

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

FORM 10-Q

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

For the quarterly period ended JUNE 30, 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 checkmark 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 August 11, 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

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PART I - FINANCIAL INFORMATION**Item 1 - Financial Statements****John Marshall Bank****Balance Sheets**

June 30, 2010 and December 31, 2009

	(Unaudited)	(Audited)
	June 30,	December 31,
	2010	2009
ASSETS		
Cash and due from banks	\$ 9,326,371	\$ 1,315,672
Interest bearing deposits in banks	4,743	6,723
Securities available for sale	12,999,931	13,146,195
Securities held to maturity, fair value of \$8,776,472 at June 30, 2010 and \$8,839,952 at December 31, 2009	8,549,571	8,948,589
Restricted securities	1,807,750	1,740,700
Loans, net of allowance for loan losses of \$2,864,904 at June 30, 2010, \$2,290,955 at December 31, 2009	248,517,907	205,929,445
Bank premises and equipment, net	1,423,745	1,516,290
Accrued interest receivable	754,270	672,710
Other real estate	220,145	190,032
Deferred taxes	2,183,155	-
Other assets	1,026,749	1,176,756
Total Assets	<u>\$ 286,814,337</u>	<u>\$ 234,643,112</u>
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing deposits	\$ 30,137,833	\$ 20,897,947
Interest demand deposits	70,906,465	70,015,682
Savings deposits	6,614,827	8,190,846
Time deposits	130,501,387	87,234,859
Total deposits	238,160,512	186,339,334
Federal funds purchased	20,000	160,000
Federal Home Loan Bank advances	10,000,000	12,900,000
Repurchase agreements	5,678,377	5,657,532
Accrued interest payable	126,095	71,880
Other liabilities	396,654	543,915
Total liabilities	<u>254,381,638</u>	<u>205,672,661</u>
Shareholders' Equity		
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	18,500,480	18,444,277
Retained deficit	(4,768,441)	(7,986,217)
Accumulated other comprehensive income (loss)	162,110	(26,159)
Total shareholders' equity	<u>32,432,699</u>	<u>28,970,451</u>
Total Liabilities and Shareholders' Equity	<u>\$ 286,814,337</u>	<u>\$ 234,643,112</u>

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

John Marshall Bank
Statements of Operations

For the Six Months Ended June 30, 2010 and 2009 (Unaudited)

	Six months Ended June 30,	
	2010	2009
Interest and dividend income:		
Interest and fees on loans	\$ 6,886,447	\$ 3,922,320
Interest on investment securities - taxable	362,155	228,920
Dividends	27,093	27,169
Federal funds sold	43	4,402
Interest on deposits in banks	3,962	11,849
Total interest and dividend income	<u>7,279,700</u>	<u>4,194,660</u>
Interest expense:		
Deposits	1,542,408	1,488,920
Federal Home Loan Bank advances	85,302	40,444
Other short-term borrowings	19,946	21,801
Total interest expense	<u>1,647,656</u>	<u>1,551,165</u>
Net interest income	5,632,044	2,643,495
Provision for loan losses	<u>725,000</u>	<u>731,098</u>
Net interest income after provision for loan losses	<u>4,907,044</u>	<u>1,912,397</u>
Noninterest income:		
Service charges on deposit accounts	63,637	43,163
Other service charges and fees	15,309	16,519
Gain (loss) on sale of securities available for sale	(4,063)	247,288
Gain (loss) on other real estate	20,187	(39,091)
Other operating income	24,771	10,124
Total noninterest income	<u>119,841</u>	<u>278,003</u>
Noninterest expenses:		
Salaries and benefits	2,242,403	1,852,563
Legal and professional	180,157	139,653
Rent and occupancy	380,153	282,470
Furniture and equipment expenses	212,088	164,841
Marketing and business development	105,789	72,202
Insurance	10,517	17,074
Data processing	121,488	94,847
FDIC Insurance	202,351	182,530
Franchise Taxes	140,076	139,438
Other operating expenses	606,754	422,542
Total noninterest expenses	<u>4,075,776</u>	<u>3,368,160</u>
Income (loss) before income taxes	951,109	(1,177,760)
Income tax benefit	<u>(2,266,666)</u>	<u>-</u>
Net income (loss)	<u>\$ 3,217,775</u>	<u>\$ (1,177,760)</u>
Earnings (loss) per Share, basic	\$ 0.87	\$ (0.32)
Earnings (loss) per Share, diluted	\$ 0.86	\$ (0.32)

