

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

FORM 10-Q

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

For the quarterly period ended SEPTEMBER 30, 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.)

1943 Isaac Newton Square, Suite 110, Reston, VA 20190

(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 November 14, 2011, the number of outstanding shares of registrant's common stock, par value \$5.00 per share was: 4,707,710

John Marshall Bank

FORM 10-Q

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

September 30, 2011 and December 31, 2010

	(Unaudited)	(Audited)
	September 30,	December 31,
ASSETS	2011	2010
Cash and due from banks	\$ 4,276,272	\$ 929,371
Interest bearing deposits in banks	10,002,844	5,619,621
Securities available for sale	22,297,393	17,514,999
Securities held to maturity, fair value of \$7,177,745 at September 30, 2011 and \$7,883,611 at December 31, 2010	6,769,800	7,770,456
Restricted securities	2,562,300	2,074,750
Loans, net of allowance for loan losses of \$4,551,823 at September 30, 2011, \$3,211,118 at December 31, 2010	351,009,700	270,472,695
Bank premises and equipment, net	2,577,299	1,636,643
Accrued interest receivable	1,284,062	910,692
Other real estate	561,991	463,969
Other assets	2,299,997	2,478,187
Total Assets	<u>\$ 403,641,658</u>	<u>\$ 309,871,383</u>
 Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing deposits	\$ 48,639,534	\$ 30,463,810
Interest bearing demand deposits	109,536,612	87,543,525
Savings deposits	4,346,048	4,104,114
Time deposits	166,234,219	131,248,542
Total deposits	328,756,413	253,359,991
Federal Home Loan Bank advances	21,000,000	15,000,000
Repurchase agreements	6,218,605	7,336,519
Accrued interest payable	167,699	82,913
Other liabilities	1,005,490	611,619
Total liabilities	<u>357,148,207</u>	<u>276,391,042</u>
Shareholders' Equity		
Common stock, voting, par value \$5 per share; authorized 10,000,000 shares; issued and outstanding, 4,707,710 shares in 2011 and 3,707,710 in 2010	23,538,550	18,538,550
Additional paid-in capital	24,497,490	18,669,350
Retained deficit	(1,687,963)	(3,667,247)
Accumulated other comprehensive income (loss)	145,374	(60,312)
Total shareholders' equity	<u>46,493,451</u>	<u>33,480,341</u>
Total Liabilities and Shareholders' Equity	<u>\$ 403,641,658</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 Nine months Ended September 30, 2011 and 2010 (Unaudited)

	Nine months Ended September 30,	
	2011	2010
Interest and dividend income:		
Interest and fees on loans	\$ 14,105,222	\$ 10,917,394
Interest on investment securities – taxable ⁷	515,933	533,894
Dividends	51,655	41,263
Federal funds sold	--	121
Interest on deposits in banks	18,615	9,502
Total interest and dividend income	<u>14,691,425</u>	<u>11,502,174</u>
Interest expense:		
Deposits	2,548,868	2,400,950
Federal Home Loan Bank advances	207,124	137,729
Other short-term borrowings	44,555	34,021
Total interest expense	<u>\$ 2,800,547</u>	<u>\$ 2,572,700</u>
Net interest income	11,890,878	8,929,474
Provision for loan losses	<u>1,318,000</u>	<u>1,010,000</u>
Net interest income after provision for loan losses	<u>10,572,878</u>	<u>7,919,474</u>
Noninterest income:		
Service charges on deposit accounts	113,709	110,787
Other service charges and fees	28,856	22,360
Gain (loss) on sale of securities available for sale	222,480	(4,063)
Other operating income	2,484	26,812
Total noninterest income	<u>367,529</u>	<u>155,896</u>
Noninterest expenses:		
Salaries and benefits	4,339,322	3,496,922
Legal and professional	221,325	270,119
Rent and occupancy	711,436	570,801
Furniture and equipment expenses	452,726	329,723
Marketing and business development	220,925	147,212
Insurance	28,731	20,518
Data processing	461,528	186,711
FDIC insurance	246,101	322,530
Franchise taxes	266,000	212,076
Loss (gain) on other real estate	90,280	(20,187)
Other operating expenses	674,613	781,556
Total noninterest expenses	<u>7,712,987</u>	<u>6,317,981</u>
Income before income taxes	3,227,420	1,757,389
Income tax expense (benefit)	<u>1,248,136</u>	<u>(1,969,093)</u>
Net income	<u>\$ 1,979,284</u>	<u>\$ 3,726,482</u>
Earnings per Share, basic	\$ 0.49	\$ 1.01
Earnings per Share, diluted	\$ 0.49	\$ 1.01

