

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

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2010

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 Number)

6601 Little River Turnpike, Suite 400, Alexandria, Virginia

(Address of principal executive offices)

22312

(Zip Code)

Registrant's telephone number: 703-584-0840

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act: Common Stock \$5.00 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Section 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the outstanding common stock held by nonaffiliates as of June 30, 2010 was approximately \$29.3 million.

As of the close of business on March 15, 2011, 3,707,710 shares of the Bank's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

PART I

Item 1. Business

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 is a member of the Federal Reserve System, and its deposits are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (the “FDIC”) to the maximum extent provided by law. The Bank currently has four full service banking offices, its main office located at 5860 Columbia Pike, Falls Church, Virginia, a branch office located at 842 South King Street, Leesburg, Virginia, a branch office located at 2300 Wilson Boulevard, Arlington, Virginia, and a branch office located at 11 N. Washington Street, Rockville, Maryland. The Bank also has a limited service branch at 4315 50th Street, NW in Washington, D.C. The D.C. office is staffed by senior experienced lending and customer relationship officers, and provides limited services to commercial customers, thus enabling the Bank to serve the District of Columbia market. In addition, the Bank maintains a regional nonbranch office located in Fairfax, Virginia. The Bank maintains administrative and executive offices at 6601 Little River Turnpike, Alexandria, Virginia. The Bank expects that it will establish non-branch offices and limited or full service branches in other attractive markets in the Washington D.C. metropolitan area, as the level of business requires, or as the ability to hire experienced officers with profitable books of business arises.

The Bank seeks to provide a high level of personal service and a sophisticated menu of products to individuals and small to medium-sized businesses. While we offer a full range of services to a wide array of depositors and borrowers, the Bank focuses on small to medium-sized businesses and professionals, and their owners, as our primary target market. The Bank believes that as financial institutions grow and are merged with or acquired by larger institutions with headquarters that are far away from the local customer base, the local business and individual is further removed from the point of decision-making. The Bank attempts to place the customer contact and the ultimate decision on products and credits as close together as possible.

The Northern Virginia/Metropolitan Washington, D.C. Market ¹

A key factor in our ability to achieve our strategic goals and create shareholder value is the attractiveness of the market. The market in which we operate and where we plan to establish additional offices has seen considerable population and economic growth in the past several decades, and we expect such favorable growth to continue in the long term. Our primary service area includes Arlington, Fairfax and Loudoun counties in Virginia, Montgomery County in Maryland, and the District of Columbia, markets that we believe have the most profitable banking opportunities in the Washington, D.C. region.

Our primary service area has experienced significant consolidation in the banking market over the past ten years. Current market and banking trends combine to provide an opportunity for the Bank to execute a focused strategy of offering personal and customized services and attract underserved and dissatisfied individual, small business and non-profit corporation clients.

The Washington metropolitan region is the nation’s 5th largest regional economy, with a compound annual growth rate in Gross Regional Product over the past 20 years of 5.3%. The region’s unemployment rate is consistently below the national average. More than 270,000 jobs have been gained since 2000, the 2nd greatest number of any metropolitan region in the country. It has a highly educated and skilled workforce, ranking 1st in percent of population 25 years or older with graduate or professional degrees, and 1st in the number of workers in the professional services, information technology, education and research sectors. The Washington region is also home to 6 of the top 10 counties in the nation with the highest per capita college degrees.

¹ Sources of economic data: Bureau of Labor Statistics, George Mason University Center for Regional Analysis, and the Greater Washington Board of Trade.

Federal government spending in the Washington region reached over \$140 billion in 2009 and represents over a third of the region's Gross Regional Product. The presence of the federal workforce, its contractors and subcontractors, and the economic activity that it generates, insulates the area from the full brunt of national economic downturns. The most recent recession, which began in December 2007, resulted in 8.4 million national job losses through January 2010. By comparison, job losses in the Washington area started in December 2008, a year after job losses began nationally, and totaled only 25,000 through December 2009. The recovery from recession has been more rapid in the local Washington region. From December 2009 to December 2010, the Washington region has added 57,500 jobs, the best performance of all major metropolitan areas in the country. The Washington region's unemployment rate has declined from 6.9% in January, 2010 to 5.7% in December 2010, compared to the national rate of 9.1%, and remains the lowest among all major metropolitan areas in the country.

The Washington region's economy rebounded in 2010, with Gross Regional Product rising over 3% in 2010, compared to a slight contraction in 2009 (the first time in over 20 years). The local housing market continues to improve from the trough realized in 2008 and 2009. Average housing sales prices began moving up in the Washington region during the last quarter of 2009 and continued to rise during 2010. The inventory of unsold homes dropped to normal levels in most jurisdictions during the latter part of 2009 and remained stable during 2010. The economic recovery is expected to continue into 2011 and 2012. Due to an expected continued increase in federal government spending in the Washington area, local growth is expected to outpace national growth rates as the recovery from recession continues.

Business Strategy and Products

The Bank's goal is to enhance its franchise by achieving significant growth in assets and profitability while maintaining asset quality and individualized customer service. Management's strategic goals have the following primary components:

- **Expand in high growth markets.** The areas in which the Bank operates and into which it proposes to expand are characterized by high concentrations of small to medium-sized businesses and professionals. We will look for opportunities to expand our franchise in these markets on a selective and opportunistic basis. We will seek additional branching opportunities, centered around experienced lending officers with a significant portfolio of commercial customers. We plan to increase our market share by branching selectively, by establishing and marketing niche products to service our small and medium-sized business customers.
- **Hire experienced commercial banking officers.** The branching strategy will revolve around the hiring of highly experienced local banking professionals with successful track records and established customer relationships with small to medium-sized businesses and affluent households. We anticipate that these officers will be able to attract customers, with which they have built relationships over the years, enhancing our franchise. We expect to hire one or more officers for a specific location, and as compelling growth opportunities arise, establish a branch office to support business generation.
- **Target small to medium-sized businesses in our communities.** The Northern Virginia/Washington, D.C. banking market has been characterized by significant consolidation among financial institutions. While many of the large banks operating in this market are now targeting the small and medium-sized business market, current and former customers of the Bank's officers have said that the corporate service culture and operational infrastructure at large banks, where automation and 800 numbers take the place of personalized and time-sensitive service, often do not provide satisfactory customer experiences. Personnel turnover restrains the ability of large banks to develop banking relationships that add value to a customer's business. This atmosphere provides an excellent opportunity for the Bank, a community-oriented bank delivering a wide array of personalized products through an integrated and responsive sales and service approach.

Lending Services

The Bank offers a wide array of lending services to its customers, including commercial loans, lines of credit, personal loans, auto loans and financing arrangements for personal equipment and business equipment. Loan terms, including interest rates, loan-to-value ratios, and maturities, are tailored as much as possible to meet the needs of the borrower. A special effort is made to keep loan products as flexible as possible within the guidelines of prudent banking practices in terms of interest rate risk and credit risk.

When considering loan requests, the primary factors taken into consideration are the cash flow and financial condition of the borrower, the value of the underlying collateral, if applicable, and the character and integrity of the borrower. These factors are evaluated in a number of ways including an analysis of financial statements, credit reviews, trade reviews, and visits to the borrower's place of business. We have implemented comprehensive loan policies and procedures to provide our loan officers with term, collateral, loan-to-value and pricing guidelines. The policy and sound credit analysis, together with thorough review by the Asset-Liability Committee, have resulted in a profitable loan portfolio with minimal delinquencies or problem loans.

Our aim is to build and maintain a commercial loan portfolio consisting of term loans, demand loans, lines of credit and commercial real estate loans provided to primarily locally-based borrowers. These types of loans are generally considered to have a higher degree of risk of default or loss than other types of loans, such as well underwritten, prime residential real estate loans, because repayment may be affected by general economic conditions, interest rates, the quality of management of the business, and other factors which may cause a borrower to be unable to repay its obligations. Traditional installment loans and personal lines of credit will be available on a selective basis. General economic conditions can directly affect the quality of a small and mid-sized business loan portfolio. We attempt to manage the loan portfolio to avoid high concentrations of similar industry and/or collateral pools, although this cannot be assured.

Loan business is generated primarily through referrals and direct-calling efforts. Referrals of loan business come from directors, shareholders, current customers and professionals such as lawyers, accountants and financial intermediaries.

At December 31, 2010, the Bank's statutory lending limit to any single borrower was approximately \$5.5 million, subject to certain exceptions provided under applicable law. As of December 31, 2010, the Bank's credit exposure to its largest borrower was \$4.8 million. The Bank does not have any dependency on one or a few of its major customers.

Commercial Loans. Commercial loans are written for any prudent business purpose, including the financing of plant and equipment, the carrying of accounts receivable, contract administration, and the acquisition and construction of real estate projects. Special attention is paid to the commercial real estate market, which remains active in the Washington metropolitan area. The Bank's commercial loan portfolio reflects a diverse group of borrowers with no concentration in any borrower, or group of borrowers.

The lending activities in which we engage carry the risk that the borrowers will be unable to perform on their obligations. As such, interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and general economic conditions, nationally and in our primary market area, will have a significant impact on our results of operations. To the extent that economic conditions deteriorate, business and individual borrowers may be less able to meet their obligations to the Bank in full, in a timely manner, resulting in decreased earnings or losses to the Bank. To the extent that loans are secured by real estate, adverse conditions in the real estate market may reduce the ability of the borrower to generate the necessary cash flow for repayment of the loan, and reduce our ability to collect the full amount of the loan upon a default. To the extent that the Bank makes fixed rate loans, general increases in interest rates will tend to reduce our spread as the interest rates we must pay for deposits increase while interest income is flat. Economic conditions and interest rates may also adversely affect the value of property pledged as security for loans.

We constantly strive to mitigate risks in the event of unforeseen threats to the loan portfolio as a result of an economic downturn or other negative influences. Plans for mitigating inherent risks in managing loan assets include carefully enforcing loan policies and procedures, evaluating each borrower's industry and business plan during the underwriting process, identifying and monitoring primary and alternative sources for repayment and obtaining collateral that is margined to minimize loss in the event of liquidation.

Commercial real estate loans will generally be owner occupied or managed transactions with a principal reliance on the borrower's ability to repay, as well as prudent guidelines for assessing real estate values. Risks inherent in managing a commercial real estate portfolio relate to either sudden or gradual drops in property values as a result of a general or local economic downturn. A decline in real estate values can cause loan-to-value margins to increase and diminish the Bank's equity cushion on both an individual and portfolio basis. The Bank attempts to mitigate commercial real estate lending risks by carefully underwriting each loan of this type to address the perceived risks in the individual transaction. Generally, the Bank requires a loan-to-value ratio of 75% of the lower of an appraisal or cost. A borrower's ability to repay is carefully analyzed and policy calls for an ongoing cash flow to debt service requirement of 1.1:1.0. An approved list of commercial real estate appraisers selected on the basis of

consistent standards has been established. Each appraisal is scrutinized in an effort to ensure current comparable market values.

Commercial real estate loans are generally made on owner occupied or investor owned properties where there is a reliance on the borrower's financial health and the ability of the borrower, and income generated from the property, to repay. The Bank generally requires personal guarantees on all loans as a matter of policy; exceptions to policy are documented. Most borrowers will be required to forward annual corporate, partnership and personal financial statements to comply with Bank policy and enforced through loan covenants. Interest rate risks to the Bank are mitigated by using either floating interest rates or by fixing rates for a short period of time, generally less than five years. While loan amortizations may be approved for up to 360 months, loans generally have a call provision (maturity date) of 5 to 10 years or less. Specific and non-specific provisions for loan loss reserves are generally set based upon a methodology developed by management and approved by the board of directors and described more fully in the Bank's Critical Accounting Policies included herein.

Commercial term loans are used to provide funds for equipment and general corporate needs. This loan category is designed to support borrowers who have a proven ability to service debt over a term generally not to exceed 60 months. The Bank generally requires a first lien position on all collateral and guarantees from owners having at least a 20% interest in the involved business. Interest rates on commercial term loans are generally floating, adjust within 3 to 5 years, or are fixed for a term not to exceed five years. Management carefully monitors industry and collateral concentrations to avoid loan exposures to a large group of similar industries and/or similar collateral. Commercial loans are evaluated for historical and projected cash flow attributes, balance sheet strength, and primary and alternate resources of personal guarantors. Commercial term loan documents require borrowers to forward regular financial information on both the business and on personal guarantors. Loan covenants require at least annual submission of complete financial information and in certain cases this information is required more frequently, depending on the degree to which the Bank requires information for monitoring a borrower's financial condition and compliance with loan covenants. Examples of properly margined collateral for loans, as required by Bank policy, would be a 75% advance on the lesser of appraisal or recent sales price on commercial property, 80% or less advance on eligible accounts receivables, 50% or less advance on eligible inventory and an 80% advance on appraised residential property. Collateral borrowing certificates may be required to monitor certain collateral categories on a monthly or quarterly basis. Key person life insurance is required as appropriate and as necessary to mitigate the risk of loss of a primary owner or manager.

Commercial lines of credit are used to finance a business borrower's short-term credit needs and/or to finance a percentage of eligible receivables and inventory. In addition to the risks inherent in term loan facilities, line of credit borrowers typically require additional monitoring to protect the lender against increasing loan volumes and diminishing collateral values. Commercial lines of credit are generally revolving in nature and require close scrutiny. The Bank generally requires an annual out of debt period (for seasonal borrowers) or regular financial information (monthly or quarterly financial statements, borrowing base certificates, etc.) for borrowers with more growth and greater permanent working capital financing needs. Advances against collateral are generally in the same percentages as in term loan lending. Lines of credit and term loans to the same borrowers are generally cross-defaulted and cross-collateralized. Industry and collateral concentration, general and specific reserve allocation and risk rating disciplines are the same as those used in managing the commercial term loan portfolio. Interest rate charges on this group of loans generally float at a factor at or above the prime lending rate, subject in many cases to a minimum rate. Generally, personal guarantees are required on these loans.

As part of its internal loan review process management reviews all loans 30-days delinquent, loans on the Watch List, loans rated special mention, substandard, or doubtful, and other loans of concern at least quarterly. Loan reviews are reported to the board of directors with any adversely rated changes specifically mentioned. All other loans with their respective risk ratings are reported monthly to the Bank's Board of Directors. The Audit Committee coordinates periodic documentation and internal control reviews by outside vendors to complement loan reviews.

Under guidance by the federal banking regulators, banks which have concentrations in construction, land development or commercial real estate loans 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 adversely affect shareholder returns, or require us to obtain additional capital sooner than we otherwise would. Excluded from the scope of this guidance are loans secured by non-farm nonresidential properties where the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party, or affiliate of the party, who owns the property.

Mortgage Lending. The Bank originates, funds, and services conforming and non-conforming 1-4 family residential mortgage loans for its own portfolio. Such loans are generally made at no more than the lesser of 80% loan to collateral value or cost. Mortgage loans are underwritten with full documentation, including verification of income and assets. Although the mortgage loans the Bank originates often carry amortization periods of up to 30 years, interest rate risk is controlled through balloon payments or interest rate adjustments of generally five years or less. It should be noted that prior to 2008 the Bank purchased various conforming and non-conforming residential mortgage loans from various mortgage loan originators, some of which were at 100% of the purchase price with 35% of the Bank's exposure covered by mortgage insurance. The practice of purchasing mortgage loans from others was terminated in late 2007. As of December 31, 2010, the balance of purchased mortgage loans outstanding was \$4.9 million, or 48% of the Bank's 1-4 family residential mortgage portfolio.

Other Loans. Loans are considered for any worthwhile personal or business purpose on a case-by-case basis, such as the financing of equipment, receivables, contract administration expenses, land acquisition and development, and automobile financing. Consumer credit facilities are underwritten to focus on the borrower's credit record, length of employment and cash flow to debt service. Car, residential real estate and similar loans generally require advances of the lesser of 80% loan to collateral value or cost.

A loan loss reserve, currently amounting to approximately 1.17% of the entire portfolio, has been established. Specific loan reserves are established to increase overall reserves based on increased credit and/or collateral risks on an individual loan basis. At December 31, 2010, specific reserves have been assigned or made for specific credits. A risk rating system is used to proactively determine loss exposure and provide a measurement system to assist in setting general and specific reserve allocations.

We seek to mitigate overall risk in the loan portfolio by monitoring and controlling concentrations. Due to market demands and opportunities, and management background and experience, our focus is on commercial lending in our local market. The Bank has a significant portion of its loan portfolio in loans to developers, contractors and real estate investors. We manage this risk by having appropriate underwriting standards and monitoring procedures to ensure that each such loan is structured and monitored appropriately. We seek to diversify our commercial real estate loans by product type, ownership and geography to avoid undue concentrations in any one product type or sub-market. We also actively seek to diversify our loan portfolio by targeting commercial and industrial loan opportunities, particularly in the government contractor and professional services industries.

Investment Activities

The investment policy of the Bank is an integral part of its overall asset/liability management program. The investment policy is to establish a portfolio which will provide liquidity necessary to facilitate funding of loans and to cover deposit fluctuations while at the same time achieving a satisfactory return on the funds invested. The Bank seeks to maximize earnings from its investment portfolio consistent with the safety and liquidity of those investment assets.

The securities in which the Bank may invest are subject to regulation and are limited to securities which are considered investment grade securities. In addition, the Bank's internal investment policy restricts investments to the following categories: U.S. Treasury securities; obligations of U.S. government agencies; investment grade obligations of U.S. private corporations; mortgage-backed securities, including securities issued by Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation; or securities of states and political subdivisions.

The Bank also periodically invests in FDIC insured deposits of other banks and credit unions through its participation in QwickRate®, a national certificate of deposit listing service. All certificates of deposit purchased through QwickRate® are purchased in increments below the FDIC insurance maximum and are purchased from FDIC insured banks, savings and loans, and credit unions that are classified as being well capitalized by their applicable federal regulatory agency.

Sources of Funds

Deposits. Deposits obtained through bank offices have traditionally been the principal source of the Bank's funds for use in lending and for other general business purposes. In order to serve the needs of its customers, the Bank offers several types of deposit accounts, including standard savings, checking, and NOW accounts, and certificates of deposit. In addition, the Bank offers the Certificate of Deposit Account Registry Service (CDARS®) to its customers as a way to obtain full FDIC insurance coverage on certificates of deposit. CDARS® is a service provided 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 FDIC maximum.

The Bank utilizes a national certificate of deposit listing service called QwickRate®, a network consisting of over 2,000 institutional subscribers. QwickRate® provides the Bank with a funding alternative that can be used to obtain on-time liquidity and as a source of contingency funding. All certificates of deposit obtained through QwickRate® are in increments below the FDIC insurance maximum and are obtained from institutional investors, including banks, savings and loans, credit unions and corporations.

The Bank also utilizes brokered deposits as a source of deposit funding. Brokered deposits represent deposits acquired through deposit brokers that, for a fee, facilitate the placement of deposits with insured institutions for third parties. The Bank uses brokered deposits as a supplemental funding source generally to bridge receipt of traditional customer deposits to fund loans.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), enacted in July 2010, eliminated the historic prohibition on paying interest on checking and demand deposit accounts maintained by businesses. With this change, it is likely that we may be required to pay interest on some portion of our non-interest bearing deposits in order to compete against other banks. As a significant portion of our deposits are non-interest bearing demand deposits established by businesses, payment of interest on these deposits could have a significant negative impact on our net income, net interest income, interest margin, return on assets and equity, and other indices of financial performance. We expect that other banks would be faced with similar negative impacts. We also expect that the primary focus of competition would continue to be based on other factors, such as quality of service.

Borrowing. The Bank utilizes short-term borrowings from customers under agreements to repurchase. These transactions, which are secured by a portion of the Bank’s investment securities portfolio, are offered to significant commercial demand deposit customers and are considered a core funding source of the Bank. Short-term borrowings also include Federal funds purchased, which are unsecured overnight borrowings from other banks, and are generally used to accommodate short-term liquidity needs.

While the Bank has not placed significant reliance on borrowings as a source of liquidity, we have established various borrowing arrangements with the Federal Home Loan Bank of Atlanta and the Federal Reserve Bank of Richmond in order to provide management with additional sources of liquidity and funding, thereby increasing flexibility. Management believes that the Bank currently has adequate liquidity available to respond to current liquidity demands.

Community Reinvestment Act

The Bank is committed to serving the banking needs of the entire community, including low and moderate income areas, and is a supporter of the Community Reinvestment Act (“CRA”). There are several ways in which the Bank attempts to fulfill this commitment, including funding small business loans, financing of affordable housing projects, and becoming involved with local groups that support community outreach programs.

The Bank encourages its directors and officers to participate in community, civic and charitable organizations. Management and members of the Board of Directors periodically review the various CRA activities of the Bank, including its credit granting process and its involvement with community leaders on a personal level.

Competition

In attracting deposits and making loans, the Bank encounters competition from other institutions, including larger commercial banking organizations, savings banks, credit unions, other financial institutions and non-bank financial service companies serving our market area. Financial and non-financial institutions not located in the market are also able to reach persons and entities based in the market through mass marketing, the internet, telemarketing, and other means. The principal methods of competition include the level of loan interest rates, interest rates paid on deposits, efforts to obtain deposits, range of services provided and the quality of these services. The Bank’s competitors include a number of major financial companies whose substantially greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. In light of the deregulation of the financial service industry and the absence of interest rate controls on deposits, we anticipate continuing competition from all of these institutions in the future. As a result of the

Dodd-Frank Act, almost unlimited interstate de novo branching is available to all state and federally chartered banks. There can be no assurance that we will be able to successfully meet these competitive challenges.

In addition to offering competitive rates for its banking products and services, the Bank's strategy for meeting competition has been to concentrate on specific segments of the market for financial services, particularly small business and individuals, by offering such customers customized and personalized banking services.

Employees

At March 15, 2011, the Bank employed fifty four (54) persons on a full time equivalent basis, three (3) of which are executive officers. None of the Bank's employees are represented by any collective bargaining group, and the Bank believes that its employee relations are good. The Bank provides a benefit program, which includes health and dental insurance, a 401k plan, life and long-term disability insurance for substantially all full time employees and an incentive stock option plan for key employees and directors of the Bank.

Supervision and Regulation

The Bank, as a Virginia chartered commercial bank which is a member of the Federal Reserve System (a "state member bank") and whose accounts are insured by the Deposit Insurance Fund of the FDIC up to the maximum legal limits of the FDIC, is subject to regulation, supervision and regular examination by the Bureau of Financial Institutions and the Federal Reserve Board. The regulations of these various agencies govern most aspects of the Bank's business, including required reserves against deposits, loans, investments, mergers and acquisitions, borrowing, dividends and location and number of branch offices. The laws and regulations governing the Bank generally have been promulgated to protect depositors and the Deposit Insurance Fund, and not for the purpose of protecting shareholders.

Competition among commercial banks, savings and loan associations, and credit unions has increased following enactment of legislation that greatly expanded the ability of banks and bank holding companies to engage in interstate banking or acquisition activities. As a result of federal and state legislation, banks in the Washington, D.C./Maryland/Virginia area can, subject to limited restrictions, acquire or merge with a bank in another of the jurisdictions. As a result of the Dodd-Frank Act, almost unlimited interstate de novo branching is available to all state and federally chartered banks. The Graham Leach Bliley Act allows a wider array of companies to own banks, which could result in companies with resources substantially in excess of those of the Bank entering into competition with the Bank.

Banking is a business that depends on interest rate differentials. In general, the differences between the interest paid by a bank on its deposits and its other borrowings and the interest received by a bank on loans extended to its customers and securities held in its investment portfolio constitute the major portion of the Bank's earnings. Thus, the earnings and growth of the Bank will be subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly, as it relates to monetary policy, the Federal Reserve Board, which regulates the supply of money through various means including open market dealings in United States government securities. The nature and timing of changes in such policies and their impact on the Bank cannot be predicted.

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

The Dodd-Frank Act authorizes national and state banks to establish de novo branches in other states to the same extent as a bank chartered by that state would be permitted to branch. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Although the District of Columbia, Maryland and Virginia have all enacted laws that permitted banks in these

jurisdictions to branch freely, the branching provisions of Dodd-Frank could result in banks from a wider variety of states establishing *de novo* branches in the Bank's market area.

