931</u>	<u>307,707</u>
Total shareholders' equity	<u>\$ 11,931,694</u>	<u>\$ 11,901,771</u>
 Total liabilities and shareholders' equity	 <u>\$ 118,392,266</u>	 <u>\$ 110,771,902</u>

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Operations

	(Unaudited)		(Unaudited)	
	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Interest and Dividend Income				
Interest and fees on loans	\$1,147,439	\$1,160,472	\$3,429,931	\$3,490,241
Interest on securities available for sale				
Taxable	362,486	447,036	1,046,778	1,251,524
Tax exempt interest income	3,263	0	8,519	0
Dividends	6,719	9,050	16,863	28,377
Interest on federal funds sold and other	4,519	19,280	13,210	104,925
Total interest income	<u>\$1,524,426</u>	<u>\$1,635,838</u>	<u>\$4,515,301</u>	<u>\$4,875,067</u>
Interest Expense				
Interest on deposits	\$548,479	\$709,330	\$1,739,482	\$2,392,910
Interest on short-term borrowings	43,180	51,189	131,512	81,939
Total interest expense	<u>\$591,660</u>	<u>\$760,519</u>	<u>\$1,870,994</u>	<u>\$2,474,849</u>
Net interest income	\$932,766	\$875,319	\$2,644,307	\$2,400,218
Provision for Loan Losses	<u>106,050</u>	<u>66,050</u>	<u>419,150</u>	<u>108,150</u>
Net interest income after provision for loan losses	<u>\$826,716</u>	<u>\$809,269</u>	<u>\$2,225,157</u>	<u>\$2,292,068</u>
Other Income				
Service charges on deposit accounts	\$26,277	\$19,260	\$76,937	\$64,347
Income on bank owned life insurance	19,128	7,200	97,786	21,600
Net gain on sale of assets	2,408	0	2,408	500
Net gain (loss) on securities	7,264	(296)	12,508	66,430
Other service charges, commissions and fees	43,112	35,911	107,116	134,533
Total other income	<u>\$98,189</u>	<u>\$62,075</u>	<u>\$296,755</u>	<u>\$287,410</u>
Other Expense				
Salaries and employee benefits	\$547,176	\$445,060	\$1,519,905	\$1,332,137
Occupancy expense	70,484	54,059	171,756	148,686
Furniture and equipment expense	29,029	20,798	75,379	62,851
Data processing	110,913	118,860	347,096	353,359
Advertising	26,580	33,329	74,014	97,847
Professional fees	54,401	45,717	153,373	127,002
Stationery and supplies	19,270	11,913	53,146	31,892
Postage and freight	10,526	9,013	29,167	26,056
Regulatory assessments	46,472	23,374	161,018	65,833
Insurance	10,779	9,633	30,215	26,275
Franchise tax	19,193	16,114	56,683	49,062
Directors fees	14,600	20,200	53,400	54,800
Charitable contributions	3,705	10,295	7,955	15,900
Other operating expenses	40,100	20,535	106,828	63,378
Total other expense	<u>\$1,003,228</u>	<u>\$838,900</u>	<u>\$2,839,935</u>	<u>\$2,455,078</u>
Net Income (Loss) before income taxes	(\$78,323)	\$32,444	(\$318,023)	\$124,400
Income taxes	<u>(36,400)</u>	<u>10,000</u>	<u>(144,600)</u>	<u>35,000</u>
Net Income (Loss)	<u><u>(\$41,923)</u></u>	<u><u>\$22,444</u></u>	<u><u>(\$173,423)</u></u>	<u><u>\$89,400</u></u>
Earnings per share, basic and diluted	(\$0.07)	\$0.04	(\$0.28)	\$0.15
Weighted Average Shares Outstanding, basic and diluted	610,175	610,175	610,175	610,175

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 2009
and September 30, 2008 (Unaudited)

	<u>Common Stock</u>	<u>Capital Surplus</u>	<u>Retained (Deficit)</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Comprehensive Income</u>	<u>Total</u>
Balance at December 31, 2007	\$ 3,050,875	\$ 9,130,243	\$ (724,288)	\$ 49,123		\$ 11,505,953
Comprehensive income:						
Net income	--	--	89,400	--	\$ 89,400	89,400
Other comprehensive income,						
Change in unrealized gain on securities available for sale, net of deferred taxes	--	--	--	--	26,418	
Reclassification adjustment, net of taxes	--	--	--	--	(43,844)	
Change in pension liability, net of deferred taxes	--	--	--	--	22,464	
Other comprehensive income	--	--	--	5,038	<u>\$ 5,038</u>	5,038
Total comprehensive income	--	--	--	--	<u>\$ 94,438</u>	
Balance at September 30, 2008	<u>\$ 3,050,875</u>	<u>\$ 9,130,243</u>	<u>\$ (634,888)</u>	<u>\$ 54,161</u>		<u>\$ 11,600,391</u>
Balance at December 31, 2008	\$ 3,050,875	\$ 9,132,538	\$ (589,349)	\$ 307,707		\$ 11,901,771
Comprehensive income:						
Net (loss)	--	--	(173,423)	--	\$ (173,423)	(173,423)
Other comprehensive income,						
Change in unrealized gain on securities available for sale, net of deferred taxes	--	--	--	--	200,840	
Reclassification adjustment, net of taxes	--	--	--	--	(8,255)	
Change in pension liability	--	--	--	--	4,639	
Other comprehensive income	--	--	--	197,224	<u>\$ 197,224</u>	197,224
Total comprehensive income	--	--	--	--	<u>\$ 23,801</u>	
Stock based compensation	--	6,122	--	--		6,122
Balance at September 30, 2009	<u>\$ 3,050,875</u>	<u>\$ 9,138,660</u>	<u>\$ (762,772)</u>	<u>\$ 504,931</u>		<u>\$ 11,931,694</u>