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

John Marshall Bank
Statements of Cash Flows
For the Nine months Ended September 30, 2011 and 2010
(Unaudited)

	September 30, 2011	September 30, 2010
Cash Flows from Operating Activities		
Net income	\$ 1,979,284	\$ 3,726,482
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	209,202	260,295
Provision for loan losses	1,318,000	1,010,000
Stock compensation expense	262,391	140,507
(Gain) loss realized on available for sale securities	(222,480)	4,063
Net amortization of securities	34,120	52,734
(Gain) loss on other real estate	90,280	(20,187)
Changes in assets and liabilities:		
(Increase) in accrued interest receivable	(373,370)	(201,150)
Decrease in other assets	178,191	274,743
Increase in accrued interest payable	84,786	71,158
Increase in other liabilities	393,871	72,423
Net cash provided by operating activities	\$ 3,954,275	\$3,421,975
Cash Flows from Investing Activities		
(Increase) in interest bearing deposits in banks	\$ (4,383,223)	\$ (865,861)
Net (increase) in loans	(82,544,506)	(61,587,484)
Purchase of available-for-sale securities	(13,695,309)	(11,526,119)
Proceeds from sales of securities available-for-sale	4,581,062	2,060,000
Proceeds from maturities, calls and principal repayments of available-for-sale securities	4,772,351	7,660,532
Proceeds from maturities, calls and principal repayments of held-to-maturity securities	995,171	551,752
Net (purchase) of restricted securities	(487,550)	(258,650)
Proceeds from sale of other real estate	460,229	298,786
Purchases of bank premises and equipment	(1,149,857)	(279,408)
Net cash used in investing activities	\$ (91,451,632)	\$ (63,946,452)
Cash Flows from Financing Activities		
Net increase in deposits	75,396,422	60,137,296
Proceeds of FHLB advances	6,000,000	2,100,000
Decrease in federal funds purchased	--	(160,000)
Increase (decrease) in repurchase agreements	(1,117,914)	2,662,838
Issuance of common stock	10,565,750	--
Net cash provided by financing activities	\$ 90,844,258	\$ 64,740,134
Net increase in cash and cash equivalents	3,346,901	4,215,657
Cash and cash equivalents at beginning of period	929,371	1,315,672
Cash and cash equivalents at end of period	\$ 4,276,272	\$ 5,531,329
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	\$ 2,715,761	\$ 2,501,542
Income taxes	\$ 951,738	\$ -
Supplemental Disclosures of Noncash Transactions		
Other real estate acquired in settlement of loans	\$ 635,991	\$ 308,712
Unrealized gain on securities available for sale	\$ 267,148	\$ 312,542

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 September 30, 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 to purchase up to 705,555 shares of common stock may be granted to employees and directors. 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 for 2011 grants:

Dividend yield	0.00%
Expected life	7.50 years
Expected volatility	30.00%
Risk-free interest rate	1.43%

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	18,500	\$10.78		
Exercised	--	--		
Forfeited	--	--		
Expired	--	--		
Outstanding at September 30, 2011	456,037	\$10.04	8.07	\$438,720
Options exercisable at September 30, 2011	161,740	\$10.00	6.94	\$161,740

Weighted-average fair value of options granted during nine months ended September 30, 2011 \$ 4.09

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 September 30, 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 \$985 thousand at September 30, 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.

	Nine months Ended September 30,	
	2011	2010
Weighted average shares outstanding – basic	4,070,347	3,707,710
Weighted average shares outstanding – diluted	4,070,347	3,707,710
Net income	\$1,979,284	\$3,726,482
Basic income per share	\$0.49	\$1.01
Diluted income per share	\$0.49	\$1.01

Options to purchase 431,787 and 456,037 shares of common stock were excluded from the calculation of diluted earnings per share for the nine months ended September 30, 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

The following tables present, as of September 30, 2011 and December 31, 2010, the total allowance for loan losses, the allowance by impairment methodology, and loans by impairment methodology:

	September 30, 2011 (in thousands)						Total
	Real Estate			Commercial and Industrial	Consumer	Unallocated	
	Commercial	Construction and Land Development	Residential				
Allowance for loan losses:							
Beginning Balance, December 31, 2010	\$ 1,011	\$ 408	\$ 369	\$ 1,388	\$ 14	\$ 21	\$ 3,211
Charge-offs	--	--	--	--	--	--	--
Recoveries	--	--	--	19	4	--	23
Provision	778	327	(136)	365	(1)	(15)	1,318
Ending Balance, September 30, 2011	<u>\$ 1,789</u>	<u>\$ 735</u>	<u>\$ 233</u>	<u>\$ 1,772</u>	<u>\$17</u>	<u>\$ 6</u>	<u>\$ 4,552</u>
Individually evaluated for impairment	\$ 10	\$ --	\$ 37	\$ 856	\$ --	\$ --	\$ 903
Collectively evaluated for impairment	1,779	735	196	916	17	6	3,649
Financing Receivables:							
Ending Balance, September 30, 2011	\$203,572	\$73,428	\$15,847	\$62,056	\$1,190	\$ --	\$356,093
Individually evaluated for impairment	\$ 1,015	\$ --	\$ 894	\$ 2,365	\$ --	\$ --	\$ 4,274
Collectively evaluated for impairment	202,557	73,428	14,953	59,691	1,190	-	351,819

December 31, 2010
(in thousands)

	Real Estate						Total
	Commercial	Construction and Land Development	Residential	Commercial and Industrial	Consumer	Unallocated	
Allowance for loan losses:							
Ending Balance, December 31, 2010	\$ 1,011	\$ 408	\$ 369	\$ 1,388	\$ 14	\$ 21	\$ 3,211
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, December 31, 2010	\$ 146,737	\$ 53,922	\$ 14,748	\$ 57,669	\$991	\$ --	\$ 274,067
Individually evaluated for impairment	\$ --	\$ 649	\$ 1,475	\$ 755	\$ --	\$ --	\$ 2,879
Collectively evaluated for impairment	146,737	53,273	13,273	56,914	991	--	271,188

The negative provision indicated above with respect to the Residential Real Estate and Consumer segments reflects a decline in loss factors used to estimate losses in these loan classes during the first nine months of 2011. 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 nine months of 2011. The provision indicated with respect to the Commercial and Industrial Segment is primarily related to specific reserves allocated to classified credits. 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.

Impaired loans and the related allowance at September 30, 2011 and December 31, 2010, were as follows:

	September 30, 2011 (in thousands)						
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Real Estate							
Commercial	\$ 1,015	\$ --	\$ 1,015	\$ 1,015	\$ 10	\$ 1,015	\$ 24
Construction and land development	--	--	--	--	--	--	--
Residential	894	--	894	894	37	901	31
Commercial & Industrial	2,372	--	2,365	2,365	856	2,307	--
Consumer	--	--	--	--	--	--	--
Total Impaired Loans	<u>\$ 4,281</u>	<u>\$ --</u>	<u>\$ 4,274</u>	<u>\$ 4,274</u>	<u>\$ 903</u>	<u>\$ 4,223</u>	<u>\$ 55</u>

	December 31, 2010 (in thousands)						
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Real Estate							
Commercial	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Construction and land development	652	--	649	649	5	637	--
Residential	1,475	--	1,475	1,475	62	1,486	39
Commercial & Industrial	755	--	755	755	196	716	--
Consumer	--	--	--	--	--	--	--
Total Impaired Loans	<u>\$ 2,882</u>	<u>\$ --</u>	<u>\$ 2,879</u>	<u>\$ 2,879</u>	<u>\$ 263</u>	<u>\$ 2,839</u>	<u>\$ 39</u>

As of September 30, 2011 loans classified as troubled debt restructurings in impaired loans in the disclosure above totaled \$2.6 million. At September 30, 2011, \$1.6 million of the loans classified as troubled debt restructurings were

in compliance with the modified terms. There were \$908 thousand in troubled debt restructurings at December 31, 2010. At September 30, 2011 and December 31, 2010, respectively, the Bank had \$894,111 and \$907,598 in residential mortgages that were modified in troubled debt restructurings and impaired. As of September 30, 2011, these were performing pursuant to terms and conditions of the restructuring. The following table provides further information regarding our troubled debt restructurings during the first nine months of 2011.