Patriot Act and Bank Secrecy Act. Under the Bank Secrecy Act ("BSA"), a financial institution is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report cash transactions involving more than \$10,000 to the United States Treasury. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than \$5,000 and which the financial institution knows, suspects or has reason to suspect, involves illegal funds, are designed to evade the requirements of the BSA or have no lawful purpose. Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act, commonly referred to as the "USA Patriot Act" or the "Patriot Act," financial institutions are subject to prohibitions against specified financial transactions and account relationships, as well as enhanced due diligence standards intended to detect, and prevent, the use of the United States financial system for money laundering and terrorist financing activities. The Patriot Act requires financial institutions, including banks, to establish anti-money laundering programs, including employee training and independent audit requirements, meet minimum standards specified by the act, follow minimum standards for customer identification and maintenance of customer identification records, and regularly compare customer lists against lists of suspected terrorists, terrorist organizations and money launderers. The costs or other effects of the compliance burdens imposed by the Patriot Act or future anti-terrorist, homeland security or anti-money laundering legislation or regulations cannot be predicted with certainty.

Capital Adequacy Guidelines. The Federal Reserve Board has adopted risk-based capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising banks and bank holding companies and in analyzing bank regulatory applications. Risk-based capital requirements determine the adequacy of capital based on the risk inherent in various classes of assets and off-balance sheet items. Regulatory agencies may require the Bank to maintain a higher level of capital during its early years of operation as a condition of approval of its charter, deposit insurance or Federal Reserve membership applications.

State member banks are expected to meet a minimum ratio of total qualifying capital (the sum of core capital (Tier 1) and supplementary capital (Tier 2)) to risk weighted assets of 8%. At least half of this amount (4%) should be in the form of core capital. Tier 1 Capital generally consists of the sum of common shareholders' equity and perpetual preferred stock (subject in the case of the latter to limitations on the kind and amount of such stock which may be included as Tier 1 Capital), less goodwill, without adjustment for changes in the market value of securities classified as "available for sale" in accordance with FAS 115. Tier 2 Capital consists of the following: hybrid capital instruments; perpetual preferred stock which is not otherwise eligible to be included as Tier 1 Capital; term subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics, with the categories ranging from 0% (requiring no risk-based capital) for assets such as cash, to 100% for the bulk of assets which are typically held by a bank, including certain multi-family residential and commercial real estate loans, commercial business loans and consumer loans. Residential first mortgage loans on 1-4 family residential real estate and certain seasoned multi-family residential real estate loans, which are not 90 days or more past-due or non-performing and which have been made in accordance with prudent underwriting standards are assigned a 50% level in the risk-weighting system, as are certain privately-issued mortgage-backed securities representing indirect ownership of such loans. Off-balance sheet items also are adjusted to take into account certain risk characteristics.

In addition to the risk-based capital requirements, the Federal Reserve Board has established a minimum 3.0% Leverage Capital Ratio (Tier 1 Capital to total adjusted assets) requirement for the most highly-rated banks, with an additional cushion of at least 100 to 200 basis points for all other banks, which effectively increases the minimum Leverage Capital Ratio for such other banks to 4.0% - 5.0% or more. The highest-rated banks are those that are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, those which are considered strong banking organizations. A bank having less than the minimum Leverage Capital Ratio requirement shall, within 60 days of the date as of which it fails to comply with such requirement, submit a reasonable plan describing the means and timing by which the bank shall achieve its minimum Leverage Capital Ratio requirement. A bank which fails to file such plan is deemed to be operating in an unsafe and unsound manner, and could subject the bank to a cease-and-desist order. Any insured depository institution with a Leverage Capital Ratio that is less than 2.0% is deemed to be operating in an unsafe or unsound condition pursuant to Section 8(a) of the Federal Deposit Insurance Act (the "FDIA") and is subject to potential termination of deposit insurance. The capital regulations also provide, among other things, for the issuance of a capital directive, which is a final order issued to a bank that fails to maintain minimum capital or to restore its capital to the minimum capital requirement within a specified time period.

The capital ratios described above are the minimum levels that the federal banking regulators expect. In respect of institutions with high concentrations of loans in areas deemed to be higher risk, or during periods of significant economic stress, regulators may require an institution to maintain a higher level of capital, and/or to maintain more stringent risk management measures, than those required by these regulations.

Prompt Corrective Action. Under Section 38 of the FDIA, each federal banking agency is required to implement a system of prompt corrective action for institutions which it regulates. The federal banking agencies have promulgated substantially similar regulations to implement the system of prompt corrective action established by Section 38 of the FDIA. Under the regulations, a bank shall be deemed to be: (i) “well capitalized” if it has a Total Risk Based Capital Ratio of 10.0% or more, a Tier 1 Risk Based Capital Ratio of 6.0% or more, a Leverage Capital Ratio of 5.0% or more and is not subject to any written capital order or directive; (ii) “adequately capitalized” if it has a Total Risk Based Capital Ratio of 8.0% or more, a Tier 1 Risk Based Capital Ratio of 4.0% or more and a Tier 1 Leverage Capital Ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of “well capitalized;” (iii) “undercapitalized” if it has a Total Risk Based Capital Ratio that is less than 8.0%, a Tier 1 Risk based Capital Ratio that is less than 4.0% or a Leverage Capital Ratio that is less than 4.0% (3.0% under certain circumstances); (iv) “significantly undercapitalized” if it has a Total Risk Based Capital Ratio that is less than 6.0%, a Tier 1 Risk Based Capital Ratio that is less than 3.0% or a Leverage Capital Ratio that is less than 3.0%; and (v) “critically undercapitalized” if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

An institution generally must file a written capital restoration plan which meets specified requirements with an appropriate federal banking agency within 45 days of the date the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. A federal banking agency must provide the institution with written notice of approval or disapproval within 60 days after receiving a capital restoration plan, subject to extensions by the applicable agency.

An institution which is required to submit a capital restoration plan must concurrently submit a performance guaranty by each company that controls the institution. Such guaranty shall be limited to the lesser of (i) an amount equal to 5.0% of the institution’s total assets at the time the institution was notified or deemed to have notice that it was undercapitalized or (ii) the amount necessary at such time to restore the relevant capital measures of the institution to the levels required for the institution to be classified as adequately capitalized. Such a guaranty shall expire after the federal banking agency notifies the institution that it has remained adequately capitalized for each of four consecutive calendar quarters. An institution which fails to submit a written capital restoration plan within the requisite period, including any required performance guaranty, or fails in any material respect to implement a capital restoration plan, shall be subject to the restrictions under Section 38 of the FDIA which are applicable to significantly undercapitalized institutions.

A “critically undercapitalized institution” is to be placed in conservatorship or receivership within 90 days unless the FDIC formally determines that forbearance from such action would better protect the Deposit Insurance Fund. Unless the FDIC or other appropriate federal banking regulatory agency makes specific further findings and certifies that the institution is viable and is not expected to fail, an institution that remains critically undercapitalized on average during the fourth calendar quarter after the date it becomes critically undercapitalized must be placed in receivership. The general rule is that the FDIC will be appointed as receiver within 90 days after a bank becomes critically undercapitalized unless extremely good cause is shown and an extension is agreed to by the federal regulators. In general, good cause is defined as capital which has been raised and is imminently available for infusion into the bank except for certain technical requirements which may delay the infusion for a period of time beyond the 90 day time period.

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

Additionally, under Section 11(c)(5) of the FDIA, a conservator or receiver may be appointed for an institution where: (i) an institution's obligations exceed its assets; (ii) there is substantial dissipation of the institution's assets or earnings as a result of any violation of law or any unsafe or unsound practice; (iii) the institution is in an unsafe or unsound condition; (iv) there is a willful violation of a cease-and-desist order; (v) the institution is unable to pay its obligations in the ordinary course of business; (vi) losses or threatened losses deplete all or substantially all of an institution's capital, and there is no reasonable prospect of becoming "adequately capitalized" without assistance; (vii) there is any violation of law or unsafe or unsound practice or condition that is likely to cause insolvency or substantial dissipation of assets or earnings, weaken the institution's condition, or otherwise seriously prejudice the interests of depositors or the insurance fund; (viii) an institution ceases to be insured; (ix) the institution is undercapitalized and has no reasonable prospect that it will become adequately capitalized, fails to become adequately capitalized when required to do so, or fails to submit or materially implement a capital restoration plan; or (x) the institution is critically undercapitalized or otherwise has substantially insufficient capital.

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

A result of the volatility and instability in the financial system during 2008 and 2009, the Congress, the bank regulatory authorities and other government agencies have proposed or enacted additional regulation and restrictions on the activities, practices and operations of banks. While many of these proposals relate to institutions that have accepted investments from, or sold troubled assets to, the Department of the Treasury or other government agencies, or otherwise participate in government programs intended to promote financial stabilization, the Congress and the federal banking agencies have broad authority to require all banks and holding companies to adhere to more rigorous or costly operating procedures, corporate governance procedures, or to engage in activities or practices which they would not otherwise elect. Any such requirement could adversely affect the Bank's business and results of operations. The Bank did not accept an investment by the Treasury Department in its preferred stock or warrants to purchase common stock, and except for the temporary increases in deposit insurance for customer accounts, has not participated in any of the programs adopted by the Treasury Department, FDIC or Federal Reserve.

FDIC Insurance Premiums. The FDIC maintains a risk-based assessment system for determining deposit insurance premiums. Four risk categories (I-IV), each subject to different premium rates, are established, based upon an institution's status as well capitalized, adequately capitalized or undercapitalized, and the institution's supervisory rating. Until 2010, institutions less than five years old which are in risk category I will have their actual rate determined in the same manner as other institutions, i.e. based upon various financial characteristics of the institution. However, commencing in 2010, institutions, such as the Bank, established for less than 5 years in category I are assessed at the maximum rate applicable to institutions in risk category I. Depository institutions will also pay premiums for the increased coverage provided by the FDIC.

Commencing in 2009, the premium rates increased by 7 basis points in each category for the first quarter of 2009. For the second quarter of 2009 and beyond, the FDIC has established further changes in rates, and introduced three adjustments that can be made to an institution's initial base assessment rate: (1) a potential decrease for long-term unsecured debt, including senior and subordinated debt and, for small institutions, a portion of Tier 1 capital; (2) a potential increase for secured liabilities above a threshold amount; and (3) for non-Risk Category I institutions, a potential increase for brokered deposits above a threshold amount. The schedule for base assessment rates and potential adjustment is set forth in the following table.

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial Base Assessment Rate	12 – 16	22	32	45
Unsecured Debt Adjustment (added)	(5) to 0	(5) to 0	(5) to 0	(5) to 0
Secured Liability Adjustment (added)	0 to 8	0 to 11	0 to 16	0 to 22.5
Brokered Deposit Adjustment (added)	N/A	0 to 10	0 to 10	0 to 10
Total Base Assessment Rate	7 to 24.0	17 to 43.0	27 to 58.0	43 to 77.5

The FDIC also imposed a special FDIC insurance assessment of 5 basis points on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009, but no more than 10 basis points times the institution's

assessment base for the second quarter of 2009, which was collected on September 30, 2009. In addition, during the fourth quarter of 2009, the FDIC required that insured depository institutions pre-pay estimated FDIC insurance assessments through 2012. This prepayment, in the amount of \$930 thousand, was collected on December 30, 2009. Additional special assessments may be imposed by the FDIC in the future.

The Dodd-Frank Act permanently increases the maximum deposit insurance amount for banks, savings institutions and credit unions to \$250,000 per depositor, and extends unlimited deposit insurance to non-interest bearing transaction accounts through December 31, 2012. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. Effective one year from the date of enactment, Dodd-Frank eliminates the federal statutory prohibition against the payment of interest on business checking accounts.

The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. Effective April 1, 2011, the new schedule for base assessment rates and potential adjustments is as set forth in the following table.

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large and Highly Complex Institutions
Initial Base Assessment Rate	5 to 9	14	23	35	5 to 35
Unsecured Debt Adjustment (added)	(4.5) to 0	(5) to 0	(5) to 0	(5) to 0	(5) to 0
Brokered Deposit Adjustment (added)	N/A	0 to 10	0 to 10	0 to 10	0 to 10
Total Base Assessment Rate	2.5 to 9	9 to 24	18 to 33	30 to 45	2.5 to 45

Consumer Financial Protection Bureau. The Dodd-Frank Act creates a new, independent federal agency called the Consumer Financial Protection Bureau (“CFPB”) which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB will have examination and primary enforcement authority with respect to depository institutions with \$10 billion or more in assets. Smaller institutions will be subject to rules promulgated by the CFPB but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB will have authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower’s ability to repay. In addition, Dodd-Frank will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a “qualified mortgage” as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

Item 1A. Risk Factors

An investment in our common stock involves various risks. The following is a summary of certain risks identified by us as affecting our business. You should carefully consider the risk factors listed below, as well as other cautionary statements made in this report, and risks and uncertainties which we may identify in our other reports and documents filed with the Federal Reserve Board or other public announcements. These risk factors may cause our future earnings to be lower or our financial condition to be less favorable than we expect. In addition, other risks of which we are not aware, which relate to the banking and financial services industries in general, or which we do not believe are material, may cause earnings to be lower, or hurt our future financial condition. You should read this section together with the other information in this report.

The Bank has only recently achieved quarterly profitability, and there can be no assurance that that the Bank will be able to maintain or increase its level of profitability.

The Bank commenced operations in April 2006, and only achieved profitability on a quarterly basis in the third quarter of 2009, during which it earned approximately \$28 thousand. For the full year 2009, the Bank had a loss of \$1.0 million, including earnings of approximately \$102 thousand in the fourth quarter of 2009. For the full year of 2010, the Bank reported net income of \$4.3 million, which included an income tax benefit of \$1.6 million 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. For the fourth quarter of 2010, the Bank reported an after-tax net income of \$593 thousand. As of December 31, 2010, the Bank still had a retained earnings deficit of approximately \$3.7 million. While the new offices, officers and banking relationships we have established since 2008 have provided the Bank with significant business development opportunities, there can be no assurance that any additional relationships will materialize, or that the Bank will be able to continue to maintain and profitably manage these relationships. The increase in staff and physical locations in connection with the new relationships has resulted in an increase in operating expenses. There can be no assurance that the Bank will be able to maintain profitability, or continue to grow in a profitable manner.

An active public market for our common stock does not exist, and therefore shareholders may not be able to easily sell their common stock.

An active public market for the common stock does not currently exist, and there are no market makers for the common stock. The common stock has traded only sporadically in transactions facilitated by the bank's online trading board, a service provided by the Bank's transfer agent. While the common stock will be freely transferable by most shareholders, we cannot be sure that an active or established trading market will ever develop, or if one develops, that it will continue, or whether the price of the common stock will be higher or lower than the price at which the Bank has sold stock. The common stock is not being listed on any exchange or organized market, and there is no current intention to effect such a listing in the near future. There can be no assurance that trading in the over-the-counter market or through brokers or market makers will develop. As a result, an investment in the common stock may be relatively illiquid.

A substantial portion of the Bank's loans are and will continue to be real estate related loans in the Northern Virginia/Washington, D.C. metropolitan area, and substantially all of our loans are and will be made to borrowers in that area. Adverse changes in the real estate market or economy in this area could lead to higher levels of problem loans and charge-offs, and adversely affect our earnings and financial condition.

The Bank makes loans primarily to borrowers in the Northern Virginia/Washington, D.C. market area, and has a substantial portion of its loans secured by real estate. These concentrations expose us to the risk that adverse developments in the real estate market, or in the general economic conditions in the Northern Virginia/Washington, D.C. metropolitan area, or the continuation of such adverse developments, could increase the levels of nonperforming loans and charge offs, and reduce loan demand and deposit growth. In that event, we would likely experience lower earnings or losses. Additionally, if economic conditions in the area deteriorate, or there is significant volatility or weakness in the economy or any significant sector of the area's economy, our ability to develop our business relationships may be diminished, the quality and collectability of our loans may be adversely affected, the value of collateral may decline and loan demand may be reduced.

Directors and officers of the Bank own approximately 21% of the outstanding common stock. As a result of their combined ownership, they could make it more difficult to obtain approval for some matters submitted to shareholder vote, including acquisitions of the Bank. The results of the vote may be contrary to the desires or interests of the public shareholders.

Directors and executive officers of the Bank and their affiliates own approximately 21% of the outstanding shares of common stock, excluding shares which may be acquired upon the exercise of options. By voting against a proposal submitted to shareholders, the directors and officers, as a group, may be able to make approval more difficult for proposals requiring the vote of shareholders, such as some mergers, share exchanges, asset sales, and amendments to the articles of incorporation.

Our concentrations of loans may create a greater risk of loan defaults and losses.

A substantial portion of our loans are secured by real estate in the Northern Virginia/Washington, D.C. market area, and substantially all of our loans are to borrowers in that area. We also have a significant amount of real estate construction loans and land related loans for residential and commercial developments. At December 31, 2010, 79% of our loans were secured by real estate, primarily commercial real estate. Management believes that the commercial real estate concentration risk is mitigated by diversification among the types and characteristics of real

estate collateral properties, sound underwriting practices, and ongoing portfolio monitoring and market analysis. Of these loans, \$53.9 million, or 20% of total portfolio loans, were construction and land development loans. An additional \$57.7 million, or 21% of total portfolio loans, were commercial and industrial loans which are not primarily secured by real estate. These categories of loans generally have a higher risk of default than other types of loans, such as single family residential mortgage loans. The repayments of these loans often depends on the successful operation of a business or the sale or development of the underlying property and as a result, are more likely to be adversely affected by adverse conditions in the real estate market or the economy in general. While we believe that our loan portfolio is well diversified in terms of borrowers and industries, these concentrations expose us to the risk that adverse developments in the real estate market, or in the general economic conditions in the Northern Virginia/Washington, D.C. market area, could increase the levels of nonperforming loans and charge-offs, and reduce loan demand. In that event, we would likely experience lower earnings or losses. Additionally, if, for any reason, economic conditions in our market area deteriorate, or there is significant volatility or weakness in the economy or any significant sector of the area's economy, our ability to develop our business relationships may be diminished, the quality and collectability of our loans may be adversely affected, the value of collateral may decline and loan demand may be reduced.

Commercial, commercial real estate and construction loans tend to have larger balances than single family mortgages loans and other consumer loans. Because the loan portfolio contains a significant number of commercial and commercial real estate and construction loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in nonperforming assets. An increase in nonperforming loans could result in: a loss of earnings from these loans, an increase in the provision for loan losses, or an increase in loan charge-offs, which could have an adverse impact on our results of operations and financial condition. Further, under guidance adopted 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 would otherwise seek it, which may reduce shareholder returns.

Lack of seasoning of our loan portfolio could increase the risk of credit defaults in the future.

Due to the rapid growth of the Bank, a large portion of the loans in our loan portfolio and of our lending relationships is of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because a large portion of our loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which would adversely affect our results of operations and financial condition.

The Bank's financial condition and results of operations would be adversely affected if the allowance for loan losses is not sufficient to absorb actual losses or if the Bank is required to increase its allowance for loan losses.

Experience in the banking industry indicates that a portion of our loans will become delinquent, and that some may only be partially repaid or may never be repaid at all. Despite our underwriting criteria, we may experience losses for reasons beyond our control, such as general economic conditions. Although we believe that our allowance for loan losses is maintained at a level adequate to absorb any inherent losses in our loan portfolio, these estimates of loan losses are necessarily subjective and their accuracy depends on the outcome of future events. Further, despite our underwriting criteria and historical experience, we may be particularly susceptible to losses due to: (1) the geographic concentration of our loans, (2) the concentration of higher risk loans, such as commercial real estate, and commercial and industrial loans, and (3) the relative lack of seasoning of certain of our loans. Additionally, federal and state banking regulators, as an integral part of their supervisory function, periodically review our allowance for loan losses. These regulatory agencies may require us to increase our provision for loan losses or to recognize further loan charge-offs based upon their judgments, which may be different from ours. If we need to make significant and unanticipated increases in our loss allowance in the future, our results of operations would be materially adversely affected at that time.

While we strive to carefully monitor credit quality and to identify loans that may become nonperforming, at any time there are loans included in the portfolio that will result in losses, but that have not been identified as

nonperforming, impaired or potential problem loans. We cannot be sure that we will be able to identify deteriorating loans before they become nonperforming assets, or that we will be able to limit losses on those loans that are identified. As a result, future additions to the allowance may be necessary.

Changes in interest rates and other factors beyond our control may adversely affect our earnings and financial condition.

Our operating income and net income depend to a great extent on our net interest margin, i.e., the difference between the interest yields we receive on loans, securities and other interest bearing assets and the interest rates we pay on interest bearing deposits and other liabilities. Net interest margin is affected by changes in market interest rates, because different types of assets and liabilities may react differently, and at different times, to market interest rate changes. When interest bearing liabilities mature or reprice more quickly than interest earning assets in a period, an increase in market rates of interest could reduce net interest income. Similarly, when interest earning assets mature or reprice more quickly than interest bearing liabilities, falling interest rates could reduce net interest income. These rates are highly sensitive to many factors beyond our control, including inflation, unemployment, money supply, international events, events in world financial markets, competition, general economic conditions and monetary and fiscal policies of various governmental and regulatory authorities, including the Federal Reserve Board.

We attempt to manage our risk from changes in market interest rates by adjusting the rates, maturity, repricing, and balances of the different types of interest-earning assets and interest-bearing liabilities, but interest rate risk management techniques are not exact. As a result, a rapid increase or decrease in interest rates could have an adverse effect on our net interest margin and results of operations. Changes in the market interest rates for types of products and services in our market also may vary significantly from location to location and over time based upon competition and local or regional economic factors. Our interest rate management process depends upon a number of assumptions which may not prove to be accurate. There can be no assurance that we will be able to successfully manage our interest rate risk.

We have no current plans to pay cash dividends.

The amount of dividends that a bank may pay is limited by state and federal laws and regulations. Even if we have earnings in an amount sufficient to pay cash dividends, our Board of Directors currently intends to retain earnings for the purpose of financing growth. State and federal laws and regulations limit the amount of dividends that the Bank may pay. Under Virginia law, the Bank may not pay dividends until it has restored any deficit in its initial capital. At December 31, 2010 we had a retained earnings deficit of \$3.7 million. Even if the Bank has earnings in an amount sufficient to pay dividends, the Board of Directors may decide to retain earnings for the purpose of financing growth. No assurance can be given that the Bank's earnings, if any, will ever permit the payment of any dividends to shareholders. We have no current plans to pay cash dividends.

There is no assurance that the Bank will be able to compete successfully with others for its business.

The Bank will compete for loans, deposits, and investment dollars with other banks and other kinds of financial institutions and enterprises, such as securities firms, insurance companies, savings and loan associations, credit unions, mortgage brokers, and private lenders, many of which have substantially greater resources. Institutions much larger than the Bank dominate the Bank's primary market. The differences in resources and regulations may make it harder for the Bank to compete profitably, reduce the rates that it can earn on loans and investments, increase the rates it must offer on deposits and other funds, and adversely affect the Bank's overall financial condition and earnings. As a result of the Dodd-Frank Act, additional competitors who have not previously been able to establish de novo branches in our market area may elect to do so.

Liquidity challenges may increase due to turmoil in the financial markets.

The turmoil in the financial markets over the last several years has resulted in sharp declines in the value of real estate and many financial instruments. These declines have resulted in large losses at many financial institutions, detrimentally affecting depositors' confidence in financial institutions in general. This lack of confidence has resulted in rapid withdrawals by depositors in several institutions causing the institutions to fail and/or require federal assistance.

The Bank positions itself in the marketplace as a business bank. It does not (and did not) originate or acquire a significant portfolio of home loans or securities dependent upon home loans for repayment. Nevertheless,

the turmoil in the financial markets has caused many depositors to seek safety in government securities, resulting in liquidity challenges for all banks. Should turmoil in the markets continue, the Bank may be forced to pay higher interest rates to obtain deposits to meet the needs of its depositors and borrowers, resulting in reduced net interest income. If conditions worsen significantly, it is possible that banks such as the Bank may be unable to meet the needs of their depositors and borrowers, which could, in the worst case, result in the Bank being placed into receivership.