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Statements of Cash Flows
For the Nine Months Ended September 30, 2009
and September 30, 2008 (Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES	2009	2008
Reconciliation of net income to net cash provided by operating activities:		
Net income (loss)	\$ (173,423)	\$ 89,400
Net amortization (accretion) on investment securities	24,745	(10,529)
Depreciation and amortization	190,019	193,349
Provision for loan losses	419,150	108,150
Stock-based compensation	6,122	-
(Gain) on securities	(12,508)	(66,430)
Changes in assets and liabilities:		
Decrease (increase) in accrued interest and other assets	(101,935)	192,431
Increase in accrued expenses and other liabilities	44,148	149,399
Net cash provided by operating activities	\$ 396,318	\$ 655,770
 CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase) of securities available for sale	\$ (18,938,676)	\$ (17,947,374)
Principal paydowns of securities	5,188,251	3,348,874
Proceeds from calls and maturities of securities available for sale	3,484,562	8,737,249
Proceeds from sales of securities available for sale	1,007,000	1,225,765
Proceeds from calls and maturities of securities held to maturity	300,000	2,347,857
Cancellation (purchase) of Federal Reserve Stock	(7,200)	5,650
Cancellation (purchase) of Federal Home Loan Bank Stock	28,800	(371,300)
Net (increase) in loans	(4,127,478)	(5,048,894)
(Increase) in bank owned life insurance	(96,409)	(396,600)
(Purchase) of premises and equipment	(1,087,454)	(353,342)
Net cash (used in) investing activities	\$ (14,248,604)	\$ (8,452,115)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand, savings, interest-bearing checking and money market deposits	\$ 8,315,817	\$ 2,786,990
Net increase (decrease) in time deposits	1,730,476	(1,686,517)
Net increase (decrease) in other borrowings	(2,500,000)	6,500,000
Net cash provided by financing activities	\$ 7,546,293	\$ 7,600,473
 Net (decrease) in cash and cash equivalents	\$ (6,305,993)	\$ (195,872)
 CASH AND CASH EQUIVALENTS		
Beginning	\$ 13,941,510	\$ 4,930,971
Ending	\$ 7,635,517	\$ 4,735,099
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 1,891,396	\$ 2,581,799
Cash paid for income taxes	\$ 153,988	\$ -
 SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Unrealized gain (loss) on securities available for sale	\$ 291,795	\$ (26,403)
Amortization of adjustment to initially apply SFAS No. 158	4,639	22,464
Transfers from loans to other real estate	89,300	-

See Accompanying Notes to Financial Statements.

COLONIAL VIRGINIA BANK
Notes to Financial Statements
For the Nine Months Ended September 30, 2009
and September 30, 2008 (Unaudited)

Note 1. General

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

In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Bank's financial position at September 30, 2009, the statements of operations for the three and nine months ended September 30, 2009, and the changes in shareholders' equity and cash flows for the nine months ended September 30, 2009. Financial statements are prepared in accordance with generally accepted accounting principles. Operating results for the nine month period ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. 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, 2008, as filed with the Federal Reserve System. Subsequent events were evaluated through November 13, 2009, the same date on which these financial statements were issued.

Note 2. Securities

Amortized cost and fair values of securities available for sale at September 30, 2009, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 8,342,693	\$ 14,396	\$ (27,537)	\$ 8,329,552
Mortgage backed securities	25,048,051	895,573	(13,162)	25,930,462
Securities of states and political subdivisions	698,970	24,361	-	723,331
Restricted stock	996,250	-	-	996,250
Total	<u>\$ 35,085,964</u>	<u>\$ 934,330</u>	<u>\$ (40,699)</u>	<u>\$ 35,979,595</u>

Amortized cost and fair values of securities held to maturity at September 30, 2009, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Mortgage backed securities	\$ 374,757	\$ 23,348	\$ -	\$ 398,105
Total	<u>\$ 374,757</u>	<u>\$ 23,348</u>	<u>\$ -</u>	<u>\$ 398,105</u>

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
Restricted stock	1,017,850	-	-	1,017,850
Total	<u>\$ 25,745,322</u>	<u>\$ 631,712</u>	<u>\$ (29,876)</u>	<u>\$ 26,347,158</u>

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	<u>\$ 790,373</u>	<u>\$ 16,916</u>	<u>\$ -</u>	<u>\$ 807,289</u>

At September 30, 2009 and December 31, 2008, approximately \$605,000 and \$1,605,000 of securities were pledged, respectively, to secure deposits of the Commonwealth of Virginia. At September 30, 2009 and December 31, 2008, approximately \$10,341,699 and \$12,750,044 of securities were pledged, respectively, to secure advances at the Federal Home Loan Bank.

