

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

FORM 10-Q

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

For the quarterly period ended MARCH 31, 2011

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

For the transition period from _____ to _____

John Marshall Bank

(Exact Name of Registrant as Specified in its Charter)

Virginia

(State or Other Jurisdiction
of Incorporation or Organization)

74-3125891

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

6601 Little River Turnpike Suite 400, Alexandria, VA 22312

(Address of Principal Executive Offices)

703-584-0840

(Registrant's Telephone Number, Including Area Code)

N/A

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

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

As of May 12, 2011, the number of outstanding shares of registrant's common stock, par value \$5.00 per share was: 3,707,710

John Marshall Bank

FORM 10-Q

INDEX

PART I - FINANCIAL INFORMATION	<u>Page(s)</u>
Item 1 - Financial Statements	
Balance Sheets – March 31, 2011 (Unaudited) and December 31, 2010 (Audited)	3
Statements of Income – Three months ended March 31, 2011 and 2010 (Unaudited)	4
Statements of Cash Flows – Three months ended March 31, 2011 and 2010 (Unaudited)	5
Notes to Financial Statements	6-10
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	11-21
Item 3 – Quantitative and Qualitative Disclosures About Market Risk	21
Item 4 – Controls and Procedures	21
PART II - OTHER INFORMATION	
Item 1 – Legal Proceedings	21
Item 1A – Risk Factors	21
Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds	22
Item 3 – Defaults Upon Senior Securities	22
Item 4 – (Removed and Reserved)	22
Item 5 – Other Information	22
Item 6 – Exhibits	22
SIGNATURES	23

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

March 31, 2011 and December 31, 2010

	(Unaudited)	(Audited)
	March 31	December 31,
ASSETS	2011	2010
Cash and due from banks	\$ 2,045,675	\$ 929,371
Interest bearing deposits in banks	14,100,830	5,619,621
Securities available for sale	18,239,660	17,514,999
Securities held to maturity, fair value of \$7,567,201 at March 31, 2011 and \$7,883,611 at December 31, 2010	7,483,276	7,770,456
Restricted securities	2,203,400	2,074,750
Loans, net of allowance for loan losses of \$3,353,368 at March 31, 2011, \$3,211,118 at December 31, 2010	288,471,524	270,472,695
Bank premises and equipment, net	1,635,672	1,636,643
Accrued interest receivable	1,031,172	910,692
Other real estate	463,969	463,969
Other assets	2,390,381	2,478,187
Total Assets	<u>\$ 338,065,559</u>	<u>\$ 309,871,383</u>
 Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing deposits	\$ 47,174,941	\$ 30,463,810
Interest bearing demand deposits	96,453,226	87,543,525
Savings deposits	3,981,040	4,104,114
Time deposits	133,206,598	131,248,542
Total deposits	280,815,805	253,359,991
Federal Home Loan Bank advances	14,000,000	15,000,000
Repurchase agreements	7,782,522	7,336,519
Accrued interest payable	87,935	82,913
Other liabilities	1,196,741	611,619
Total liabilities	<u>303,883,003</u>	<u>276,391,042</u>
Shareholders' Equity		
Common stock, voting, par value \$5 per share; authorized 10,000,000 shares; issued and outstanding, 3,707,710 shares in 2011 and 2010	18,538,550	18,538,550
Additional paid-in capital	18,755,232	18,669,350
Retained deficit	(3,049,635)	(3,667,247)
Accumulated other comprehensive (loss)	(61,591)	(60,312)
Total shareholders' equity	<u>34,182,556</u>	<u>33,480,341</u>
 Total Liabilities and Shareholders' Equity	 <u>\$ 338,065,559</u>	 <u>\$ 309,871,383</u>

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

John Marshall Bank
Statements of Income

For the Three months Ended March 31, 2011 and 2010 (Unaudited)

	Three months Ended March 31,	
	2011	2010
Interest and dividend income:		
Interest and fees on loans	\$ 4,258,596	\$ 3,263,312
Interest on investment securities - taxable	162,195	184,005
Dividends	16,633	13,294
Federal funds sold	-	15
Interest on deposits in banks	8,015	2,218
Total interest and dividend income	4,445,439	3,462,844
Interest expense:		
Deposits	795,231	758,047
Federal Home Loan Bank advances	62,927	38,837
Other short-term borrowings	13,248	9,590
Total interest expense	871,406	806,474
Net interest income	3,574,033	2,656,370
Provision for loan losses	138,000	340,000
Net interest income after provision for loan losses	3,436,033	2,316,370
Noninterest income:		
Service charges on deposit accounts	40,639	30,648
Other service charges and fees	8,040	7,742
Loss on sale of securities available for sale	-	(4,063)
Gain on other real estate	-	20,785
Other operating income (loss)	(321)	24,573
Total noninterest income	48,358	79,685
Noninterest expenses:		
Salaries and benefits	1,444,370	1,085,384
Legal and professional	75,609	76,505
Rent and occupancy	223,102	185,962
Furniture and equipment expenses	141,407	106,476
Marketing and business development	63,091	38,527
Insurance	9,221	5,100
Data processing	154,618	130,791
FDIC Insurance	135,291	89,829
Franchise Taxes	78,000	69,057
Other operating expenses	186,491	147,337
Total noninterest expenses	2,511,200	1,934,968
Income before income taxes	973,191	461,087
Income tax expense	355,579	-
Net income	\$ 617,612	\$ 461,087
Earnings per Share, basic	\$ 0.17	\$ 0.12
Earnings per Share, diluted	\$ 0.17	\$ 0.12

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

John Marshall Bank
Statements of Cash Flows
For the Three months Ended March 31, 2011 and 2010
(Unaudited)

