

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

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended MARCH 31, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**John Marshall Bank**

(Exact Name of Registrant as Specified in its Charter)

Virginia

(State or Other Jurisdiction  
of Incorporation or Organization)

74-3125891

(I.R.S. Employer Identification No.)

**6601 Little River Turnpike Suite 400, Alexandria, VA 22312**

(Address of Principal Executive Offices)

703-584-0840

(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

Indicate by check 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 checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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 definition 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  Smaller reporting company

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

As of May 10, 2010, the number of outstanding shares of registrant's common stock, par value \$5.00 per share was: 3,707,710

# John Marshall Bank

## FORM 10-Q

### INDEX

<b>PART I - FINANCIAL INFORMATION</b>	<b><u>Page(s)</u></b>
Item 1 - Financial Statements	
Balance Sheets – March 31, 2010 (Unaudited) and December 31, 2009 (Audited)	3
Statements of Operations – Three months ended March 31, 2010 and 2009 (Unaudited)	4
Statements of Cash Flows – Three months ended March 31, 2010 and 2009 (Unaudited)	5
Notes to Financial Statements	6
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	7-18
Item 3 – Quantitative and Qualitative Disclosures About Market Risk	18
Item 4 – Controls and Procedures	18
 <b>PART II - OTHER INFORMATION</b>	
Item 1 – Legal Proceedings	18
Item 1A – Risk Factors	18
Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds	18
Item 3 – Defaults Upon Senior Securities	18
Item 4 – (Removed and Reserved)	19
Item 5 – Other Information	19
Item 6 – Exhibits	19
 <b>SIGNATURES</b>	20

# John Marshall Bank

## Balance Sheets

March 31, 2010 and December 31, 2009

	(Unaudited)	(Audited)
	<b>March 31,</b>	<b>December 31,</b>
	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 8,371,961	\$ 1,315,672
Interest bearing deposits in banks	6,329	6,723
Securities available for sale	12,975,669	13,146,195
Securities held to maturity, fair value of \$8,779,126 at March 31, 2010 and \$8,839,952 at December 31, 2009	8,785,737	8,948,589
Restricted securities	1,763,200	1,740,700
Loans, net of allowance for loan losses of \$2,546,466 at March 31, 2010, \$2,290,955 at December 31, 2009	219,176,000	205,929,445
Bank premises and equipment, net	1,490,375	1,516,290
Accrued interest receivable	763,069	672,710
Other real estate	334,744	190,032
Other assets	1,100,804	1,176,756
Total Assets	<u>\$ 254,767,888</u>	<u>\$ 234,643,112</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Noninterest bearing deposits	\$ 23,912,629	\$ 20,897,947
Interest demand deposits	70,935,729	70,015,682
Savings deposits	7,949,610	8,190,846
Time deposits	110,538,175	87,234,859
Total deposits	<u>213,336,143</u>	<u>186,339,334</u>
Federal funds purchased	-	160,000
Federal Home Loan Bank advances	6,000,000	12,900,000
Repurchase agreements	5,166,590	5,657,532
Accrued interest payable	108,722	71,880
Other liabilities	659,927	543,915
Total liabilities	<u>225,271,382</u>	<u>205,672,661</u>
<b>Shareholders' Equity</b>		
Common stock, voting, par value \$5 per share; authorized 10,000,000 shares; issued and outstanding, 3,707,710 shares in 2010 and 2009	18,538,550	18,538,550
Additional paid-in capital	18,444,277	18,444,277
Retained deficit	(7,525,129)	(7,986,217)
Accumulated other comprehensive income (loss)	38,808	(26,159)
Total shareholders' equity	<u>29,496,506</u>	<u>28,970,451</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u><u>\$ 254,767,888</u></u>	<u><u>\$ 234,643,112</u></u>

The accompanying notes are an integral part of these unaudited financial statements.

**John Marshall Bank**  
**Statements of Operations**

For the Three Months Ended March 31, 2010 and 2009 (Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Interest and dividend income:</b>		
Interest and fees on loans	\$ 3,263,312	\$ 1,829,259
Interest on investment securities - taxable	184,005	114,357
Dividends	13,294	14,046
Federal funds sold	15	1,860
Interest on deposits in banks	2,218	4,518
Total interest and dividend income	3,462,844	1,964,040
<b>Interest expense:</b>		
Deposits	758,047	694,733
Federal Home Loan Bank advances	38,837	12,438
Other short-term borrowings	9,590	11,539
Total interest expense	806,474	718,710
Net interest income	2,656,370	1,245,330
<b>Provision for loan losses</b>		
	340,000	257,581
Net interest income after provision for loan losses	2,316,370	987,749
<b>Noninterest income:</b>		
Service charges on deposit accounts	30,648	18,682
Gain (loss) on sale of securities	(4,063)	55,851
Other operating income	53,100	5,686
Total noninterest income	79,685	80,219
<b>Noninterest expenses:</b>		
Salaries and benefits	1,085,384	910,594
Legal and professional	76,505	65,037
Rent and occupancy	185,962	122,240
Furniture and equipment expenses	106,476	75,889
Marketing and business development	38,527	35,767
Insurance	5,100	8,537
Data processing	130,791	97,748
Other operating expenses	306,223	252,659
Total noninterest expenses	1,934,968	1,568,471
Income (loss) before income taxes	461,087	(500,503)
<b>Income tax expense</b>		
	-	-
Net income (loss)	\$ 461,087	\$ (500,503)
<b>Earnings (loss) per Share</b> , basic and diluted	\$ 0.12	\$ (0.14)

The accompanying notes are an integral part of these unaudited financial statements.