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

John Marshall Bank
Statements of Cash Flows
For the Six Months Ended June 30, 2010 and 2009
(Unaudited)

	June 30, 2010	June 30, 2009
Cash Flows from Operating Activities		
Net income (loss)	\$ 3,217,775	\$ (1,177,760)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	179,592	142,397
Provision for loan losses	725,000	731,098
Deferred income tax benefit	(2,266,666)	--
Stock compensation expense	56,203	--
Loss (gain) realized on available for sale securities	4,063	(247,288)
Net amortization of securities	41,886	21,127
(Gain) loss on other real estate	(20,187)	39,091
Changes in assets and liabilities:		
(Increase) in accrued interest receivable	(81,560)	(115,941)
(Increase) decrease in other assets	150,007	(163,079)
Increase in accrued interest payable	54,215	26,571
Increase (decrease) in other liabilities	(147,261)	137,204
Net cash provided by (used in) operating activities	\$ 1,913,067	\$ (606,580)
Cash Flows from Investing Activities		
(Increase) decrease in interest bearing deposits in banks	1,980	3,019,179
Net (increase) in loans	(43,622,174)	(38,678,272)
Purchase of available-for-sale securities	(7,018,515)	(30,830,026)
Proceeds from sales of securities available-for-sale	2,064,000	9,425,206
Proceeds from maturities, calls and principal repayments of available-for-sale securities	5,332,959	8,818,839
Proceeds from maturities, calls and principal repayments of held-to-maturity securities	396,670	--
Net (purchase) of restricted securities	(67,050)	(423,150)
Proceeds from sale of other real estate	298,786	--
Purchases of bank premises and equipment	(87,047)	(435,735)
Net cash used in investing activities	\$ (42,704,391)	\$ (49,103,959)
Cash Flows from Financing Activities		
Net increase in deposits	51,821,178	46,376,226
Proceeds from (repayments of) FHLB advances	(2,900,000)	6,500,000
Decrease in federal funds purchased	(140,000)	(176,000)
Increase (decrease) in repurchase agreements	20,845	(2,006,351)
Issuance of common stock	--	77,100
Net cash provided by financing activities	\$ 48,802,023	\$ 50,770,975
Net increase (decrease) in cash and cash equivalents	8,010,699	1,060,436
Cash and cash equivalents at beginning of period	1,315,672	2,422,271
Cash and cash equivalents at end of period	\$ 9,326,371	\$ 3,482,707
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	\$ 1,593,441	\$ 1,524,594
Income taxes	\$ -	\$ -
Supplemental Disclosures of Noncash Transactions		
Other real estate acquired in settlement of loans	\$ 308,712	\$ 291,032
Unrealized gain (loss) on securities available for sale	\$ 269,860	\$ (217,059)

The accompanying notes are an integral part of these 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 June 30, 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: Stock-Based Compensation

Under the Bank's stock option plan, options may be granted to employees and directors up to 555,555 shares. Both incentive and non-qualified stock options may be granted under the plan. The exercise price of each option equals the stock price of the Bank on the date of grant and an option's maximum term is ten years. Vesting periods of the outstanding options range from immediate to five years from the date of grant.

The fair value of each option grant is estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

Dividend yield	0.00%
Expected life	7.06 years
Expected volatility	30.00%
Risk-free interest rate	3.03%

The dividend yield assumption is based on the Bank's history and expectation of dividend payouts. The expected life is based on the average of the contractual life and vesting schedule for the respective options. Expected volatility is based on historical volatility of peer institutions. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the date of grant.

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2009	74,354	\$10.00		
Granted	358,933	\$10.00		
Exercised	--	--		
Forfeited	--	--		
Expired	--	--		

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at June 30, 2010	433,287	\$10.00	9.01	\$433,287
Options exercisable at June 30, 2010	74,354	\$10.00	4.88	\$74,354
Weighted-average fair value of options granted				\$ 3.85

The aggregate intrinsic value of a stock option represents the amount by which the current market value of the underlying stock exceeds the exercise price of the option. The amount changes based on changes in the market value of the Bank's stock as indicated by the last trade reported on the online trading board for the Bank's common stock, a service provided by the Bank's transfer agent, Transfer Online. The Bank's common stock is not traded on any organized exchange. As of June 30, 2010, no market makers made a market in the common stock in the over the counter "bulletin board" market or in the pink sheets on a regular basis. The common stock has traded only sporadically in transactions facilitated by the online trading board.