	March 31, 2011	March 31, 2010
Cash Flows from Operating Activities		
Net income	\$ 617,612	\$ 461,087
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	116,514	89,623
Provision for loan losses	138,000	340,000
Stock compensation expense	85,882	--
Loss realized on available for sale securities	--	4,063
Net amortization of securities	12,834	18,705
(Gain) on other real estate	--	(20,785)
Changes in assets and liabilities:		
(Increase) in accrued interest receivable	(120,480)	(90,359)
Decrease in other assets	87,807	75,952
Increase in accrued interest payable	5,022	36,842
Increase in other liabilities	585,122	116,012
Net cash provided by operating activities	\$ 1,528,313	\$ 1,031,140
Cash Flows from Investing Activities		
(Increase) decrease in interest bearing deposits in banks	\$ (8,481,209)	\$ 394
Net (increase) in loans	(18,136,829)	(13,895,267)
Purchase of available-for-sale securities	(3,159,413)	(3,851,338)
Proceeds from sales of securities available-for-sale	--	2,000,000
Proceeds from maturities, calls and principal repayments of available-for-sale securities	2,422,953	2,106,761
Proceeds from maturities, calls and principal repayments of held-to-maturity securities	284,865	161,724
Net (purchase) of restricted securities	(128,650)	(22,500)
Proceeds from sale of other real estate	--	143,215
Purchases of bank premises and equipment	(115,543)	(63,708)
Net cash used in investing activities	\$ (27,313,826)	\$ (13,420,719)
Cash Flows from Financing Activities		
Net increase in deposits	\$ 27,455,814	\$ 26,996,809
Payments of FHLB advances	(1,000,000)	(6,900,000)
Decrease in federal funds purchased	--	(160,000)
Increase (decrease) in repurchase agreements	446,003	(490,942)
Net cash provided by financing activities	\$ 26,901,817	\$ 19,445,867
Net increase in cash and cash equivalents	1,116,304	7,056,288
Cash and cash equivalents at beginning of period	929,371	1,315,672
Cash and cash equivalents at end of period	\$ 2,045,675	\$ 8,371,960
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	\$ 876,428	\$ 769,632
Income taxes	\$ --	\$ --
Supplemental Disclosures of Noncash Transactions		
Other real estate acquired in settlement of loans	\$ --	\$ 308,712
Unrealized gain (loss) on securities available for sale	\$ (2,899)	\$ 64,967

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

NOTES TO UNAUDITED FINANCIAL STATEMENTS

Note 1. The Bank and its Significant Accounting Policies

Summary of Significant Accounting Policies

Basis of Presentation:

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

The financial data at December 31, 2010 are derived from audited financial statements that are included in the Bank's Annual Report for the year ended December 31, 2010. The financial data at March 31, 2011 and 2010 are derived from unaudited financial statements. Interim results are not necessarily indicative of results for the full year.

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

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

Note 2: Stock-Based Compensation

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

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

	<u>2011</u>
Dividend yield	0.00%
Expected life	7.50 years
Expected volatility	30.00%
Risk-free interest rate	2.38%

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

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	437,537	\$10.01		
Granted	8,000	\$10.50		
Exercised	--	--		
Forfeited	--	--		
Expired	--	--		
Outstanding at March 31, 2011	445,537	\$10.02	8.53	\$215,951
Options exercisable at March 31, 2011	74,354	\$10.00	5.47	\$37,177
Weighted-average fair value of options granted during three months ended March 31, 2011				\$ 4.00

The aggregate intrinsic value of a stock option represents the amount by which the current market value of the underlying stock exceeds the exercise price of the option. The amount changes based on changes in the market value of the Bank's stock as calculated using a methodology that includes consideration of recent trades, as reported on the online trading board for the Bank's common stock, a service provided by the Bank's transfer agent, Transfer Online, and peer group trading multiples based on equity and earnings. The Bank's common stock is not traded on any organized exchange. As of March 31, 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 online trading board.

The remaining unamortized stock compensation expense was \$1.1 million at March 31, 2011.

Note 3. Earnings per Common Share

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

	Three months Ended March 31,	
	2011	2010
Weighted average shares outstanding – basic	3,707,710	3,707,710
Weighted average shares outstanding – diluted	3,707,710	3,707,710
Net income	\$617,612	\$461,087
Basic income per share	\$0.17	\$0.12
Diluted income per share	\$0.17	\$0.12

Options to purchase 74,354 and 445,537 shares of common stock were excluded from the calculation of diluted earnings per share for the three months ended March 31, 2010 and 2011, respectively, because their impact would have been anti-dilutive at that time. Potential common shares had no impact on net income.

Note 4. Allowance for Loan Losses

Changes in the allowance and allocation of loan losses by class during the three months ended March 31, 2011 follows (in thousands):

	Real Estate			Commercial	Consumer	Unallocated	Total
	Commercial	Construction and Land Development	Residential				
Allowance for loan losses:							
Beginning Balance	\$1,011	\$408	\$369	\$1,388	\$14	\$21	\$3,211
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	4	1	-	4
Provision	423	314	(98)	(479)	(2)	(21)	138
Ending Balance	<u>\$1,434</u>	<u>\$722</u>	<u>\$271</u>	<u>\$913</u>	<u>\$13</u>	<u>\$--</u>	<u>\$3,353</u>
Ending Balance:							
Individually evaluated for impairment	\$--	\$8	\$49	\$42	\$--	\$--	\$99
Collectively evaluated for impairment	1,434	714	222	871	13	-	3,254
Financing Receivables:							
Ending Balance	\$162,231	\$57,767	\$14,158	\$57,098	\$949	\$--	\$292,203
Individually evaluated for impairment	\$--	\$639	\$903	\$651	\$--	\$--	\$2,193

	Real Estate			Commercial	Consumer	Unallocated	Total
	Commercial	Construction and Land Development	Residential				
Collectively evaluated for impairment	162,231	57,128	13,255	56,447	949	-	290,010

The negative provision indicated above with respect to the Residential Real Estate, Commercial and Consumer segments reflects a decline in loss factors used to estimate losses in these loan classes during the first quarter of 2011. Likewise, the positive provision indicated above with respect to the Commercial Real Estate and Construction segments reflects an increase in loss factors used to estimate losses in these loan classes during the first quarter of 2011. Loss factors are determined based upon peer group historical loss ratios, adjusted for loan duration and for the effect of certain qualitative factors, which are analyzed and adjusted quarterly.