**John Marshall Bank**  
**Statements of Cash Flows**  
**For the Three Months Ended March 31, 2010 and 2009**  
**(Unaudited)**

	March 31, 2010	March 31, 2009
<b>Cash Flows from Operating Activities</b>		
Net income (loss)	\$ 461,087	\$ (500,503)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	89,623	66,115
Provision for loan losses	340,000	257,581
(Gain) loss realized on available for sale securities	4,063	55,851
Net amortization of securities	18,705	8,740
Loss on other real estate	20,785	10,000
Changes in assets and liabilities:		
(Increase) in accrued interest receivable	(90,359)	(57,798)
Decrease in other assets	75,952	63,880
Increase in accrued interest payable	36,842	17,351
Increase in other liabilities	116,012	38,075
Net cash provided by (used in) operating activities	\$ 1,072,710	\$ (40,708)
<b>Cash Flows from Investing Activities</b>		
(Increase) in federal funds sold	-	(9,000,000)
Decrease in interest bearing deposits in banks	394	3,192,080
Net (increase) in loans	(13,895,267)	(19,963,417)
Purchase of available-for-sale securities	(3,851,338)	(8,135,377)
Proceeds from sales of securities available-for-sale	2,064,063	1,957,507
Proceeds from maturities, calls and principal repayments of available-for-sale securities	2,000,000	1,484,864
Proceeds from maturities, calls and principal repayments of held-to-maturity securities	162,852	-
Net (purchase) of restricted securities	(22,500)	(355,650)
Proceeds from sale of other real estate	143,215	-
Purchases of bank premises and equipment	(63,708)	(276,653)
Net cash used in investing activities	\$ (13,462,289)	\$ (31,096,646)
<b>Cash Flows from Financing Activities</b>		
Net increase in deposits	\$ 26,996,809	\$ 31,878,926
Proceeds from (repayments of) FHLB advances	(6,900,000)	2,000,000
Decrease in federal funds purchased	(160,000)	(178,000)
(Decrease) in repurchase agreements	(490,942)	(2,145,285)
Net cash provided by financing activities	\$ 19,445,867	\$ 31,555,641
Net increase in cash and cash equivalents	7,056,288	418,287
Cash and cash equivalents at beginning of period	1,315,672	2,422,271
Cash and cash equivalents at end of period	\$ 8,371,960	\$ 2,840,558
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash payments for:		
Interest	\$ 769,632	\$ 701,359
Income taxes	\$ -	\$ -
<b>Supplemental Disclosures of Noncash Transactions</b>		
Other real estate acquired in settlement of loans	\$ 308,712	\$ -
Unrealized gain on securities available for sale	\$ 64,967	\$ 5,694

The accompanying notes are an integral part of these unaudited financial statements.

## NOTES TO UNAUDITED FINANCIAL STATEMENTS

### Note 1. The Bank and its Significant Accounting Policies

#### Summary of Significant Accounting Policies

##### Basis of Presentation:

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not contain all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The financial data at December 31, 2009 are derived from audited financial statements that are included in the Bank's Annual Report for the year ended December 31, 2009. The financial data at March 31, 2010 and 2009 are derived from unaudited financial statements. Interim results are not necessarily indicative of results for the full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents in the statement of cash flows include cash on hand and non-interest bearing amounts due from correspondent banks and the Federal Reserve.

### Note 2. Earnings (loss) per Common Share

Basic earnings (loss) per share of common stock are computed by dividing net earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share are calculated by including the average dilutive common equivalents outstanding during the period. Dilutive common equivalent shares consist of stock options, calculated using the treasury stock method.

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Weighted average shares outstanding	3,707,710	3,700,000
Common stock equivalents	-	-
Average common shares and equivalents	<u>3,707,710</u>	<u>3,700,000</u>
Net income (loss)	\$461,087	\$(500,503)
Basic loss per share	\$0.12	\$(0.14)
Diluted loss per share	\$0.12	\$(0.14)

Options to purchase 74,354 and 156,823 shares of common stock were excluded from the calculation of diluted earnings (loss) per share for the three months ended March 31, 2010 and 2009, respectively, because their impact would have been anti-dilutive. Potential common shares had no impact on net income (loss).

### Note 3. Recent Relevant 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 (consolidated) 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.

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.

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.

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.

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.

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.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

### 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 including statements of goals, intentions, and expectations as to future trends, plans, events or results of Bank operations and policies and regarding general economic conditions. In some cases these forward looking statements are identified by words or phrases such as "the Bank expects," "the Bank believes," "may," "will," "anticipates," "plans," "estimates," "potential," "continue," "should," or words of similar import. Such forward-looking statements involve known and unknown risks including, but not limited to, changes in general economic and business conditions, interest rate fluctuations, competition within and from outside the banking industry, new products and services in the banking industry, risk inherent in making loans such as repayment risks and fluctuating collateral values, problems with technology utilized by the Bank, changing trends in customer profiles and changes in laws and regulations applicable to the Bank, and other matters, which by their nature are not susceptible to

accurate forecast, and are subject to significant uncertainty. 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. Readers are cautioned against placing undue reliance on any such forward-looking statements. The Bank's past results are not necessarily indicative of future performance. Please refer to the "Risk Factors" section of the Bank's Annual Report on Form 10-K for a discussion of factors which may affect the Bank's performance.

### General

John Marshall Bank (the "Bank") was incorporated in 2005 under Virginia law, under the name "Security One Bank," to conduct a general commercial and consumer banking business, and commenced operations in April 2006. On February 21, 2008, Security One Bank entered into a Stock Purchase Agreement with a group of individuals, led by John Maxwell, who would become new officers and directors of the Bank. Pursuant to that agreement, such individuals would purchase a significant equity interest in the Bank, and the Bank would effect an offering of an aggregate of 2.2 million additional shares of common stock to significantly expand its capital base. In June 2008, the regulatory approvals necessary to consummate the purchase of shares under the Stock Purchase Agreement were received and the sale of shares pursuant to the Stock Purchase Agreement and offering became effective. In July 2008, the Bank's name was changed to its current corporate title.