For the nine months ended September 30, 2009 and September 30, 2008, proceeds from calls of securities available for sale totaled \$3,500,000 and \$6,165,441, respectively. Proceeds from sales of securities available for sale for the nine months ended September 30, 2009 and September 30, 2008 totaled \$1,007,000 and \$1,225,765, respectively.

For the nine months ended September 30, 2009 and September 30, 2008, proceeds from calls of securities held to maturity totaled \$0 and \$2,347,857, respectively.

At September 30, 2009, 8 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 8 securities had a total unrealized loss of \$40,699 and a market value of \$5,849,675 at September 30, 2009. 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. There were no investment securities held at September 30, 2009 that had been in an unrealized loss position for greater than 12 months.

September 30, 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	\$ 4,311,164	(\$ 27,537)	\$ --	\$ --	\$4,311,164	(\$ 27,537)
Mortgage backed securities	1,538,511	(13,162)	--	--	1,538,511	(13,162)
Securities of states and political subdivisions	--	--	--	--	--	--
Total temporarily impaired securities	<u>\$ 5,849,675</u>	<u>(\$40,699)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$5,849,675</u>	<u>(\$40,699)</u>

December 31, 2008	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	\$1,982,500	(\$12,141)	\$ --	\$ --	\$1,982,500	(\$12,141)
Mortgage backed securities	<u>1,002,812</u>	<u>(17,735)</u>	<u>--</u>	<u>--</u>	<u>1,002,812</u>	<u>(17,735)</u>
Total temporarily impaired securities	<u>\$2,985,312</u>	<u>(\$29,876)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$2,985,312</u>	<u>(\$29,876)</u>

Note 3. Loans

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

	September 30, 2009	December 31, 2008
Mortgage:		
Construction and land development	\$ 14,102,028	\$ 15,071,017
Residential real estate	21,115,711	18,387,347
Nonresidential	13,850,379	12,119,703
Commercial	11,184,773	11,187,153
Agricultural and Other Farm Loans	360,000	519,802
Consumer and All Other Loans	<u>6,159,585</u>	<u>5,579,933</u>
	66,772,476	62,864,955
Unearned income	136,778	122,762
Allowance for loan losses	<u>896,545</u>	<u>622,068</u>
Loans, net	<u>\$ 65,739,153</u>	<u>\$ 62,120,125</u>

Overdrafts totaling \$20,080 and \$31,744 at September 30, 2009 and December 31, 2008, respectively, were reclassified from deposits to loans.

Non-performing assets totaled \$376,467 and \$59,269 at September 30, 2009 and December 31, 2008, respectively.

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

	<u>September 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>	<u>September 30,</u> <u>2008</u>
Balance at the beginning of the period (January 1)	\$ 622,068	\$ 491,383	\$ 491,383
Provision for loan losses	419,150	239,200	108,150
Loans charged off	(146,727)	(111,978)	(24,298)
Recoveries on loans previously charged off	2,054	3,463	2,256
Balance at the end of the period	<u>\$ 896,545</u>	<u>\$ 622,068</u>	<u>\$ 577,491</u>

Note 4. Earnings Per Share

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

	Nine months ended September 30, 2009		Three months ended September 30, 2009	
	Shares	Amount	Shares	Amount
Basic loss per share	610,175	(\$ 0.28)	610,175	(\$ 0.07)
Effect of dilutive securities:				
Stock Options	-		-	
Diluted loss per share	<u>610,175</u>	(\$ 0.28)	<u>610,175</u>	(\$ 0.07)
	Nine months ended September 30, 2008		Three months ended September 30, 2008	
	Shares	Amount	Shares	Amount
Basic earnings per share	610,175	\$ 0.15	610,175	\$ 0.04
Effect of dilutive securities:				
Stock Options	-		-	
Diluted earnings per share	<u>610,175</u>	\$ 0.15	<u>610,175</u>	\$ 0.04

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 nine month period ended September 30, 2009, stock options representing 34,604 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 September 30, 2009, 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 nine month periods ended September 30, 2009 and 2008, respectively. There were no options exercised in the nine month periods ended September 30, 2009 and 2008, respectively.

The following summarizes the stock option activity for the nine month period ended September 30, 2009:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Intrinsic Value of Unexercised In-the-Money Options (1)
Options outstanding, January 1, 2009	34,604	\$ 20.81		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Options outstanding, September 30, 2009	34,604	\$ 20.81	5.21	
Options exercisable, September 30, 2009	32,254	\$ 21.30	4.94	\$ --

(1)The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on September 30, 2009. 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 three and nine months ended September 30, 2009 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, 2008 (the “2008 Form 10-K”).