Following is a summary of information pertaining to impaired loans by class at March 31, 2011 (in thousands)

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance:					
Commercial					
Real Estate	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial					
Construction and land development					
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
With an allowance recorded:					
Commercial	\$ 651	\$ 651	\$ 42	\$ 654	\$ -
Real Estate					
Commercial	-	-	-	-	-
Construction and land development	639	639	8	652	-
Residential	903	903	49	903	12
Consumer	-	-	-	-	-
Total:					
Commercial	\$ 651	\$ 651	\$ 42	\$ 654	\$ -
Real Estate	1,542	1,542	57	1,555	12
Consumer	-	-	-	-	-
Total Impaired Loans	\$ 2,193	\$ 2,193	\$ 99	\$ 2,209	\$ 12

Following is a summary of past due and non-accrual loans by class at March 31, 2011 (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	\$ 69	\$ -	\$ 651	\$ 720	\$ 55,378	\$ 57,098	\$ -	\$ 651
Real Estate								
Commercial	-	-	-	-	162,231	162,231	-	-
Construction and land development	-	-	-	-	57,767	57,767	-	639

	<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>
Residential	-	-	-	-	14,158	14,158	-	-
Consumer	-	2	-	2	947	949	-	-
Total	\$ 69	\$ 2	\$ 651	\$ 722	\$ 291,481	\$ 292,203	\$ -	\$ 1,290

Following is a summary of the Bank's credit quality information for loans by class at March 31, 2011 (in thousands)

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
Commercial	\$ 54,487	\$ 1,235	\$ 1,307	\$ 69	\$ -	\$ 57,098
Real Estate						
Commercial	162,231	-	-	-	-	162,231
Construction and land development	55,475	637	1,655	-	-	57,767
Residential	12,274	763	1,121	-	-	14,158
Consumer	949	-	-	-	-	949
Total	\$ 285,416	\$ 2,635	\$ 4,083	\$ 69	\$ -	\$ 292,203

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 March 31, 2011 and December 31, 2010, respectively, the Bank had \$903,432 and \$907,598 in residential mortgages that were modified in troubled debt restructurings and impaired.

Note 5. Recent Relevant Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (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 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 became 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.

In December 2010, the FASB issued ASU 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." The guidance requires pro forma disclosure for business combinations that occurred in the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma information should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. ASU 2010-29 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The adoption of the new guidance did not have a material impact on the Bank's financial statements.

In December 2010, the FASB issued ASU 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The adoption of the new guidance did not have a material impact on the Bank's financial statements.

In March 2011, the SEC issued Staff Accounting Bulletin (SAB) 114. This SAB revises or rescinds portions of the interpretive guidance included in the codification of the Staff Accounting Bulletin Series. This update is intended to make the relevant interpretive guidance consistent with current authoritative accounting guidance issued as a part of the FASB's Codification. The principal changes involve revision or removal of accounting guidance references and other conforming changes to ensure consistency of referencing through the SAB Series. The effective date for SAB 114 is March 28, 2011. The adoption of the new guidance did not have a material impact on the Bank's financial statements.

In April 2011, the FASB issued ASU 2011-02, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." The amendments in this ASU clarify the guidance on a creditor's evaluation of whether it has granted a concession to a debtor. They also clarify the guidance on a creditor's evaluation of whether a debtor is experiencing financial difficulty. The amendments in this Update are effective for the first interim or annual period beginning on or after June 15, 2011. Early adoption is permitted. Retrospective application to the beginning of the annual period of adoption for modifications occurring on or after the beginning of the annual adoption period is required. As a result of applying these amendments, an entity may identify receivables that are newly considered to be impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. The Bank is currently assessing the impact that ASU 2011-02 will have on its financial statements.

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

Forward-Looking Statements

Certain information contained in this discussion may include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended including statements of goals, intentions, and expectations as to future trends, plans, events or results of Bank operations and policies and regarding general economic conditions. In some cases these forward looking statements are identified by words or phrases such as "the Bank expects," "the Bank believes," "may," "will," "anticipates," "plans," "estimates," "potential," "continue," "should," or words of similar import. Such forward-looking statements involve known and unknown risks including, but not limited to, changes in general economic and business conditions, new, or changes in, laws and regulations applicable to the Bank, interest rate fluctuations, competition within and from outside the banking industry, new products and services in the banking industry, risk inherent in making loans such as repayment risks and fluctuating collateral values, problems with technology utilized by the Bank, changing trends in customer profiles and changes in laws and regulations applicable to the Bank, and other matters, which by their nature are not susceptible to accurate forecast, and are subject to significant uncertainty. Although the Bank believes that its expectations with respect to the forward-looking statements are based upon reliable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Bank will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned against placing undue reliance on any such forward-looking statements. The Bank's past results are not necessarily indicative of future performance. Please refer to the "Risk Factors" section of the Bank's Annual Report on Form 10-K for a discussion of factors which may affect the Bank's performance.

General

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

The Bank continued to achieve significant growth in loans and deposits during the first three months of 2011. Net loans increased by 6.7% during the first three months of 2011, while deposits increased 10.8%. The increase in loans and deposits experienced during 2010, and continuing in the first three months of 2011, combined with an improving net interest margin, resulted in an increase in the Bank's net interest income of 34.5% during the first three months of 2011, compared to the first three months of 2010. Increased operating expenses associated with additional personnel and branch expansion during 2010 resulted in an increase in non-interest expense of 29.8% during the first three months of 2011, compared to the first three months of 2010.