The current economic environment poses significant challenges for the Bank and could adversely affect its financial condition and results of operations.

The Bank is operating in a challenging and uncertain economic environment. Financial institutions continue to be affected by sharp declines in the real estate market and constrained financial markets. Dramatic declines in the housing market over the past years, with falling home prices and high levels of foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions. While much of the Bank's primary market area has been somewhat sheltered from the full effects of the recent downturns as a result of the economic activity fostered by the presence of the federal government, continued declines in real estate values, home sales volumes, and financial stress on borrowers as a result of the uncertain economic environment could have an adverse effect on the Bank's borrowers or their customers, which could adversely affect the Bank's financial condition and results of operations. A worsening of these conditions would likely exacerbate the adverse effects on the Bank. For example, further deterioration in local economic conditions in the Bank's market could drive losses beyond that which is provided for in its allowance for loan losses. The Bank may also face the following risks in connection with these events:

- Economic conditions that negatively affect housing prices and the job market have resulted, and may continue to result, in a deterioration in credit quality of the loan portfolios, and such deterioration in credit quality has had, and could continue to have, a negative impact on the Bank's business;
- The methodologies the Bank uses to establish our allowance for loan losses may no longer be reliable because they rely on complex judgments, including forecasts of economic conditions, which may no longer be capable of accurate estimation;
- Continued turmoil in the market, and loss of confidence in the banking system, could require the Bank to pay higher interest rates to obtain deposits to meet the needs of its depositors and borrowers, resulting in reduced margin and net interest income. If conditions worsen significantly, it is possible that banks such as the Bank may be unable to meet the needs of their depositors and borrowers, which could, in the worst case, result in the Bank being placed into receivership; and
- Compliance with increased regulation of the banking industry may increase our costs, limit our ability to pursue business opportunities, and divert management efforts.

As these conditions or similar ones continue to exist or worsen, the Bank could experience continuing or increased adverse effects on its financial condition.

The loss of the services of any key employees could adversely affect investor returns.

The Bank's business is service oriented, and the success of the Bank in the future will depend to a large extent upon the services of John R. Maxwell, the Chief Executive Officer, and other senior officers. The loss of the services of Mr. Maxwell or other senior officers could adversely affect our business.

The ability to recover money damages from the directors and officers of the Bank is limited by the Articles of Incorporation.

The Articles of Incorporation of the Bank provide that to the full extent permitted by Virginia law, an officer or director of the Bank will not be liable to the Bank or its shareholders for monetary damages. This could result in monetary loss to the Bank and its shareholders as a result of the breaches of its officers or directors without the ability to obtain compensation for that loss from the officers or directors.

Substantial regulatory limitations on changes of control and anti-takeover provisions of Virginia law may make it more difficult for you to receive a change in control premium.

With certain limited exceptions, federal regulations prohibit a person or company or a group of persons deemed to be "acting in concert" from, directly or indirectly, acquiring more than 10% (5% if the acquiror is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a

majority of our directors or otherwise direct the management or policies of our company without prior notice or application to and the approval of the Federal Reserve. There are comparable prior approval requirements for changes in control under Virginia law. Also, Virginia corporate law contains several provisions that may make it more difficult for a third party to acquire control of us without the approval of our Board of Directors, and may make it more difficult or expensive for a third party to acquire a majority of our outstanding common stock.

There can be no assurance that the Bank will be able to be sold for a high multiple of book value or earnings.

Although the Bank is being operated with the intention of becoming an integral, long term member of the communities in which it operates, and without the expectation of a sale in the short-term, investors should recognize that as a result of the consolidation in the banking industry in general and in the Bank's market area in particular, combined with increased capital expectations and changes in accounting standards for acquisitions, has resulted in changes in the market for community bank acquisitions. The number of institutions, particularly mid-size regional holding companies in the \$3 billion to \$15 billion asset range, which are interested in acquiring smaller community banks and which have the capacity, has declined significantly. As a result of capital pressures, asset quality issues and market factors, the pace of acquisitions has slowed, and the prices acquirors have been willing to pay have declined significantly from the heights of the early 2000's. If the Bank were to elect to seek a sale in the near term, or found it necessary to do so, there can be no assurance that it will be able to choose among multiple acquirors, or that it will be able to achieve a price as favorable as those which might have been obtained in prior years. There can be no assurance as to when or whether this situation will change.

Government regulation will significantly affect the Bank's business, and may result in higher costs and lower shareholder returns.

The banking industry is heavily regulated. Banking regulations are primarily intended to protect the federal Deposit Insurance Fund and depositors, not shareholders. The Bank is regulated and supervised by the Virginia Bureau of Financial Institutions, the Federal Reserve Board and the FDIC. The burden imposed by federal and state regulations puts banks at a competitive disadvantage compared to less regulated competitors such as finance companies, mortgage banking companies and leasing companies. Changes in the laws, regulations and regulatory practices affecting the banking industry may increase our costs of doing business or otherwise adversely affect us and create competitive advantages for others. Regulations affecting banks and financial services companies undergo continuous change, and we cannot predict the ultimate effect of these changes, which could have a material adverse effect on our profitability or financial condition. Federal economic and monetary policy may also affect our ability to attract deposits and other funding sources, make loans and investments, and achieve satisfactory interest spreads.

A result of the volatility and instability in the financial system during 2008 and 2009, the Congress, the bank regulatory authorities and other government agencies have called for or proposed additional regulation and restrictions on the activities, practices and operations of banks and their holding companies. While many of these proposals relate to institutions that have accepted investments from, or sold troubled assets to, the Department of the Treasury or other government agencies, or otherwise participate in government programs intended to promote financial stabilization, the Congress and the federal banking agencies have broad authority to require all banks and holding companies to adhere to more rigorous or costly operating procedures, corporate governance procedures, or to engage in activities or practices which they would not otherwise elect. Any such requirement could adversely affect the Bank's business and results of operations. We cannot predict the actual effects of the Emergency Economic Stabilization Act of 2008, or EESA, the American Recovery and Reinvestment Act of 2009, or ARRA, and Dodd-Frank, and other regulatory reform measures and various governmental, regulatory, monetary and fiscal initiatives which have been and may be enacted on the financial markets, on the Bank. The terms and costs of these activities, or the failure of these actions to help stabilize the financial markets, asset prices, market liquidity and a continuation or worsening of current financial market and economic conditions could materially and adversely affect our business, financial condition, results of operations, and the trading prices of our securities.

We expect to face increased regulation of our industry, including as a result of EESA, the ARRA, and Dodd-Frank. Compliance with such regulations may increase our costs and limit our ability to pursue business opportunities. The Bank did not accept an investment by the Treasury Department in its preferred stock, and except for the temporary increases in deposit insurance for customer accounts, has not participated in any of the programs adopted by the Treasury Department, FDIC or Federal Reserve.

Item 1B. Unresolved Staff Comments. Not applicable.

Item 2. Properties

The main office of the Bank is located at 5860 Columbia Pike, Falls Church, Virginia, in 3,393 square feet in a strip shopping center. The Bank leases the space under a ten (10) year lease, which commenced in January 2006, at an annual rent of \$118,755, subject to annual increases of 2.50% per year plus additional rent related to common area fees and taxes. The Bank has two 5-year renewal options.

The Leesburg branch of the Bank is located at 830 South King Street, Leesburg, Virginia and consists of 2,780 square feet in a 2,780 square foot building. The property is occupied under a ten (10) year lease, which commenced September 2008, at an annual rent of \$97,300, subject to annual increases of 3.00%, plus additional rent relating to common area fees and taxes. The Bank has two 5-year renewal options.

The Arlington branch of the Bank is located at 2300 Wilson Boulevard, Arlington, Virginia and consists of 1,633 square feet in a 197,356 square foot building. The property is occupied under a five (5) year lease, which commenced January 2009 at an annual rent of \$66,974, subject to annual increases of 3.00%, plus additional rent relating to common area fees and taxes. The Bank has two 5-year renewal options.

The Rockville branch of the Bank is located at 11 N. Washington Street, Rockville, Maryland and consists of approximately 2,036 square feet in a 97,464 square foot office building. The property is occupied under a ten (10) year which commenced July 2010 at an annual rent of \$69,224, subject to annual increases of 3.00%, plus the Bank's pro-rata share of real estate taxes. The Bank has two 5-year renewal options.

The District of Columbia branch of the Bank is located at 4315 50th Street, NW, Washington, D.C. and consists of an approximately 120 square foot office suite. The office space is occupied under a one (1) year sublease, which commenced in February 2010 at a monthly rent of \$500, with an option to renew for an additional year subject to an increase in the rent of 5.00%.

The Fairfax non-branch regional office is located at 10600 Arrowhead Drive, Fairfax, Virginia and consists of two office suites containing approximately 150 square feet each. One of the offices is occupied under a sublease that is month-to-month and cancellable with 30-days prior notice, at a monthly rent of \$700. The other office is occupied under a sublease that expires on June 1, 2011, at a monthly rent of \$850. Both subleases will be terminated when the Bank occupies the Reston facility referenced below.

The Bank leases 5,939 square feet of office space located at 6601 Little River Turnpike, Alexandria, Virginia, for its executive offices and operating departments. The property is occupied under a six (6) year lease, which commenced April 2007. The current annual rent is \$155,166, subject to annual increases of 2.75%, plus additional rent related to increased operating expenses after the first year. The Bank has one 5-year renewal option and also has an option to terminate the lease in March 2011. This lease will be terminated when the Bank occupies the Reston facility referenced below. The Bank expects to incur no termination fees related to the termination of this lease.

The Bank has entered into a lease for 16,158 square feet in a 75,156 square foot office building located at 1943 Isaac Newton Square, Reston, Virginia. The Bank expects to occupy the Reston facility in the 2nd or 3rd quarter of 2011, at which time the lease at Little River Turnpike in Alexandria will be terminated. The Bank will move all executive offices and operating departments to the Reston location and will operate a full service branch office from the facility. The Reston facility will be occupied under a ten (10) year lease agreement at an annual rent of \$399,910 subject to annual increases of 2.75%, plus its proportionate share of increases in operating expenses after the first year of occupancy. The Bank has one 5-year renewal option.

The Bank believes that its facilities are adequate to conduct the Bank's business.

Item 3. 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 outcome of legal proceedings which are currently pending will not have a material effect on the financial position of the Bank.

Item 4. (Removed and Reserved)

PART II

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

Market for Common Stock. The Bank's common stock is not traded on any organized exchange. As of March 15, 2011, 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 bank's online trading board, a service provided by the Bank's transfer agent, Transfer Online. Since the trading board was established in May 2009, approximately 31,000 shares have traded in a price range of \$9.50 to \$11.50 per share. The most recent trade known to the Bank occurred in February, 2011 at \$10.50 per share. No assurance can be given that an active or established trading market will develop in the foreseeable future.

At March 15, 2011, there were 3,707,710 shares of the Bank's common stock outstanding, held by approximately 775 shareholders of record. Additionally, there were outstanding options to purchase 445,537 shares of common stock. For additional information regarding the Bank's outstanding stock options, please refer to "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters – Securities Authorized for Issuance Under Equity Compensation Plans" under Item 12 of Part III to this report and Note 16 to the Audited Financial Statements in Item 8 for the year ended December 31, 2010.

Dividends. The Bank has not paid any dividends to date. The payment of dividends will depend primarily upon the Bank's earnings, financial condition, and need for funds, as well as governmental policies and regulations applicable to it. It is not anticipated that any dividends will be paid in the foreseeable future. Even if the Bank has earnings in an amount sufficient to pay dividends, the Board of Directors may determine to retain earnings for the purpose of funding the growth of the Bank.

Regulations of the Federal Reserve Board and Virginia law place limits on the amount of dividends the Bank may pay without prior approval. Prior regulatory approval from the Federal Reserve is required to pay dividends which exceed the Bank's net profits for the current year plus its retained net profits for the preceding two calendar years, less required transfers to surplus. Under Virginia law, the Bank may not pay dividends until it has restored any deficit in its initial capital. At December 31, 2010, the Bank had a retained earnings deficit of \$3.7 million. State and federal bank regulatory agencies also have authority to prohibit a bank from paying dividends if such payment is deemed to be an unsafe or unsound practice. Compliance with minimum capital requirements, as presently in effect, or as they may be amended from time to time, could limit the amount of dividends that the Bank may pay. As a depository institution, the deposits of which are insured by the FDIC, the Bank may not pay dividends or distribute any of its capital assets while it remains in default on any assessment due the FDIC. The Bank currently is not in default under any of its obligations to the FDIC.

Issuer Purchases of Common Stock. No shares of the Bank's common stock were purchased by or on behalf of the Bank during the fourth quarter of 2011.

Recent Sales of Unregistered Securities. In June 2008, the Bank issued an aggregate of 2.2 million shares of common stock without registration under the Securities Act of 1933, in reliance upon the exemption for bank securities provided in Section 3(a)(2) of that act. The price at which the shares were sold was \$10.00 per share in cash, for aggregate gross proceeds to the Bank of \$22,000,000.

No person or entity underwrote the offering of the Bank's common stock, either on a firm or best efforts basis, which was effected pursuant to the efforts of certain of the directors and officers of the Bank.

On February 17, 2011, the Bank announced a planned offering of up to one million newly issued shares of common stock, which it expects to commence in March 2011.

Item 6. Selected Financial Data

As the Bank is a smaller reporting company, it is not required to provide this information. Please refer to Item 8 - Financial Statements and Supplementary Data.

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

Forward-Looking Statements

This management's discussion and analysis and other portions of this report, contain forward-looking statements within the meaning of the Securities and 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, forward-looking statements can be identified by use of words such as "may," "will," "anticipates," "believes," "expects," "plans," "estimates," "potential," "continue," "should," and similar words or phrases. These statements are based upon current and anticipated economic conditions, nationally and in the Bank's market, interest rates and interest rate policy, competitive factors, and other conditions which by their nature, are not susceptible to accurate forecast, and are subject to significant uncertainty. Because of these uncertainties and the assumptions on which this discussion and the forward-looking statements are based, actual future operations and results may differ materially from those indicated herein. 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.

General

The following presents management's discussion and analysis of the financial condition and results of operations of John Marshall Bank (the "Bank") as of the dates and for the periods indicated. This discussion should be read in conjunction with the Bank's Audited Financial Statements and the Notes thereto in Item 8 of this report, and other financial data appearing elsewhere in this report. The Bank is a Virginia state-chartered bank that commenced operations in April 2006. The Bank pursues a traditional community banking strategy, offering a full range of business and consumer banking services through four full service branches, one limited service branch, and one loan production office.

Headquartered in Falls Church, Virginia, John Marshall Bank serves the Northern Virginia suburbs of Washington, D.C., including Arlington, Fairfax, Fauquier, Loudoun, and Prince William Counties and the cities of Alexandria, Fairfax, Falls Church, Manassas and Manassas Park. Its service area also covers Washington, D.C. and the nearby Maryland counties of Montgomery and Prince George's. The Bank's customer base includes small-to-medium sized businesses including firms that have contracts with the U.S. government, associations, retailers and industrial businesses, commercial real estate and real estate construction firms, professionals and their firms, business executives, investors and consumers.

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 uncollectability 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 in Item 8 and the discussion in this report under the caption "Asset Quality – Provision and Allowance for Loan Losses."

Stock-Based Compensation

At December 31, 2010, the Bank had one stock-based compensation plan, which is described more fully in Note 16 to the Audited Financial Statements in Item 8. 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). Stock-based compensation costs related to employee stock options included in salaries and benefits expense totaled \$185 thousand for the year 2010. Stock-based compensation costs related to director stock options included in other non-interest expense totaled \$40 thousand for the year 2010. The Bank recorded no stock-based compensation costs in 2009.

Financial Performance Overview

The Bank achieved significant growth in assets and loans in 2010, summarized as follows:

<i>Dollars in thousands</i>	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>\$ Change</u>	<u>% Change</u>
Loans, net of allowance for loan losses	\$270,473	\$205,929	\$64,544	31.3%
Assets	309,871	234,643	75,228	32.1%

This growth in loans and assets was funded by significant increases in deposits and borrowed funds:

<i>Dollars in thousands</i>	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>\$ Change</u>	<u>% Change</u>
Deposits	\$253,360	\$186,339	\$67,021	36.0%
Federal Home Loan Bank advances	15,000	12,900	2,100	16.3%

Loans are the Bank's major asset and as a result the major contributor to interest income. Following is a summary of the Bank's loan portfolio composition as of December 31, 2010, compared to December 31, 2009:

<i>Dollars in thousands</i>	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>\$ Change</u>	<u>% Change</u>
Mortgage loans on real estate				
Residential 1-4 family	\$10,329	\$14,561	\$(4,232)	-29.1%
Commercial	147,666	100,464	47,202	47.0%
Construction	53,922	32,067	21,855	68.2%
Residential equity loans	<u>3,490</u>	<u>3,326</u>	<u>164</u>	<u>4.9%</u>
Total mortgage loans on real estate	\$215,408	\$150,418	\$64,990	43.2%
Commercial loans	57,681	57,099	582	1.0%
Consumer installment loans	<u>991</u>	<u>1,017</u>	<u>(26)</u>	<u>-2.6%</u>
Total Loans	<u>\$274,079</u>	<u>\$208,534</u>	<u>\$65,545</u>	31.4%

Loan growth was concentrated in commercial real estate mortgage loans, which rose \$47.2 million during the year to \$147.7 million as of December 31, 2010. Construction and land development loans represented the second largest increase, rising \$21.9 million to \$53.9 million as of December 31, 2010. Residential mortgage and consumer loans declined during the year as the Bank continued to shift its focus to small business and commercial real estate lending during the year.

While loans are the Bank's major asset, deposits are the Bank's major source of funding, and as a result the major contributor to interest expense. Following is a summary of the Bank's deposit composition as of December 31, 2010, compared to December 31, 2009:

<i>Dollars in thousands</i>	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>\$ Change</u>	<u>% Change</u>
Non-interest bearing demand deposits	\$30,464	\$20,898	\$9,566	45.8%
Interest bearing demand deposits	5,633	2,325	3,308	142.3%
Savings & money market deposits	86,015	75,881	10,134	13.4%
Certificates of deposit	79,356	51,224	28,132	54.9%
QwickRate® Certificates of deposit	24,071	11,380	12,691	111.5%
CDARS®	24,013	17,549	6,464	36.8%
Brokered deposits	<u>3,808</u>	<u>7,082</u>	<u>(3,274)</u>	<u>-46.2%</u>
Total Deposits	<u>\$253,360</u>	<u>\$186,339</u>	<u>\$67,021</u>	<u>36.0%</u>

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.

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 FDIC maximum.

Brokered deposits (other than CDARs deposits) represent deposits acquired through deposit brokers that facilitate the placement of deposits with insured institutions for third parties. The Bank uses brokered deposits as a supplemental funding source generally to bridge receipt of traditional customer deposits to fund loans.

Return on Average Assets and Average Equity

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

	<u>Year Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Return on Average Equity	13.74%	(3.57)	(16.01)%
Return on Average Assets	1.54%	(0.57)	(4.01)%
Ratio of Average Equity to Average Assets	11.19%	15.94	25.03%

For the year ended December 31, 2010, the Bank reported income of \$4.3 million, compared to a loss of \$1.0 million reported during 2009. 2010 net income included an income tax benefit of \$1.6 million related to the recognition of a \$2.3 million deferred tax asset on June 30, 2010, associated primarily with net operating loss carry forwards from the Bank's early stage losses and the allowance for loan losses.

Aside from the \$1.6 million tax benefit referenced above, the primary factor behind increased earnings in 2009 was the increase in net interest income stemming from the \$65 million increase in the loan portfolio during the year, combined with an increased net interest margin. The Bank's net interest margin increased from 3.90% in 2009 to 4.51% in 2010. Increased loan volume, and increased levels of loans as a percentage of earning assets, as well as increased loan yields are primarily responsible for the increase in margin. Net interest income increased \$5.5 million, or 80.2%, from \$6.9 million in 2009, to \$12.4 million in 2010.

The provision for loan losses declined \$211 thousand in 2010 compared to 2009, due primarily to slower loan growth in 2010 compared to 2009. During 2009, total loans increased by \$90 million, compared to \$65 million during 2010.

Non-interest income declined \$17 thousand, or 5.2%, from \$329 thousand in 2009, to \$312 thousand in 2010. The decrease in non-interest income is primarily attributed to a gain on the sale of securities of \$247 thousand realized during 2009, compared to a gain of \$77 thousand realized in 2010, representing a reduction in non-interest income of \$170 thousand. In addition, the Bank realized a \$20 thousand gain on the sale of other real estate owned during 2010, compared to a loss of \$85 thousand in 2009. Additionally, the Bank realized a gain of \$24 thousand on the sale of the guaranteed portion of SBA loans during 2010, compared to a gain of \$13 thousand in 2009. Eliminating the gain or loss on the sale of securities, other real estate owned, and the guaranteed portion of SBA loans during both years, non-interest income would have increased 23.4% during 2010, from \$154 thousand to \$190 thousand.

Non-interest expense rose 28.3%, from \$6.9 million in 2009 to \$8.8 million in 2010. The increase in non-interest expense is primarily attributed to an increase in salaries and benefits, which increased from \$3.8 million in 2009 to \$4.9 million in 2010. The increase in salaries and benefits was due primarily to the hiring of new business development and operations personnel required to support the growth in loans and deposits experienced in 2010. During 2010, \$225 thousand of the increase in non-interest expense represented expenses associated with stock options issued. There was no stock option expense incurred during 2009.

Stockholders' equity increased by \$4.5 million in 2010, or 15.6%, from \$29.0 million at December 31, 2009 to \$33.5 million at December 31, 2010, resulting from earnings of \$4.3 million, a \$225 thousand increase in paid in capital resulting from the issuance of stock options during 2010, and a \$34 thousand decrease in other comprehensive income related to the investment securities portfolio. The total number of common shares outstanding was unchanged at 3,707,710 during 2010.

Total assets increased by \$75.2 million in 2009, or 32.1%, from \$234.6 million at December 31, 2009 to \$309.9 million at December 31, 2010. The increase in total assets is primarily attributed to an increase in the loan portfolio by 31.5% during 2009, from \$208.5 million at December 31, 2009 to \$274.1 million at December 31, 2010. The Bank's loan portfolio represents its largest asset class and contributor to interest income. The Bank's investment securities portfolio represents its second largest asset class and contributor to interest income and is generally maintained as a primary source of liquidity, in addition to providing collateral for the Bank's customer repurchase agreements and public deposits. In 2010, the investment portfolio, including stock held in the Federal Home Loan Bank of Atlanta (FHLB) and the Federal Reserve, increased by \$3.5 million, or 14.8%, from \$23.8 million at December 31, 2009, to \$27.4 million at December 31, 2010, with growth concentrated in government agency bonds.

The increase in assets during 2010 was funded primarily by a \$67.0 million, or 36.0%, increase in total deposits, from \$186.3 million at December 31, 2009 to \$253.4 million at December 31, 2010.

Net Interest Income

Net interest income is the excess of interest earned on loans and investments over the interest paid on deposits and borrowings, and is the Bank's primary revenue source. Net interest income is thereby affected by overall balance sheet growth, changes in interest rates and changes in the mix of investments, loans, deposits and borrowings.

Following is a summary of changes in net interest income and net interest margin for 2010 compared to 2009:

<i>Dollars in thousands</i>	<u>2010</u>	<u>2009</u>	<u>\$ Change</u>	<u>% Change</u>
Interest and dividend income	\$15,873	\$9,954	\$5,919	59.5%
Total interest expense	<u>3,519</u>	<u>3,097</u>	<u>422</u>	13.6%
Net interest income	<u>\$12,355</u>	<u>\$6,857</u>	<u>\$5,498</u>	80.2%
Net interest margin	4.51%	3.90%	n/a	15.6%

Beginning in September 2007, the Federal Open Market Committee (FOMC) began reducing the fed funds target by 500 basis points, from 5.25% to a historically low .25% by the end of 2008. The fed funds target rate remained at .25% throughout 2009 and 2010. As a result of lower market rates, the cost of interest-bearing liabilities decreased from 3.20% in 2008 to 2.26% in 2009 to 1.60% in 2010. Due to strong loan growth during this period, a greater proportion of the Bank's assets were invested in higher yielding assets during 2009 and 2010. As a result, the Bank's yield on interest-earning assets increased from 5.58% in 2008 to 5.66% in 2009 to 5.80% in 2010. The combination of a higher yield on interest earning assets, and a lower cost of funds, caused the Bank's interest rate spread to increase from 2.38% in 2008 to 3.40% in 2009 to 4.20% in 2010. The overall net interest margin increased from 3.41% in 2008 to 3.90% in 2009 to 4.51% in 2010.