Executive Overview

The Bank is headquartered in Gloucester, Virginia. The Bank is a community bank principally serving the Virginia county of Gloucester, but also providing banking services in the overall market known as the Middle Peninsula of Virginia, as well as the Peninsula of Virginia. The Bank also has an investment division operating under the name of Colonial Virginia Investment Services. The Bank 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 loss for the three and nine month periods ended September 30, 2009 was \$41,923 and \$173,423, respectively, or (\$0.07) and (\$0.28), respectively, per share assuming dilution. This compares to net income of \$22,444 and \$89,400, respectively for the three and nine month periods ended September 30, 2008, or \$0.04 and \$0.15, respectively, per share assuming dilution.

Several factors contributed to the earnings decline. First, non-interest income declined in several areas. The contribution from the Bank's mortgage services division, CVM, declined \$18,523 and investment services income declined \$10,578 for the nine month period ended September 30, 2009, compared to the same period in 2008. General negative economic conditions have continued to be reflected in reduced mortgage applications and decreased market activity in the investment services area demonstrating similar results for the three month periods ended September 30, 2009 and 2008. In addition, there was a decline in net gains on securities of \$53,922. The primary source of prior period gains, however, was from calls of non-maturing bonds that were held at a discount when called and not from intentional sales of bonds for profitable gains.

Second, for the nine month period ended September 30, 2009, the Bank experienced an increase in non-interest expenses, including salaries and employee benefits expense (\$187,768), audit fees (\$26,174) and FDIC assessments (\$91,000), compared to the same period in 2008. The increased audit fees represented an anticipated increase in external audit activities required by the Sarbanes-Oxley Act ("SOX 404"). It was determined during the third quarter that SOX 404 attestation would be delayed until 2010. Therefore, accrued expenses for these services will be reduced in the fourth quarter 2009. Some of the increased salary expense was associated with the hiring of a full-time Vice President / Compliance Officer April 1, 2009. The increased regulatory burden and growth of the Bank's operations dictated such a move. Further discussion in this area follows below.

The provision for possible loan loss expense was \$106,050 and \$419,150 for the three and nine month periods ended September 30, 2009, respectively, compared to \$66,050 and \$108,150 for the same periods in 2008, 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. The Bank expensed \$106,050 in provision for potential losses in the current quarter, compared to \$66,050 for the same period in 2008, a \$40,000 increase. A major factor in this increase was the effect of the deteriorating economic conditions, nationally, statewide and locally. As an example, unemployment rates for Gloucester, Mathews and Middlesex Counties (the Bank's primary market area) were 6.4%, 5.6%, and 6.8%, respectively as of May 2009, compared to 3.5%, 3.6%, and 3.8%, respectively for December 2008. Housing starts and building permits have reflected similar declining trends. In this same analysis, the Bank increased its reserves for unsecured credit, typically underwritten for only its best borrowers. However, even these borrowers are experiencing the effects of the troubled economy, and thus, a more aggressive reserve is considered prudent. Additionally, banking regulatory authorities are strongly encouraging all banks to bolster their balances in the ALLL. Therefore, in anticipation that the worst of the recession might not have been realized yet, the Bank expects to continue to experience increased expenses associated with building a larger ALLL. It should also be noted that the Bank, having been a de novo bank in November 2003, has now begun to use its own loan loss experience in conjunction with peer group banks to determine an appropriate reserve balance. Identifying its own charge-off loss experiences, the current ALLL is considered to be at a prudent level.

For the three and nine month periods ended September 30, 2009, gross revenues, which are defined as interest income plus other income, were \$1.6 million and \$4.8 million, respectively, compared to \$1.7 million and \$5.2 million, respectively, for the three and nine month periods ended September 30, 2008. Gross expenses, which are defined as interest expense plus other expenses, the provision for loan losses and the provision for income taxes, were \$1.7 million and \$5.0 million, respectively, for the three and nine month periods ended September 30, 2009, resulting in actual net (loss) of (\$41,923) and (\$173,423), respectively. Comparatively, gross expenses for the three and nine month periods ended September 30, 2008 totaled \$1.7 million and \$5.1 million, respectively, resulting in actual net income \$22,444 and \$89,400, respectively. Total average assets increased 10.8% from \$103.3 million for the nine months ended September 30, 2008 to \$114.5 million for the nine months ended September 30, 2009. Average shareholders' equity increased 2.6% from \$11.6 million for the nine months ended September 30, 2008 to \$11.9 million for the nine months ended September 30, 2009. Annualized return on average assets for the nine months ended September 30, 2009 and September 30, 2008 was (0.20%) and 0.12%, respectively. Annualized return on average equity for the nine months ended September 30, 2009 and September 30, 2008 was (1.89%) and 1.03%, respectively.