	September 30, 2011 (in thousands)		
	Number of Contracts	Pre- modification outstanding recorded investment	Current recorded investment
Real Estate			
Commercial	1	\$ 1,015	\$ 1,015
Construction and land development	--	--	--
Residential	--	--	--
Commercial & Industrial	2	647	647
Consumer	--	--	--
Total Impaired Loans	<u>3</u>	<u>\$ 1,662</u>	<u>\$ 1,662</u>

The table below shows troubled debt restructurings that subsequently defaulted within first twelve months after modification during nine months ended September 30, 2011:

	September 30, 2011 (in thousands)	
	Number of Contracts	Recorded Investment
Real Estate		
Commercial	1	\$ 1,015
Construction and land development	--	--
Residential	--	--
Commercial & Industrial	--	--
Consumer	--	--
Total Impaired Loans	<u>1</u>	<u>\$ 1,015</u>

The commercial real estate troubled debt restructuring referenced above was current as to contractual principal and interest payments as of September 30, 2011. The default was related to failure to establish certain reserve funds as part of the restructuring terms and conditions.

Following is a summary of past due and non-accrual loans by class as of September 30, 2011 and December 31, 2010:

	September 30, 2011 (in thousands)							90-Days Past Due and Still Accruing	Nonaccrual Loans
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans			
Real Estate									
Commercial	\$ --	\$ 878	\$ --	\$ 878	\$ 202,694	\$ 203,572	\$ --	\$ --	
Construction and land development	--	--	--	--	73,428	73,428	--	--	
Residential	--	--	--	--	15,847	15,847	--	--	
Commercial & Industrial	1,718	--	--	1,718	60,338	62,056	--	2,365	
Consumer	--	3	--	3	1,187	1,190	--	--	
Total	<u>\$ 1,718</u>	<u>\$ 881</u>	<u>\$ --</u>	<u>\$ 2,599</u>	<u>\$ 353,494</u>	<u>\$ 356,093</u>	<u>\$ --</u>	<u>\$ 2,365</u>	

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>
Real Estate								
Commercial	\$ --	\$ --	\$ --	\$ --	\$ 146,738	\$ 146,738	\$ --	\$ --
Construction and land development	--	--	--	--	53,922	53,922	--	--
Residential	--	--	568	568	14,180	14,748	--	568
Commercial & Industrial	--	731	--	731	56,938	57,669	--	1,404
Consumer	--	--	--	--	991	991	--	--
Total	<u>\$ --</u>	<u>\$ 731</u>	<u>\$ 568</u>	<u>\$ 1,299</u>	<u>\$ 272,768</u>	<u>\$274,067</u>	<u>\$ --</u>	<u>\$ 1,972</u>

Following is a summary of the Bank's credit quality information for loans by class as of September 30, 2011 and December 31, 2010:

September 31, 2011
(in thousands)

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
Real Estate						
Commercial	\$ 200,886	\$ 1,808	\$ 1,893	\$ --	\$ --	\$ 204,587
Construction and land development	72,240	172	--	--	--	72,412
Residential	13,978	755	1,113	--	--	15,846
Commercial & Industrial	58,694	388	1,197	1,779	--	62,058
Consumer	1,190	--	--	--	--	1,190
Total	<u>\$ 346,988</u>	<u>\$ 3,123</u>	<u>\$ 4,203</u>	<u>\$ 1,779</u>	<u>\$ --</u>	<u>\$ 356,093</u>

December 31, 2010
(in thousands)

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
Real Estate						
Commercial	\$ 145,722	\$ --	\$ 1,015	\$ --	\$ --	\$ 146,737
Construction and land development	52,603	670	649	-	-	53,922
Residential	12,853	765	1,130	-	-	14,748
Commercial & Industrial	\$ 54,832	\$ 1,270	\$ 1,467	\$ 100	\$ -	\$ 57,669
Consumer	991	-	-	-	-	991
Total	<u>\$ 267,001</u>	<u>\$ 2,705</u>	<u>\$ 4,261</u>	<u>\$ 100</u>	<u>\$ --</u>	<u>\$274,067</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.

Note 5. Capital Offering

On June 24, 2011, the Bank completed a capital offering which raised \$10.6 million net of offering cost. The Bank sold an aggregate of 1.0 million shares of common stock, 760,881 shares in a rights offering to existing shareholders and Bank employees at a price of \$10.50 per share and 239,119 shares in a public offering at \$11.00 per share. Bank will use the proceeds of the offering to support loan growth and corporate purposes.