Key measurements and events for the period include the following:

- Total assets at March 31, 2011 increased by 9.1% to \$338.1 million as compared to \$309.9 million as of December 31, 2010.
- Net loans outstanding increased by 6.7% from \$270.5 million as of December 31, 2010 to \$288.5 million as of March 31, 2011.
- Deposits at March 31, 2011 were \$280.8 million, an increase of \$27.4 million or 10.8% from December 31, 2010.
- Net interest income, the Bank's main source of income, increased 34.5% to \$3.6 million during the three month period ended March 31, 2011, compared to \$2.7 million during the three month period ended March 31, 2010. The Bank's net interest margin improved to 4.59% during the first three months of 2011, compared to 4.48% during the first three months of 2010.
- Non-interest income for the three months ended March 31, 2011 was \$48 thousand, down \$32 thousand as compared to \$80 thousand for the three month period ended March 31, 2010. The decline in non-interest income reflects the fact that \$45 thousand of non-interest income realized during the three months ended March 31, 2010 was due to gains on the sale of assets.

- Non-interest expenses increased by \$576 thousand or 29.8%, for the three months ended March 31, 2011, as compared to the same period in 2010.
- The Bank had net income before taxes of \$973 thousand during the three month period ended March 31, 2011, an improvement of \$512 thousand as compared to \$461 thousand realized during the three months ended March 31, 2010.
- Asset quality remains strong. As of March 31, 2011, the Bank's non-performing assets and past due loans were .79% of total loans, compared to 1.08% as of December 31, 2010. There were no loan charge-offs during the first three months of 2011, compared to loan charge-offs of \$85 thousand during the first three months of 2010.
- The Bank incurred a federal income tax expense of \$356 thousand during the first quarter of 2011 and expects to incur federal income tax expense in future periods computed at normal income tax rates applicable to corporations.

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

Critical Accounting Policies

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

Allowance for Loan Losses

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

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

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

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

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

For further information regarding the allowance for loan losses, see Notes 1 and 4 to the Audited Financial Statements included in Item 8 of the Bank's 2010 Form 10-K, and the discussion in this report under the caption "Asset Quality" and "Provision and Allowance for Loan Losses."

Stock-Based Compensation

At March 31, 2011, the Bank had one stock-based compensation plan, which is described more fully in Note 16 to the Audited Financial Statements included in Item 8 of the Bank's 2010 Form 10-K. The Bank accounts for this plan under applicable accounting guidance, which requires recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform services (usually the vesting period). The Bank recorded no stock-based compensation costs in the three months ended March 31, 2010. On May 11, 2010, the Bank issued options to purchase 358,933 shares of common stock to officers, employees and directors, vesting in four to five annual installments commencing on the first anniversary of the date of grant. Since issuance of the stock options, 1,500 have been forfeited due to termination of employment. The stock-based compensation costs associated with the issuance of options, during the three months ended March 31, 2011, were \$86 thousand. The remaining amount to be expensed over the remaining vesting period as of March 31, 2011 was \$1.1 million.

Valuation of Deferred Tax Assets

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

RESULTS OF OPERATIONS

General.

The Bank reported net income of \$618 thousand for the three-month period ended March 31, 2011 as compared to \$461 thousand during the three-month period ended March 31, 2010. Net interest income increased by \$918 thousand during the first three months of 2011, as compared to the first three months of 2010. The Bank's net interest income was positively affected by an increase in the loan portfolio and a reduction in the cost of funds associated with the decline in market interest rates. Increases in net interest income more than offset increased operating expenses from additional personnel, infrastructure and facilities added to support the Bank's growth, as well as increased deposit insurance assessments and Virginia franchise taxes.

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

	Annualized Return on Average Assets and Average Equity		
	Three months Ended March 31, 2011	2010	Year Ended December 31, 2010
Return on Average Equity	7.36%	6.38%	13.74%
Return on Average Assets	0.76%	0.76%	1.54%
Ratio of Average Equity to Average Assets	10.48%	11.89%	11.19%

Three months Ended March 31, 2011

Net Interest Income and Net Interest Margin.

Net interest income is the amount by which interest earned on assets exceeds the interest paid on interest-bearing liabilities. The Bank's principal interest earning assets are commercial loans to businesses and real estate investors. Interest-bearing liabilities

consist primarily of savings accounts, money market accounts and certificates of deposit. Generally, changes in net interest income are measured by net interest rate spread and net interest margin. Net interest rate spread is equal to the difference between the average rate earned on interest earning assets and the average rate incurred on interest-bearing liabilities. Net interest margin represents the difference between interest income (including net loan fees earned) and interest expense calculated as a percentage of average earning assets.

The following table shows the average balance sheets for the first three months of 2011 compared to the first three months of 2010. Also shown are the amounts of interest earned on interest-earning assets, with related yields, and interest expense on interest-bearing liabilities, with related rates. Loans placed on a non-accrual status are included in the average balances. Net loan fees and late charges included in interest income on loans totaled \$26 thousand for the first three months of 2011 and \$22 thousand for the first three months of 2010.

	Three months Ended			Three months Ended		
	March 31, 2011			March 31, 2010		
(Dollars in thousands)	Average Balance	Interest Income-Expense	Average Yields /Rates	Average Balance	Interest Income-Expense	Average Yields /Rates
Assets						
Securities	\$27,102	\$178	2.66%	\$24,006	\$197	3.33%
Loans, net of unearned income	275,779	4,259	6.26%	212,945	3,263	6.21%
Interest-bearing deposits in other banks	12,985	8	0.25%	3,580	2	0.23%
Federal funds sold	0	0	0.00%	91	0	0.00%
Total interest-earning assets	\$315,866	\$4,445	5.70%	\$240,622	\$3,462	5.84%
Other assets	8,660			5,968		
Total assets	\$324,526			\$246,590		
Liabilities & Stockholders' Equity						
Interest-bearing deposits						
NOW accounts	\$5,682	\$7	0.50%	\$3,259	\$4	0.50%
Money market accounts	87,683	262	1.21%	68,079	248	1.48%
Savings accounts	3,840	9	0.95%	8,356	16	0.78%
Time deposits	131,909	517	1.59%	100,241	490	1.98%
Total interest-bearing deposits	\$229,114	\$795	1.41%	\$179,935	\$758	1.71%
Securities sold under agreement to repurchase and federal funds purchased	7,997	13	0.66%	5,745	9	0.64%
Other borrowed funds	14,644	63	1.74%	7,432	39	2.13%
Total interest-bearing liabilities	\$251,755	\$871	1.40%	\$193,112	\$806	1.69%
Demand deposits and other liabilities	38,761			24,164		
Total liabilities	\$290,516			\$217,276		
Stockholders' equity	34,010			29,314		
Total liabilities and stockholders' equity	\$324,526			\$246,590		
Interest rate spread			4.30%			4.15%
Net interest income and margin		\$3,574	4.59%		\$2,656	4.48%

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

The increase in average interest-earning assets, combined with an increasing yield on the loan portfolio, resulted in substantially higher interest income during the first three months of 2011. Total interest income increased by \$983 thousand, or 28.4%, for the three-month period ended March 31, 2011 as compared the same period in 2010.