Total assets for the Bank totaled \$118.4 million at September 30, 2009, compared to \$110.8 million at December 31, 2008, representing an increase of \$7.6 million or 6.9%. Total net loans at September 30, 2009 were \$65.7 million, an increase of \$3.6 million, or 5.8%, from the December 31, 2008 amount of \$62.1 million. Greater growth could occur, but 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 \$896,545, or 1.34% of total loans outstanding, at September 30, 2009. The methodology for assessing the adequacy of the ALLL is discussed elsewhere in this report.

The investment portfolio increased 34.3% to \$36.4 million at September 30, 2009 compared to \$27.1 million at December 31, 2008. Management continues to believe that yields in the loan portfolio are preferable to general investment yields within the bond market. However, current yields in the bond market have improved slightly relative to the overnight Fed funds rate. The levels of interest rate risk and market risk are considered manageable relative to overall balance sheet management. The Bank does not rely on funds from the bond portfolio for primary liquidity beyond the respective maturity and cash flows of individual bonds. However, the Bank sold approximately \$7 million in bonds just prior to year-end 2008. At that time the Bank recognized appreciable gains of approximately \$140,000, and, importantly, performed informal liquidity testing of the bond portfolio as a secondary source of liquidity. This is discussed further below under "Liquidity."

Deposits increased \$10.0 million (11.5%) to \$96.8 million at September 30, 2009 from \$86.8 million at December 31, 2008. Time deposits totaled \$64.3 million at September 30, 2009, an increase of \$1.7 million (2.7%) from \$62.6 million at December 31, 2008. Management has purposely controlled deposit growth due to continued pressure on retail certificate of deposit ("CD") pricing from some larger financial institutions which are suffering liquidity stresses. The costs of some of these higher priced CDs would compress the net interest margin to an unacceptable level. Therefore, the Bank has become more selective in matching competing rates in its local market, especially in circumstances where the depositor maintains no extended relationship with the Bank except for volatile rate-sensitive CDs. The Bank did hold its rates steady on interest bearing demand deposits ("NOW"), savings and Money Market accounts ("MMA") during the general decline of market rates. This created a modest competitive advantage, although the overall cost was lower than higher CDs. Savings, NOW and MMA deposits increased \$9.0 million (52.9%), totaling \$26.0 million September 30, 2009 compared to \$17.0 million December 31, 2008. Management continues to avoid growth for the sake of growth, unless pricing decisions on increased funding sources can reasonably result in use of those funds at an appropriate interest spread.

Shareholders' equity totaled \$11,931,694 at September 30, 2009. This amount represents an increase of 0.25% from the December 31, 2008 amount of \$11,901,771. Average shareholders' equity increased 2.6% from \$11.6 million for the year ended December 31, 2008 to \$11.9 million for the nine months ended September 30, 2009. The September 30, 2009 figure reflects the \$173,423 net loss plus a \$197,224 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 \$19.55 at September 30, 2009 and \$19.51 at December 31, 2008.

Net Interest Income

Net interest income for the three and nine month periods ended September 30, 2009 totaled \$932,766 and \$2,644,307, respectively, representing increases of \$57,448 (6.7%) and \$244,089 (10.2%), respectively, over the same periods in 2008. Average earning assets increased \$9.3 million from \$94.8 million for the first nine months of 2008 to \$104.1 million for the first nine months of 2009. Average interest bearing liabilities increased \$9.5 million from \$83.5 million for the first nine months of 2008 to \$93.0 million for the first nine months of 2009. The net interest margin (net interest income expressed as a percentage of average earning assets) ("NIM") was 3.39% for the nine months ended September 30, 2009 compared to 3.38% for the nine months ended September 30, 2008.

The Bank has historically relied heavily on fixed rate consumer CDs for the majority of its funding. Many of these CDs have maturities of 7 to 17 months, thus restricting the Bank's ability to

quickly reduce rates paid, even in an environment of declining rates, such as was experienced in 2008. Efforts are underway to reduce reliance on these fixed rate funds and more closely tie the repricing of variable rate assets to their respective variable rate funding sources. Re-pricing over the past three to six months has helped better match cost of funds to asset yields. The Bank's 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 in 2008. The duration of the negative impact of falling rates on net interest income is measurable and quantifiable through interest rate risk models used by the Bank. The compression of the net interest margin has been stabilized. 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. CD pricing has continued to decline slightly ranging between 1.85% and 3.00%.

Loan demand has remained stable during the most recent quarter, 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 flooring of loan rates, discussed above, the Bank's balance sheet structure has evolved into a moderately liability sensitive condition since some loans are at current floored rates substantially above market levels. Therefore, market rates would need to rise before they would increase again. However, if market rates begin to increase only slightly, deposit liability rates could increase before assets yields increase.

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. For the three and nine month periods ended September 30, 2009, non-interest income of \$98,189 and \$296,755, respectively, represented an increase of \$36,114 (58.2%) over the three month period ended September 30, 2008 and an increase of \$9,345 (3.3%) from the nine month period ended September 30, 2008, details of which are discussed below.