Note 3. 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.

	Six months Ended June 30,	
	2010	2009
Weighted average shares outstanding – basic	3,707,710	3,700,895
Weighted average shares outstanding – diluted	3,723,664	3,700,895
Net income (loss)	\$3,217,775	\$(1,177,760)
Basic income (loss) per share	\$0.87	\$(0.32)
Diluted income (loss) per share	\$0.86	\$(0.32)

Options to purchase 90,484 shares of common stock were excluded from the calculation of diluted earnings (loss) per share for the six months ended June 30, 2009 because their impact would have been anti-dilutive at that time. Potential common shares had no impact on net income (loss).

Note 4. Recent Relevant Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued new guidance relating to the accounting for transfers of financial assets. The new guidance, which was issued as SFAS No. 166, "Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140," was adopted into Codification in December 2009 through the issuance of Accounting Standards Update ("ASU") 2009-16. The new standard provides guidance to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The adoption of the new guidance did not have a material impact on the Bank's financial statements.

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

In October 2009, the FASB issued Accounting Standards Update No. 2009-15 (ASU 2009-15), "Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing." ASU 2009-15 amends Subtopic 470-20 to expand accounting and reporting guidance for own-share lending arrangements issued in contemplation of convertible debt issuance. ASU 2009-15 is effective for fiscal years beginning on or after December 15, 2009 and interim periods within those fiscal

years for arrangements outstanding as of the beginning of those fiscal years. The adoption of the new guidance did not have a material impact on the Bank's financial statements.

In January 2010, the FASB issued Accounting Standards Update 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 residual method to value acquired assets other than goodwill, adjustments in assets and liabilities for holding gains and losses, and selections of discount rate used for measuring defined benefit obligation. The adoption of the new guidance did not have a material impact on the Bank's financial statements.

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

In February 2010, the FASB issued Accounting Standards Update No. 2010-08, "Technical Corrections to Various Topics." ASU 2010-08 clarifies guidance on embedded derivatives and hedging. ASU 2010-08 is effective for interim and annual periods beginning after December 15, 2009. The adoption of the new guidance did not have a material impact on the Bank's financial statements.

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

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

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, new, or changes in, laws and regulations applicable to the Bank, 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 half of 2010. Net loans increased by 20.7% during the first six months of 2010, while deposits increased 27.8%. The increase in loans and deposits experienced during 2009, and continuing in the first six months of 2010, combined with an improving net interest margin, resulted in an increase in the Bank's net interest income of 113.1% during the first six months of 2010, compared to the first six months of 2009. Increased operating expenses associated with additional personnel and branch expansion during 2009 resulted in an increase in non-interest expense of 21.0% during the first six months of 2010, compared to the first six months of 2009.

Key measurements and events for the period include the following:

- Total assets at June 30, 2010 increased by 22.2% to \$286.8 million as compared to \$234.6 million as of December 31, 2009.
- Net loans outstanding increased by 20.7% from \$205.9 million as of December 31, 2009 to \$248.5 million as of June 30, 2010.
- Deposits at June 30, 2010 were \$238.2 million, an increase of \$51.8 million or 27.8% from December 31, 2009.
- Net interest income, the Bank's main source of income, increased 113.1% to \$5.6 million during the six month period ended June 30, 2010, compared to \$2.6 million during the six month period ended June 30, 2009. The Bank's net interest margin improved to 4.57% during the first six months of 2010, compared to 3.37% during the first six months of 2009.
- Non-interest income for the six months ended June 30, 2010 was \$120 thousand, down \$158 thousand as compared to \$278 thousand for the six month period ended June 30, 2009. The decline in non-interest income reflects the fact that \$247 thousand of non interest income realized during the six months ended June 30, 2009 was due to gains on the sale of investment securities.
- Non-interest expenses increased by \$708 thousand or 21.0%, for the six months ended June 30, 2010, as compared to the same period in 2009.
- The Bank had net income before taxes of \$951 thousand during the six month period ended June 30, 2010, an improvement of \$2.1 million as compared to the net loss before taxes of \$1.2 million realized during the six months ended June 30, 2009.
- Asset quality remains strong. As of June 30, 2010, the Bank's non-performing assets and past due loans were 1.11% of total loans, compared to 1.12% as of December 31, 2009. Net loan charge-offs during the first six months of 2010 were .07% of average total loans during the period, compared to .23% during the first six months of 2009.
- The Bank recorded an income tax benefit of \$2.3 million for the six months ended June 30, 2010, related to the recognition of a deferred tax asset associated primarily with net operating loss carry