Interest expense increased by \$65 thousand or 8.1% to \$871 thousand for the three months ended March 31, 2011 as compared to \$806 thousand during the first three months of 2010. This increase was primarily attributable to increased average interest bearing liabilities during 2011 as compared to 2010. The effect of the increased interest bearing liabilities was tempered by falling deposit and borrowing rates, and the resulting decline in the Bank's cost of funds from 1.69% during the first three months of 2010 to 1.40% during the first three months of 2011. The substantial decrease in the Bank's cost of funds was due

primarily to Federal Reserve monetary policy actions that decreased the target Federal Funds Rate from 4.25% at the beginning of 2008 to .25% as of March 31, 2011.

Net interest income for the three-month period ended March 31, 2011 was \$3.6 million as compared to \$2.7 million for the same period in 2010, an increase of 34.5%. The substantial increase in net interest income during the period is primarily attributed to strong loan growth and lower funding costs, which resulted in an improvement in the Bank's net interest margin from 4.48% during the first three months of 2010 to 4.59% during the first three months of 2011.

Provision for Loan Losses.

The provision for loan losses was \$138 thousand during the three month period ended March 31, 2011 as compared to \$340 thousand during the three months ended March 31, 2010. The decline in the provision for loan losses during the first quarter of 2011 reflects a decline in criticized and classified loans experienced during the first quarter of 2011, and management's assessment of portfolio loan mix and estimated loss factors for individual loan pools from March 31, 2010 to March 31, 2011. Additional details regarding the provision for loan losses are provided below.

Non-Interest Income.

Non-interest income totaled \$48 thousand for the three-months ended March 31, 2011 as compared to \$80 thousand during the three months ended March 31, 2010. For the three months ended March 31, 2010, the Bank realized a gain on the sale of an SBA-guaranteed loan of \$24 thousand, and a gain on the sale of other real estate owned of \$21 thousand. There were no gains realized during the first three months of 2011. Deposit account service charges amounted to \$41 thousand during the three months ended March 31, 2011 as compared to \$31 thousand for the same period in 2010. The increase in deposit account service charges resulted from increased deposit transaction volume associated with the growth in deposit transaction accounts. Other operating income remained constant at \$8 thousand during the first three months of 2011 and 2010.

Non-Interest Expense.

Non-interest expense totaled \$2.5 million for the three-month period ended March 31, 2011 as compared to \$1.9 million for the same period in 2010, a 29.8% increase. Compensation and benefit expense increased \$359 thousand, a 33.1% increase, representing increased staffing required to support the increase in the Bank's loan and deposit portfolios, and the impact of \$86 thousand of compensation expense related to option grants, as compared to no such expense in the first quarter of 2010. Occupancy expense increased \$37 thousand, a 20.0% increase, reflecting expenses associated with the new full service branch – a Rockville, Maryland branch that opened in October 2010 and a Washington, DC loan production office that opened in February 2010. Other non-interest expenses also increased because of increased marketing, data processing, and telecommunication expenses required to support the Bank's growth, and increased deposit insurance expense associated with increased assessments instituted by the FDIC beginning in 2008, combined with the Bank's deposit growth during the past year. For the first three months of 2011, the Bank's FDIC insurance assessments totaled \$135 thousand, as compared to \$90 thousand for the first three months of 2010.

Income Tax Expense.

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 \$2.3 million. Beginning in July of 2010, the Bank began recognizing income tax expense based on operational results. During the three months ended March 31, 2011, the Bank recognized a provision for federal income taxes of \$356 thousand.

FINANCIAL CONDITION.

General. The Bank's assets at March 31, 2011 were \$338.1 million, an increase of \$28.2 million or 9.1%, from December 31, 2010. Gross loans totaled \$292.2 million comprised primarily of mortgage loans on real estate of \$234.2 million, an increase of \$18.8 million, or 8.7%, from December 31, 2010 and commercial loans of \$57 million, a decrease of \$583 thousand, or 1.0% from December 31, 2010. At March 31, 2011, deposits totaled \$280.8 million, an increase of \$27.4 million, or 10.8%, from December 31, 2010. Deposits at March 31, 2011 are comprised primarily of certificates of deposit of \$133.2 million, savings and money market accounts of \$94.4 million, and noninterest bearing deposits and NOW accounts of \$53.2 million.

Loan Portfolio. The loan portfolio is the largest component of earning assets and accounts for the greatest portion of total interest income. At March 31, 2011, net loans were \$288.5 million, a 6.7% increase from the \$270.5 million in loans outstanding at December 31, 2010. In general, loans consist of internally generated loans and, to lesser degree, participation

loans purchased from other local community banks. Lending activity is generally confined to our immediate market areas. The Bank does not engage in foreign lending activities.