Competition for deposits is strong, with many local competitors offering deposit rates higher than national averages. The FOMC has reduced market rates as far as it can in an attempt to stimulate economic growth and encourage borrowing. With local competition for both loans and deposits expected to remain strong, the Bank anticipates pressure on interest margins throughout the foreseeable future. The Dodd-Frank Act eliminates the historic prohibition on paying interest on demand deposit accounts established by businesses, effective in July 2011. There can be no assurance as to the impact of this change on the Bank's interest expense, net interest income, profitability or competitiveness.

The following table shows the average balance sheets for each of the years ended December 31, 2010, 2009 and 2008. 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 \$149.1 thousand in 2010 and \$107.2 thousand in 2009, and \$103.6 thousand in 2008.

<i>(Dollars in thousands)</i>	<u>2010</u>			<u>2009</u>			<u>2008</u>		
	<u>Average Balance</u>	<u>Interest Income-Expense</u>	<u>Average Yields /Rates</u>	<u>Average Balance</u>	<u>Interest Income-Expense</u>	<u>Average Yields /Rates</u>	<u>Average Balance</u>	<u>Interest Income-Expense</u>	<u>Average Yields /Rates</u>
Assets									
Securities (1)	\$24,732	\$754	3.05%	\$ 17,816	\$ 638	3.58%	\$ 7,648	\$ 321	4.20%
Loans, net of unearned income	241,938	15,102	6.24%	154,108	9,295	6.03%	60,443	3,929	6.50%
Interest-bearing deposits in other banks	6,943	18	0.26%	1,170	17	1.45%	3,558	91	2.56%
Federal funds sold	110	0	0.00%	2,815	4	0.14%	9,985	217	2.17%
Total interest-earning assets	<u>\$273,723</u>	<u>\$15,874</u>	<u>5.80%</u>	<u>\$175,909</u>	<u>\$9,954</u>	<u>5.66%</u>	<u>\$81,634</u>	<u>\$4,558</u>	<u>5.58%</u>
Other assets	<u>7,287</u>			<u>8,282</u>			<u>3,367</u>		
Total assets	<u><u>\$281,010</u></u>			<u><u>\$184,191</u></u>			<u><u>\$85,001</u></u>		
Liabilities & Stockholders' Equity									
Interest-bearing deposits									
NOW accounts	\$4,010	\$19	0.47%	\$2,495	\$17	0.68%	\$1,908	\$25	1.31%
Money market accounts	72,123	981	1.36%	51,997	1,053	2.03%	7,902	177	2.24%
Savings accounts	6,300	53	0.84%	8,163	84	1.03%	15,202	498	3.28%
Time deposits	<u>121,345</u>	<u>2,220</u>	<u>1.83%</u>	<u>62,251</u>	<u>1,788</u>	<u>2.87%</u>	<u>27,344</u>	<u>1,030</u>	<u>3.77%</u>
Total interest-bearing deposits	\$203,778	\$3,273	1.61%	\$124,906	\$2,942	2.36%	\$52,356	\$1,730	3.30%
Securities sold under agreement to repurchase and federal funds purchased	\$7,083	\$48	0.68%	\$7,065	\$56	0.79%	\$2,529	37	1.46%
Other borrowed funds	<u>9,555</u>	<u>198</u>	<u>2.07%</u>	<u>5,190</u>	<u>99</u>	<u>1.91%</u>	<u>572</u>	<u>5</u>	<u>0.87%</u>
Total interest-bearing liabilities	<u><u>\$220,416</u></u>	<u><u>\$3,519</u></u>	<u>1.60%</u>	<u><u>\$137,161</u></u>	<u><u>\$3,097</u></u>	<u>2.26%</u>	<u><u>\$55,457</u></u>	<u><u>\$1,772</u></u>	<u>3.20%</u>
Demand deposits and other liabilities	<u>29,160</u>			<u>17,663</u>			<u>8,265</u>		

	2010			2009			2008		
	Average Balance	Interest Income-Expense	Average Yields /Rates	Average Balance	Interest Income-Expense	Average Yields /Rates	Average Balance	Interest Income-Expense	Average Yields /Rates
<i>(Dollars in thousands)</i>									
Total liabilities	\$249,576			\$154,824			\$63,722		
Stockholders' equity	\$31,434			\$29,367			\$21,279		
Total liabilities and stockholders' equity	<u>\$281,010</u>			<u>\$184,191</u>			<u>\$85,001</u>		
Interest rate spread			4.20%			3.40%			2.38%
Net interest income and margin		<u>\$12,355</u>	4.51%		<u>\$6,857</u>	3.90%		<u>\$2,786</u>	3.41%

(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.

Interest income and expense are affected by changes in interest rates, by changes in the volumes of earning assets and interest-bearing liabilities, and by changes in the mix of these assets and liabilities. The following rate-volume variance analysis shows the year-to-year changes in the components of net interest income.

	2010 compared to 2009			2009 compared to 2008		
	Increase/(Decrease) Due to		Total Increase/(Decrease)	Increase/(Decrease) Due to		Total Increase/(Decrease)
	Volume	Rate		Volume	Rate	
<i>(Dollars in thousands)</i>						
Interest Income						
Loans	\$5,482	\$325	\$5,807	\$5,649	\$(283)	\$5,366
Securities	211	(95)	116	364	(47)	317
Interest bearing deposits in other banks	15	(14)	1	(35)	(39)	(74)
Federal funds sold	--	(4)	(4)	(10)	(203)	(213)
Total interest income	<u>\$5,708</u>	<u>\$212</u>	<u>\$5,920</u>	<u>\$5,968</u>	<u>\$(572)</u>	<u>\$5,396</u>
Interest Expense						
Interest-bearing deposits:						
NOW accounts	\$7	\$(5)	\$2	\$4	\$(12)	\$(8)
Money market accounts	274	(346)	(72)	893	(17)	876
Savings accounts	(16)	(15)	(31)	(72)	(342)	(414)
Time deposits	1,081	(649)	432	1,003	(245)	758
Total interest-bearing deposits	<u>\$1,346</u>	<u>\$(1,015)</u>	<u>\$331</u>	<u>\$1,828</u>	<u>\$(616)</u>	<u>\$1,212</u>
Securities sold under agreement to repurchase and federal funds purchased	--	(8)	(8)	36	(17)	19
Other borrowed funds	90	9	99	88	6	94
Total interest expense	<u>\$1,436</u>	<u>\$(1,014)</u>	<u>\$422</u>	<u>\$1,952</u>	<u>\$(627)</u>	<u>\$1,325</u>
Change in Net Interest Income	<u>\$4,272</u>	<u>\$1,226</u>	<u>\$5,498</u>	<u>\$4,016</u>	<u>\$55</u>	<u>\$4,071</u>

Interest Rate Risk Management

The Bank uses an interest income simulation model to measure and monitor interest rate risk. Upward interest rate shocks of 100, 200, 300, 400 and 500 basis points are applied to the Bank's current mix of investments, loans, deposits and other funding sources. Downward interest rate shocks are not currently considered due to the historically low level of current interest rates. The resulting percentage change in the Bank's net interest income and the Bank's Net Portfolio Value (defined as the market value of assets minus the market value of liabilities) is compared to the Bank's established policy limits. Following is a summary of the results of the Bank's rate shock analysis as of December 31, 2010, compared to policy limits.

	Rates up 100 basis points	Rates up 200 basis points	Rates up 300 basis points	Rates up 400 basis points	Rates up 500 basis points	Bank Policy Limit (+/- 200 basis points)
Annual % Change Net Interest Income	-2.19%	-3.24%	-4.03%	-5.45%	-7.50%	+/-15.00%
Annual % Change Net Portfolio Value	-6.46%	-14.33%	-22.61%	-29.55%	-36.23%	+/-20.00%

Based on this analysis the Bank is minimally exposed to interest rate increases of up to 500 basis points as of December 31, 2010 and is within rate shock policy limits with respect to both Net Interest Income and Net Portfolio Value.

Certain shortcomings are inherent in this method of analysis. For example, although certain assets and liabilities may have similar maturities or repricing periods, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate residential and commercial mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the loan. Further, in the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed. Finally, the ability of many borrowers to service their debt may decrease in the event of a significant interest rate increase.

Non-Interest Income

The Bank's non-interest income sources include service charges and other related fees on deposit accounts and net gains or losses from the sale of investments, loans and other real estate owned.

Following is a summary of the Bank's non-interest income in 2010 compared to 2009:

<i>Dollars in thousands</i>	<u>2010</u>	<u>2009</u>	<u>\$ Change</u>	<u>% Change</u>
Service charges on deposit accounts	\$156.3	\$124.7	\$31.6	25.3%
Other service charges and fees	31.1	31.7	(.6)	-2.0%
Gain on sale of securities available for sale	77.0	247.3	(170.31)	-69.9%
Gain (loss) on other real estate	20.2	(85.3)	105.5	n/a
Gain on sale of loans	24.4	12.7	11.7	92.1%
Other operating income	<u>2.8</u>	<u>(2.3)</u>	<u>5.1</u>	<u>n/a</u>
Total noninterest income	<u>\$311.7</u>	<u>\$328.7</u>	<u>\$(17.0)</u>	<u>-5.2%</u>

Service charges on deposit accounts include monthly deposit account maintenance charges, overdraft fees, returned check fees, account analysis, stop payment fees, and ATM fees and charges. Other service charges and fees include wire transfer fees, check order fees, and other transaction related fees.

Non-interest income declined \$17 thousand, or 5.2%, from \$329 thousand in 2009, to \$312 thousand in 2010. The decrease in non-interest income is primarily attributed to a gain on the sale of securities of \$247 thousand realized during 2009, compared to a gain of \$77 thousand realized in 2010, representing a reduction in non-interest income of \$170 thousand. In addition, the Bank realized a \$20 thousand gain on the sale of other real estate owned during 2010, compared to a loss of \$85 thousand in 2009. Additionally, the Bank realized a gain of \$24 thousand on the sale of the guaranteed portion of SBA loans during 2010, compared to a gain of \$13 thousand in 2009. Eliminating the gain or loss on the sale of securities, other real estate owned, and the guaranteed portion of SBA loans during both years, non-interest income would have increased 23.4% during 2010, from \$154 thousand to \$190 thousand.

Non-Interest Expense

Following is a summary of the Bank's non-interest expense in 2010 compared to 2009:

<i>Dollars in thousands</i>	<u>2010</u>	<u>2009</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and employee benefits	\$4,863.1	\$3,774.2	\$1,088.9	28.9%
Occupancy expense of premises	778.2	643.5	134.7	20.9%
Furniture and equipment expenses	476.3	361.3	115.0	31.8%
Advertising and marketing expenses	211.3	150.5	60.8	40.4%
Data processing expenses	615.7	455.3	160.4	35.2%
FDIC insurance	433.1	310.0	123.1	39.7%
Professional fees	351.5	276.6	74.9	27.1%
State franchise tax	290.1	231.5	58.6	25.3%
Other operating expenses	<u>811.6</u>	<u>678.7</u>	<u>132.9</u>	<u>20.0%</u>

<i>Dollars in thousands</i>	<u>2010</u>	<u>2009</u>	<u>\$ Change</u>	<u>% Change</u>
Total non-interest expenses	<u>\$8,830.9</u>	<u>\$6,881.6</u>	<u>\$1,949.32</u>	<u>28.3%</u>

The increase in salaries and benefits was due primarily to the hiring of new business development and operations personnel required to support the growth in loans and deposits experienced in 2010. During 2010, \$225 thousand of the increase in non-interest expense represented expenses associated with stock options issued. The Bank anticipates that salaries and benefits expense will continue to be the largest single factor in increased non-interest expenses in future periods due to expected branch expansion and overall growth.

The increase in occupancy expense reflects the fact that 2010 was the first full year of operation of the Bank's Arlington branch, which opened in April 2009, as well as normal annual increases in base rent obligations on other Bank properties. The increase in furniture and equipment expenses, advertising and marketing expense, and data processing expenses is consistent with overall growth of the Bank experienced in 2010 and is expected to continue to increase with future growth of the Bank.

The FDIC imposed a one-time assessment of 5 basis points on the Bank's assets minus Tier 1 capital as of June 30, 2009 during the third quarter of 2009, which considerably increased the amount of FDIC insurance premium paid by the Bank in 2009. In 2010, the increase in FDIC insurance premiums was consistent with overall deposit growth of 36% experienced during 2010. Refer to "Business – Supervision and Regulation" for additional information regarding FDIC insurance premiums.

State franchise taxes are computed on the basis of stockholders' equity. Due to retained earnings realized during 2010 and the resulting effect on stockholders' equity, this expense increased in 2010 compared to 2009.

The increase in professional fees and other operating expenses, which include legal fees, internal and external audit fees, other consulting fees, insurance, telecommunications, supplies and postage, is consistent with the Bank's growth in 2010 and the related enhancements required to maintain an effective risk management and control environment to support the Bank's growth. The Bank expects these professional fees and other operating expenses will continue to increase in future periods due to continued overall growth and branch expansion.

Income Taxes

In reporting periods prior to June 30, 2010, 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 \$1.6 million for the year ended December 31, 2010. For further information regarding the provisions for income taxes see Note 6 to the Audited Financial Statements in Item 8.

Asset Quality - Provision and Allowance for Loan Losses

The Bank makes provisions for loan losses in amounts deemed necessary to maintain the allowance for loan losses at an appropriate level. The provision for loan losses is determined based upon management's estimate of the amount required to maintain an adequate allowance for loan losses reflective of the risks in the Bank's loan portfolio. The Bank's provision for loan losses in 2010 and 2009 was \$1.1 million and \$1.4 million, respectively. The decrease in the provision for loan losses in 2010 as compared to the amount in 2009 relates primarily to the amount of loan growth for each year, a decline in net loan charge offs in 2010 compared to 2009, and management's evaluation of the loan portfolio as described below. During 2010, average loans net of fees increased by \$88.9 million compared to average loan growth of \$94.7 million in 2009. Period end loans net of fees increased by \$65.5 million, compared to period end loan growth of \$89.7 million during 2009. At December 31, 2010, the allowance for loan losses was \$3.2 million or 1.17% of total loans, compared to 1.10% at December 31, 2009.

The Bank prepares a quarterly analysis of the allowance for loan losses, with the objective of quantifying portfolio risk into a dollar amount of inherent losses. The determination of the allowance for loan losses is based on historical peer group loss factors and six qualitative factors for each category and type of loan along with any specific allowance for adversely classified loans within each category. Each factor is assigned a percentage weight and that total weight is applied to each loan category. Factors are different for each category. Qualitative factors include: levels and trends in delinquencies, nonaccrual and watch list loans; trends in volumes and terms of loans; effects of any changes in lending policies, the experience, ability and depth of management; national and local

economic trends and conditions; and concentrations of credit. The total allowance required thus changes as the percentage weight assigned to each factor is increased or decreased due to the particular circumstance; as the various types and categories of loans change as a percentage of total loans; and as specific allowances are required due to increases in adversely classified loans. See Notes 1 and 4 to the Audited Financial Statements in Item 8 for additional information regarding the determination of the provision and allowance for loan losses.

The Bank follows applicable guidance within the FASB Accounting Standards Codification (ASC). This guidance requires that losses be accrued when they are probable of occurring and can be estimated. It also requires that impaired loans, within its scope, be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. The Bank excludes smaller balance and homogeneous loans, which are collectively evaluated for impairment, from impairment reporting. Therefore, the Bank has designated consumer and residential mortgage loans to be excluded for this purpose. From the remaining loan portfolio, loans rated as substandard or worse, classified as nonaccrual, and troubled debt restructurings may be evaluated for impairment.

Loans are evaluated for nonaccrual status when principal or interest is delinquent for 90 days or more and are placed on nonaccrual status when a loan is specifically determined to be impaired. Any unpaid interest previously accrued on those loans is reversed from income. Any interest payments subsequently received are recognized as income unless, in management's opinion, a potential for loss remains. Interest payments received on loans, where management believes a potential for loss remains, are applied as a reduction of the loan principal balance.

Management believes that the allowance for loan losses is adequate. There can be no assurance, however, that adjustments to the provision for loan losses will not be required in the future. Changes in the economic assumptions underlying management's estimates and judgments; adverse developments in the economy, on a national basis or in the Bank's market area; or changes in the circumstances of particular borrowers are criteria that could change and make adjustments to the provision for loan losses necessary.

The following table presents a summary of the provision and allowance for loan losses for the years indicated:

<i>(Dollars in thousands)</i>	2010	2009	2008	2007
Allowance, beginning of period	\$2,291.0	\$1,303.6	\$330.0	\$51.6
Charge-Offs				
Real estate loans	\$ 97.9	\$ 134.6	\$ --	\$ 1.6
Commercial loans	173.6	219.8	77.1	--
Consumer loans	--	20.5	19.0	5.7
Total charge-offs	\$ 271.5	\$ 374.9	\$ 96.2	\$ 7.3
Recoveries				
Real estate loans	\$ 27.0	\$ --	\$ --	\$ --
Commercial loans	20.3	7.6	--	--
Consumer loans	3.4	2.5	5.0	--
Total recoveries	\$ 50.7	\$ 10.1	\$ 5.0	\$ --
Net charge-offs	\$ 220.8	\$ 364.7	\$ 91.2	\$7.3
Provision for loan losses	\$1,141.0	\$1,352.1	\$1,064.8	\$285.7
Allowance, end of period	\$3,211.2	\$2,291.0	\$1,303.6	\$330.0
Ratio of net charges-offs to average total loans outstanding during period	.09%	0.23%	0.15%	.06%

The allowance for loan losses includes specific and additional allowances for impaired loans and a general allowance applicable to all loan categories; however, management has allocated the allowance to provide an indication of the relative risk characteristics of the loan portfolio. The allocation is an estimate and should not be interpreted as an indication that charge-offs will occur in these amounts, or that the allocation indicates future trends, and does not restrict the usage of the allowance for any specific loan or category. The allocation of the allowance at December 31 for the years indicated and the ratio of related outstanding loan balances to total loans are as follows:

Allocation of Allowance for Loan Losses

	<i>December 31</i>							
	<i>2010</i>	<i>% of Loans</i>	<i>2009</i>	<i>% of Loans</i>	<i>2008</i>	<i>% of Loans</i>	<i>2007</i>	<i>% of Loans</i>
<i>(Dollars in thousands)</i>								
Commercial – Non Real Estate	\$1,398	44%	\$ 743	32%	\$ 410	29%	\$ 108	28%
Commercial Real Estate	1,017	32%	917	37%	648	55%	48	17%
Construction & Land Development ⁽¹⁾	411	13%	309	17%	--	--	--	--
Home Equity Loans	137	4%	48	2%	30	1%	8	2%
Residential Mortgages	234	7%	265	12%	201	14%	147	49%
Loans to individuals for household, family and other personal expenditures	14	--%	9	--%	15	1%	19	4%
	\$3,211	100%	\$2,291	100%	\$1,304	100%	\$330	100%

- (1) The Bank's analysis of its loan loss allowance was changed in 2009 to include greater detail with respect to construction and land development loans. Comparable data is not available for 2007 and 2008.

See Notes 1 and 4 to the Audited Financial Statements in Item 8 for additional information regarding the provision and allowance for loan losses.

Non-Performing Assets

Non-performing assets consist of non-accrual loans, restructured loans, and other real estate owned (foreclosed properties). The level of non-performing assets increased by \$800 thousand, from \$2.5 million at December 31, 2009, to \$3.3 million at December 31, 2010. Non-performing assets as of December 31, 2010 consisted of \$755 thousand in non-accrual commercial loans, a \$568 thousand in mortgage loans, a \$649 thousand residential construction loan, \$909 thousand in restructured mortgage loans, and \$464 thousand in Other Real Estate Owned, consisting of two single family residences and one residential building lot. The percentage of non-performing assets to total assets increased slightly from 1.07% as of December 31, 2009 to 1.08% as of December 31, 2010. The Bank has established specific loan loss reserves on all non-accrual and restructured loans equal to the estimated collateral deficiency (if any), plus the cost of sale of the underlying collateral, less estimated mortgage insurance coverage, as applicable. As of December 31, 2010 and December 31, 2009, the Bank had no loans 90 days or more past due that were still accruing interest.

Loans are placed in non-accrual status when in the opinion of management the collection of additional interest is unlikely or a specific loan meets the criteria for non-accrual status established by regulatory authorities. No interest is taken into income on non-accrual loans. A loan remains on non-accrual status until the loan is current as to both principal and interest or the borrower demonstrates the ability to pay and remain current, or both.

Foreclosed real properties include properties that have been substantively repossessed or acquired in complete or partial satisfaction of debt. Such properties, which are held for resale, are carried at the lower of cost or fair value, including a reduction for the estimated selling expenses, or principal balance of the related loan.

The following table summarizes the Bank's non-performing assets as of the dates indicated:

	December 31,			
	2010	2009	2008	2007
<i>(Dollars in thousands)</i>				
Non-accrual loans	\$1,972	\$834	\$570	\$ --
Restructured loans	909	1,491	--	--
Total non-performing loans	\$2,881	\$2,325	\$570	\$ --
Other real estate owned	464	190	265	269
Total non-performing assets	\$3,345	\$2,515	\$835	\$269
Loans past due 90 days and still accruing	--	--	--	--
Total non-performing assets and past due loans	\$3,345	\$2,515	\$835	\$269
Allowance for loan losses to total loans	1.17%	1.10%	1.10%	1.16%
Allowance for loan losses to non-performing loans	111.46%	98.5%	228.8%	122.7%
Non-performing loans and past due loans to total loans	1.05%	1.12%	.48%	0.94%

(Dollars in thousands)	December 31,			
	2010	2009	2008	2007
Non-performing assets and past due loans to total assets	1.08%	1.07%	0.61%	0.61%

No interest income was recognized on nonaccrual loans during 2010. The amount of interest that would have been recognized in income on nonaccrual loans, if the loans had been current and outstanding during the entire year, was \$33 thousand.

At December 31, 2010, there were no loans which were currently performing in accordance with their terms, but as to which information known to the Bank caused it to have serious doubts about the ability of the borrower to comply with the loan as currently written, and would result in the loan being disclosed in the above table.

Loan Portfolio

The Bank makes real estate mortgage, commercial and industrial, and consumer loans. The real estate mortgage loans are secured by the underlying property; generally have a maximum loan to value ratio of 60-80%; and, generally have a term of five to ten years, with amortizations of up to 30 years. The commercial and industrial loans consist of secured and unsecured loans. The unsecured commercial loans are made based on the financial strength of the borrower and usually require personal guarantees from the principals of the business. The collateral for the secured commercial loans may be equipment, accounts receivable, real estate, marketable securities or deposits in the Bank. These loans typically have a maximum loan to value ratio of 70-80% and a term of one to five years. The consumer loan category consists of secured and unsecured loans. The unsecured consumer loans are made based on the financial strength of the individual borrower. The collateral for secured consumer loans may be marketable securities, automobiles, or deposits in the Bank. The usual term for these loans is three to five years.

The following table sets forth the distribution of the Bank's loan portfolio at the dates indicated by category of loan and the percentage of loans in each category to total loans.