The Bank continued to achieve significant growth in loans and deposits during the first quarter of 2010. Net loans increased by 6.4% during the first three months of 2010, while deposits increased 14.5%. The increase in loans and deposits experienced during 2009, and continuing in the first three months of 2010, resulted in an increase in the Bank's net interest income of 113.3% during the first three months of 2010, compared to the first three months of 2009. Increased operating expenses associated with additional personnel and branch expansion during 2009 resulted in an increase in non-interest expense of 23.4% during the first three months of 2010, compared to the first three months of 2009.

Key measurements and events for the period include the following:

- Total assets at March 31, 2010 increased by 8.6% to \$254.8 million as compared to \$234.6 million as of December 31, 2009.
- Net loans outstanding increased by 6.4% from \$205.9 million as of December 31, 2009 to \$219.2 million as of March 31, 2010.
- Deposits at March 31, 2010 were \$213.3 million, an increase of \$27.0 million or 14.5% from December 31, 2009.
- Net interest income, the Bank's main source of income, increased 113.3% to \$2.7 million during the three month period ended March 31, 2010, compared to \$1.2 million during the three month period ended March 31, 2009.
- Non-interest income for the three months ended March 31, 2010 was \$80 thousand, unchanged as compared to the three month period ended March 31, 2009. \$45 thousand of non interest income realized during the three months ended March 31, 2010 was due to gains realized on the sale of assets.
- Non-interest expenses increased by \$366 thousand or 23.4%, for the three months ended March 31, 2010, as compared to the same period in 2009.
- The Bank had net income of \$461 thousand during the three month period ended March 31, 2010, an improvement of \$962 thousand as compared to the net loss of \$501 thousand realized during the three months ended March 31, 2009.

Factors leading to these changes can be found in the discussion below.

## Critical Accounting Policies

The Bank's financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The financial information contained within our statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of our transactions would be the same, the timing of events that would impact our transactions could change.

### **Allowance for Loan Losses**

The estimates used in management's assessment of the adequacy of the allowance for loan losses require that management make assumptions about matters that are uncertain at the time of estimation. Differences in these assumptions and differences between the estimated and actual losses could have a material effect.

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of the historical experience of the Bank and peer institutions, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

For further information regarding the allowance for loan losses see Notes 1 and 4 to the Audited Financial Statements included in Item 8 of the Bank's 2009 Form 10-K, and the discussion in this report under the caption "Asset Quality – Provision and Allowance for Loan Losses."

### **Stock-Based Compensation**

At March 31, 2010, the Bank had one stock-based compensation plan, which is described more fully in Note 16 to the Audited Financial Statements included in Item 8 of the Bank's 2009 Form 10-K. The Bank accounts for this plan under applicable accounting guidance, which requires recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to

perform services (usually the vesting period). The Bank recorded no stock-based compensation costs in the three months ended March 31, 2010 and March 31, 2009.

## RESULTS OF OPERATIONS

### *General.*

The Bank reported net income of \$461 thousand for the three-month period ended March 31, 2010 as compared to a net loss of \$501 thousand for the three-month period ended March 31, 2009. Net interest income increased by \$1.4 million during the first three months of 2010, as compared to the first three months of 2009. The Bank's net interest income was positively affected by an increase in the loan portfolio, which also had a positive effect on the Bank's yield on earning assets as assets were shifted from lower yielding investments into higher yielding loans. The Bank's net interest income also benefited from lower funding costs associated with the decline in market interest rates. Increases in net interest income more than offset increased operating expenses from additional personnel, infrastructure and facilities added to support the Bank's growth, as well as increased deposit insurance assessments and Virginia franchise taxes.

The following table shows the annualized return on average assets and average equity for the period shown.

### Annualized Return on Average Assets and Average Equity

	Three Months Ended March 31,		Year ended December 31,
	2010	2009	2009
Return on Average Equity	6.38%	(6.77)%	(3.57)%
Return on Average Assets	0.76%	(1.35)%	(0.57)%
Ratio of Average Equity to Average Assets	11.89%	19.94%	15.94%

### Three Months Ended March 31, 2010

#### *Net Interest Income and Net Interest Margin.*

Net interest income is the amount by which interest earned on assets exceeds the interest paid on interest-bearing liabilities. The Bank's principal interest earning assets are commercial loans to businesses and real estate investors. Interest-bearing liabilities consist primarily of savings accounts, money market accounts and certificates of deposit. Generally, changes in net interest income are measured by net interest rate spread and net interest margin. Net interest rate spread is equal to the difference between the average rate earned on interest earning assets and the average rate incurred on interest-bearing liabilities. Net interest margin represents the difference between interest income (including net loan fees earned) and interest expense calculated as a percentage of average earning assets.

The following table shows the average balance sheets for the first three months of 2010 compared to the first three months of 2009. In addition, the amounts of interest earned on interest-earning assets, with related yields, and interest expense on interest-bearing liabilities, with related rates, are shown. Loans placed on a non-accrual status are included in the average balances. Net loan fees and late charges included in interest income on loans totaled \$22 thousand for the first three months of 2010 and \$13 thousand for the first three months of 2009.