forwards from the Bank's early stage losses and the allowance for loan losses. As a result, the Bank had net income of \$3.2 million during the first six months of 2010, as compared to a net loss of \$1.2 million for the first six months of 2009. The Bank expects to incur income tax expense in future periods computed at normal income tax rates applicable to corporations.

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, the financial condition of the borrower and any guarantors, and collateral value. 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 June 30, 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 six months ended June 30, 2009. On May 11, 2010, the Bank issued 358,933 stock options to officers, employees and directors, vesting in four to five annual installments commencing on the first anniversary of the date of grant. The stock-based compensation costs associated with the issuance of options, during the six months ended June 30, 2010, was \$56 thousand. The remaining amount to be expensed over the remaining vesting period as of June 30, 2010 was \$1.4 million.

Valuation of Deferred Tax Assets

Deferred tax assets and liabilities are recognized for the tax effects of differing carrying values for tax and financial statement purposes that will reverse in future periods. When substantial uncertainty exists concerning the recoverability of a deferred tax asset, the carrying value of the asset is reduced by a valuation allowance. The amount of any valuation allowance is established based upon an estimate of the deferred tax asset that is more likely than not to be recovered. Increases or decreases in the valuation allowance result in increases or decreases to the provision for income taxes. At June 30, 2010, based on recent profitability and projections of continued operational profitability, the Bank determined that the tax benefits associated with net operating loss carryforwards and other deductible temporary differences would more likely than not be realized during the carryforward period. Therefore the Bank removed the valuation allowance related to deferred tax assets and recognized an income tax benefit of \$2.3 million.

RESULTS OF OPERATIONS

General.

The Bank reported net income of \$3.2 million for the six-month period ended June 30, 2010, which includes a \$2.3 million income tax benefit, as compared to a net loss of \$1.2 million for the six-month period ended June 30, 2009. Net interest income increased by \$3.0 million during the first six months of 2010, as compared to the first six 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

	Six months Ended June 30,		Year ended December 31,
	2010	2009	2009
Return on Average Equity	21.70%	(7.92)%	(3.57)%
Return on Average Assets	2.53%	(1.44)%	(0.57)%
Ratio of Average Equity to Average Assets	11.64%	18.14%	15.94%

Six months Ended June 30, 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 six months of 2010 compared to the first six months of 2009. Also shown are the amounts of interest earned on interest-earning assets, with related yields, and interest expense on interest-bearing liabilities, with related rates. 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 \$64 thousand for the first six months of 2010 and \$50 thousand for the first six months of 2009.

(Dollars in thousands)	Six months Ended June 30, 2010			Six months Ended June 30, 2009		
	Average Balance	Interest Income- Expense	Average Yields /Rates	Average Balance	Interest Income- Expense	Average Yields /Rates
Assets						
Securities	\$24,268	\$389	3.23%	\$13,815	\$256	3.74%
Loans, net of unearned income	221,197	6,886	6.28%	134,342	3,923	5.89%
Interest-bearing deposits in other banks	3,151	4	0.26%	4,689	12	0.52%
Federal funds sold	95	0	0.00%	5,562	4	0.15%
Total interest-earning assets	\$248,711	\$7,279	5.90%	\$158,408	\$4,195	5.34%
Other assets	6,140			5,497		
Total assets	\$254,851			\$163,905		
Liabilities & Stockholders' Equity						
Interest-bearing deposits						
NOW accounts	\$3,315	\$8	0.49%	2,409	\$9	0.75%
Money market accounts	68,061	491	1.45%	37,428	459	2.47%
Savings accounts	7,548	30	0.80%	8,359	47	1.13%
Time deposits	106,579	1,014	1.92%	60,992	974	3.22%
Total interest-bearing deposits	\$185,503	\$1,543	1.68%	\$109,188	\$1,489	2.75%
Securities sold under agreement to repurchase and federal funds purchased	5,945	20	0.68%	5,654	22	0.78%
Other borrowed funds	7,898	85	2.17%	4,431	40	1.82%
Total interest-bearing liabilities	\$199,346	\$1,648	1.67%	\$119,273	\$1,551	2.62%
Demand deposits and other liabilities	25,845			14,903		
Total liabilities	\$225,191			134,176		
Stockholders' equity	29,660			29,729		
Total liabilities and stockholders' equity	\$254,851			\$163,905		
Interest rate spread			4.23%			2.72%
Net interest income and margin		\$5,631	4.57%		\$2,644	3.37%