<i>Dollars in thousands</i>	December 31,							
	2010		2009		2008		2007	
Mortgage loans on real estate:								
Residential 1-4 family	\$10,329	4%	\$14,561	7%	\$16,466	14%	\$14,037	49%
Commercial	147,666	54%	100,464	48%	53,457	45%	3,437	12%
Construction	53,922	20%	32,067	15%	12,747	11%	3,415	12%
Residential equity loans	3,490	1%	3,326	2%	1,713	1%	682	2%
Total mortgage loans on real estate	\$215,407	79%	\$150,418	72%	\$84,383	71%	\$21,571	75%
Commercial loans	57,681	21%	57,099	27%	33,443	28%	5,873	21%
Loans to individuals for household, family and other personal expenditures	991	0%	1,017	1%	844	1%	1,115	4%
Total loans	\$274,079	100%	\$208,534	100%	\$118,670	100%	\$28,559	100%
Less: Allowance for loan losses	(3,211)		(2,291)		(1,304)		(330)	
Net deferred loan fees	(395)		(314)		(131)		(2)	
Net loans	\$270,473		\$205,929		\$117,235		\$28,227	

As of December 31, 2010, the real estate loan portfolio constituted 79% of the total loan portfolio. While this exceeds the 10% threshold for determining a concentration of credit risk within an industry, we do not consider this to be a concentration with adverse risk characteristics given the diversity of borrowers within the real estate portfolio and other sources of repayment. An industry for this purpose is defined as a group of counterparties that are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The loan portfolio does not include concentrations of credit risk in loan products that permit the deferral of principal payments or payments that are smaller than normal interest accruals (negative amortization); loans with high loan-to-values ratios; and loans, such as option adjustable-rate mortgages, that may expose the borrower to future increases in repayments that are in excess of increases that would result solely from increases in market interest rates.

Under recent guidance by the federal banking regulators, banks which have concentrations in construction, land development or commercial real estate loans would be expected to maintain higher levels of risk management and, potentially, higher levels of capital. As of December 31, 2010, the Bank had a concentration in commercial real estate equal to 490% of total capital, compared to regulatory guidance of 300%. The Bank's concentration in construction and land development loans was equal to 161% of total capital as of December 31, 2010, compared to regulatory guidance of 100%. The Bank has implemented additional risk management practices with respect to its commercial real estate and construction loan portfolio. It is management's opinion that its concentration levels in construction and commercial real estate loans is well underwritten and managed. However, 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. Excluded from the scope of this guidance are loans secured by non-farm nonresidential properties where the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party, or affiliate of the party, who owns the property.

The following table presents information pertaining to maturity and repricing characteristics of selected loans:

At December 31, 2010 (Dollars in thousands)	Residential 1-4 Family Mortgage	Residential Equity Loans	Real Estate- Construction	Commercial Real Estate	Commercial	Consumer	Total
Variable:							
Within 1 year	\$510	\$2,695	\$33,441	\$4,459	\$36,984	\$145	\$78,234
1-to-5 years	1,286	--	1,414	76,343	2,133	--	81,176
After 5 years	2,980	--	1,181	--	--	--	4,161
Total	<u>\$4,776</u>	<u>\$2,695</u>	<u>\$36,036</u>	<u>\$80,802</u>	<u>\$39,117</u>	<u>\$145</u>	<u>\$163,571</u>
Fixed Rate:							
Within 1 year	\$868	\$--	\$8,296	\$2,808	\$3,007	\$471	\$15,450
1-to-5 years	2,060	756	9,590	43,902	14,118	358	70,784
After 5 years	2,625	39	--	20,154	1,439	17	24,274
Total	<u>\$5,553</u>	<u>\$795</u>	<u>\$17,886</u>	<u>\$66,864</u>	<u>\$18,564</u>	<u>\$846</u>	<u>\$110,508</u>
Total Loans	<u>\$10,329</u>	<u>\$3,490</u>	<u>\$53,922</u>	<u>\$147,666</u>	<u>\$57,681</u>	<u>\$991</u>	<u>\$274,079</u>

Investment Securities

The investment portfolio is used as a source of interest income, credit risk diversification and liquidity, as well as to manage rate sensitivity and provide collateral for secured public funds, repurchase agreements and other short-term borrowings. During the first half of 2009, the Bank restructured its mortgage backed debt securities portfolio in response to historically low mortgage rates and the rapid rate of principal prepayments on the portfolio. \$7.9 million in mortgage backed securities were sold at a gain of \$235 thousand. Funds were reinvested into mortgage backed securities that were classified as held to maturity to protect the Bank's capital from rising mortgage rates. During the fourth quarter of 2010, the Bank sold \$1.6 million in mortgage backed securities at a gain of \$81 thousand. This sale was made to lock in gains in anticipation of rising interest rates. Funds were reinvested in shorter term government agency securities. Securities in the investment portfolio classified as securities available for sale may be sold in response to changes in market interest rates, changes in the securities' prepayment risk, increased loan demand, general liquidity needs, and other similar factors, and are carried at estimated fair value. The Bank currently classifies \$17.5 million of securities portfolio as available for sale and \$7.8 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.

The following table provides information regarding the composition of the available for sale and held to maturity securities portfolio as of the dates indicated:

	December 31,					
	2010		2009		2008	
	Fair Value	Percent of total	Fair Value	Percent of total	Fair Value	Percent of total
<i>(Dollars in thousands)</i>						
Available- for- sale:						
U.S. Government Agency obligations	\$12,906	73.7%	\$7,072	53.8%	\$3,065	32.1%
Taxable municipal securities	509	2.9%	--	--	--	--
Mortgage backed debt securities	4,100	23.4%	6,074	46.2%	6,448	67.9%
	\$17,515	100.0%	\$13,146	100.0%	\$9,513	100.0%

	December 31,					
	2010		2009		2008	
	Book Value	Percent of total	Book Value	Percent of total	Book Value	Percent of total
<i>(Dollars in thousands)</i>						
Held to Maturity:						
Mortgage backed debt securities	\$7,770	100.0%	\$8,949	100.0%	\$ --	--%
	\$7,770	100.0%	\$8,949	100.0%	\$ --	--%

The following table details the maturities and weighted average yields for each category of investment securities available for sale and held to maturity securities as of December 31, 2010:

	December 31, 2010	
	<i>Book</i>	<i>Weighted</i>
	<i>Value</i>	<i>Average</i>
<i>(Dollars in thousands)</i>		
Available- for- sale:		
Maturing within one year	\$--	--%
Maturing after one through five years	8,023	1.35%
Maturing after five through ten years	7,647	2.58%
Maturing after ten years	<u>1,886</u>	<u>3.84%</u>
	\$17,557	2.16%
	December 31, 2010	
	<i>Book</i>	<i>Weighted</i>
	<i>Value</i>	<i>Average</i>
<i>(Dollars in thousands)</i>		
Held to maturity:		
Maturing after ten years	<u>\$7,770</u>	<u>3.48%</u>

The Bank had no investments that were obligations of the issuer, other than the U.S. government and U.S. government agencies, or payable from or secured by a source of revenue or taxing authority of the issuer, whose aggregate book value exceeded 10% of shareholders' equity at December 31, 2010.

See Note 2 to the Audited Financial Statements for additional information regarding the securities portfolio.

Deposits

The principal sources of funds for the Bank are core deposits (demand deposits, interest-bearing transaction accounts, money market accounts, savings deposits and certificates of deposit) from the Bank's market area. The Bank's deposit base includes transaction accounts, time and savings accounts and other accounts that customers use for cash management purposes and which provide the Bank with a source of fee income and cross-marketing opportunities as well as a low-cost source of funds. Time and savings accounts, including money market deposit accounts, also provide a relatively stable low-cost source of funding. Please refer to the average balance tables under "Net Interest Income" for information regarding the average balance of deposits, and average rates paid.

Approximately 51.8% of the Bank's deposits at December 31, 2010 are made up of time deposits (including CDARS®, QwickRate® and brokered deposits), which are generally the most expensive form of deposit

because of their fixed rate and term, as compared to 46.8% at December 31, 2009. The percentage of the Bank's time deposits to total deposits increased during 2010, due primarily to an increase in the Bank's use of QwickRate® deposits as a funding source and an increase in core customer time deposits of \$100,000 or more. Time deposits in denominations of \$100,000 or more can be more volatile and more expensive than time deposits of less than \$100,000. However, because the Bank focuses on relationship banking, and most of these deposits are obtained from the local community, historical experience has been that large time deposits have not been significantly more volatile or expensive than smaller denomination certificates.

The following tables provide a summary of the Bank's deposit base at the dates indicated and the maturity distribution of certificates of deposit of \$100,000 or more as of December 31, 2010.

Deposit Composition

	December 31,					
	2010		2009		2008	
	Balance	% of Total Deposits	Balance	% of Total Deposits	Balance	% of Total Deposits
<i>(Dollars in thousands)</i>						
Noninterest-bearing demand deposits	\$30,464	12.0%	\$ 20,898	11.2%	\$ 9,856	10.3%
Interest-bearing demand deposits:						
NOW accounts	5,633	2.2%	2,324	1.2%	2,889	3.0%
Money market accounts	81,911	32.4%	67,691	36.4%	14,707	15.4%
Savings accounts	4,104	1.6%	8,191	4.4%	5,718	6.0%
Certificates of deposit:						
\$100,000 or more	61,701	24.4%	39,204	21.0%	34,554	36.2%
Less than \$100,000	17,655	6.9%	12,020	6.5%	9,199	9.6%
QwickRate® Certificates of Deposits (1)	24,071	9.5%	11,380	6.1%	2,630	2.8%
CDARS(2)	24,013	9.5%	17,549	9.4%	6,372	6.7%
Brokered Deposits(3)	3,808	1.5%	7,083	3.8%	9,496	10.0%
Total deposits	<u>\$253,360</u>	<u>100.0%</u>	<u>\$186,339</u>	<u>100.0%</u>	<u>\$95,421</u>	<u>100.0%</u>

- (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 December 31, 2010, QwickRate® CD's in denominations of less than \$100,000 totaled \$1.4 million and QwickRate® CD's of \$100,000 or more totaled \$22.7 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 December 31, 2010, CDARS in denominations of less than \$100,000 equal \$1.3 million. CDARS of \$100,000 or more equal \$22.7 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 as a supplemental funding source generally to bridge receipt of traditional customer deposits to fund loans.

Maturities of Certificates of Deposit - \$100,000 or More ⁽¹⁾

<i>(Dollars in thousands)</i>	<u>December 31, 2010</u>
Maturing in:	
3 months or less	\$26,219
Over 3 months through 6 months	19,740
Over 6 months through 12 months	23,853
Over 12 months	<u>37,288</u>
	<u>\$107,100</u>

- (1) Includes CDARS ® QwickRate ® and brokered CD's

Borrowings

Short-term borrowings are primarily overnight advances from a secured credit facility from the FHLB, and 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 also include Federal funds purchased, which are unsecured overnight borrowings from other banks, and are generally used to accommodate short-term liquidity needs. Fixed rate term borrowings consist of advances from the secured credit facility from the FHLB referenced above, with maturities of 1-4 years.

The following table provides information on the balances and interest rates on total borrowings for the years ended December 31, 2010, 2009 and 2008.

Dollars in thousands

At December 31,	2010	2009	2008
Securities sold under agreement to repurchase	\$7,337	\$5,658	\$7,219
Federal funds purchased	-	160	178
FHLB short-term borrowings	-	9,900	3,000
FHLB fixed rate term borrowings	15,000	3,000	--
Total	<u>\$22,337</u>	<u>\$18,718</u>	<u>\$10,397</u>
Weighted interest rate at year end	1.36%	1.09%	.98%
Averages balances for the year ended December 31,	2010	2009	2008
Securities sold under agreement to repurchase	\$6,952	\$6,904	\$2,444
Federal funds purchased	131	161	85
FHLB short-term borrowings	539	1,817	572
FHLB fixed rate term borrowings	9,016	3,373	--
Total average balance for year	<u>\$16,638</u>	<u>\$12,255</u>	<u>\$3,101</u>
Weighted average interest rate during year	2010	2009	2008
Securities sold under agreement to repurchase	.68%	.80%	1.50%
Federal funds purchased	.67%	.70%	1.07%
FHLB short-term borrowings	.44%	.81%	0.84%
FHLB fixed rate term borrowings	2.16%	2.48%	--
Total weighted average interest rate for year	1.48%	1.26%	1.37%
Maximum month-end balance during year	2010	2009	2008
Securities sold under agreement to repurchase	\$8,539	\$9,176	\$7,219
Federal funds purchased	1,067	806	482
FHLB short-term borrowings	5,000	3,000	4,000
FHLB fixed rate term borrowings	15,000	9,900	--
Total maximum month-end balance during year	<u>\$29,606</u>	<u>\$22,882</u>	<u>\$11,701</u>

FHLB advances are secured by collateral consisting of a blanket lien on qualifying loans in the Bank's residential and commercial mortgage loan portfolios. For more information about the Bank's FHLB advances see Note 10 to the Bank's Audited Financial Statements in Item 8.

Liquidity

The Bank's principal source of liquidity and funding is its deposit base. The level of deposits necessary to support the Bank's lending and investment activities is determined through monitoring loan demand. Considerations in managing the Bank's liquidity position include, but are not limited to, scheduled cash flows from existing loans and investment securities, anticipated deposit activity including the maturity of time deposits, and projected needs from anticipated extensions of credit. The Bank's liquidity position is frequently monitored by management to maintain a level of liquidity conducive to efficiently meet current needs and is evaluated for both current and longer term needs as part of the asset/liability management process.

The Bank measures total liquidity through cash and cash equivalents, securities available-for-sale, less securities pledged as collateral for repurchase agreements, public deposits and other purposes, and less any outstanding federal funds purchased and borrowings or deposits maturing within 30-days, including an assumption for estimated runoff of non-maturity deposits. In measuring liquidity, the Bank also includes the capacity to borrow funds from the FHLB, secured by the Bank's commercial and residential loan portfolios. These liquidity sources increased by \$8.1 million, from \$6.9 million at December 31, 2009, to \$15.0 million at December 31, 2010. Additional sources of liquidity available to the Bank include the capacity to borrow funds through short-term lines of credit with correspondent banks. As of December 31, 2010, the Bank had \$18.0 million available borrowing capacity from its correspondent banks, and approximately \$22.2 million available borrowing capacity from the FHLB. In addition, the Bank has entered into a collateral arrangement with the Federal Reserve Bank of Richmond, pledging certain commercial loans as collateral for discount window borrowings as a contingent liquidity source. As of December 31, 2010, the total amount available for borrowing under the Federal Reserve facility was approximately \$37.2 million. There were no borrowings under the Federal Reserve facility during 2009 or 2010.

Capital

The assessment of capital adequacy depends on a number of factors such as asset quality, liquidity, earnings performance, changing competitive conditions and economic forces, and the overall level of growth. The adequacy of the Bank's current and future capital is monitored by management on an ongoing basis. Management seeks to maintain a capital structure that will assure an adequate level of capital to support anticipated asset growth and to absorb potential losses. The Bank has established a capital plan that provides for maintaining its well capitalized status under all regulatory measurements. The Bank's continued growth will likely require the bank to seek additional capital. The Bank believes that it will have access to additional capital when it becomes necessary to raise capital in order to maintain its well capitalized regulatory status.

In June 2008, the Bank completed a capital offering which raised \$21.8 million net of offering costs. The Bank sold 2.2 million shares of common stock at a price of \$10.00 per share. Funds have been used to support loan growth and for general corporate purposes.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). The Bank met all capital adequacy requirements to which it is subject as of December 31, 2010. See Note 17 to the Audited Financial Statements in Item 8 for a table depicting compliance with regulatory capital requirements.

On February 17, 2011, the Bank announced a planned offering of up to one million newly issued shares of common stock, which it expects to commence in March 2011.

Off-Balance Sheet Arrangements

The Bank enters into certain off-balance sheet arrangements in the normal course of business to meet the financing needs of its customers. These off-balance sheet arrangements include commitments to extend credit, standby letters of credit and financial guarantees which would impact the Bank's liquidity and capital resources to the extent customers accept and or use these commitments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. 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 the Bank or to investors. For further information, see Note 13 to the Audited Financial Statements in Item 8 for further discussion of the nature, business purpose and elements of risk involved with these off-balance sheet arrangements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

As the Bank is a smaller reporting company, it is not required to provide this information. Please refer to "Interest Rate Risk Management" in Item 7 for a discussion of the Bank's management of interest rate risk.

Item 8. Financial Statements and Supplementary Data.



Certified Public Accountants
and Consultants

**REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders
John Marshall Bank
Alexandria, Virginia

We have audited the accompanying balance sheets of John Marshall Bank as of December 31, 2010 and 2009, and the related statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Bank is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of John Marshall Bank as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 15, 2011

JOHN MARSHALL BANK**Balance Sheets**

December 31, 2010 and 2009

Assets	2010	2009
Cash and due from banks	\$ 929,371	\$ 1,315,672
Interest-bearing deposits in banks	5,619,621	6,723
Securities available for sale	17,514,999	13,146,195
Securities held to maturity, fair value of \$7,883,611 in 2010 and \$8,839,952 in 2009	7,770,456	8,948,589
Restricted securities	2,074,750	1,740,700
Loans, net of allowance for loan losses of \$3,211,118 in 2010 and \$2,290,955 in 2009	270,472,695	205,929,445
Bank premises and equipment, net	1,636,643	1,516,290
Accrued interest receivable	910,692	672,710
Other real estate	463,969	190,032
Other assets	2,478,187	1,176,756
	<u>\$ 309,871,383</u>	<u>\$ 234,643,112</u>
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing demand deposits	\$ 30,463,810	\$ 20,897,947
Interest bearing demand deposits	87,543,525	70,015,682
Savings deposits	4,104,114	8,190,846
Time deposits	131,248,542	87,234,859
Total deposits	\$ 253,359,991	\$ 186,339,334
Repurchase agreements	7,336,519	5,657,532
Federal funds purchased	-	160,000
Federal Home Loan Bank advances	15,000,000	12,900,000
Accrued interest payable	82,913	71,880
Other liabilities	611,619	543,915
Total liabilities	<u>\$ 276,391,042</u>	<u>\$ 205,672,661</u>
Shareholders' Equity		
Preferred stock, par value \$5 per share; authorized 1,000,000 shares; none issued	\$ -	\$ -
Common stock, nonvoting, par value \$5 per share; authorized 1,000,000 shares; none issued	-	-
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	18,669,350	18,444,277
Retained deficit	(3,667,247)	(7,986,217)
Accumulated other comprehensive (loss)	(60,312)	(26,159)
Total shareholders' equity	<u>\$ 33,480,341</u>	<u>\$ 28,970,451</u>
	<u>\$ 309,871,383</u>	<u>\$ 234,643,112</u>

See Notes to Financial Statements.

JOHN MARSHALL BANK
Statements of Operations
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Interest and Dividend Income		
Interest and fees on loans	\$ 15,101,532	\$ 9,294,752
Interest on investment securities - taxable	696,955	582,838
Dividends	56,634	55,571
Interest on federal funds sold	121	4,485
Interest on deposits in banks	<u>17,922</u>	<u>16,517</u>
Total interest and dividend income	<u>\$ 15,873,164</u>	<u>\$ 9,954,163</u>
Interest Expense		
Deposits	\$ 3,273,038	\$ 2,942,440
Federal Home Loan Bank advances	197,432	98,312
Other short-term borrowings	<u>48,175</u>	<u>56,463</u>
Total interest expense	<u>\$ 3,518,645</u>	<u>\$ 3,097,215</u>
Net interest income	\$ 12,354,519	\$ 6,856,948
Provision for loan losses	<u>1,141,000</u>	<u>1,352,063</u>
Net interest income after provision for loan losses	<u>\$ 11,213,519</u>	<u>\$ 5,504,885</u>
Noninterest Income		
Service charges on deposit accounts	\$ 156,293	\$ 124,655
Other service charges and fees	31,075	31,685
Gain on sale of securities available for sale	76,991	247,288
Gain (loss) on sale or impairment of other real estate	20,187	(85,330)
Other operating income	<u>27,166</u>	<u>10,424</u>
Total noninterest income	<u>\$ 311,712</u>	<u>\$ 328,722</u>
Noninterest Expenses		
Salaries and employee benefits	\$ 4,863,068	\$ 3,774,199
Occupancy expense of premises	778,220	643,472
Furniture and equipment expenses	476,321	361,314
Other operating expenses	<u>2,713,311</u>	<u>2,102,582</u>
Total noninterest expenses	<u>\$ 8,830,920</u>	<u>\$ 6,881,567</u>
Income (loss) before income taxes	\$ 2,694,311	\$ (1,047,960)
Income tax benefit	<u>(1,624,659)</u>	<u>- -</u>
Net income (loss)	<u>\$ 4,318,970</u>	<u>\$ (1,047,960)</u>
Earnings (loss) Per Share, basic and diluted	<u>\$ 1.16</u>	<u>\$ (0.28)</u>

See Notes to Financial Statements.

JOHN MARSHALL BANK

Statements of Changes in Shareholders' Equity
Years Ended December 31, 2010 and 2009

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Deficit</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Other Comprehensive Income (Loss)</u>	<u>Total Shareholders' Equity</u>
Balance, December 31, 2008	\$ 18,500,000	\$ 18,405,727	\$ (6,938,257)	\$ 120,463		\$ 30,087,933
Comprehensive loss:						
Net loss	--	--	(1,047,960)	--	\$ (1,047,960)	(1,047,960)
Other comprehensive loss:						
Unrealized gains on available for sale securities	--	--	--	--	\$ 99,385	--
Amortization of unrealized loss on securities transferred to held to maturity	--	--	--	--	1,281	--
Reclassification adjustment for gains included in net loss	--	--	--	--	(247,288)	--
Total other comprehensive loss	--	--	--	(146,622)	\$ (146,622)	(146,622)
Total comprehensive loss					<u>\$ (1,194,582)</u>	
Issuance of common stock	<u>38,550</u>	<u>38,550</u>	<u>--</u>	<u>--</u>		<u>77,100</u>
Balance, December 31, 2009	\$ 18,538,550	\$ 18,444,277	\$ (7,986,217)	\$ (26,159)		\$ 28,970,451
Comprehensive income:						
Net income	--	--	4,318,970	--	\$ 4,318,970	4,318,970
Other comprehensive loss:						
Unrealized losses on available for sale securities, net of tax of \$2,113	--	--	--	--	\$ (4,101)	--
Amortization of unrealized loss on securities transferred to held to maturity, net of tax of \$16,921	--	--	--	--	20,762	--
Reclassification adjustment for gains included in net income, net of tax of \$26,177	--	--	--	--	(50,814)	--
Total other comprehensive loss	--	--	--	(34,153)	\$ (34,153)	(34,153)
Total comprehensive income					<u>\$ 4,284,817</u>	
Stock-based compensation	<u>--</u>	<u>225,073</u>	<u>--</u>	<u>--</u>		<u>225,073</u>
Balance, December 31, 2010	<u>\$ 18,538,550</u>	<u>\$ 18,669,350</u>	<u>\$ (3,667,247)</u>	<u>\$ (60,312)</u>		<u>\$ 33,480,341</u>

See Notes to Financial Statements.

JOHN MARSHALL BANK

Statements of Cash Flows

Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Net income (loss)	\$ 4,318,970	\$ (1,047,960)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	355,904	313,968
Provision for loan losses	1,141,000	1,352,063
Deferred income tax benefit	(1,624,659)	- -
(Gain) on sale of available for sale securities	(76,991)	(247,288)
Stock-based compensation	225,703	- -
Net accretion of securities, net	71,985	59,881
(Gain) loss on other real estate	(20,187)	85,330
Changes in assets and liabilities:		
(Increase) in accrued interest receivable	(237,982)	(284,043)
(Increase) decrease in other assets	353,667	(977,955)
Increase in accrued interest payable	11,033	52,227
Increase in other liabilities	67,704	62,250
Net cash provided by (used in) operating activities	\$ 4,586,147	\$ (631,527)
Cash Flows from Investing Activities		
(Increase) decrease in interest bearing deposits in banks	\$ (5,612,898)	\$ 3,987,114
Net (increase) in loans	(66,236,816)	(90,509,581)
Purchase of available for sale securities	(18,568,818)	(41,976,289)
Proceeds from sales of securities available for sale	3,745,557	8,930,630
Proceeds from maturities, calls and principal repayments of available for sale securities	10,511,832	19,913,436
Proceeds from maturities, calls and principal repayments of held to maturity securities	1,060,542	591,243
Net (purchase) of restricted securities	(334,050)	(588,100)
Proceeds from sale of other real estate	298,816	452,472
Purchases of bank premises and equipment	(476,257)	(592,401)
Net cash (used in) investing activities	\$ (75,612,092)	\$ (99,791,476)
Cash Flows from Financing Activities		
Net increase in deposits	\$ 67,020,657	\$ 90,918,383
Net proceeds from FHLB advances	2,100,000	9,900,000
(Decrease) in federal funds purchased	(160,000)	(18,000)
Increase (decrease) in repurchase agreements	1,678,987	(1,561,079)
Issuance of common stock	- -	77,100
Net cash provided by financing activities	\$ 70,639,644	\$ 99,316,404

See Notes to Financial Statements.