	Three Months Ended March 31, 2010			Three Months Ended March 31, 2009		
	Average Balance	Interest Income- Expense	Average Yields /Rates	Average Balance	Interest Income- Expense	Average Yields /Rates
(Dollars in thousands)						
<b>Assets</b>						
Securities	\$24,006	\$197	3.33%	\$12,345	\$128	4.21%
Loans, net of unearned income	212,945	3,263	6.21%	127,176	1,830	5.84%
Interest-bearing deposits in other banks	3,580	2	0.23%	1,179	4	1.38%

	Three Months Ended March 31, 2010			Three Months Ended March 31, 2009		
	Average Balance	Interest Income- Expense	Average Yields /Rates	Average Balance	Interest Income- Expense	Average Yields /Rates
(Dollars in thousands)						
Federal funds sold	91	0	0.00%	4,897	2	0.17%
<b>Total interest-earning assets</b>	\$240,622	<u>\$3,462</u>	5.84%	\$145,597	<u>\$1,964</u>	5.47%
Other assets	5,968			4,913		
<b>Total assets</b>	<u>\$246,590</u>			<u>\$150,510</u>		
<b>Liabilities &amp; Stockholders' Equity</b>						
Interest-bearing deposits						
NOW accounts	\$3,259	\$4	0.50%	\$2,443	\$4	0.66%
Money market accounts	68,079	248	1.48%	24,950	138	2.24%
Savings accounts	8,356	16	0.78%	7,286	24	1.34%
Time deposits	100,241	490	1.98%	64,203	529	3.34%
Total interest-bearing deposits	\$179,935	\$758	1.71%	\$98,882	\$695	2.85%
Securities sold under agreement to repurchase and federal funds purchased	5,745	9	0.64%	5,471	12	0.89%
Other borrowed funds	7,432	39	2.13%	3,573	12	1.36%
<b>Total interest-bearing liabilities</b>	\$193,112	<u>\$806</u>	1.69%	\$107,926	<u>\$719</u>	2.70%
Demand deposits and other liabilities	24,164			12,585		
<b>Total liabilities</b>	<u>\$217,276</u>			<u>\$120,511</u>		
Stockholders' equity	29,314			29,999		
<b>Total liabilities and stockholders' equity</b>	<u>\$246,590</u>			<u>\$150,510</u>		
Interest rate spread			4.15%			2.77%
<b>Net interest income and margin</b>		<u>\$2,656</u>	4.48%		<u>\$1,245</u>	3.47%

(1) Yields on securities available-for-sale have been calculated on the basis of historical cost and do not give effect to changes in the fair value of those securities, which are reflected as a component of stockholders' equity.

The increase in average interest-earning assets, combined with a shift in assets into higher yielding loans, resulted in substantially higher interest income during the first quarter of 2010. Total interest income increased by \$1.5 million, or 76.3%, for the three-month period ended March 31, 2010 as compared the same period in 2009.

Interest expense increased by \$88 thousand or 12.2% to \$806 thousand for the three months ended March 31, 2010 as compared to \$719 thousand during the first three months of 2009. This increase was primarily attributable to increased average interest bearing liabilities during 2010 as compared to 2009. The effect of the increased interest bearing liabilities was tempered by falling interest rates and a resulting decline in the Bank's cost of funds from 2.70% during the first three months of 2009 to 1.69% during the first three months of 2010. The substantial decrease in the Bank's cost of funds was due primarily to Federal Reserve monetary policy actions that decreased the target Federal Funds Rate from 4.25% at the beginning of 2008 to .25% as of March 31, 2010.

Net interest income for the three-month period ended March 31, 2010 was \$2.7 million as compared to \$1.2 million for the same period in 2009, an increase of 113.3%. The substantial increase in net interest income during the period is primarily attributed to strong loan growth and lower funding costs, which resulted in an improvement in the Bank's net interest margin from 3.47% during the first quarter of 2009 to 4.48% during the first quarter of 2010.

#### ***Provision for Loan Losses.***

The provision for loan losses was \$340 thousand during the three month period ended March 31, 2010 as compared to \$258 thousand during the three months ended March 31, 2009, reflecting increases in average loans and management's assessment of potential losses related to criticized and classified loans.

### ***Non-Interest Income.***

Non-interest income totaled \$80 thousand for the three months ended March 31, 2010 as compared to \$80 thousand during the three months ended March 31, 2009. For the three months ended March 31, 2010, the Bank realized a gain on the sale of an SBA-guaranteed loan of \$24 thousand, and a gain on the sale of other real estate owned of \$21 thousand. During the first three months of 2009, the Bank realized a loss of \$10 thousand on the sale of other real estate owned. For the three months ended March 31, 2009, the Bank realized a gain on the sale of investment securities totaling \$56 thousand, compared to a loss of \$4 thousand realized during the first three months of 2010. Deposit account service charges amounted to \$31 thousand during the three months ended March 31, 2010 as compared to \$19 thousand for the same period in 2009. The increase in deposit account service charges resulted from increased deposit transaction volume associated with the growth in deposit transaction accounts. Other operating income increased by \$47 thousand during the first three months of 2010, as compared to the first three months of 2009, due to the previously mentioned gain on sale of loans and other real estate owned.

### ***Non-Interest Expense.***

Non-interest expense totaled \$1.9 million for the three-month period ended March 31, 2010 as compared to \$1.6 million for the same period in 2009, a 23.4% increase. Compensation and benefit expense increased \$175 thousand, a 19.2% increase, representing increased staffing required to support the opening of two new branches, as well as the administrative personnel required to support the increase in the Bank's loan and deposit portfolios. Occupancy expense increased \$64 thousand, a 52.1% increase, reflecting expenses associated with the two new full service branches – a Leesburg, Virginia branch that opened in January 2009 and an Arlington, Virginia branch that opened in April 2009. Other non-interest expenses also increased because of increased data processing and telecommunication expenses required to support the Bank's growth, and increased deposit insurance assessments instituted by the FDIC beginning in 2008. For the first three months of 2010, the Bank's FDIC insurance assessments totaled \$90 thousand, as compared to \$46 thousand for the first three months of 2009.