(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 half of 2010. Total interest income increased by \$3.1 million, or 73.6%, for the six-month period ended June 30, 2010 as compared the same period in 2009.

Interest expense increased by \$96 thousand or 6.2% to \$1.65 million for the six months ended June 30, 2010 as compared to \$1.55 million during the first six 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 2.62% during the first six months of 2009 to 1.67% during the first six 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 June 30, 2010.

Net interest income for the six-month period ended June 30, 2010 was \$5.6 million as compared to \$2.6 million for the same period in 2009, an increase of 113.1%. 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 3.37% during the first half of 2009 to 4.57% during the first half of 2010.

Provision for Loan Losses.

The provision for loan losses was \$725 thousand during the six month period ended June 30, 2010 as compared to \$731 thousand during the six months ended June 30, 2009. The decline in the provision for loan losses during the first half of 2010 reflects management's assessment of changes in the level of criticized and classified loans, portfolio loan mix and estimated loss factors for individual loan pools from June 30, 2009 to June 30, 2010. Additional details regarding the provision for loan losses is provided below.

Non-Interest Income.

Non-interest income totaled \$120 thousand for the six months ended June 30, 2010 as compared to \$278 thousand during the six months ended June 30, 2009. For the six months ended June 30, 2009, the Bank realized a gain on the sale of investment securities totaling \$247 thousand, compared to a loss of \$4 thousand realized during the first six months of 2010. The gain realized in 2009 was taken in connection with a restructuring of the Bank's investment portfolio. The small loss realized in 2010 was taken to reinvest proceeds into higher yielding investment securities. During the first six months of 2010, the Bank realized a gain on the sale of other real estate of \$20 thousand, compared to a loss of \$39 thousand during the same period in 2009. Deposit account service charges amounted to \$64 thousand during the six months ended June 30, 2010 as compared to \$43 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 \$15 thousand during the first six months of 2010, as compared to the first six months of 2009, due primarily to a gain of \$24 thousand on the sale of SBA-guaranteed loans realized during the first six months of 2010, compared to \$12 a thousand gain realized during the same period in 2009.

Non-Interest Expense.

Non-interest expense totaled \$4.1 million for the six-month period ended June 30, 2010 as compared to \$3.4 million for the same period in 2009, a 21.0% increase. Compensation and benefit expense increased \$390 thousand, a 21.0% 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. In addition, the Bank incurred \$56 thousand in stock-based compensation costs during the first half of 2010 associated with the issuance of stock options to officers, employees and directors in May 2010. There were no stock-based compensation costs incurred during the first half of 2009. Occupancy expense increased \$98 thousand, a 34.6% 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 marketing, 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 six months of 2010, the Bank's FDIC insurance assessments totaled \$202 thousand, as compared to \$183 thousand for the first six months of 2009.

Income Tax Expense.

In prior reporting periods, the Bank recorded a valuation allowance on the deferred tax assets due to cumulative losses in its early years of operation. At June 30, 2010 based on recent profitability and projections of continued operational profitability, the Bank determined that the tax benefits associated with carryforwards and other deductible temporary differences would more likely than not be realized during the carryforward period. Therefore the Bank removed the valuation allowance related to deferred tax assets and recognized an income tax benefit of \$2.3 million. In future periods, the Bank will recognize income tax expense based on operational results in those periods.

FINANCIAL CONDITION.