JOHN MARSHALL BANK

Statements of Cash Flows

(Continued)

Years Ended December 31, 2010 and 2009

	2010	2009
(Decrease) in cash and cash equivalents	\$ (386,301)	\$ (1,106,599)
Cash and Cash Equivalents		
Beginning	1,315,672	2,422,271
Ending	\$ 929,371	\$ 1,315,672
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	\$ 3,507,612	\$ 3,044,988
Income taxes	\$ --	\$ --
Supplemental Disclosure of Noncash Transactions		
Other real estate acquired in settlement of loans	\$ 552,566	\$ 462,761
Unrealized (loss) on securities available for sale	\$ (69,063)	\$ (147,903)
Amortization of unrealized loss on securities transferred to held to maturity	\$ 3,841	\$ 1,281
Transfer of securities from available for sale to held to maturity classification	\$ --	\$ 9,340,081

See Notes to Financial Statements.

Notes to Financial Statements

JOHN MARSHALL BANK

Notes to Financial Statements

Note 1. Nature of Banking Activities and Significant Accounting Policies

The accounting and reporting policies of John Marshall Bank conform to generally accepted accounting principles in the United States of America and reflect practices of the banking industry. The policies are summarized below.

Nature of Banking Activities

John Marshall Bank (the Bank) is a corporation formed on April 5, 2005 under the laws of the Commonwealth of Virginia and chartered on February 9, 2006, under the State Corporation Commission – Bureau of Financial Institutions. The Bank is a member of the Federal Reserve and is subject to the rules and regulations of the Virginia State Banking Commission, the Federal Reserve and the Federal Deposit Insurance Corporation. The Bank opened for business on April 17, 2006 and provides banking services to its customers primarily in the Washington, D.C. Metropolitan area.

Significant Accounting Policies

Use of Estimates

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

Concentrations of Credit Risk

Most of the Bank's activities are with customers located in the Washington, D.C. Metropolitan area. Real estate loans, including commercial and construction and land development loans, represented 79% and 72% of the total portfolio at December 31, 2010 and 2009. The Bank does not have any significant concentrations to any one industry or customer.

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash and cash equivalents include cash and balances due from banks, all of which mature within ninety days.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks mature within one year and are carried at cost.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair value, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and

Notes to Financial Statements

reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Effective April 1, 2009, the Bank adopted new accounting guidance related to recognition and presentation of other-than-temporary impairment. This recent accounting guidance amends the recognition guidance for other-than-temporary impairments of debt securities and expands the financial statement disclosures for other-than-temporary impairment losses on debt and equity securities. The recent guidance replaced the “intent and ability” indication in prior guidance by specifying that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security and it is more likely than not the entity will have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow analyses.

Prior to the adoption of the recent accounting guidance related to other-than-temporary impairment, management considered, in determining whether other-than-temporary impairment existed, (a) the length of time and extent to which the fair value had been less than the cost, (b) the financial condition and near-term prospects of the issuer, and (c) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in the capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. Management reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock.

Loans

The Bank grants real estate, commercial and consumer loans to customers (representing the Bank’s loan segments). A substantial portion of the loan portfolio is represented by mortgage loans in the Washington, D.C. metropolitan area. Within the real estate segment, the Bank has also identified the residential, commercial and construction classes. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on real estate and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. Consumer loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Notes to Financial Statements

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Real estate loans are generally written down to the net realizable value when the loan is 180 days past due. Commercial and consumer loans are generally charged off when the loan is 180 days past due. 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 by segment in light of historical experience, 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 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. Qualitative factors used for each segment include an analysis of the levels of and trends in delinquencies, nonaccrual loans, and watch list loans; trends in volume and terms of loans; effects of any changes in lending policies and practices; experience, ability, and depth of management; and national and local economic trends and conditions. 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 in each class 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.

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

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial condition, the Bank may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Bank strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

Notes to Financial Statements

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment is computed on the straight-line method over the useful lives of the assets, ranging from three to fifteen years, or the expected term of leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized.

Other Real Estate

Real estate acquired by foreclosure is carried at the lower of cost or fair market value, less estimated costs of disposal. Subsequent to foreclosure, valuations are periodically performed by management. Revenue and expenses from operations and changes in the valuation allowance are included in the statement of operations.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (a) the assets have been isolated from the Bank – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (b) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (c) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

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

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

The Bank pays state franchise tax in lieu of state income taxes.

Earnings Per Share

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares relate solely to outstanding stock options and are determined using

Notes to Financial Statements

the treasury stock method. Options totaling 293,585 and 99,004 were excluded from the calculation of diluted earnings per share for the years ended December 31, 2010 and 2009, respectively, because their impact would have been anti-dilutive. Potential common shares did not have an impact on net loss.

Basic and diluted loss per share have been computed based on 3,707,710 and 3,704,330 weighted average shares outstanding for the years ended December 31, 2010 and 2009, respectively.

Advertising Costs

The Bank follows the policy of charging the production costs of advertising to expense as incurred.

Share-Based Compensation

Share compensation accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity instruments issued. The share compensation accounting guidance requires that compensation cost for all share-based awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options. Share-based compensation costs included in salaries and benefits expense totaled \$225,073 for 2010 and \$0 for 2009.

Recent 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 the Accounting Standards Codification (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. ASU 2009-16 was effective for transfers on or after January 1, 2010. 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 variable interest entities. The new guidance, which was issued as SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)," was adopted into the 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 was 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 ASU 2009-15, "Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing." ASU 2009-15 amends Subtopic 470-20 to expand accounting and reporting guidance for own-share lending arrangements issued in contemplation of convertible debt issuance. ASU 2009-15 is effective for fiscal years beginning on or after December 15, 2009 and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The adoption of the new guidance did not have a material impact on the Bank's financial statements.

In January 2010, the FASB issued ASU 2010-04, *Accounting for Various Topics – Technical Corrections to SEC Paragraphs*. ASU 2010-04 makes technical corrections to existing Securities and Exchange Commission (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

Notes to Financial Statements

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 ASU 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 ASU 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 was 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 significantly expands 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 on or after December 15, 2010. Specific disclosures 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 on or after December 15, 2010. The Bank has included the required disclosures in its financial statements.

On September 15, 2010, the SEC issued Release No. 33-9142, "Internal Control Over Financial Reporting In Exchange Act Periodic Reports of Non-Accelerated Filers." This release issued a final rule adopting amendments to its rules and forms to conform them to Section 404(c) of the Sarbanes-Oxley Act of 2002 (SOX), as added by Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act. SOX Section 404(c) provides that Section 404(b) shall not apply with respect to any audit report prepared for an issuer that is neither an accelerated filer nor a large accelerated filer as defined in Rule 12b-2 under the Securities Exchange Act of 1934. Release No. 33-9142 was effective September 21, 2010.

On September 17, 2010, the SEC issued Release No. 33-9144, "Commission Guidance on Presentation of Liquidity and Capital Resources Disclosures in Management's Discussion and Analysis." This interpretive release is intended to improve discussion of liquidity and capital resources in Management's Discussion and Analysis of Financial Condition and Results of Operations in order to facilitate understanding by investors of the liquidity and funding risks facing the registrant. This release was issued in conjunction with a proposed rule, "Short-Term Borrowings Disclosures," that would require public companies to disclose additional information to investors about their short-term borrowing arrangements. Release No. 33-9144 was effective on September 28, 2010.

In January 2011, the FASB issued ASU 2011-01, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20." The amendments in this ASU temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 for public entities. The delay is intended to allow the FASB time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011.

Notes to Financial Statements

Note 2. Securities

The amortized cost and fair values of securities available for sale and held to maturity as of December 31, 2010 and 2009 are as follows:

	Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	2010			
U.S government and federal agencies	\$ 13,016,333	\$ 35,854	\$ (145,830)	\$ 12,906,357
Taxable municipal	508,863	22	-	508,885
Mortgage-backed	4,031,417	69,477	(1,137)	4,099,757
	<u>\$ 17,556,613</u>	<u>\$ 105,353</u>	<u>\$ (146,967)</u>	<u>\$ 17,514,999</u>
	2009			
U.S government and federal agencies	\$ 7,074,792	\$ 35,765	\$ (38,498)	\$ 7,072,059
Mortgage-backed	6,043,954	56,865	(26,683)	6,074,136
	<u>\$ 13,118,746</u>	<u>\$ 92,630</u>	<u>\$ (65,181)</u>	<u>\$ 13,146,195</u>
	Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	2010			
Mortgage-backed	<u>\$ 7,770,456</u>	<u>\$ 113,155</u>	<u>\$ -</u>	<u>\$ 7,883,611</u>
	2009			
Mortgage-backed	<u>\$ 8,948,589</u>	<u>\$ -</u>	<u>\$ (108,637)</u>	<u>\$ 8,839,952</u>

During 2009, the Bank transferred mortgage-backed securities with a fair value of \$9,340,081 from the available for sale to the held to maturity classification. The unrealized holding loss at the time of the transfer remained in accumulated other comprehensive loss and is being amortized to income by the interest method over the remaining lives of the securities.

The amortized cost and fair value of securities available for sale and held to maturity as of December 31, 2010, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid without any penalties.

Notes to Financial Statements

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ - -	\$ - -	\$ - -	\$ - -
Due after one year through five years	8,023,424	7,996,118	- -	- -
Due after five years through ten years	7,647,107	7,616,475	- -	- -
Due after ten years	<u>1,886,082</u>	<u>1,902,406</u>	<u>7,770,456</u>	<u>7,883,611</u>
	<u>\$ 17,556,613</u>	<u>\$ 17,514,999</u>	<u>\$ 7,770,456</u>	<u>\$ 7,883,611</u>

For the years ended December 31, 2010 and 2009, proceeds from sales and calls of securities available for sale amounted to \$3,745,557 and \$8,930,630, respectively. Gross realized gains were \$76,991 and \$247,288, respectively.

The following table shows the gross unrealized losses and fair value of the Bank's investments with unrealized losses that are not deemed to be other-than-temporarily impaired aggregated by category and length of time that individual securities have been in a continuous loss position at December 31, 2010 and 2009.

	Less Than 12 Months	
	Gross Unrealized Losses	Fair Value
<u>2010</u>		
Mortgage-backed	\$ 1,137	\$ 1,762,974
U.S. government and federal agencies	<u>145,830</u>	<u>7,876,762</u>
	<u>\$ 146,967</u>	<u>\$ 9,639,736</u>
<u>2009</u>		
Mortgage-backed	\$ 135,320	\$ 12,046,753
U.S. government and federal agencies	<u>38,498</u>	<u>2,961,503</u>
	<u>\$ 173,818</u>	<u>\$ 15,008,256</u>

U.S. Government and Federal Agencies

The unrealized losses on the fifteen and six investments in direct obligations of U.S. government agencies at December 31, 2010 and 2009, respectively, were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2010 or 2009.

Mortgage-Backed Securities

The unrealized losses on the Bank's investment in two and ten federal agency mortgage-backed securities at December 31, 2010 and 2009, respectively, were caused by interest rate changes. The contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Bank's investments. Because the decline in market value is attributable to change in interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of

Notes to Financial Statements

their amortized cost bases, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2010 or 2009.

All securities in an unrealized loss position at December 31, 2010 and 2009 had been in a loss position for less than 12 months.

Securities having a book value of \$22,353,502 and \$20,116,553 at December 31, 2010 and 2009 were pledged to secure public deposits and for other purposes required by law.

Note 3. Loans

A summary of the balances of loans by segment and class follows:

	December 31,	
	2010	2009
	<i>(in thousands)</i>	
Real estate loans:		
Residential	\$ 13,820	\$ 17,887
Commercial	147,666	100,464
Construction and land development	53,922	32,067
Total real estate loans	\$ 215,408	\$ 150,418
Commercial loans	57,681	57,099
Consumer installment loans	990	1,017
Total loans	\$ 274,079	\$ 208,534
Less: Allowance for loan losses	(3,211)	(2,291)
Net deferred loan fees	(395)	(314)
Loans, net	\$ 270,473	\$ 205,929

Note 4. Allowance for Loan Losses

The allocation of the allowance for loan losses by loan segment at December 31, 2010 follows (in thousands):

	Real Estate			Commercial	Consumer	Unallocated	Total
	Commercial	Construction and Land Development	Residential				
Allowance for loan losses:							
Ending balance	\$ 1,018	\$ 408	\$ 369	\$ 1,388	\$ 14	\$ 21	\$ 3,211
Ending balance:							
Individually evaluated for impairment	\$ --	\$ 5	\$ 62	\$ 196	\$ --	\$ --	\$ 263
Collectively evaluated for impairment	1,011	403	307	1,192	14	21	2,948
Financing receivables:							
Ending balance	\$ 147,666	\$ 53,922	\$ 13,820	\$ 57,681	\$ 990	\$ --	\$ 274,079
Ending balance:							
Individually evaluated for impairment	\$ --	\$ 649	\$ 1,475	\$ 755	\$ --	\$ --	\$ 2,879
Collectively evaluated for impairment	147,666	53,273	12,345	56,926	990	--	271,200

Notes to Financial Statements

Changes in the allowance for loan losses are as follows:

	Years Ended December 31,	
	2010	2009
Balance at beginning of year	\$ 2,290,955	\$ 1,303,601
Provision for loan losses	1,141,000	1,352,063
Loans charged-off	(271,545)	(374,851)
Recoveries on loans previously charged-off	50,708	10,142
Balance, ending	\$ 3,211,118	\$ 2,290,955

The following is a summary of information pertaining to impaired loans by class at December 31, 2010 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Commercial	\$ --	\$ --	\$ --	\$ --	\$ --
Real Estate:					
Commercial	--	--	--	--	--
Construction and land development	--	--	--	--	--
Residential	--	--	--	--	--
Consumer	--	--	--	--	--
With an allowance recorded:					
Commercial	\$ 755	\$ 755	\$ 196	\$ 715	\$ --
Real Estate:					
Commercial	--	--	--	--	--
Construction and land development	649	649	5	637	--
Residential	1,475	1,475	62	1,486	45
Consumer	--	--	--	--	--
Total:					
Commercial	\$ 755	\$ 755	\$ 196	\$ 715	\$ --
Real Estate	2,124	2,124	67	2,123	45
Consumer	--	--	--	--	--
Total Impaired Loans	\$ 2,879	\$ 2,879	\$ 263	\$ 2,838	\$ 45

Following is information related to impaired loans for 2009:

	2009
Impaired loans without a valuation allowance	\$ 1,439,727
Impaired loans with a valuation allowance	885,705
Total impaired loans	\$ 2,325,432
Valuation allowance related to impaired loans	\$ 301,179
Nonaccrual loans excluded from impaired loans	--
Total loans past-due ninety days or more and still accruing	--
Average investment in impaired loans	1,470,110
Interest income recognized on impaired loans	--

Notes to Financial Statements

Following is a summary of past due and non-accrual loans by class at December 31, 2010 (in thousands):

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>90-Days Past Due and Still Accruing</u>	<u>Nonaccrual Loans</u>
Commercial	\$ 233	\$ 498	\$ --	\$ 731	\$ 56,950	\$ 57,681	\$ --	\$ 755
Real Estate:								
Commercial	--	--	--	--	147,666	147,666	--	--
Construction and land development	--	--	--	--	53,922	53,922	--	649
Residential	--	--	568	568	13,252	13,820	--	568
Consumer	--	--	--	--	990	990	--	--
Total	<u>\$ 233</u>	<u>\$ 498</u>	<u>\$ 568</u>	<u>\$ 1,299</u>	<u>\$ 272,780</u>	<u>\$ 274,079</u>	<u>\$ --</u>	<u>\$ 1,972</u>

Following is a summary of the Bank's credit quality information for loans by class at December 31, 2010 (in thousands):

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
Commercial	\$ 54,845	\$ 1,270	\$ 1,466	\$ 100	\$ --	\$ 57,681
Real Estate:						
Commercial	146,651	--	1,015	--	--	147,666
Construction and land development	52,603	670	649	--	--	53,922
Residential	11,925	765	1,130	--	--	13,820
Consumer	<u>990</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>990</u>
Total	<u>\$ 267,014</u>	<u>\$ 2,705</u>	<u>\$ 4,260</u>	<u>\$ 100</u>	<u>\$ --</u>	<u>\$ 274,079</u>

The Bank assesses credit quality based on internal risk rating of loans. Internal risk rating definitions are:

Pass: These include satisfactory loans which have acceptable levels of risk.

Special Mention: These loans have a potential weakness that requires management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. These credits do not expose the Bank to sufficient risk to warrant further adverse classification.

Substandard: A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as such must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified doubtful have all the weaknesses inherent in a substandard asset with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be received in the future.

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. At December 31, 2010 and 2009, respectively, the Bank had \$907,598 and \$1,491,511 in residential mortgages that were modified in troubled debt restructurings and impaired.

Notes to Financial Statements

Note 5. Bank Premises and Equipment

The major classes of bank premises and equipment and the total accumulated depreciation are as follows:

	December 31,	
	2010	2009
Leasehold improvements	\$ 1,067,408	\$ 850,893
Furniture and equipment	<u>1,610,155</u>	<u>1,350,413</u>
	\$ 2,677,563	\$ 2,201,306
Less accumulated depreciation	<u>(1,040,920)</u>	<u>(685,016)</u>
Bank premises and equipment, net	<u><u>\$ 1,636,643</u></u>	<u><u>\$ 1,516,290</u></u>

Depreciation expense was \$355,904 and \$313,968 for the years ended December 31, 2010 and 2009, respectively.

Pursuant to the terms of noncancelable lease agreements at December 31, 2010, pertaining to Bank premises and equipment, future minimum rent commitments under various operating leases are as follows:

2011	\$ 602,635
2012	860,693
2013	882,705
2014	837,669
2015	810,039
2016 and thereafter	<u>356,478</u>
	<u><u>\$ 4,350,219</u></u>

The leases contain options to extend for periods from five to ten years. The cost of such rental is not included above.

Total rent expense amounted to \$594,271 and \$486,999 for the years ended December 31, 2010 and 2009, respectively.

Note 6. Income Taxes

The Bank files income tax returns in the U.S. federal jurisdiction, the Commonwealth of Virginia and the state of Maryland. With few exceptions, the Bank is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2007.

Net deferred tax assets consist of the following components as of December 31, 2010 and 2009:

Notes to Financial Statements

	2010	2009
Deferred tax assets:		
Net operating loss carryforward	\$ 305,683	\$ 1,642,199
Allowance for loan losses	1,022,298	743,322
Start-up costs	138,176	153,528
Deferred loan fees	136,417	110,658
Unrealized loss on securities available for sale	31,070	- -
Other	59,218	7,689
	\$ 1,692,862	\$ 2,657,396
Deferred tax liabilities:		
Depreciation	\$ 37,133	\$ 47,426
Net deferred tax assets	\$ 1,655,729	\$ 2,609,970
Less: Valuation allowance	- -	(2,609,970)
	\$ 1,655,729	\$ - -

The provision for income taxes charged to operations for the years ended December 31, 2010 and 2009, consists of the following:

	2010	2009
Current tax expense	\$ - -	\$ - -
Deferred tax benefit	985,311	(325,082)
Change in valuation allowance	(2,609,970)	325,082
	\$ (1,624,659)	\$ - -

The Bank had net operating loss carryforwards of approximately \$899,000 and \$4,830,000 at December 31, 2010 and 2009, respectively. The carryforwards at December 31, 2010 can be used to offset future taxable income and 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. The Bank expects to fully utilize the carryforwards during 2011.

Note 7. Fund Restrictions and Reserve Balance

The Bank must maintain a reserve against its deposits in accordance with Regulation D of the Federal Reserve Act. For the final weekly reporting period in the years ended December 31, 2010 and 2009, the aggregate amounts of daily average required balances were approximately \$320,000 and \$30,000, respectively.

Note 8. Related Party Transactions

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal shareholders, executive officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. At December 31, 2010 and 2009, these loans totaled \$1,234,916 and \$628,151, respectively. During 2010, total principal additions were \$1,392,141 and total principal payments were \$785,376. Principal payments include loan balances for individuals no longer considered related parties. Deposits of directors and executive officers totaled \$14,842,595 and \$18,227,000 at December 31, 2010 and 2009, respectively.

Notes to Financial Statements

Note 9. Deposits

The aggregate amount of certificates of deposit with a minimum denomination of \$100,000 was \$107,100,005 and \$65,255,448 at December 31, 2010 and 2009, respectively.

At December 31, 2010, the scheduled maturities of time deposits (including brokered deposits) are as follows:

2011	\$ 101,525,997
2012	17,398,345
2013	6,976,137
2014	3,774,146
2015	<u>1,573,917</u>
	<u>\$ 131,248,542</u>

At December 31, 2010 and 2009, overdraft demand deposits reclassified to loans totaled \$11,935 and \$1,102, respectively. The Bank obtains certain deposits through the efforts of third-party brokers. At December 31, 2010 and 2009, brokered deposits totaled \$3,807,971 and \$7,082,522, respectively, and were included in time deposits on the Bank's balance sheets.

Note 10. Federal Home Loan Bank Advances and Other Borrowings

The Bank has entered into various note agreements with the Federal Home Loan Bank of Atlanta. At December 31, 2010, the Bank had entered into short-term note agreements for \$3,000,000 maturing through September 21, 2011 at a weighted average interest rate of 0.94%. The Bank also has \$12,000,000 in fixed-rate term borrowings at a weighted rate of 1.96%. These advances mature \$3,000,000 in 2012, \$3,000,000 in 2013, \$3,000,000 in 2014, and \$3,000,000 in 2015. These advances are secured by a blanket floating lien on all real estate mortgage loans secured by 1 to 4 family residential properties, unpledged U.S. Government and agencies and mortgage-backed securities and any other real estate related collateral. Total collateral under the blanket lien amounted to approximately \$71,143,343 as of December 31, 2010.

The Bank has a federal funds line of credit with correspondent banks available for overnight borrowing of \$18,000,000. No amounts were drawn on this line at December 31, 2010.

Securities sold under agreements to repurchase amounted to \$7,336,519 at December 31, 2010, mature on a daily basis and are secured by U.S. government securities. The weighted average interest rate on these agreements was 0.68% at December 31, 2010.

Note 11. Other Expenses

Other expenses in the statements of income include the following components:

Notes to Financial Statements

	Years Ended December 31,	
	2010	2009
Advertising expense	\$ 211,319	\$ 150,538
Data processing	615,709	455,277
FDIC insurance	433,143	309,987
Professional fees	351,497	276,649
State franchise tax	290,076	231,476
Other operating expense	811,567	678,655
Total other expenses	\$ 2,713,311	\$ 2,102,582

Note 12. Commitments and Contingencies

In the normal course of business, there are outstanding various commitments and contingent liabilities, which are not reflected in the accompanying financial statements. The Bank does not anticipate any material losses as a result of these transactions. See Note 13 with respect to financial instruments with off-balance-sheet risk.

Note 13. Financial Instruments With Off-Balance-Sheet Risk

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual notional amount of those instruments.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the contract or notional amount of the Bank's exposure to off-balance-sheet risk as of December 31, 2010 and 2009 is as follows:

	2010	2009
Commitments to grant loans	\$ 56,301,000	\$ 49,978,000
Unfunded commitments under lines of credit	1,374,000	1,708,000
Standby letters of credit	2,194,000	952,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit usually do not contain a specified maturity date and ultimately may not be drawn

Notes to Financial Statements

upon to the total extent to which the Bank is committed. The Bank generally holds collateral supporting these lines including general business assets and accounts receivable.

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Note 14. Fair Value Measurements

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are not quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

Fair Value Hierarchy

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

Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

Notes to Financial Statements

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

Cash and Cash Equivalents and Interest-Bearing Deposits in Banks

The carrying amounts of cash and short-term instruments approximate fair values based on the short-term nature of the assets.