### ***Income Tax Expense.***

The Bank has not recorded a provision for income taxes due to operating losses. As of December 31, 2009, the Bank had net operating loss carryforwards of approximately \$4.8 million, which can be offset against future taxable income. The carryforwards expire through 2028. The full realization of the tax benefits associated with these carryforwards depends on the recognition of ordinary income during the carryforward period. For further information regarding the provisions for income taxes see Note 6 to the Audited Financial Statements.

## **FINANCIAL CONDITION.**

***General.*** The Bank's assets at March 31, 2010 were \$254.8 million, an increase of \$20.1 million or 8.6%, from December 31, 2009. Gross loans totaled \$222.1 million comprised primarily of commercial real estate loans of \$116.4 million, an increase of \$16.0 million, or 15.9%, from December 31, 2009 and commercial loans of \$55.7 million, a decrease of \$1.4 million, or 2.4% from December 31, 2009. At March 31, 2010, deposits totaled \$213.3 million, an increase of \$27.0 million, or 14.5%, from December 31, 2009. Deposits at March 31, 2010 are comprised primarily of certificates of deposit of \$110.5 million, savings and money market accounts of \$75.9 million, and noninterest bearing deposits and NOW accounts of \$26.9 million.

***Loan Portfolio.*** The loan portfolio is the largest component of earning assets and accounts for the greatest portion of total interest income. At March 31, 2010, net loans were \$219.2 million, a 6.4% increase from the \$205.9 million in loans outstanding at December 31, 2009. In general, loans consist of internally generated loans and, to lesser degree, participation loans purchased from other local community banks. Lending activity is generally confined to our immediate market areas. The Bank does not engage in foreign lending activities.

The strong loan growth recently experienced is primarily attributable to the efforts of executive management and commercial account managers, hired during 2008 and 2009, who have been successful in moving long-time customer relationships to the Bank.

The composition of the loan portfolio as of March 31, 2010 and December 31, 2009 is summarized as follows:

<i>Dollars in thousands</i>	<b>March 31, 2010</b>		<b>December 31, 2009</b>	
	<b>Balance</b>	<b>% of Loans</b>	<b>Balance</b>	<b>% of Loans</b>
Mortgage loans on real estate:				
Residential 1-4 family	\$13,315	6.0%	\$14,561	7.0%
Commercial	116,418	52.4%	100,464	48.2%
Construction	32,575	14.7%	32,067	15.4%
Second mortgages	572	0.3%	575	0.3%
Residential equity loans	2,715	1.2%	2,751	1.3%
Total mortgage loans on real estate	\$165,595	74.6%	\$150,418	72.1%
Commercial loans	55,746	25.1%	57,099	27.4%
Loans to individuals for household, family and other personal expenditures	761	0.3%	1,017	0.5%
Total loans	\$222,102	100%	208,534	100.0%
Less: Allowance for loan losses	(2,546)		(2,291)	
Net deferred loan fees	(380)		(314)	
Net loans	\$219,176		\$205,929	

As of March 31, 2010, commercial real estate loans consist of \$32.6 million in construction and land development loans and \$116.4 million in commercial mortgages, \$29.4 million of which were owner-occupied properties. Commercial loans consisted of \$30.6 million in commercial lines of credit to support working capital and \$25.1 million in term loans for equipment and other long term purposes. Residential real estate loans consist primarily of owner occupied residential mortgages.

The following table shows the interest rate sensitivity of the loan portfolio at March 31, 2010. Demand loans, loans without a stated maturity and overdrafts are reported as due in one year or less. Floating rate loans are reported to reflect the period until re-pricing.

<i>(In thousands)</i>	<b>Interest rate sensitivity of loan portfolio</b>			
	<b>One Year or Less</b>	<b>After One Year through Five Years</b>	<b>After Five Years</b>	<b>Total</b>
	\$69,394	\$127,469	\$25,239	\$222,102

### **Provision for Loan Losses**

The provision for loan losses represents the amount charged against earnings to increase the allowance for loan losses to the level deemed appropriate by management. The provision for loan losses and the allowance for loan losses are based on management's ongoing assessment of the Bank's credit exposure and consideration of certain other relevant factors.

The adequacy of the allowance for loan losses is based upon an evaluation of loan pool categories, except for loans rated substandard, doubtful or loss, which are evaluated separately. For all other loans, loss ratios are applied to each category of loan to determine estimated loss amounts. Categories of loan pools used in the analysis of the allowance for loans losses are commercial & industrial, commercial real estate, residential mortgages, home equity loans, and consumer loans. Because of the Bank's limited historical loan loss experience, loss ratios are determined based upon peer group historical loss ratios, adjusted for loan duration and for the effect of certain qualitative factors, including the level and trend in delinquent loans, trends in the volume and term of loans, the experience and depth of management, national and local economic trends and conditions, and concentrations of credit. At March 31, 2010, loss ratios used to determine estimated losses by loan category were: commercial and industrial loans: 1.38%; commercial real estate loans – non-owner occupied: 0.63%; commercial real estate loans – owner occupied: 0.55%;

commercial real estate loans – multifamily: 0.26%; construction and land development loans: 1.16%; home equity loans: 1.10%; residential mortgages: 2.47%; and consumer loans: 3.29%. There was no material change in loss ratios used to determine estimated losses compared to December 31, 2009 and March 31, 2009.