General. The Bank's assets at June 30, 2010 were \$286.8 million, an increase of \$52.2 million or 22.2%, from December 31, 2009. Gross loans totaled \$251.8 million comprised primarily of commercial real estate loans of \$170.5 million, an increase of \$37.9 million, or 28.6%, from December 31, 2009 and commercial loans of \$63.3

million, an increase of \$6.2 million, or 10.9% from December 31, 2009. At June 30, 2010, deposits totaled \$238.2 million, an increase of \$51.8 million, or 27.8%, from December 31, 2009. Deposits at June 30, 2010 are comprised primarily of certificates of deposit of \$97.0 million, savings and money market accounts of \$74.1 million, and noninterest bearing deposits and NOW accounts of \$33.5 million.

Loan Portfolio. The loan portfolio is the largest component of earning assets and accounts for the greatest portion of total interest income. At June 30, 2010, net loans were \$248.5 million, a 20.7% 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 June 30, 2010 and December 31, 2009 is summarized as follows:

<i>Dollars in thousands</i>	June 30, 2010		December 31, 2009	
	Balance	% of Loans	Balance	% of Loans
Mortgage loans on real estate:				
Residential 1-4 family	\$13,824	5.5%	\$14,561	7.0%
Commercial	127,494	50.6%	100,464	48.2%
Construction	42,969	17.1%	32,067	15.4%
Second mortgages	565	0.2%	575	0.3%
Residential equity loans	2,716	1.1%	2,751	1.3%
Total mortgage loans on real estate	\$187,568	74.5%	\$150,418	72.1%
Commercial loans	63,336	25.1%	57,099	27.4%
Loans to individuals for household, family and other personal expenditures	899	0.4%	1,017	0.5%
Total loans	\$251,803	100%	208,534	100.0%
Less: Allowance for loan losses	(2,865)		(2,291)	
Net deferred loan fees	(420)		(314)	
Net loans	\$248,518		\$205,929	

As of June 30, 2010, commercial real estate loans consist of \$43.0 million in construction and land development loans and \$127.5 million in commercial mortgages, \$30.1 million of which were owner-occupied properties. Commercial loans consisted of \$38.8 million in commercial lines of credit to support working capital and \$24.5 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 June 30, 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.

Interest rate sensitivity of loan portfolio				
<i>(In thousands)</i>	One Year or Less	After One Year through Five Years	After Five Years	Total
	\$86,700	\$137,465	\$27,638	\$251,803

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 June 30, 2010, loss ratios used to determine estimated losses by loan category were: commercial and industrial loans: 1.00%; commercial real estate loans – non-owner occupied: 0.76%; commercial real estate loans – owner occupied: 0.75%; commercial real estate loans – multifamily: 0.75%; construction and land development loans: 0.90%; home equity loans: 3.74%; residential mortgages: 2.49%; and consumer loans: 1.66%. There was no material change in loss ratios used to determine estimated losses compared to December 31, 2009 and June 30, 2010.

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 \$725 thousand during the six months ended June 30, 2010 as compared to \$731 thousand for the six months ended June 30, 2009 – a decrease of less than 1.0%. The allowance for loan losses represents 1.14% and 1.10% of loans receivable at June 30, 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 June 30, 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>	Six months Ended June 30, 2010	Year Ended December 31, 2009
Allowance, beginning of period	\$2,291.0	\$ 1,303.6
Charge-Offs		
Real estate loans	\$10.4	\$ 134.6
Commercial loans	102.3	219.8
Consumer loans	59.9	20.5
Total charge-offs	\$172.60	\$ 374.9
Recoveries		
Real estate loans	\$12.8	\$ --
Commercial loans	8.0	7.6
Consumer loans	0.8	2.5
Total recoveries	\$21.6	\$ 10.1
Net (recoveries) charge-offs	\$151.0	\$ 364.7
Provision for loan losses	\$725.0	1,352.1
Allowance, end of period	\$2,865.0	\$2,291.0
Ratio of net charge-offs to average total loans outstanding during period	0.07%	0.23%

Additionally, the Bank has established a reserve for unfunded commitments that is recorded by a provision charged to other expenses. At June 30, 2010 the balance of this reserve was \$53 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 non-performing assets at the dates indicated:

(Dollars in thousands)	Analysis of Non-performing Assets	
	June 30, 2010	December 31, 2009
Non-accrual loans	\$1,399	\$834
Restructured loans	1,162	1,491
Total non-performing loans	\$2,561	\$2,325
Other real estate owned	220	190
Total non-performing assets	\$2,781	\$2,515
Loans past due 90 days and still accruing	--	--
Total non-performing assets and past due loans	\$2,781	\$2,515
Allowance for loan losses to total loans	1.14%	1.10%
Allowance for loan losses to non-performing loans	111.87%	98.5%
Non-performing assets and past due loans to total loans	1.11%	1.12%
Non-performing assets and past due loans to total assets	0.97%	1.07%

Non-accrual loans include five loans as of June 30, 2010 – two commercial loans to the same borrower, totaling \$660 thousand, secured by the guarantors' primary residence; a residential construction loan totaling \$637 thousand, secured an investor-owned single family residence; a \$30 thousand equity line of credit secured by an investor-owned residential townhouse; and an unsecured commercial loan totaling \$72 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 June 30, 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 June 30, 2010, the Bank had no loans past due 30-89 days compared to four loans past due 30-89 days totaling \$1.4 million as of December 31, 2009.

The increase in non-accrual loans since December 31, 2009 is primarily attributed to the addition of a \$637 thousand residential construction loan to non-accrual status during the second quarter of 2010. The decrease in restructured loans since December 31, 2009 is primarily attributed to the migration of a \$320 thousand residential mortgage loan to other real estate owned during the first quarter of 2010, net of a \$114 thousand mortgage insurance claim paid by the mortgage insurer.

Investment Portfolio. At June 30, 2010 the carrying value of the investment securities portfolio was \$21.5 million, a decrease of \$545 thousand from the carrying value of \$22.1 million at December 31, 2009. The decline in the securities portfolio during the first six months of 2010 is primarily attributed to proceeds from called government agency securities and regular pay-downs on mortgage backed securities. The Bank currently classifies \$13 million of its securities portfolio as available for sale and \$8.6 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:

Investment Securities Portfolio				
June 30, 2010		December 31, 2009		
<i>(Dollars in thousands)</i>	Fair Value	Percent of total	Fair Value	Percent of total
Available-for-sale:				
U.S. Government Agency obligations	\$7,051	54.2%	\$7,072	53.8%
Mortgage backed debt securities	5,949	45.8%	6,064	46.2%
	\$13,000	100.0%	\$13,146	100.0%
<i>(Dollars in thousands)</i>	Book Value	Percent of total	Book Value	Percent of total
Held to Maturity				
Mortgage backed debt securities	\$8,550	100.0%	\$8,949	100.0%
	\$8,550	100.0%	\$8,949	100.00%

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. As of June 30, 2010, the Bank had a net unrealized gain on its securities portfolio of \$473 thousand. Three securities with an aggregate market value of \$2.0 million had a total unrealized loss of less than \$1 thousand.

Deposits. Deposits are the major source of funds for lending and investment activities. Deposits increased \$51.8 million, or 27.8%, to \$238.2 million at June 30, 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:

June 30, 2010		December 31, 2009		
<i>(Dollars in thousands)</i>	Balance	% of Total Deposits	Balance	% of Total Deposits
Noninterest-bearing demand deposits	\$30,138	12.7%	\$ 20,898	11.2%
Interest-bearing demand deposits:				
NOW accounts	3,412	1.4%	2,324	1.2%
Money market accounts	67,494	28.3%	67,690	36.4%
Savings accounts	6,615	2.8%	8,191	4.4%
Certificates of deposit:				
\$100,000 or more	52,053	21.9%	39,204	21.0%
Less than \$100,000	14,544	6.1%	12,020	6.5%
QwickRate Certificates of Deposit (1)	30,373	12.8%	11,380	6.1%
CDARS(2)	27,727	11.6%	17,549	9.4%
Brokered Deposits(3)	5,805	2.4%	7,083	3.8%
Total deposits	\$238,161	100.0%	\$186,339	100.0%

- (1) QwickRate® is a non-brokered certificate of deposit listing service provided by QwickRate, Inc. The service provides the Bank with as-needed access to institutional investors such as banks, credit unions and larger corporations who are seeking investments in FDIC insured deposits. QwickRate® certificates of deposit are typically issued in denominations of \$250,000 or less directly to investors with no third-party broker involved. At June 30, 2010, QwickRate CD's in denominations of less than \$100,000 totaled \$2.1 million and QwickRate CD's of \$100,000 or more totaled \$28.3 million.
- (2) 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 June 30, 2010, CDARS in denominations of less than \$100,000 totaled \$1.5 million and CDARS of \$100,000 or more totaled \$26.2 million.
- (3) 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.