Fair values of other interest-bearing deposits are estimated using discounted cash flow analyses based on current rates for similar types of deposits.

Securities

Where quoted prices are available in an active market, the Bank classifies the securities within Level 1 of the valuation hierarchy. Level 1 securities include highly-liquid government bonds and exchange-traded equities.

If quoted market prices are not available, the Bank estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include U.S. government agency obligations, corporate bonds, and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, the Bank will classify those securities in Level 3.

Loans Receivable

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for other loans, commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using market interest rates for comparable loans. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit Liabilities

The fair values disclosed for demand deposits (for example, interest and noninterest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

Borrowings

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on current market rates and similar types of borrowing arrangements. Current market rates for debt with similar terms, and remaining maturities are used to estimate fair value of long-term debt. Fair value of long-term debt is based on quoted market prices or dealer quotes for the identical liability when traded as

Notes to Financial Statements

an asset in an active market. If a quoted market price is not available, an expected present value technique is used to estimate fair value.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Off-Balance Sheet Credit-Related Instruments

Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking in to account the remaining terms of the agreements and the counterparties' credit standing. Those items were deemed immaterial.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

Description	Balance	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2010				
Assets:				
U.S. government and federal agencies	\$ 12,906,357	\$ --	\$ 12,906,357	\$ --
Taxable municipal	508,885	--	508,885	--
Mortgage-backed	4,099,757	--	4,099,757	--
December 31, 2009				
Assets:				
U.S. government and federal agencies	\$ 7,072,059	\$ --	\$ 7,072,059	\$ --
Mortgage-backed	6,074,136	--	6,074,136	--

Assets Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances, the Bank makes adjustment to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following describes the valuation techniques used by the Bank to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

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

Notes to Financial Statements

loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses in the statements of operations.

Other Real Estate: Foreclosed assets are adjusted to fair value upon transfer of the loan to other real estate. Subsequently, other real estate is carried at the lower of carrying value or fair market value less selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank records the other real estate as nonrecurring Level 2. When the appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank record the other real estate as nonrecurring Level 3.

The following table summarizes the Bank's assets that were measured at fair value on a nonrecurring basis:

Description	Balance	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2010				
Assets:				
Impaired loans, net of valuation allowance	\$ 2,616,588	\$ --	\$ 2,616,588	\$ --
Other real estate	463,969	--	463,969	--
December 31, 2009				
Assets:				
Impaired loans, net of valuation allowance	\$ 584,526	\$ --	\$ 584,526	\$ --
Other real estate	190,032	--	190,032	--

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

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	<i>(In Thousands)</i>		<i>(In Thousands)</i>	
Financial assets:				
Cash and short-term investments	\$ 6,549	\$ 6,549	\$ 1,322	\$ 1,322
Securities available-for-sale	17,515	17,515	13,146	13,146
Securities held to maturity	7,770	7,884	8,949	8,840
Loans, net	270,473	271,710	205,929	207,856
Accrued interest receivable	911	911	673	673
Financial liabilities:				
Deposits	\$ 253,360	\$ 251,592	\$ 186,339	\$ 183,405
FHLB advances and other debt	22,337	22,535	18,718	18,819
Accrued interest payable	83	83	72	72

Notes to Financial Statements

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

Note 15. Concentration Risk

The Bank maintains its cash accounts in several correspondent banks. As of December 31, 2010, deposits in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) were insignificant.

Note 16. Stock Compensation Plan

The Bank has granted stock options under the September 2006 Stock Option Plan (the Plan) to directors and employees to advance the interests of the Bank by encouraging stock ownership. During 2008, the Plan was amended to increase the maximum number of shares available for grant from 225,000 shares to 555,555 shares. Under the Plan, shares may be granted at not less than 100 percent of the fair market value at the grant date. As of December 31, 2010, 110,308 shares are available to grant in future periods under the Plan. All options have a 10 year term from date of grant.

A summary of the status of the Plan is presented below:

	2010		
	Shares	Weighted Average Exercise Price	Average Intrinsic Value
Outstanding at beginning of year	74,354	\$ 10.00	
Granted	364,683	10.01	
Exercised	--	--	
Forfeited	(1,500)	10.00	
Outstanding at end of year	437,537	10.01	215,951
Exercisable at end of year	74,354	10.00	37,177
Weighted average fair value of options granted during the year	\$ 3.85		

The aggregate intrinsic value of a stock option in the table above represents the total amount by which the current market value of the underlying stock exceeds the exercise price of the option that would have been received by the option holders had all option holders exercised their options on December 31, 2010. This amount changes based on changes in the market value of the Bank's stock. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model.

Notes to Financial Statements

Information pertaining to options outstanding at December 31, 2010 is as follows:

	Options Outstanding		Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Remaining Contractual Life
\$10.00	431,787	8.75 years	74,354	5.72 years
\$10.49	5,750	9.80 years	-	-
	437,537	8.76 years	74,354	5.72 years

For the year ended December 31, 2010, share-based compensation expense applicable to the Plan was \$255,073 and the recognized tax benefit related to this expense was \$26,666. No share-based compensation expense was recognized for the year ended December 31, 2009.

As of December 31, 2010, unrecognized share-based compensation expense related to nonvested options amounted to \$1,179,000. This amount is expected to be recognized over a weighted-average period of 3.5 years.

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

	2010
Dividend yield	0.00%
Expected life	7.06 years
Expected volatility	30.00%
Risk-free interest rate	3.00%

The expected volatility is based on historical volatility of peer banks. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on the average of the contractual life and vesting schedule. The dividend yield assumption is based on the Bank's history and expectation of dividend payouts.

Note 17. Minimum Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2010 and 2009, that the Bank meets all capital adequacy requirements to which it is subject.

Notes to Financial Statements

As of December 31, 2010, the most recent notification from the Federal Reserve Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
As of December 31, 2010:						
Total Capital (to Risk						
Weighted Assets)	\$ 36,559	12.1%	\$ 24,128	8.0%	\$ 30,160	10.0%
Tier 1 Capital (to Risk						
Weighted Assets)	\$ 33,249	11.0%	\$ 12,064	4.0%	\$ 18,096	6.0%
Tier 1 Capital (to						
Average Assets)	\$ 33,249	10.6%	\$ 12,606	4.0%	\$ 15,758	5.0%
As of December 31, 2009:						
Total Capital (to Risk						
Weighted Assets)	\$ 31,343	14.0%	\$ 17,874	8.0%	\$ 22,343	10.0%
Tier 1 Capital (to Risk						
Weighted Assets)	\$ 28,997	13.0%	\$ 8,937	4.0%	\$ 13,406	6.0%
Tier 1 Capital (to						
Average Assets)	\$ 28,997	13.6%	\$ 8,550	4.0%	\$ 10,688	5.0%

Note 18. Restrictions on Dividends

The Bank is subject to certain restrictions on the amount of dividend that it may pay without prior regulatory approval. At December 31, 2010 and 2009, no amounts were available for the payment of dividends.

Note 19. 401(k) Plan

Effective August 1, 2006, the Bank adopted a contributory 401(k) savings plan (the Plan) covering substantially all employees. Eligible employees may elect to defer a portion of their compensation to the Plan. The Board of Directors may elect to approve to match a portion of each employee's contribution. No contributions were made by the Bank for the years ended December 31, 2010 and 2009.

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

Not applicable.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures. The Bank's management, under the supervision and with the participation of the Chief Executive Officer and Chief 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 15d-15 under the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Bank's disclosure controls and procedures were effective.

Management's Annual Report on Internal Control Over Financial Reporting.

The Bank's management is responsible for the preparation, integrity and fair presentation of the audited financial statements included in this Annual Report on Form 10-K. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect management's judgments and estimates concerning the effects of events and transactions that are accounted for or disclosed.

Management is also responsible for establishing and maintaining an effective internal control over financial reporting. The Bank's internal control over financial reporting includes those policies and procedures that pertain to the Bank's ability to record, process, summarize and report reliable financial data. The internal control system contains monitoring mechanisms, and appropriate actions are taken to correct identified deficiencies. Management believes that internal controls over financial reporting, which are subject to scrutiny by management and the Bank's internal auditors, support the integrity and reliability of the financial statements. Management recognizes that there are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of internal controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. In addition, because of changes in conditions and circumstances, the effectiveness of internal control over financial reporting may vary over time.

Management assessed the Bank's system of internal control over financial reporting as of December 31, 2010. This assessment was conducted based on the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission "Internal Control - Integrated Framework." Based on this assessment, management believes that the Bank maintained effective internal control over financial reporting as of December 31, 2010. Management's assessment concluded that there were no material weaknesses within the Bank's internal control structure. The financial statements for the year ended December 31, 2010 have been audited by the independent accounting firm of Yount, Hyde & Barbour, P.C. ("YHB"). Personnel from YHB were given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and committees thereof. Management believes that all representations made to the independent auditors were valid and appropriate. The resulting report from YHB accompanies the financial statements.

The Board of Directors of the Bank, acting through its Audit Committee (the "Committee"), is responsible for the oversight of the Bank's accounting policies, financial reporting and internal control. The Audit Committee of the Board of Directors is comprised entirely of outside directors who are independent of management. The Audit Committee is responsible for the appointment and compensation of the independent auditors and approves decisions regarding the appointment or removal of members of the internal audit function. The Committee meets periodically with management, the independent auditors, and the internal auditors to insure that they are carrying out their responsibilities. The Committee is also responsible for performing an oversight role by reviewing and monitoring the financial, accounting, and auditing procedures of the Bank in addition to reviewing the Bank's financial reports. The independent auditors and the internal auditors have full and unlimited access to the Audit Committee, with or without the presence of the management of the Bank, to discuss the adequacy of internal control over financial reporting, and any other matters which they believe should be brought to the attention of the Audit Committee.

There were no changes in the Bank's internal control over financial reporting during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

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

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Set forth below is certain information concerning the directors and executive officers of the Bank. Except as otherwise indicated, the occupation listed has been such person's principal occupation for at least the last five years. The Board of Directors has determined that each director other than Mr. Maxwell is an "independent director" as that term is defined in Rule 5605(a)(2) of The NASDAQ Stock Market (the "NASDAQ"). In making this determination, the Board of Directors was aware of and considered the loan and deposit relationships with directors and their related interests which the Bank enters into in the ordinary course of its business and the arrangements which are disclosed under Item 13 of this Form 10-K.

Directors

Philip W. Allin. Mr. Allin, 53, serves as President and CEO of Office Outfitters, Inc. as well as Vice President and Chief Financial Officer of SEI Furniture and Design ~ Supplies Express, Inc. SEI provides services primarily to the federal and local government. SEI sells office furniture, space planning, and installation services primarily to the Federal and local Government, as well as government contractors on GSA Schedule. Office Outfitters sells office furniture and office supplies primarily focusing on the private sector, with a business-to-business account base. Mr. Allin is Chairman of the Board of the Fairfax County Water Authority and has previously served as Vice Chairman and Treasurer. He has been on the Fairfax Water Board of Directors since 1992. Mr. Allin earned a Bachelor of Science degree in Business Administration and Finance from the University of Maryland, College Park. Mr. Allin has served as a Director of the Bank since its organization. Mr. Allin's position as a member of the Board of Directors is supported by his educational background in the area of business administration and finance, and his professional experience as principal and Chief Financial Officer of a local small business.

Philip R. Chase. Mr. Chase, 54, is owner and principal of Synergis LLC, a management and small business advisory firm which focuses on Strategic Planning and CFO support in the government contracting industry. From 2002 to 2006, he was a senior manager and Director of Stanley Associates, an information technology and professional services firm located in Arlington, Virginia. Prior to that, he was an owner, Vice President, and CFO of CCI, Incorporated, a professional services government contractor acquired by Stanley in 2002. He has also worked in the banking industry in a lending and risk management capacity for approximately seven years. Mr. Chase is actively involved with SNVC, technology government contractor in Northern Virginia, as a member of the Board of Directors. Mr. Chase has served as a Director of the Bank since its organization. Mr. Chase's position as a member of the Board of Directors is supported by his professional experience in the banking industry, and as principal of a local small business focusing on the government contracting industry, which is one of the Bank's target markets.

Jean Edelman. Ms. Edelman, 52, was a co-founder and a principal of Edelman Financial Services, LLC, an investment advisory and financial planning firm, until its sale in 2005. She remains active with the firm in training and education functions. She is a member of the Board of Trustees of Rowan University, Glassboro, New Jersey (f/k/a Glassboro State), from which she graduated. She is a member of the Nursing Development Board for Inova Hospital. Ms. Edelman became a Director in June 2008. Ms. Edelman's position as a member of the Board of Directors is supported by her professional experience as co-founder and principal of a firm engaged in the investment advisory and financial planning industry.

Michael T. Foster, FAIA. Mr. Foster, 48, a Fellow of the American Institute of Architects, is the founder and president of MTF Architecture, an award-winning architecture, interiors, and urban planning firm. MTF Architecture is a regional leader in sustainable design and development for commercial, educational, institutional, and government clients. Mr. Foster is active in the community having served as Chair of the Arlington Planning Commission, he currently serves on the Arlington Economic Development Commission and is the Chairman of the Arlington Chamber of Commerce. Mr. Foster is a mentor for the Urban Land Institute and is active in numerous

professional, civic, and nonprofit organizations serving the community and the region. Mr. Foster became a Director in June 2008. Mr. Foster's position as a member of the Board of Directors is supported by his professional experience as founder and principal of a local small business and his extensive civic contacts in the local business community.

Subhash K. Garg. Mr. Garg, 60, is a co-founder and managing member of Wiener & Garg LLC, a certified public accounting firm in Rockville, MD. Since June 1978, Mr. Garg has been a member of the American Institute of CPA's and the Virginia Society of CPA's. Mr. Garg is involved with several non-profit organizations in Washington D.C. metropolitan area which are helping to bring and expand Indian sub-continent culture in the community. Mr. Garg became a Director in June 2008. Mr. Garg's position as a member of the Board of Directors is supported by his professional experience as founder and principal of a local certified public accounting firm and his extensive contacts in the local business community.

Ronald J. Gordon. Mr. Gordon, 56, has been President of Telemundo Television Station Group since April 2009. He oversees the operation of all the Telemundo local stations located within the continental United States and Puerto Rico, and reports directly to the President of Telemundo Communications Group. Prior to Telemundo, Mr. Gordon was President and CEO of ZGS Communications, a Hispanic-owned Spanish-language broadcasting company with interests in television and radio stations. Founded in 1984 by Mr. Gordon, ZGS now owns and operates 10 Spanish-language television stations, representing the largest group of independent stations affiliated with the Telemundo television network. Mr. Gordon serves on the board of directors for the Independent Spanish Broadcasters Association and the Community Broadcasters Association. Mr. Gordon received a B.A. in International Relations with a minor in Economics from Syracuse University. Mr. Gordon's position as a member of the Board of Directors is supported by his professional experience as founder and principal of a local small business; overseeing the operation of a national television network; and, his extensive contacts in the local business community.

Jonathan C. Kinney. Mr. Kinney, 64, is a shareholder at the law firm of Bean, Kinney and Korman, P.C. in Arlington, Virginia. Mr. Kinney serves as a Trustee of the Arlington County Retirement Board, a Trustee of the Arlington Community Foundation and Community Residence Foundation, and is vice-chair of The Clarendon Alliance. For the last forty years he has been actively involved in Arlington civic matters. Mr. Kinney earned an undergraduate degree from Duke University and a Juris Doctorate degree in law from the University of Chicago Law School. Mr. Kinney became a Director in June 2008. Mr. Kinney's position as a member of the Board of Directors is supported by his legal education, his professional experience as principal of a local law firm, and his extensive contacts in the local business community.

O. Leland Mahan. Mr. Mahan, 72, has practiced law in Leesburg, Virginia, for over 40 years. Currently, he is a senior partner at the law firm of Hall, Monahan, Engle, Mahan & Mitchell in Leesburg, Virginia. His primary areas of practice have been litigation, business, land use, real estate, wills and estate administration. Mr. Mahan earned a B.S. degree from Virginia Tech in 1961, and a Juris Doctorate degree in law from the University of Richmond in 1964. He served as a Captain in the United States Air Force, serving in the Judge Advocate General's Corp from 1964 to 1967. He is active in legal and community affairs, being a member of the Virginia Trial Lawyers Association, Virginia State Bar, Virginia Bar Association and past president of the Loudoun County Bar Association. Mr. Mahan is presently serving as a director and is the past President of the Loudoun Small Business Assistance Center. He has served in leadership roles as a member of the Loudoun County Redistricting Committee, the Loudoun County Economic Development Committee, American Legion, Kiwanis Club and Boy Scouts of America. Mr. Mahan served on the Virginia National Bank (Chairman 1980-1984), NationsBank and George Mason Bank advisory boards. Mr. Mahan became a Director in June 2008. Mr. Mahan's position as a member of the Board of Directors is supported by his legal education, his professional experience as principal of a local law firm, and his extensive contacts in the local business community.

John R. Maxwell. Mr. Maxwell, 50, has been Chief Executive Officer of the Bank since February 25, 2008. Previously, he was President and Chief Executive Officer of James Monroe Bank from April 1997 until its sale to Mercantile Bankshares Corporation in July 2006. He served with Mercantile until November 2006. Prior to joining James Monroe Bank, he was Senior Vice President – Lending of The Bank of Northern Virginia from 1988 to 1996 and Executive Vice President and Chief Lending Officer of The Bank of Northern Virginia from 1996 to 1997. Mr. Maxwell became a member and Chairman of the Board of Directors in June 2008. Mr. Maxwell was the organizer of the group of directors and officers which, in 2008, made a significant investment in the Bank; facilitated the recapitalization of the Bank; refocused its business strategy; and restructured its Board of Directors and senior executive staff. Please refer to "Certain Relationships and Related Transactions" below for additional information regarding the Stock Purchase Agreement. Mr. Maxwell's position as a member of the Board of Directors is supported

by his professional experience of over 28 years in banking, including his prior experience in organizing and leading James Monroe Bank as its President and Chief Executive Officer.

Lim P. Nguonly. Mr. Nguonly, 50, is a real estate investor in the Washington, D.C. area and owner of Princess Jewelers, a regional jewelry store chain. Mr. Nguonly became a Director in June 2008. Mr. Nguonly's position as a member of the Board of Directors is supported by his professional experience as founder and principal of a local small business, and as a local commercial real estate investor.

William Soza. Mr. Soza, 74, served as the Chairman and CEO of Soza & Company, Ltd., an information technology, management consulting and CPA firm headquartered in Fairfax, Virginia until its acquisition in February, 2003. He is a Certified Public Accountant, and he currently serves on the board of a university and several community organizations. Formerly, he had served on a state board and a local county agency. Mr. Soza was an organizer, member and Vice Chairman of the Board of Directors of Hemisphere National Bank in Washington, D.C. Mr. Soza has served as a Director of the Bank since its organization and as its Chairman from its organization until June, 2008. Mr. Soza's position as a member of the Board of Directors is supported by his professional experience as founder and principal of a management consulting and certified public accounting firm; his prior experience as a community bank board member; and, his extensive contacts in the local business community.

Executive Officers who are not Directors.

Carl E. Dodson. Mr. Dodson, 56, is Executive Vice President - Chief Operating Officer and Principal Financial Officer of the Bank and until June 2008 was its President since its organization. Mr. Dodson has over 25 years of community banking experience in the Washington metropolitan area. Mr. Dodson was one of the original officers of Palmer National Bank in Washington, D.C., serving as Executive Vice President and senior commercial lender from 1983-1996. Following Palmer's sale to George Mason Bankshares in 1996, he served as a Senior Vice President of George Mason Bank until 1998. In 1998, Mr. Dodson joined Cardinal Bank, a Fairfax County de novo bank, as Chief Credit Officer. In 2001, Mr. Dodson was named Executive Vice President and Chief Operating Officer of the parent company, Cardinal Financial Corporation

William J. Ridenour. Mr. Ridenour, 59, has served as President and Chief Administrative Officer of the Bank since June 2008 and prior to that was Executive Vice President of the Bank since February 2008. Prior to joining the Bank, Mr. Ridenour was Executive Vice President and Chief Lending Officer at James Monroe Bank from July 2003 until its sale to Mercantile in July 2006, and served with Mercantile and its acquiror, PNC Financial Services Group, until January 2008. Mr. Ridenour has over 30 years of community banking experience in the Northern Virginia/Washington, D.C. market.

Compliance with Section 16(a) of the Securities Exchange Act of 1934. Section 16(a) of the Securities Exchange Act of 1934 requires the Bank's directors and executive officers, and persons who own more than ten percent of the common stock, to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the Federal Reserve Board (filed through the electronic facilities of the FDIC), and to provide the Bank with copies of all Forms 3, 4, and 5 they file.

Based solely upon the Bank's review of the copies of the forms which it has received and written representations from the Bank's directors, executive officers and ten percent shareholders, the Bank is not aware of any failure of any such person to comply with the requirements of Section 16(a).

Nominations. There have been no material changes in the procedures by which shareholders may recommend nominees to the Bank's Board of Directors since the most recent disclosure thereof.

Code of Ethics. The Bank has adopted a Code of Ethics (the "Code of Conduct") that applies to all Directors, officers and employees of the Bank. The Bank will provide a copy of the Code of Conduct without charge upon written request directed to Carl E. Dodson, John Marshall Bank, 6601 Little River Turnpike, Suite 110, Alexandria, VA 22312.

Item 11. Executive Compensation

Executive Compensation

The following table sets forth a comprehensive overview of the compensation during the three most recent fiscal years for Mr. Maxwell, the Chief Executive Officer of the Bank, and the two most highly compensated executive officers of the Bank who received total compensation of \$100,000 or more during the fiscal year ended December 31, 2010 (the “named executive officers”).

Summary Compensation Table

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Option Awards⁽¹⁾</u>	<u>All Other Compensation</u>	<u>Total</u>
John Maxwell, Chief Executive Officer	2010	\$250,000	\$ 25,000	\$382,631	\$ 4,446 ⁽²⁾	\$662,077
	2009	\$225,000	\$ --	\$ --	\$ --	\$225,000
William J. Ridenour, President and Chief Administrative Officer	2010	\$190,000	\$ 20,000	\$153,052	\$11,290 ⁽³⁾	\$374,342
	2009	\$175,000	\$ --	\$ --	\$10,443 ⁽³⁾	\$185,443
Carl E. Dodson, Executive Vice President and Chief Operating Officer	2010	\$175,000	\$ 20,000	\$57,395	\$6,000 ⁽³⁾	\$258,395
	2009	\$162,482	\$ --	\$ --	\$6,000 ⁽³⁾	\$168,482

(1) Represents the grant date fair value of awards of options granted during the year indicated. Please refer to note 16 to the Bank’s Audited Financial Statements for the year ended December 31, 2010 for a discussion of the assumptions used in calculating the grant date fair value.

(2) Represents the Bank’s payment of an auto lease and a term life insurance policy for Mr. Maxwell

(3) Represents the Bank’s reimbursement of a club membership for Mr. Ridenour and a car allowance for Mr. Ridenour and Mr. Dodson

The Bank does not maintain (i) any equity based incentive plans that permit the grant of equity based awards other than stock options, any (ii) non-equity incentive plans or compensation programs (other than discretionary bonuses), (iii) any defined benefit retirement plans; (iv) any supplemental executive retirement plans or (v) any nonqualified deferred compensation program or arrangement.

All of the named executive officers are at will employees and serve at the pleasure of the Board of Directors. None of the named executive officers have an employment agreement or any agreement regarding severance or change in control payments. During 2010, each of the named executive officers was awarded options to purchase shares of common stock as follows: Mr. Maxwell: 100,000 shares; Mr. Ridenour: 40,000 shares; Mr. Dodson: 15,000 shares. The option grants vest in four equal annual installments commencing on the first anniversary of the date of grant, and have a term of 10 years and an exercise price of \$10.00 per share, the fair market value of the common stock as of the date of grant. As of March 15, 2011, the named executive officers are entitled to receive base salaries as follows: Mr. Maxwell: \$275,000; Mr. Ridenour: \$205,000; and Mr. Dodson: \$190,000.