The adequacy of the allowance for loan losses allocated to criticized and classified loans is reviewed at least quarterly using risk ratings applied to the loans based upon rating criteria consistent with regulatory risk rating definitions of criticized and classified loans. The risk rating is adjusted, as necessary, if loans become delinquent, if significant adverse information is discovered regarding the underlying credit and, in the case of commercial loans and commercial real estate loans, the normal periodic review of the underlying credit indicates that a change in risk rating is appropriate. An analysis of the collateral value on each criticized and classified loan is performed and a specific reserve is established based upon management’s assessment of the probability of default and the loss in the event of default. In addition, on at least a quarterly basis, the allowance for loan losses (as a percent of loans) is compared to peer group levels to confirm the reasonableness of the estimate.

The provision for loan losses was \$340 thousand during the three months ended March 31, 2010 as compared to \$258 thousand for the three months ended March 31, 2009 - an increase of 32%. The increase in the provision for loans losses is primarily attributed to the loan growth experienced during the first quarter of 2010 and an increase in reserves as a percentage of total loans, reflecting continued weakness in the local economy and the recent increases in local peer group reserve levels.

The allowance for loan losses represents 1.15% and 1.10% of loans receivable at March 31, 2010 and December 31, 2009, respectively. The increase in the allowance for loan losses as a percentage of total loans from December 31, 2009 to March 31, 2010 reflects management’s current assessment of inherent losses on criticized and classified loans, qualitative factors related to portfolio composition, and increasing local peer group loss factors. The Bank has no exposure to foreign countries or foreign borrowers. Management believes that the allowance for loan losses is adequate for each period presented.

The activity in the allowance for credit losses is shown in the following table.

<i>(Dollars in thousands)</i>	<b>Three Months Ended March 31, 2010</b>	<b>Year Ended December 31, 2009</b>
Allowance, beginning of period	\$ 2,291.0	\$ 1,303.6
<b>Charge-Offs</b>		
Real estate loans	\$ 10.4	\$ 134.6
Commercial loans	15.0	219.8
Consumer loans	59.9	20.5
Total charge-offs	\$ 85.3	\$ 374.9
<b>Recoveries</b>		
Real estate loans	\$ --	\$ --
Commercial loans	--	7.6
Consumer loans	0.8	2.5
Total recoveries	\$ 0.8	\$ 10.1
Net (recoveries) charge-offs	\$ 84.5	\$ 364.7
<b>Provision for loan losses</b>	<b>340.0</b>	<b>1,352.1</b>
Allowance, end of period	\$2,546.5	\$2,291.0
Ratio of net charge-offs to average total loans outstanding during period	0.04%	0.23%

Additionally, the Bank has established a reserve for unfunded commitments that is recorded by a provision charged to other expenses. At March 31, 2010 the balance of this reserve was \$61 thousand. The reserve, based on an analysis of unfunded commitments similar to that made to establish the adequacy of the allowance for loan loss reserve, is an amount that management believes will be adequate over time to absorb possible losses on unfunded commitments (off-balance sheet financial instruments) that may become uncollectible in the future.

**Asset Quality.** In its lending activities, the Bank seeks to develop a sound loan portfolio with customers who will grow with the Bank. Although the Bank has been successful in rapidly building the loan portfolio, most of the growth is with customers who have been customers of the Bank's executive officers and commercial account managers for many years. At the same time, the extension of credit inevitably carries some risk of non-payment and the Bank is aggressively managing a modest level of problem credits.

The following table shows an analysis of nonperforming assets at the dates indicated:

(Dollars in thousands)	<b>Analysis of Nonperforming Assets</b>	
	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Non-accrual loans	\$824	\$834
Restructured loans	1,167	1,491
Total non-performing loans	\$1,991	\$2,325
Other real estate owned	335	190
Total non-performing assets	\$2,326	\$2,515
Loans past due 90 days and still accruing	--	--
<b>Total non-performing assets and past due loans</b>	<b>\$2,326</b>	<b>\$2,515</b>
Allowance for loan losses to total loans	1.15%	1.10%
Allowance for loan losses to non-performing loans	127.9%	98.5%
Non-performing assets and past due loans to total loans	1.05%	1.12%
<b>Non-performing assets and past due loans to total assets</b>	<b>.91%</b>	<b>1.07%</b>

Non-accrual loans include five loans as of March 31, 2010 – two commercial loans to the same borrower, totaling \$663 thousand, secured by the guarantors' primary residence; and three unsecured commercial loans totaling \$161 thousand. The restructured loans consist of four residential mortgages that carry 35% mortgage insurance coverage. These loans were restructured over the course of 2009 to provide payment relief to the borrowers and allow them to stay in their homes. The other real estate owned consists of a residential building lot and a foreclosed single family residence that was in the process of court ratification as of March 31, 2010. All non-performing assets have been marked down to estimated fair value net of disposal costs and specific reserves have been established to cover anticipated losses.

Generally, the accrual of interest is discontinued when a loan is specifically determined to be impaired or when principal or interest is delinquent for ninety days or more. There are no amounts included in gross interest income attributable to loans in non-accrual status.

As of March 31, 2010, the Bank had one loan past due 30-89 days totaling \$13 thousand compared to four loans past due 30-89 days totaling \$1.4 million as of December 31, 2009. All loans that were past due or on non-accrual as of March 31, 2010 were on the Bank's internal watch list with specific loan loss reserves allocated to cover expected losses, based primarily on the current value of the underlying collateral. The Bank does not expect to incur losses on any of its past due loans as of March 31, 2010 in excess of amounts already reserved.

**Investment Portfolio.** At March 31, 2010 the carrying value of the investment securities portfolio was \$21.8 million, a decrease of \$333 thousand from the carrying value of \$22.1 million at December 31, 2009. The Bank currently classifies \$13.0 million of its securities portfolio as available for sale and \$8.8 million as held to maturity. All mortgage backed securities in the Bank's portfolio consist of conventional mortgage loan pools packaged and sold by Fannie Mae or Freddie Mac.