As a result of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”), banks are no longer prohibited from paying interest on demand deposit accounts, including those from businesses, effective in July 2011. It is not clear what affect the elimination of this prohibition will have on the Bank’s interest expense, allocation of deposits, deposit pricing, loan pricing, net interest margin, ability to compete, ability to establish and maintain customer relationships, or profitability.

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>	June 30, 2010	December 31, 2009
Securities sold under agreement to repurchase	\$5,678	\$5,658
Federal funds purchased	20	160
FHLB short-term borrowings (maturing in less than one year)	4,000	9,900
FHLB long-term borrowings (maturing in more than one year)	6,000	3,000
Total	<u>\$15,698</u>	<u>\$18,718</u>
Weighted interest rate at period end	1.63%	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 June 30, 2010, the Bank’s cash and cash equivalents totaled \$9.3 million, an increase of \$8.0 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 half of 2010 to be absorbed by loan growth during the second half of 2010.

At June 30, 2010, the Bank had \$18.0 million available under unsecured Federal funds borrowing facilities from other financial institutions. \$20 thousand was outstanding under these facilities at June 30, 2010. In addition, at June 30, 2010, the Bank had \$22.2 million available borrowing capacity from the FHLB, secured by the Bank’s commercial and residential real estate loan portfolios; and \$38.1 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 June 30, 2010 totaled \$1.8 million (\$952 thousand at December 31, 2009), \$316 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 June 30, 2010 totaled \$46.5 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 June 30, 2010, the Bank was in full compliance with these guidelines, as follows:

	Minimum Ratios			
	June 30, 2010	December 31, 2009	To be “Adequately Capitalized”	To be “Well Capitalized”
Total Capital (to Risk Weighted Assets):	12.7%	14.0%	8.0%	10.0%
Tier 1 Capital (to Risk Weighted Assets):	11.6%	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.

The ability of the Bank to grow is dependent on the availability of capital with which to meet regulatory capital requirements. To the extent the Bank is successful it may need to acquire additional capital through the sale of additional common stock, or other qualifying equity instruments, such as preferred stock (which the Bank does not currently have authorized) or subordinated debt. There can be no assurance that additional capital will be available to the Bank on a timely basis or on attractive terms.

Significant further growth of the Bank may be limited because the current level of capital will not support significant rapid short term growth while maintaining regulatory capital expectations. Loan portfolio growth will need to be funded by increases in deposits and borrowings as the Bank has limited amounts of on-balance sheet assets deployable into loans. Growth will depend upon Bank earnings and/or the raising of additional capital.

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 June 30, 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)

(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: August 11, 2010

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

Date: August 11, 2010

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

CERTIFICATION

I, John R. Maxwell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of John Marshall 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the 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 subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the 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
 - (c) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2010

_____/s/_____
John R. Maxwell
Chairman and Chief Executive Officer

CERTIFICATION

I, Carl E. Dodson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of John Marshall 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the 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 subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the 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
 - (c) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2010

_____/s/
Carl E. Dodson
Executive Vice President and Chief Operating
Officer (Principal Financial Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Form 10-Q of John Marshall Bank for the six months ended June 30, 2010, I, John R. Maxwell, Chairman and Chief Executive Officer of John Marshall Bank, hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

- (1) such Form 10-Q for the six months ended June 30, 2010, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in such Form 10-Q for the six months ended June 30, 2010, fairly presents, in all material respects, the financial condition and results of operations of John Marshall Bank.

_____/s/
John R. Maxwell
Chairman and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Form 10-Q of John Marshall Bank for the six months ended June 30, 2010, I, Carl E. Dodson, Executive Vice President and Chief Financial Officer of John Marshall Bank, hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

- (1) such Form 10-Q for the six months ended June 30, 2010, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in such Form 10-Q for the six months ended June 30, 2010, fairly presents, in all material respects, the financial condition and results of operations of John Marshall Bank.

_____/s/_____
Carl E. Dodson
Executive Vice President and Chief Operating
Officer (Principal Financial Officer)