The Bank surrendered two of its insurance policies associated with the Supplemental Executive Retirement Plan ("SERP") during 2008 due to their respective poor earnings performance. The policies which were purchased to replace the surrendered policies contributed increased yields of \$11,928 and

\$76,186 for the three and nine month periods ended September 30, 2009, compared to the same periods in 2008.

For the nine months ended September 30, 2009, investment services income totaled \$19,793 compared to \$30,371 for the nine months ended September 30, 2008. Transaction activity in this area has slowed due to general consumer/investor anxiety over market volatility. The Bank's mortgage services division, CVM, experienced a loss of \$2,170 in the first nine months of 2009, compared to income of \$16,353 in the first nine months of 2008, a 113.3% decrease. 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 nine month periods ended September 30, 2009 totaled \$1,003,228 and \$2,839,935, respectively, compared to \$838,900 and \$2,455,078, respectively, for the three and nine month periods ended September 30, 2008. Several factors contributed to the increase. First, the Bank experienced an increase in salaries and employee benefits expense of \$187,768 for the nine month period ended September 30, 2009, due to the hiring of a Compliance Officer and additional staff for the New Kent branch office. Second, audit expense for the nine months ended September 30, 2009 increased \$26,174 compared to the nine month period ended September 30, 2008, resulting from expected increased audit coverage required by SOX 404. As discussed above, it was determined during the third quarter that SOX 404 attestation would be delayed until 2010. Therefore, accrued expenses for these services will be reduced in the fourth quarter 2009. Third, the FDIC assessment increased \$91,000 for the nine months ended June 30, 2009, compared to the same period in 2008, due to an increase in the assessment calculation and the expensing of the "Special Assessment" to be assessed September 30, 2009 by the FDIC. Lastly, the Bank experienced the adverse effects of complicated foreclosures on defaulted loans. Foreclosure related expense totaled \$13,801 in the current quarter compared to no such expense in the same period in 2008. These expenses were in addition to increases in loan loss provision expense discussed elsewhere.

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 nine months ended September 30, 2009, the Bank's efficiency ratio was 96.36% compared to 93.66% at September 30, 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 \$3.6 million per employee at September 30, 2009 and \$3.7 million per employee at September 30, 2008. The slight decrease is due primarily to the increased number of staff for the New Kent office and will require a reasonable time for asset growth to absorb these additional staff members.

Allowance for Loan Losses

The allowance for loan losses at September 30, 2009 was \$896,545, compared to \$622,068 at December 31, 2008. The allowance for loan losses was 1.34% of total loans outstanding at September 30,

2009, compared to 0.99% at December 31, 2008. The provision for loan losses was \$106,050 and \$419,150, respectively, for the three and nine month periods ended September 30, 2009, compared to \$66,050 and \$108,150, respectively, for the same periods in 2008. The provision for loan losses represents management's judgment of the current period cost of credit risk inherent in the Bank's loan portfolio. Specifically, the provision represents the amount charged against current period earnings to achieve an allowance for loan losses that, in management's judgment, is adequate to absorb probable losses inherent in the Bank's loan portfolio. Accordingly, the provision expense will vary from period to period based on management's ongoing assessment of the adequacy of the Allowance for Loan and Lease Losses ("ALLL"). Asset quality is considered satisfactory. As of September 30, 2009, the Bank had one foreclosed property totaling \$89,300 and two repossessed properties totaling \$8,092, compared to no foreclosed or repossessed properties at September 30, 2008. Nonaccrual loans totaled \$279,075 at September 30, 2009, compared to \$0 at September 30, 2008. Loans past due 90 days or more and still accruing interest at the end of the third quarter 2009 totaled \$202,932, compared to \$2,177 at the end of the third quarter 2008. 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 September 30, 2009. 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 September 30, 2009 totaled \$11,931,694 compared to \$11,901,771 at December 31, 2008. Total common shares outstanding at September 30, 2009 were 610,175.

At September 30, 2009, the Bank's tier 1 and total risk-based capital ratios were 14.29% and 15.22%, respectively, compared to 15.48% and 16.10% at December 31, 2008. The Bank's leverage ratio was 9.67% at September 30, 2009, compared to 10.94% at December 31, 2008. 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.

Liquidity

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

At September 30, 2009, cash, interest-bearing deposits with financial institutions, federal funds sold and securities available for sale were 38.4% 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 September 30, 2009, this ratio was 42.8%. This excess, however, is skewed somewhat in that it includes all securities classified as available for sale ("AFS"). 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 \$589,796, compared to a net unrealized gain of \$151,153 at September 30, 2008. 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. Cash and due from banks decreased from \$10.1 million at December 31, 2008 to \$3.4 million at September 30, 2009. 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. The Bank sold approximately \$7.0 million in securities in December 2008. The proceeds of these sales were invested in the daily overnight investment account at year-end. The funds were then employed through reinvestment in the bond portfolio as well as new loans, evidenced by the net increases of these two asset categories of \$9.3 million and \$3.6 million, respectively, at September 30, 2009.