Changes in the level of the investment portfolio will occur whenever deposit growth varies from loan demand, and the forecast for growth and market interest rates is such that the investment of excess liquidity in investment securities (as opposed to short term investments such as Federal funds) is warranted. In addition, the Bank has purchased Federal Reserve stock in accordance with regulation, and has purchased Federal Home Loan Bank of Atlanta stock associated with the Bank's membership requirements.

The following table provides information regarding the composition of the Bank's investment securities portfolio at the dates indicated:

<b>Investment Securities Portfolio</b>				
<b>March 31, 2010</b>		<b>December 31, 2009</b>		
	Percent		Percent	
(Dollars in thousands)	of total	Fair Value	of total	
Fair Value		Fair Value		
<b>Available-for-sale:</b>				
U.S. Government Agency obligations	54.1%	\$7,018	53.8%	\$7,072
Mortgage backed debt securities	45.9%	5,958	46.2%	6,064
	<b>100.0%</b>	<b>\$12,976</b>	<b>100.0%</b>	<b>\$13,146</b>
<b>Held to Maturity</b>				
(Dollars in thousands)	Percent	Book Value	Percent	Book Value
	of total		of total	
Mortgage backed debt securities	100.0%	\$8,786	100.0%	\$8,949
	<b>100.0%</b>	<b>\$8,786</b>	<b>100.00%</b>	<b>\$8,949</b>

The fair value of the U.S. Government Agency securities and mortgage backed debt securities is derived from market quotes as reported to the Bank by a third party brokerage firm.

*Deposits.* Deposits are the major source of funds for lending and investment activities. Deposits increased \$27.0 million, or 14.5%, to \$213.3 million at March 31, 2010 from \$186.3 million at December 31, 2009.

The following table provides a summary of the Bank's deposit base as of the dates indicated:

	<b>March 31, 2010</b>		<b>December 31, 2009</b>	
	<b>Balance</b>	<b>% of Total Deposits</b>	<b>Balance</b>	<b>% of Total Deposits</b>
(Dollars in thousands)				
Noninterest-bearing demand deposits	\$23,913	11.2%	\$ 20,898	11.2%
Interest-bearing demand deposits:				
NOW accounts	3,016	1.4%	2,324	1.2%
Money market accounts	67,919	31.9%	67,690	36.4%
Savings accounts	7,949	3.7%	8,191	4.4%
Certificates of deposit:				
\$100,000 or more	63,038	29.5%	55,196	29.6%
Less than \$100,000	15,066	7.1%	7,408	4.0%
CDARS(1)	26,813	12.6%	17,549	9.4%
Brokered Deposits(2)	5,622	2.6%	7,083	3.8%
Total deposits	<b>\$213,336</b>	<b>100.0%</b>	<b>\$186,339</b>	<b>100.0%</b>

- (1) CDARS® is the Certificate of Deposit Account Registry Service® offered by Promontory Interfinancial Network LLC. It is a network of participating financial institutions that places deposits into certificates of deposit issued by banks in the network. Deposits are placed in increments of less than the FDIC insurance maximum so that all funds are eligible for full FDIC insurance. Funds are matched on a dollar-for-dollar basis so that the equivalent of the original deposit becomes a funding source for the Bank. CDARS® deposits generally represent funds from significant customers of the Bank who desire insurance coverage above the current \$250,000 FDIC maximum. At March 31, 2010, CDARS in denominations of less than \$100,000 totaled \$1,159 thousand and CDARS of \$100,000 or more totaled \$2,566 thousand.
- (2) Brokered deposits represent deposits purchased from deposit brokers that facilitate the placement of deposits with insured institutions for third parties. The Bank uses brokered deposits, along with wholesale borrowings, as a supplemental source to fund loan growth.

*Borrowings.* Short-term borrowings are primarily securities sold to customers under agreements to repurchase. The secured transactions with customers are provided to significant commercial demand deposit customers and are considered a core funding source of the Bank. Short-term borrowings may also include Federal funds purchased, which are unsecured overnight borrowings from other banks, and are generally used to accommodate short-term liquidity needs. The Bank also uses both short-term and long-term advances from a secured credit facility from the Federal Home Loan Bank of Atlanta ("FHLB").

The following table provides information on balances and the average weighted interest rate on borrowings as of the dates indicated:

<i>Dollars in thousands</i>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Securities sold under agreement to repurchase	\$5,167	\$5,658
Federal funds purchased	--	160
FHLB short-term borrowings (maturing in less than one year)	2,000	9,900
FHLB long-term borrowings (maturing in more than one year)	4,000	3,000
Total	<u>\$11,167</u>	<u>\$18,718</u>
Weighted interest rate at period end	1.49%	1.09%

## **LIQUIDITY AND CAPITAL RESOURCES.**

The Bank currently has no business other than that of the Bank and does not currently have any material funding commitments unrelated to that business. The Bank's principal sources of funds for loans, investments and general operations are deposits from its primary market area, principal and interest payments on loans, and proceeds from maturing investment securities. Its principal funding commitments are for the origination of loans and the payment of maturing deposits, and the payment for checks drawn upon it. The Bank's most liquid assets are cash and cash equivalents, which are cash on hand, amounts due from other financial institutions, including the Federal Reserve Bank of Richmond. The levels of such assets are dependent on the Bank's lending, investment and operating activities at any given time. The variations in levels of cash and cash equivalents are influenced by deposit flows and loan demand, both current and anticipated. At March 31, 2010, the Bank's cash and cash equivalents totaled \$8.4 million, an increase of \$7.1 million from December 31, 2009, primarily as the result of increases in deposits net of loan growth. Management expects excess liquidity accumulated during the first quarter of 2010 to be absorbed by loan growth during the second quarter of 2010.