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

The composition of the loan portfolio as of March 31, 2011 and December 31, 2010 is summarized as follows:

<i>Dollars in thousands</i>	March 31, 2011		December 31, 2010	
	Balance	% of Loans	Balance	% of Loans
Mortgage loans on real estate:				
Residential 1-4 family	\$10,717	3.7%	\$10,329	3.8%
Commercial	162,231	55.5%	147,666	53.8%
Construction	57,767	19.8%	53,922	19.7%
Second mortgages	789	0.3%	795	0.3%
Residential equity loans	2,652	0.9%	2,695	1.0%
Total mortgage loans on real estate	\$234,156	80.2%	\$215,407	78.6%
Commercial loans	57,098	19.5%	57,681	21.0%
Loans to individuals for household, family and other personal expenditures	949	0.3%	991	0.4%
Total loans	292,203	100.0%	274,079	100.0%
Less: Allowance for loan losses	(3,353)		(3,211)	
Net deferred loan fees	(378)		(395)	
Net loans	\$288,472		\$270,473	

As of March 31, 2011, commercial real estate loans consist of \$57.8 million in construction and land development loans and \$162.2 million in commercial mortgages, \$37.0 million of which were owner-occupied properties. Commercial loans consisted of \$35.6 million in commercial lines of credit to support working capital and \$21.5 million in term loans for equipment and other long term purposes. Residential real estate loans consist primarily of owner occupied residential mortgages.

The following table shows the interest rate sensitivity of the loan portfolio at March 31, 2011. Demand loans, loans without a stated maturity and overdrafts are reported as due in one year or less. Floating rate loans are reported to reflect the period until re-pricing.

Interest rate sensitivity of loan portfolio				
<i>(In thousands)</i>	One Year or Less	After One Year through Five Years	After Five Years	Total
	\$75,824	\$181,559	\$34,820	\$292,203

Provision for Loan Losses

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

The adequacy of the allowance for loan losses is based upon an evaluation of loan pool categories, except for loans rated substandard, doubtful or loss, which are evaluated separately, and evaluated for impairment, if applicable. Specific reserves are established for all impaired loans equal to management's assessment of potential losses, if any, after liquidation of the underlying collateral based on current market valuations. For all other loans, loss ratios are applied to each category of loan to determine estimated loss amounts. Categories of loan pools used in the analysis of the allowance for loans losses are commercial & industrial, commercial real estate, construction and land development, residential mortgages, home equity loans, and consumer loans. Because of the Bank's limited historical loan loss experience, loss ratios are determined based upon peer group historical loss ratios, adjusted for loan duration and for the effect of certain qualitative factors, including the level and

trend in delinquent loans, trends in the volume and term of loans, the experience and depth of management, national and local economic trends and conditions, and concentrations of credit. At March 31, 2011, loss ratios used to determine estimated losses by loan category were: commercial and industrial loans: 1.50%; commercial real estate loans – non-owner occupied: 1.00%; commercial real estate loans – owner occupied: 0.50%; commercial real estate loans – multifamily: 1.00%; construction and land development loans: 1.25%; home equity loans: 2.00%; residential mortgages: 1.56%; and consumer loans: 1.50%. The weighted average loss ratio across all categories of loans was 1.12% as of March 31, 2011, compared to 1.08% as of December 31, 2010.

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

The provision for loan losses was \$138 thousand during the three months ended March 31, 2011 as compared to \$340 thousand for the three months ended March 31, 2010 – a decrease of 59.4%. The allowance for loan losses represents 1.15% and 1.17% of loans receivable at March 31, 2011 and December 31, 2010, respectively. The decrease in the allowance for loan losses as a percentage of total loans from December 31, 2010 to March 31, 2011 reflects management’s current assessment of inherent losses on criticized and classified loans, and qualitative factors related to portfolio composition. In addition, during the first quarter of 2011, criticized and classified loans declined by \$208 thousand. \$100 thousand of the decline represented the payment in full of a commercial loan that had been fully reserved as of December 31, 2011. In addition, the Bank reported no charged off loans during the first quarter of 2011, compared to \$85 thousand reported during the first quarter of 2010. The Bank has no exposure to foreign countries or foreign borrowers. Management believes that the allowance for loan losses is adequate for each period presented.

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

<i>(Dollars in thousands)</i>	Three months Ended March 31, 2011	Year Ended December 31, 2010
Allowance, beginning of period	\$3,211.2	\$ 2,291.0
Charge-Offs		
Real estate loans	\$ -	\$ 97.9
Commercial loans	-	173.6
Consumer loans	-	0
Total charge-offs	\$ 0	\$ 271.50
Recoveries		
Real estate loans	\$ 0	\$ 27
Commercial loans	3.7	20.3
Consumer loans	0.5	3.4
Total recoveries	4.2	\$ 50.7
Net (recoveries) charge-offs	\$(4.2)	\$220.8
Provision for loan losses	138.0	1,141.0
Allowance, end of period	\$3,353.4	\$3,211.2
Ratio of net charge-offs to average total loans outstanding during period	0.00%	0.09%

Additionally, the Bank has established a reserve for unfunded commitments that is recorded by a provision charged to other expenses. At March 31, 2011 the balance of this reserve was \$99 thousand. The reserve, based on an analysis of unfunded commitments similar to that made to establish the adequacy of the allowance for loan loss reserve, is an amount that management believes will be adequate over time to absorb possible losses on unfunded commitments (off-balance sheet financial instruments) that may become uncollectible in the future.

Asset Quality. In its lending activities, the Bank seeks to develop a sound loan portfolio with customers who will grow with the Bank. Although the Bank has been successful in rapidly building the loan portfolio, most of the growth is with customers who

have been customers of the Bank's executive officers and commercial account managers for many years. At the same time, the extension of credit inevitably carries some risk of non-payment and the Bank is aggressively managing a modest level of problem credits.