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 September 30, 2009, this percentage was 60.6%. The Bank also maintains additional sources of liquidity through "Federal funds purchased" guidance lines with correspondent banks, which totaled \$7.1 million at September 30, 2009. In October 2007, the Bank joined the FHLB. The FHLB offers many services, but the primary service utilized by the Bank is the FHLB's loan programs. As of September 30, 2009, FHLB advances totaled \$8.5 million. The advances include three loans totaling \$2.0 million each, at fixed rates of 1.13% for one year, 2.3625% for two years and 2.67% for three years, respectively. The fourth loan totals \$2.5 million, at a fixed rate of 1.91% for two years. The Bank's current line of credit with the FHLB is \$22,210,000, thus, providing \$13,710,000 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 nine months ended September 30, 2009, 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, 2008.

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

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations" (SFAS 141(R)) (ASC 805 Business Combinations). The Standard significantly changed the financial accounting and reporting of business combination transactions. SFAS 141(R) establishes principles for how an acquirer recognizes and measures the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for acquisition dates on or after the beginning of an entity's first year that begins after December 15, 2008. The Bank does not expect the implementation of SFAS 141(R) to have a material impact on its financial statements, at this time.

In April 2009, the FASB issued FSP FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" (ASC 805 Business Combinations). FSP FAS 141(R)-1 amends and clarifies SFAS 141(R) to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets

and liabilities arising from contingencies in a business combination. The FSP is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Bank does not expect the adoption of FSP FAS 141(R)-1 to have a material impact on its financial statements.

In April 2009, the FASB issued FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” (ASC 820 Fair Value Measurements and Disclosures). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. The FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, and shall be applied prospectively. Earlier adoption is permitted for periods ending after March 15, 2009. The Bank does not expect the adoption of FSP FAS 157-4 to have a material impact on its financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (ASC 825 Financial Instruments and ASC 270 Interim Reporting). FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, “Disclosures about Fair Value of Financial Instruments,” to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. In addition, the FSP amends APB Opinion No. 28, “Interim Financial Reporting,” to require those disclosures in summarized financial information at interim reporting periods. The FSP is effective for interim periods ending after June 15, 2009, with earlier adoption permitted for periods ending after March 15, 2009. The Bank does not expect the adoption of FSP FAS 107-1 and APB 28-1 to have a material impact on its financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” (ASC 320 Investments – Debt and Equity Securities). FSP FAS 115-2 and FAS 124-2 amends other-than-temporary impairment guidance for debt securities to make guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. The FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009, with earlier adoption permitted for periods ending after March 15, 2009. The Bank does not expect the adoption of FSP FAS 115-2 and FAS 124-2 to have a material impact on its financial statements.

In April 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 111 (SAB 111). SAB 111 amends and replaces SAB Topic 5.M. in the SAB Series entitled “Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities.” SAB 111 maintains the SEC Staff’s previous views related to equity securities and amends Topic 5.M. to exclude debt securities from its scope. The Bank does not expect the implementation of SAB 111 to have a material impact on its financial statements.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, “Subsequent Events” (ASC 855 Subsequent Events). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for interim and annual periods ending after June 15, 2009. The Bank does not expect the adoption of SFAS 165 to have a material impact on its financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, “Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140” (ASC 860

Transfers and Servicing). SFAS 166 provides guidance to improve the relevance, representational faithfulness, and comparability of the information that a report 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. SFAS 166 is effective for interim and annual periods ending after November 15, 2009. The Bank does not expect the adoption of SFAS 166 to have a material impact on its financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, "Amendments to FASB Interpretation No. 46(R)" (ASC 810 Consolidation). SFAS 167 improves financial reporting by enterprises involved with variable interest entities. SFAS 167 is effective for interim and annual periods ending after November 15, 2009. Early adoption is prohibited. The Bank does not expect the adoption of SFAS 167 to have a material impact on its financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – replacement of FASB Statement No. 162" (ASC 105 Generally Accepted Accounting Principles). SFAS 168 establishes the FASB Accounting Standards Codification which will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. SFAS 168 is effective immediately. The Bank does not expect the adoption of SFAS 168 to have a material impact on its financial statements.

In June 2009, the FASB issued EITF Issue No. 09-1, "Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing" (ASC 470 Debt). EITF Issue No. 09-1 clarifies how an entity should account for an own-share lending arrangement that is entered into in contemplation of a convertible debt offering. EITF Issue No. 09-1 is effective for arrangements entered into on or after June 15, 2009. Early adoption is prohibited. The Bank does not expect the adoption of EITF Issue No. 09-1 to have a material impact on its financial statements.

In June 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 112 (SAB 112). SAB 112 revises or rescinds portions of the interpretative guidance included in the codification of SABs in order to make the interpretive guidance consistent with current U.S. GAAP. The Bank does not expect the adoption of SAB 112 to have a material impact on its financial statements.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05 (ASU 2009-05), "Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value." ASU 2009-05 amends Subtopic 820-10, "Fair Value Measurements and Disclosures – Overall," and provides clarification for the fair value measurement of liabilities. ASU 2009-05 is effective for the first reporting period including interim period beginning after issuance. The Bank does not expect the adoption of ASU 2009-05 to have a material impact on its financial statements.