At March 31, 2010, the Bank had \$18.0 million available under an unsecured Federal funds borrowing facility from other financial institutions; no amounts were outstanding under this facility. In addition, at March 31, 2010, the Bank had \$28.5 million available borrowing capacity from the FHLB, secured by the Bank's commercial and residential real estate loan portfolios; and \$37.2 million available borrowing capacity from the Federal Reserve Bank of Richmond discount window secured by certain non real estate secured commercial loans. The Bank believes its level of liquidity and capital is adequate to conduct the business of the Bank.

## **OFF-BALANCE SHEET ARRANGEMENTS**

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral supporting those commitments for which collateral is deemed necessary. The Bank has not been required to perform on any financial guarantees and has not recorded or incurred any losses on its commitments. The issuance of letters of credit is not a significant activity of the Bank. Outstanding letters of credit at March 31, 2010 totaled \$1.1 million (\$952 thousand at December 31, 2009), \$385 thousand of which is secured by deposits controlled by the Bank. With the exception of these off-balance sheet arrangements, the Bank has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Bank's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources, that is material to investors.

Commitments to extend credit are agreements to lend funds to customers as long as there are no violations of any condition established in the loan contracts. These commitments include commitments to lend funds as well as unadvanced loan funds. These commitments at March 31, 2010 totaled \$47.3 million (\$51.7 million at December 31, 2009). Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

## **CAPITAL ADEQUACY**

The Federal Reserve Board has established guidelines with respect to the maintenance of appropriate levels of capital by state member banks. The regulations impose two sets of capital adequacy requirements: minimum leverage rules, which require banks to maintain a specified minimum ratio of capital to total assets, and risk-based capital rules, which require the maintenance of specified minimum ratios of capital to "risk-weighted" assets. At March 31, 2010, the Bank was in full compliance with these guidelines, as follows:

	<b>Minimum Ratios</b>			
	<b>March 31, 2010</b>	<b>December 31, 2009</b>	<b>To be “Adequately Capitalized”</b>	<b>To be “Well Capitalized”</b>
Total Capital (to Risk Weighted Assets):	13.5%	14.0%	8.0%	10.0%
Tier 1 Capital (to Risk Weighted Assets):	12.4%	13.0%	4.0%	6.0%
Tier 1 Capital (to Average Assets):	12.0%	13.6%	4.0%	5.0%

Under guidance by the federal banking regulators, banks which have concentrations in construction, land development or commercial real estate loans (other than loans for majority owner occupied properties) would be expected to maintain higher levels of risk management and, potentially, higher levels of capital. It is possible that we may be required to maintain higher levels of capital than we would otherwise be expected to maintain as a result of our levels of construction, development and commercial real estate loans, which may require us to obtain additional capital, sooner than we otherwise would expect to.

### **ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable

### **ITEM 4 – CONTROLS AND PROCEDURES**

The Bank’s management, under the supervision and with the participation of the Chief Executive Officer and Chief Operating Officer (who is serving as our Principal Financial Officer), evaluated, as of the last day of the period covered by this report, the effectiveness of the design and operation of the Bank’s disclosure controls and procedures, as defined in Rule 13a-15 under the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Operating Officer concluded that the Bank’s disclosure controls and procedures were effective. There were no changes in the Bank’s internal control over financial reporting (as defined in Rule 13a-15 under the Securities Act of 1934) during the quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Bank’s internal control over financial reporting.

### **PART II - OTHER INFORMATION**

#### **Item 1 – Legal Proceedings**

From time to time the Bank is a participant in various legal proceedings incidental to its business. In the opinion of management, the liabilities (if any) resulting from such legal proceedings will not have a material effect on the financial position of the Bank.

#### **Item 1A – Risk Factors**

There have been no material changes to the risk factors as previously disclosed in the Bank’s 2009 Form 10-K.

#### **Item 2 – Unregistered Sale of Equity Securities and Use of Proceeds**

- (a) *Sales of Unregistered Securities.* None
- (b) *Use of Proceeds.* Not applicable.
- (c) *Issuer Purchases of Securities.* None

#### **Item 3 – Defaults Upon Senior Securities.** None

Item 4 – (Removed and Reserved)

Item 5 – Other Information

- (a) *Information Required to be Reported on Form 8-K.*      None
- (b) *Changes in Security Holder Nomination Procedures.*      None

Item 6 - Exhibits

Exhibit No.	Description of Exhibits
3(a)	Articles of Incorporation of the Bank, with all amendments thereto (1)
3(b)	Bylaws of the Bank (1)
10(c)	John Marshall Bank 2006 Stock Option Plan, as amended (1)
11	Statement Regarding Computation of Per Share Income- See Notes to Financial Statements
31(a)	Certification of John R. Maxwell, President and Chief Executive Officer
31(b)	Certification of Carl E. Dodson, Executive Vice President and Chief Operating Officer (Principal Financial Officer)
32(a)	Certification of John R. Maxwell, Chairman and Chief Executive Officer
32(b)	Certification of Carl E. Dodson, Executive Vice President and Chief Operating Officer (Principal Financial Officer)

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(1) Incorporated by reference to exhibit of the same number to Bank's Registration Statement on Form 10 filed with the Board of Governors of the Federal Reserve System.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**JOHN MARSHALL BANK**

Date: May 10, 2010

By: \_\_\_\_\_/s/  
John R. Maxwell  
Chairman and Chief Executive Officer

Date: May 10, 2010

By: \_\_\_\_\_/s/  
Carl E. Dodson  
Executive Vice President and Chief Operating Officer  
(Principal Financial Officer)