Employee Benefit Plans

The Bank provides a benefit program, which includes health and dental insurance, life insurance, long-term and short-term disability insurance, and a 401(k) plan for substantially all full time employees. The Bank also has adopted the 2006 Stock Option Plan (the “Plan”).

401(k) profit sharing plan. The Bank has a Section 401(k) profit sharing plan (the “401(k) Plan”) covering employees meeting certain eligibility requirements as to minimum age and years of service. Employees may make voluntary contributions to the 401(k) Plan through payroll deductions on a pre-tax basis. The Bank has the option to make discretionary contributions to the 401(k) Plan. The Bank’s contributions are subject to a vesting schedule (25 percent per year beginning after two years of service) requiring the completion of five years of service with the Bank, before these benefits are fully vested. A participant’s account under the 401(k) Plan, together with investment earnings thereon, is normally distributable, following retirement, death, disability or other termination of employment, in a single lump-sum payment. During 2009 and 2010, the Bank did not make any contributions to the 401(k) Plan.

Stock Option Plan. The Bank maintains the Plan, approved by shareholders, to enable it to attract, retain, and motivate key officers and directors of the Bank by providing them with a stake in the success of the Bank as measured by the value of its shares.

Administration. The Plan is administered by a committee (the “Committee”) of at least three directors appointed by the Board, unless the Board chooses to administer the Plan directly. Until the Board determines otherwise, the Committee shall consist of the non-employee directors serving on the Board’s Human Resources Committee. Subject to the terms of the Plan, the Committee has the authority to select participants and to grant options and other awards under the Plan, to determine the terms of those awards, and otherwise to administer and interpret the Plan. Decisions of the Committee are final and conclusive, subject to the terms of the Plan. Members of the Committee will be indemnified to the full extent permissible under the Bank’s Certificate of Incorporation and Bylaws in connection with any claims or other actions relating to any action taken under the Plan.

Types of Awards; Eligible Persons. The Committee may grant stock options under the Plan to directors and key employees designated by the Committee. The amount and value of awards that may be made in the future to directors and named executive officers are not yet determinable other than the Board’s intentions as to the initial grants of stock options described below.

Options may be either incentive stock options (“ISOs”) as defined in Section 422 of the Internal Revenue Code (the “Code”), or options that are not ISOs (“Non-ISOs”). Directors who are not employees are not eligible to receive ISOs.

Financial Effects of Awards. The Bank will receive no monetary consideration for the granting of awards under the Plan. It will receive no monetary consideration other than the exercise price for shares of common stock issued to optionees upon the exercise of their options. Under accounting principles currently in effect, recognition of compensation expense is required following the grant of stock options.

Shares Available for Grants. The Plan, as amended, provides for the issuance of up to 555,000 shares of common stock upon the exercise of options. In the event of any merger, consolidation, recapitalization, reorganization, reclassification, stock dividend, split-up, combination of shares or similar event in which the number or kind of shares is changed without receipt or payment of consideration by the Bank, the number and kind of shares of stock as to which options may be awarded under the Plan, the affected terms of all outstanding options, and the aggregate number of shares of common stock remaining available for grant under the Plan will be adjusted. If options should expire, become unexercisable, or be forfeited for any reason without having been exercised or become vested in full, the shares of common stock subject to such awards shall, unless the Plan shall have been terminated, be available for the grant of additional awards under the Plan. At March 15, 2011, options to purchase an aggregate of 445,537 shares of common stock were outstanding, 74,354 of which were exercisable.

Duration of the Plan and Grants. The Plan has a term that expires on September 18, 2016, after which date no options may be granted. The maximum term for an award is ten years from the date of grant, except that the maximum term of an ISO may not exceed five years if the optionee owns more than 10% of the common stock on the date of grant. The expiration of the Plan, or its termination by the Committee, will not affect any award then outstanding.

Options. The exercise price options may not be less than 100% of the fair market value of the common stock on the date of grant. In the case of an employee who owns more than 10% of the outstanding common stock on the date of grant, the exercise price of an ISO may not be less than 110% of fair market value of the shares at the time the ISO is granted. As required by federal tax laws, to the extent that the aggregate fair market value (determined when an ISO is granted) of the common stock with respect to which ISOs are exercisable by an optionee for the first time during any calendar year (under all Plans of the Bank and of any subsidiary) exceeds \$100,000, the options will be treated as Non-ISOs, and not as ISOs. In the event that the fair market value per share of the common stock falls below the exercise price of previously granted options, the Committee will have the authority, with the consent of the optionee, to cancel outstanding options and to issue new options with an exercise price equal to the then current fair market price per share of the common stock.

Exercise of Options. The exercise of options will be subject to the terms and conditions established by the Committee in a written agreement between the Committee or Bank and the optionee.

In the absence of Committee action to the contrary, an otherwise unexpired ISO shall cease to be exercisable upon (i) an employee’s termination of employment for “just cause” (as defined in the Plan), (ii) the date three months after an employee terminates service for a reason other than just cause, death, or disability, or (iii) the date one year after an employee terminates service due to permanent and total disability. Following termination of service due to death, the unexpired option may be exercised within two years from the date of death.

An otherwise unexpired Non-ISO shall cease to be exercisable upon (i) the optionee's termination of employment or position as a director for "just cause" (as defined in the Plan), (ii) the date three months after a non-director employee terminates service for a reason other than just cause, death, or disability or one year after a director terminates service for a reason other than just cause, death, or disability, or (iii) the date on which the option term expires after the optionee terminates service due to permanent and total disability. Following termination of service due to death, the unexpired option may be exercised until the date on which the option term expires.

In no event will any option be exercisable after its expiration date, as to fractional shares of common stock or prior to the optionee's satisfaction of any income tax withholding requirements.

A participant may exercise options subject to provisions relative to their termination and limitations on their exercise, only by (i) written notice of intent to exercise the option with respect to a specified number of shares of common stock, and (ii) payment to the Bank (contemporaneously with delivery of such notice) in cash, in common stock, or a combination of cash and common stock, of the amount of the exercise price for the number of shares with respect to which the option is then being exercised. Common stock utilized in full or partial payment of the exercise price for options shall be valued at its market value at the date of exercise.

Change in Control. Upon a change in control, all options are immediately exercisable and fully vested. At that time, the Committee may grant the optionee the right to receive a cash payment in an amount equal to the excess of the market value of the shares subject to an option over the exercise price of the option. If there is (i) a liquidation or dissolution of the Bank, (ii) a merger or consolidation in which the Bank is not the surviving entity; or (iii) the sale or disposition of all or substantially all of the Bank's assets, then all of the outstanding options must be surrendered in return for options for shares of the acquiring company, shares of the acquiring company with a market value equal to the excess of the market value of the shares subject to option on the date of the transaction over the exercise price of the option, or cash equal to the excess of the market value of the shares subject to option on the date of the transaction over the exercise price of the option, as determined by the Committee. In no event, however, may an option be exchanged for cash within the six-month period following the date of its grant.

A change in control under the Plan means any one of the following events: (1) Except as provided in Section 11(c), the acquisition of ownership or control of more than 25% of the Bank's voting stock; (2) the acquisition of the power to control the election of a majority of the Bank's directors; (3) the exercise of a controlling influence over the management or policies of the Bank by any person or by persons acting as a group within the meaning of Section 13(d) of the Securities Exchange Act of 1934, or (4) the failure of Continuing Directors to constitute at least two-thirds of the Board of the Bank during any period of two consecutive years. Continuing directors are those individuals who were directors at the Effective Date of the Plan and those other individuals whose election or nomination for election as a director was approved by a vote of at least two-thirds of the continuing directors then in office. A change in control does not include acquisition of ownership or control of voting securities of the Bank by an employee benefit plan sponsored by the Bank; or acquisition of voting securities by the Bank through share repurchase or otherwise; or acquisition by an exchange of voting securities with a successor to the Bank in a reorganization, such as a reincorporation, that does not have the purpose or effect of significantly changing voting power or control. The decision of the Committee as to whether a change in control has occurred is conclusive and binding, subject to the terms of the Plan.

Nontransferability. ISOs may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent and distribution. Non-ISOs may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent and distribution, pursuant to the terms of a qualified domestic relations order, or, in the sole discretion of the Committee, in connection with a transfer for estate or retirement planning purposes to a trust established for such purposes.

Conditions on Issuance or Sale of Shares. The Committee has the authority to impose restrictions on shares issued under the Plan that it deems appropriate or desirable, including the authority to impose a right of first refusal, to establish repurchase rights, or to provide for the mandatory exercise or forfeiture of any outstanding options in the event that the Bank's primary federal banking regulator directs the Bank to so require if the Bank does not meet minimum regulatory capital requirements.. The Committee may not issue shares unless the issuance complies with applicable securities laws, and to that end may require that an optionee or grantee make certain representations or warranties. In addition, no shares that have been acquired upon exercise of an option may be sold or otherwise disposed of (except by gift or upon death) before the end of a six-month period that begins on the date the option was granted.

Amendment and Termination of the Plan. The Board may from time to time amend the terms of the Plan and, with respect to any shares at the time not subject to options, suspend or terminate the Plan. Shareholder approval is

required for an amendment that would increase the number of shares subject to the Plan or that would extend the term of the Plan. No amendment, suspension or termination of the Plan will, without the consent of any affected holders of an option, alter or impair any rights or obligations under the option.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth, on an award by award basis, information concerning all options awards held by named executive officers at December 31, 2010. All options were granted at 100% of market value as determined in accordance with the Plan.

Name	Date of Award	Option Awards			
		Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date
John Maxwell	5/11/2010	--	100,000 ⁽¹⁾	\$10.00	5/11/2020
William J. Ridenour	5/11/2010	--	40,000 ⁽¹⁾	\$10.00	5/11/2020
Carl E. Dodson	5/11/2010	--	15,000 ⁽¹⁾	\$10.00	5/11/2020
Carl E. Dodson	9/18/2006	15,000 ⁽²⁾	--	\$10.00	9/18/2016

- (1) Mr. Maxwell's, Mr. Ridenour's and Mr. Dodson's options issued on 5/11/2010 were granted with a four year vesting schedule, commencing on the first anniversary of the date of grant.
- (2) Mr. Dodson's options granted on 9/18/2006 were originally granted with a three year vesting schedule, commencing on the first anniversary of the date of grant, but became fully vested and immediately exercisable upon the effectiveness of a change in control that occurred in 2008.

Director Compensation

The following table sets forth information regarding compensation paid to non-employee directors during the fiscal year ended December 31, 2010. Members of the Board of Directors who are employees do not receive additional compensation for service on the Board of Directors.

Director Compensation

Name	Fees Earned or Paid in Cash	Option Awards ⁽¹⁾	All Other Compensation	Total
Philip W. Allin	\$1,750	\$--	\$--	\$1,750
Philip R. Chase	\$4,000	\$7,404	\$--	\$11,404
Jean Edelman	\$750	\$38,263	\$--	\$39,013
Michael T. Foster	\$1,250	\$38,263	\$--	\$39,513
Subhash K. Garg	\$1,750	\$38,263	\$--	\$40,013
Ronald J. Gordon	\$1,250	\$4,010	\$--	\$5,260
Jonathan C. Kinney	\$4,500	\$38,263	\$--	\$42,763
O. Leland Mahan	\$4,500	\$38,263	\$--	\$42,763
Lim P. Nguonly	\$1,750	\$38,263	\$--	\$40,013
William Soza	\$1,000	\$--	\$--	\$1,000

- (1) At December 31, 2010, the non-employee directors held option awards, vested and unvested, to purchase shares of common stock as follows: Mr. Allin: 10,014 shares; Mr. Chase: 8,065 shares; Ms. Edelman: 10,000 shares; Mr. Foster: 10,000 shares; Mr. Garg: 10,000 shares; Mr. Gordon: 10,000 shares; Mr. Kinney: 10,000 shares; Mr. Mahan: 10,000 shares; Mr. Nguonly: 10,000 shares; Mr. Soza: 17,823 shares.

During the fiscal year ended December 31, 2009, the directors did not receive any fees, in cash, equity, options, or otherwise, and no expense was incurred with respect to outstanding option grants. Since July 2010, Directors are entitled to receive fees of \$250 per board or committee meeting. In May 2010, non-employee directors who owned options to purchase fewer than 10,000 shares of common stock received grants of between 1,048 and 10,000 shares, sufficient to result in each director owning at least 10,000 options to purchase shares of common stock. The option grants vest in four equal annual installments commencing on the first anniversary of the date of grant, and

have a term of 10 years and an exercise price of \$10.00 per share, the fair market value of the common stock as of the date of grant.

The Bank does not maintain any equity based incentive plans that permit the grant of equity based awards other than stock options, non-equity incentive plans or compensation programs, deferred compensation plans or arrangements, or defined benefit or defined contribution retirement plans, for directors, or in which directors may participate.

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

The following table sets forth certain information as of March 15, 2011 concerning the number and percentage of shares of the Bank's common stock beneficially owned by its directors, its named executive officers, and by its directors and all executive officers as a group, as well as information regarding each other person known by the Bank to own in excess of 5% of the outstanding common stock as of March 15, 2011. Except as otherwise indicated, all shares are owned directly, and the named person possesses sole voting and sole investment power with respect to all such shares. The Bank knows of no person or persons who beneficially own in excess of 5% of the common stock. Further, the Bank is not aware of any arrangement, which at a subsequent date may result in a change of control of the Bank.

Name	Position	Number of Shares ⁽¹⁾	Percentage ⁽¹⁾
<i>Directors</i>			
Philip W. Allin	Director	47,014 ⁽²⁾	1.26%
Philip R. Chase	Director	28,549 ⁽³⁾	0.77%
Jean Edelman	Director	102,500 ⁽⁴⁾	2.76%
Michael T. Foster	Director	52,500 ⁽⁵⁾	1.42%
Subhash K. Garg	Director	60,000 ⁽⁶⁾	1.62%
Ronald J. Gordon	Director	34,214 ⁽⁷⁾	0.92%
Jonathan C. Kinney	Director, Secretary, and Vice Chairman	184,650 ⁽⁸⁾	4.98%
O. Leland Mahan	Director	25,000 ⁽⁹⁾	0.67%
John R. Maxwell	Chairman and Chief Executive Officer	125,000 ⁽¹⁰⁾	3.35%
Lim P. Nguonly	Director	89,860 ⁽¹¹⁾	2.42%
William Soza	Director	102,823 ⁽¹²⁾	2.76%
<i>Executive Officers who are not Directors</i>			
Carl E. Dodson	Executive Vice President; Chief Operating Officer	28,750 ⁽¹³⁾	0.77%
William J. Ridenour	President; Chief Administrative Officer	17,500 ⁽¹⁴⁾	0.47%
All directors and executive officers of the Bank as a group (13 persons)		898,360 ⁽¹⁵⁾	23.50%

- (1) Represents percentage of 3,707,710 shares issued and outstanding as of March 15, 2011, except with respect to individuals holding options exercisable within 60 days of said date, in which event, represents percentage of shares issued and outstanding plus the number of the number of shares with respect to which such person holds options exercisable within 60 days of March 15, 2011, and except with respect to all directors and executive officers of the Bank as a group, in which case represents percentage of shares issued and outstanding plus the number of shares with respect to which all such person hold options exercisable within 60 days of said date.
- (2) Includes options to purchase 10,014 shares of common stock
- (3) Includes options to purchase 8,549 shares of common stock.
- (4) Includes options to purchase 2,500 shares of common stock.
- (5) Includes options to purchase 2,500 shares of common stock.
- (6) Includes 27,500 shares owned by Mr. Garg's 401(k) Plan, 22,500 shares owned a company controlled by Mr. Garg, and options to purchase 2,500 shares of common stock.
- (7) Includes options to purchase 9,214 shares of common stock.
- (8) Includes 132,150 shares owned by companies controlled by Mr. Kinney, and options to purchase 2,500 shares of common stock.

- (9) Includes 20,500 shares owned by Mr. Mahan's 401(k) Plan, and options to purchase 2,500 shares of common stock.
- (10) Includes options to purchase 25,000 shares of common stock.
- (11) Includes 69,900 shares owned by companies controlled by Mr. Nguonly, and options to purchase 2,500 shares of common stock.
- (12) Includes 10,000 shares owned by Mr. Soza's spouse, and options to purchase 17,823 shares of common stock.
- (13) Includes options to purchase 18,750 shares of common stock.
- (14) Includes options to purchase 10,000 shares of common stock.
- (15) Includes options to purchase 114,350 shares of common stock held by all directors and executive officers as a group.

Securities Authorized for Issuance Under Equity Compensation Plans. The following table sets forth information regarding outstanding options to purchase common stock granted under the Bank's equity compensation plans as of December 31, 2010:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders (1)	437,537	\$10.01	110,308
Equity compensation plans not approved by security holders	--	--	--
Total	437,537	\$10.01	110,308

(1) Consists of the Bank's 2006 Stock Option Plan. For additional information, see Note 16 to the Audited Financial Statements in Item 8.

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

Certain Relationships and Related Transactions

The Bank has had, and it is anticipated that the directors and executive officers of the Bank and the business and professional organizations with which they are associated and their family members will have, banking transactions with the Bank in the ordinary course of business. It is the policy of management that any loans and loan commitments will be made in accordance with applicable laws and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of comparable credit standing. Loans to directors and executive officers must comply with the Bank's lending policies and statutory lending limits, and directors with a personal interest in any loan application will be excluded from considering any such loan application.

The maximum aggregate amount of loans to executive officers, directors and affiliates of the Bank during 2010 amounted to \$2.9 million, representing approximately 8.6% of the Bank's total shareholders' equity at December 31, 2010. In the opinion of the Board of Directors, the terms of these loans are no less favorable to the Bank than terms of the loans from the Bank to unaffiliated parties. On December 31, 2010, \$2.9 million of loans were outstanding to individuals who, during 2010, were executive officers, directors or affiliates of the Bank. At the time each loan was made, such loans were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated persons, and management believed that the loan involved no more than the normal risk of collectability and did not present other unfavorable features. None of such loans were classified as Substandard, Doubtful or Loss.

Item 14. Principal Accounting Fees and Services.

Audit Fees. During 2010, the aggregate amount of fees billed to the Bank by Yount, Hyde and Barbour ("YHB") for services rendered by it for the audit of the Bank's financial statements and review of financial statements included in the Bank's reports on Form 10-K and 10-Q, and for services normally provided in connection with statutory and regulatory filings was \$61,000. In 2009, YHB billed \$59,750 for such services. This category includes fees for services necessary to perform the audit in accordance with the standards of the Public Company Accounting Oversight Board, and things such as consents and assistance with and review of documents filed with the Federal Reserve Board.

Audit-Related Fees. During 2010, the aggregate amount of fees billed to the Bank by YHB for assurance and related services reasonably related to the performance of the audit services rendered by it, and for consultation, was

\$925. Audit-related services fees of \$1,180 were paid to YHB during 2009. This category included research and discussions of accounting regulations.

Tax Fees. During 2010, the aggregate amount of fees billed to the Bank by YHB for tax advice, compliance and planning services was \$5,675. In 2009, YHB billed \$4,375 for such services. For both years fees were limited to the preparation of federal and state tax returns for the Bank.

All Other Fees. During 2010 and 2009, there were no other fees billed to the Bank by YHB.

Non-audit services are only provided by the Bank's auditors to the extent permitted by law. Pre-approval is required unless a "*de minimus*" exception is met. To qualify for the "*de minimus*" exception, the aggregate amount of all such non-audit services provided to the Bank must constitute not more than five percent of the total amount of revenues paid by the Bank to its independent auditors during the fiscal year in which the non-audit services are provided; such services were not recognized by the Bank at the time of the engagement to be non-audit services; and the non-audit services are promptly brought to the attention of the committee and approved prior to the completion of the audit by the committee or by one or more members of the committee to whom authority to grant such approval has been delegated by the committee. None of the engagements of YHB to provide services other than audit services was made pursuant to the *de minimus* exception to the pre-approval requirement contained in the rules of the Securities and Exchange Commission and the Bank's audit committee charter.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following financial statements are included in this annual report:

Report of Independent Registered Public Accounting Firm
Balance Sheets at December 31, 2010 and 2009
Statements of Operations for the years ended December 31, 2010 and 2009
Statements of Changes in Shareholders' Equity for the years ended December 31, 2010 and 2009
Statements of Cash Flows for the years ended December 31, 2010 and 2009
Notes to Financial Statements

(b) Exhibits

- 3.1 Articles of Incorporation of the Bank, with all amendments thereto (1)
- 3.2 Bylaws of the Bank (1)
- 4 Specimen certificate for the common stock, \$5.00 par value (1)
- 10.1 John Marshall Bank, 2006 Stock Option Plan, as amended (1)
- 11 Statement re: Computation of per share earnings
- 31.1 Certification of John R. Maxwell, President and Chief Executive Officer
- 31.2 Certification of Carl E. Dodson, Executive Vice President and Chief Operating Officer (Principal Financial Officer)
- 32.1 Certification of John R. Maxwell, Chairman and Chief Executive Officer
- 32.2 Certification of Carl E. Dodson, Executive Vice President and Chief Operating Officer (Principal Financial Officer)

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

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

March 15, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>Name</u>	<u>Position</u>	<u>Date</u>
_____/s/ Philip W. Allin	Director	March 15, 2011
_____/s/ Philip R. Chase	Director	March 15, 2011
_____/s/ Jean Edelman	Director	March 15, 2011
_____/s/ Michael T. Foster	Director	March 15, 2011
_____/s/ Subhash K. Garg	Director	March 15, 2011
_____/s/ Ronald J. Gordon	Director	March 15, 2011
_____/s/ Jonathan C. Kinney	Director and Secretary	March 15, 2011
_____/s/ O. Leland Mahan	Director	March 15, 2011
_____/s/ John R. Maxwell	Chairman and Chief Executive Officer Principal Executive Officer	March 15, 2011
_____/s/ Lim P. Nguonly	Director	March 15, 2011
_____/s/ William Soza	Director Executive Vice President	March 15, 2011
_____/s/ Carl E. Dodson	Chief Operating Officer, Principal Financial and Accounting Officer	March 15, 2011

JOHN MARSHALL BANK

**FORM 10-K
FOR THE YEAR ENDED
DECEMBER 31, 2010**

EXHIBITS

Index to Exhibits

11	Statement re: Computation of per share earnings
31.1	Certification of John R. Maxwell, President and Chief Executive Officer
31.2	Certification of Carl E. Dodson, Executive Vice President and Chief Operating Officer (Principal Financial Officer)
32.1	Certification of John R. Maxwell, Chairman and Chief Executive Officer
32.2	Certification of Carl E. Dodson, Executive Vice President and Chief Operating Officer (Principal Financial Officer)

Computation of Earnings per Share

<i>(dollars in thousands, except share and per share amounts)</i>	Year Ended December 31	
	2010	2009
Net income (loss)	\$4,319	\$(1,048)
Basic income (loss) per share	1.16	(0.28)
Diluted income (loss) per share	1.16	(0.28)
Basic weighted average number of shares outstanding	3,707,710	3,704,330
Effect of dilutive securities – stock options	--	--
Diluted weighted average number of shares outstanding	3,707,710	3,704,330

Options totaling 293,585 and 99,004 were excluded from the calculation of diluted earnings per share for the years ended December 31, 2010 and 2009, respectively, because their impact would have been anti-dilutive. Potential common shares had no impact on net loss.

CERTIFICATION

I, John R. Maxwell, certify that:

1. I have reviewed this annual report on Form 10-K 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(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: March 15, 2011

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

CERTIFICATION

I, Carl E. Dodson, certify that:

1. I have reviewed this annual report on Form 10-K 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(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: March 15, 2011

_____/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-K of John Marshall Bank for the year ended December 31, 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-K for the year ended December 31, 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-K for the year ended December 31, 2010, fairly presents, in all material respects, the financial condition and results of operations of John Marshall Bank.

Date: March 15, 2011

_____/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-K of John Marshall Bank for the year ended December 31, 2010, I, Carl E. Dodson, Executive Vice President and Chief Operating Officer (Principal 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-K for the year ended December 31, 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-K for the year ended December 31, 2010, fairly presents, in all material respects, the financial condition and results of operations of John Marshall Bank.

Date: March 15, 2011

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