The following table shows an analysis of non-performing assets at the dates indicated:

(Dollars in thousands)	Analysis of Non-performing Assets	
	March 31, 2011	December 31, 2010
Non-accrual loans	\$1,290	\$1,972
Restructured loans	903	909
Total non-performing loans	\$2,193	\$2,881
Other real estate owned	464	464
Total non-performing assets	\$2,657	\$3,345
Loans past due 90 days and still accruing	--	--
Total non-performing assets and past due loans	\$2,657	\$3,345
Allowance for loan losses to total loans	1.15%	1.17%
Allowance for loan losses to non-performing loans	152.91%	111.46%
Non-performing assets and past due loans to total loans	0.91%	1.22%
Non-performing assets and past due loans to total assets	0.79%	1.08%

Non-accrual loans include three loans as of March 31, 2011 – two commercial loans to the same borrower, totaling \$651 thousand, secured by the guarantors' primary residence; and a residential construction loan totaling \$639 thousand, secured an investor-owned single family residence. The restructured loans consist of four residential mortgages that carry 35% mortgage insurance coverage. These loans were restructured over the course of 2009 to provide payment relief to the borrowers and allow them to stay in their homes. The other real estate owned consists of two residential building lots and a single family residence. Both properties are being marketed for sale. All non-performing assets have been marked down to estimated fair value net of disposal costs and specific reserves have been established to cover anticipated losses.

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

As of March 31, 2011, the Bank had two loans past due 30-89 days, totaling \$71 thousand, compared to three loans past due 30-89 days totaling \$731 thousand as of December 31, 2010. The decline in past due loans during the first quarter of 2011 is due to two commercial loans totaling \$651 thousand to the same borrower migrating from 30-89 days past due as of December 31, 2010 to over 90-days past due as of March 31, 2011. Both loans were on non-accrual status as of both December 31, 2010 and March 31, 2011. One of the loans past due over 30-days as of March 31, 2011, totaling \$69 thousand, was on the Bank's internal watch list with loss reserves equal to the loan balance net of estimated liquidation value of underlying collateral. The other loan past due over 30-days was a small consumer loan totaling \$2 thousand which was in the process of collection.

The decrease in non-accrual loans since December 31, 2010 is attributed to the payoff and collection of all past due interest of a commercial and industrial loan totaling \$100 thousand, and the full collection of all past due principal and interest on a well secured \$568 thousand residential mortgage loan, which was returned to accrual status, during the first quarter of 2011.

Investment Portfolio. At March 31, 2011 the carrying value of the investment securities portfolio was \$25.7 million, an increase of \$400 thousand from the carrying value of \$25.3 million at December 31, 2010. The increase in the securities portfolio during the first three months of 2011 is primarily attributed to purchases of government agency securities net of regular pay-downs on mortgage backed securities. The Bank currently classifies \$18.2 million of its securities portfolio as available for sale and \$7.5 million as held to maturity. All mortgage backed securities in the Bank's portfolio consist of conventional mortgage loan pools packaged and sold by Fannie Mae or Freddie Mac.

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

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

Investment Securities Portfolio				
	March 31, 2011		December 31, 2010	
	Fair Value	Percent of total	Fair Value	Percent of total
<i>(Dollars in thousands)</i>				
Available-for-sale:				
U.S. Government Agency obligations	\$11,786	64.6%	\$12,906	73.7%
Mortgage backed debt securities	4,272	23.4%	4,100	23.4%
Municipal securities	2,182	12.0%	509	2.9%
	\$18,240	100.0%	\$17,515	100.0%
<i>(Dollars in thousands)</i>				
	Book Value	Percent of total	Book Value	Percent of total
Held to Maturity				
Mortgage backed debt securities	\$7,483	100.0%	\$7,770	100.0%
	\$7,483	100.0%	\$7,770	100.0%

The fair value of the U.S. Government Agency securities and mortgage backed debt securities is derived from market quotes as reported to the Bank by a third party brokerage firm. As of March 31, 2011, the Bank had a net unrealized loss on its securities portfolio of \$9 thousand.

Deposits. Deposits are the major source of funds for lending and investment activities. Deposits increased \$27.4 million, or 10.8%, to \$280.8 million at March 31, 2011 from \$253.4 million at December 31, 2010.

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

	March 31, 2011		December 31, 2010	
	Balance	% of Total Deposits	Balance	% of Total Deposits
<i>(Dollars in thousands)</i>				
Noninterest-bearing demand deposits	\$47,175	16.8%	\$ 30,464	12.0%
Interest-bearing demand deposits:				
NOW accounts	6,084	2.2%	5,633	2.2%
Money market accounts	90,369	32.1%	81,911	32.4%
Savings accounts	3,981	1.4%	4,104	1.6%
Certificates of deposit:				
\$100,000 or more	69,907	24.9%	61,701	24.4%
Less than \$100,000	19,274	6.9%	17,655	6.9%
QwickRate Certificates of Deposit (1)	18,244	6.5%	24,071	9.5%
CDARS(2)	22,073	7.9%	24,013	9.5%
Brokered Deposits(3)	3,709	1.3%	3,808	1.5%
Total deposits	\$280,816	100.0%	\$253,360	100.0%

- (1) QwickRate® is a non-brokered certificate of deposit listing service provided by QwickRate, Inc. The service provides the Bank with as-needed access to institutional investors such as banks, credit unions and larger corporations who are seeking investments in FDIC insured deposits. QwickRate® certificates of deposit are typically issued in denominations of \$250,000 or less directly to investors with no third-party broker involved. At March 31, 2011, QwickRate® CD's in denominations of less than \$100,000 totaled \$600 thousand and QwickRate® CD's of \$100,000 or more totaled \$17.6 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 March 31, 2011, CDARS® in denominations of less than \$100,000 totaled \$1.1 million and CDARS® of \$100,000 or more totaled \$21.0 million.
- (3) Brokered deposits represent deposits purchased from deposit brokers that facilitate the placement of deposits with insured institutions for third parties. The Bank uses brokered deposits, along with wholesale borrowings, as a supplemental source to fund loan growth.

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

Borrowings. Short-term borrowings are primarily Federal Home Loan Bank of Atlanta ("FHLB") advances 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 may also include Federal funds purchased, which are unsecured overnight borrowings from other banks, and are generally used to accommodate

short-term liquidity needs. The Bank also uses both short-term and long-term advances from a secured credit facility from the FHLB.