In September 2009, the FASB issued Accounting Standards Update No. 2009-12 (ASU 2009-12), "Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." ASU 2009-12 provides guidance on estimating the fair value of alternative investments. ASU 2009-12 is effective for interim and annual periods ending after December 15, 2009. The Bank does not expect the adoption of ASU 2009-12 to have a material impact on its 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 Bank does not expect the adoption of ASU 2009-15 to have a material impact on its 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.

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;
- 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;
- 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
- 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**

	Nine months ended September 30, 2009			Nine months ended September 30, 2008		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets:						
Interest earning assets:						
Securities						
Taxable	\$30,623,407	1,063,642	4.63%	\$31,786,125	\$ 1,279,901	5.37%
Tax Exempt (1)	261,447	12,907	6.58%	--	--	--
Total securities	30,884,854	1,076,549	4.65%	31,786,125	1,279,901	5.37%
Federal funds sold	6,129,923	11,607	0.25%	3,854,270	77,919	2.70%
Deposits at other banks	2,022,249	1,602	0.11%	1,800,040	27,006	2.00%
Loans, net	65,040,177	3,429,931	7.03%	57,367,750	3,490,241	8.11%
Total earning assets	104,077,203	4,519,689	5.79%	94,808,185	4,875,067	6.86%
Less: allowance for loan losses	(703,736)			(515,040)		
Total non-earning assets	11,089,187			8,996,131		
Total assets	114,462,654			103,289,276		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Checking	4,702,037	50,018	1.42%	3,958,535	43,504	1.47%
Savings and money market deposits	14,612,735	207,527	1.89%	10,053,322	156,063	2.07%
Other time	64,616,263	1,481,937	3.06%	65,242,927	2,193,343	4.48%
Total interest bearing deposits	83,931,035	1,739,482	2.76%	79,254,784	2,392,910	4.03%
Short term borrowings	9,049,451	131,512	1.94%	4,284,526	81,939	2.55%
Total interest bearing liabilities	92,980,486	1,870,994	2.68%	83,539,310	2,474,849	3.95%
Noninterest bearing liabilities:						
Demand deposits	8,402,669			7,103,933		
Other non-interest bearing Liabilities	1,155,431			1,065,589		
Total liabilities	102,538,586			91,708,832		
Stockholders' equity	11,924,068			11,580,444		
Total liabilities and stockholders' equity	\$114,462,654			\$103,289,276		
Net Interest Income		\$ 2,648,695			\$ 2,400,218	
Interest rate spread ⁽²⁾			3.11%			2.91%
Net Interest Margin ⁽³⁾			3.39%			3.38%

⁽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**

	Nine months Ended September 30, 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	\$30,623,407	1,063,642	4.63%	\$31,544,590	\$ 1,686,371	5.35%
Tax Exempt (1)	261,447	12,907	6.58%	--	--	--
Total securities	30,884,854	1,076,549	4.65%	31,544,590	1,686,371	5.35%
Federal funds sold	6,129,923	11,607	0.25%	3,636,748	85,335	2.35%
Deposits at other banks	2,022,249	1,602	0.11%	1,864,711	28,528	1.53%
Loans, net	65,040,177	3,429,931	7.03%	58,224,885	4,630,892	7.95%
Total earning assets	104,077,203	4,519,689	5.79%	95,270,934	6,431,126	6.75%
Less: allowance for loan losses	(703,736)			(533,355)		
Total non-earning assets	11,089,187			9,235,486		
Total assets	114,462,654			103,973,065		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Checking	4,702,037	50,018	1.42%	4,056,411	59,252	1.46%
Savings and money market deposits	14,612,735	207,527	1.89%	10,550,946	218,617	2.07%
Other time	64,616,263	1,481,937	3.06%	64,508,999	2,763,254	4.28%
Total interest bearing deposits	83,931,035	1,739,482	2.76%	79,116,356	3,041,123	3.84%
Short term borrowings	9,049,451	131,512	1.94%	4,923,169	125,934	2.56%
Total interest bearing liabilities	92,980,486	1,870,994	2.68%	84,039,525	3,167,057	3.77%
Noninterest bearing liabilities:						
Demand deposits	8,402,669			7,275,077		
Other non-interest bearing Liabilities	1,155,431			1,083,555		
Total liabilities	102,538,586			92,398,157		
Stockholders' equity	11,924,068			11,574,908		
Total liabilities and stockholders' equity	\$114,462,654			\$103,973,065		
Net Interest Income		\$ 2,648,695			\$ 3,264,069	
Interest rate spread ⁽²⁾			3.11%			2.98%
Net Interest Margin ⁽³⁾			3.39%			3.43%

⁽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 September 30, 2009 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. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

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

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 September 30, 2009 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: November 13, 2009

/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 September 30, 2009 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: November 13, 2009

/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 September 30, 2009 (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: November 13, 2009

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

Date: November 13, 2009