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

<i>Dollars in thousands</i>	March 31, 2011	December 31, 2010
Securities sold under agreement to repurchase	\$7,783	\$7,337
FHLB short-term borrowings (maturing in less than one year)	3,000	3,000
FHLB long-term borrowings (maturing in more than one year)	11,000	12,000
Total	<u>\$21,783</u>	<u>\$22,337</u>
Weighted interest rate at period end	1.31%	1.36%

LIQUIDITY AND CAPITAL RESOURCES

The Bank currently has no business other than that of the Bank and does not currently have any material funding commitments unrelated to that business. The Bank's principal sources of funds for loans, investments and general operations are deposits from its primary market area, principal and interest payments on loans, and proceeds from maturing investment securities. Its principal funding commitments are for the origination of loans and the payment of maturing deposits, and the payment for checks drawn upon it. The Bank's most liquid assets are cash and cash equivalents, which are cash on hand, amounts due from other financial institutions, including the Federal Reserve Bank of Richmond. The levels of such assets are dependent on the Bank's lending, investment and operating activities at any given time. The variations in levels of cash and cash equivalents are influenced by deposit flows and loan demand, both current and anticipated. At March 31, 2011, the Bank's cash and cash equivalents totaled \$2.0 million, an increase of \$1.1 million from December 31, 2010. Interest bearing deposits maintained at correspondent banks totaled \$14.1 million at March 31, 2011, an increase of \$8.5 million from December 31, 2010. \$13.2 million of interest bearing deposits at banks as of March 31, 2011 was maintained at the Federal Reserve Bank of Richmond. The increase in cash and deposits at correspondent banks is primarily the result of increases in deposits and borrowings net of loan growth.

At March 31, 2011, the Bank had \$18.0 million available under unsecured Federal funds borrowing facilities from other financial institutions. No amounts were outstanding under these facilities at March 31, 2011. In addition, at March 31, 2011, the Bank had \$27.8 million available borrowing capacity from the FHLB, secured by the Bank's commercial and residential real estate loan portfolios; and \$35.7 million available borrowing capacity from the Federal Reserve Bank of Richmond discount window secured by certain non real estate secured commercial loans.

The Bank monitors its liquidity position weekly through cash flow forecasting and monthly testing against minimum policy ratios. The Bank also has in place a liquidity contingency plan that is updated monthly. The Bank believes its level of liquidity and capital is adequate to conduct the business of the Bank.

OFF-BALANCE SHEET ARRANGEMENTS

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral supporting those commitments for which collateral is deemed necessary. The Bank has not been required to perform on any financial guarantees and has not recorded or incurred any losses on its commitments. The issuance of letters of credit is not a significant activity of the Bank. Outstanding letters of credit at March 31, 2011 totaled \$2.1 million (\$2.2 million at December 31, 2010), \$459 thousand of which is secured by deposits controlled by the Bank. With the exception of these off-balance sheet arrangements, the Bank has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Bank's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources, that is material to investors.

Commitments to extend credit are agreements to lend funds to customers as long as there are no violations of any condition established in the loan contracts. These commitments include commitments to lend funds as well as un-advanced loan funds. These commitments at March 31, 2011 totaled \$62.7 million (\$59.9 million at December 31, 2010). Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

CAPITAL ADEQUACY

The Federal Reserve Board has established guidelines with respect to the maintenance of appropriate levels of capital by state member banks. The regulations impose two sets of capital adequacy requirements: minimum leverage rules, which require banks to maintain a specified minimum ratio of capital to total assets, and risk-based capital rules, which require the maintenance of specified minimum ratios of capital to “risk-weighted” assets. At March 31, 2011, the Bank was in full compliance with these guidelines, as follows:

	<u>Minimum Ratios</u>			
	<u>March 31, 2011</u>	<u>December 31, 2010</u>	<u>To be “Adequately Capitalized”</u>	<u>To be “Well Capitalized”</u>
Total Capital (to Risk Weighted Assets):	11.8%	12.1%	8.0%	10.0%
Tier 1 Capital (to Risk Weighted Assets):	10.7%	11.0%	4.0%	6.0%
Tier 1 Capital (to Average Assets):	10.6%	10.6%	4.0%	5.0%

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

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

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

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

ITEM 4 – CONTROLS AND PROCEDURES

The Bank’s management, under the supervision and with the participation of the Chief Executive Officer and Chief Operating Officer (who is serving as our Principal Financial Officer), evaluated, as of the last day of the period covered by this report, the effectiveness of the design and operation of the Bank’s disclosure controls and procedures, as defined in Rule 13a-15 under the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Operating Officer concluded that the Bank’s disclosure controls and procedures were effective. There were no changes in the Bank’s internal control over financial reporting (as defined in Rule 13a-15 under the Securities Act of 1934) during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Bank’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1 – Legal Proceedings

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

Item 1A – Risk Factors

There have been no material changes to the risk factors as previously disclosed in the Bank’s 2010 Form 10-K.

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

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

Item 3 – Defaults Upon Senior Securities. None

Item 4 – (Removed and Reserved)

Item 5 – Other Information

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

Item 6 - Exhibits

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

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

SIGNATURES

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

JOHN MARSHALL BANK

Date: May 12, 2011

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

Date: May 12, 2011

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

CERTIFICATION

I, John R. Maxwell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of John Marshall Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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: May 12, 2011

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

CERTIFICATION

I, Carl E. Dodson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of John Marshall Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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: May 12, 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-Q of John Marshall Bank for the three months ended March 31, 2011, I, John R. Maxwell, Chairman and Chief Executive Officer of John Marshall Bank, hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

- (1) such Form 10-Q for the three months ended March 31, 2011, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in such Form 10-Q for the three months ended March 31, 2011, fairly presents, in all material respects, the financial condition and results of operations of John Marshall Bank.

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

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

In connection with the Form 10-Q of John Marshall Bank for the three months ended March 31, 2011, I, Carl E. Dodson, Executive Vice President and Chief Financial Officer of John Marshall Bank, hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

- (1) such Form 10-Q for the three months ended March 31, 2011, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in such Form 10-Q for the three months ended March 31, 2011, fairly presents, in all material respects, the financial condition and results of operations of John Marshall Bank.

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