Note 6. Recent Relevant Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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, "Receivables (Topic 310) – 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 an entity'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, were 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 2010-28, "Intangible – Goodwill and Other (Topic 350) – 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 ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. 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 2010-29, "Business Combinations (Topic 805) – 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 April 2011, the FASB issued ASU 2011-02, "Receivables (Topic 310) – 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 ASU are effective for the first interim or annual period beginning on or after June 15, 2011. 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 has adopted ASU 2011-02 and included the required disclosures in its financial statements. 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 2011-03, "Transfers and Servicing (Topic 860) – Reconsideration of Effective Control for Repurchase Agreements." The amendments in this ASU remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this ASU are effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Bank is currently assessing the impact that ASU 2011-03 will have on its financial statements.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." This ASU is the result of joint efforts by the FASB and IASB to develop a single, converged fair value framework on how (not when) to measure fair value and what disclosures to provide about fair value measurements. The ASU is largely consistent with existing fair value measurement principles in U.S. GAAP (Topic 820), with many of the amendments made to eliminate unnecessary wording differences between U.S. GAAP and IFRSs. The amendments are effective for interim and annual periods beginning after December 15, 2011 with prospective application. Early application is not permitted. The Bank is currently assessing the impact that ASU 2011-04 will have on its financial statements.

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220) – Presentation of Comprehensive Income." The objective of this ASU is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The single statement of comprehensive income should include the components of net income, a total for net income, the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present all the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The amendments do not change the items that must be reported in other comprehensive income, the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, or the calculation or reporting of earnings per share. The amendments in this ASU should be applied retrospectively. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2011. Early adoption is permitted because compliance with the amendments is already permitted. The amendments do not require transition disclosures. The Bank is currently assessing the impact that ASU 2011-05 will have on its financial statements.

In September 2011, the FASB issued ASU 2011-08, "Intangible – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment." The amendments in this ASU permit an entity to first assess qualitative factors related to goodwill to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this ASU, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in this ASU are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The adoption of the release did not have a material impact on the Bank's 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 nine months of 2011. Net loans and deposits increased by 29.8% during the first nine months of 2011. The increase in loans and deposits experienced during 2010, and continuing in the first nine months of 2011, combined with an improving net interest margin, resulted in an increase in the Bank’s net interest income of 33.2% during the first nine months of 2011, compared to the first nine months of 2010. Increased operating expenses associated with additional personnel and branch expansion during 2010 and 2011 resulted in an increase in non-interest expense of 22.1% during the first nine months of 2011, compared to the first nine months of 2010.

Key measurements and events for the period include the following:

- Total assets at September 30, 2011 increased by 30.3% to \$403.6 million as compared to \$309.9 million as of December 31, 2010.
- Net loans outstanding increased by 29.8% from \$270.5 million as of December 31, 2010 to \$351.0 million as of September 30, 2011.
- Deposits at September 30, 2011 were \$328.8 million, an increase of \$75.4 million or 29.8% from December 31, 2010.
- In June 2011, the Bank successfully completed an offering of one million new common shares, raising \$10.6 million in new capital.
- Net interest income, the Bank’s main source of income, increased 33.2% to \$11.9 million during the nine month period ended September 30, 2011, compared to \$8.9 million during the nine month period ended September 30, 2010. The Bank’s net interest margin improved to 4.65% during the first nine months of 2011, compared to 4.54% during the first nine months of 2010.
- Non-interest income for the nine months ended September 30, 2011 was \$368 thousand, up \$212 thousand as compared to \$156 thousand for the nine month period ended September 30, 2010. The increase in non-interest income reflects \$222 thousand of non-interest income due to gains on the sale of investment securities realized during the nine months ended September 30, 2011.
- Non-interest expenses increased by \$1.4 million or 22.1%, for the nine months ended September 30, 2011, as compared to the same period in 2010.

- The Bank had net income before taxes of \$3.2 million during the nine month period ended September 30, 2011, an improvement of \$1.5 million as compared to \$1.8 million realized during the nine months ended September 30, 2010.
- Asset quality remains strong. As of September 30, 2011, the Bank's non-performing assets and past due loans were 1.36% of total loans, compared to 1.22% as of December 31, 2010. There were no loan charge-offs during the first nine months of 2011, compared to loan charge-offs of \$271 thousand during the first nine months of 2010.
- The Bank incurred a federal income tax expense of \$1.2 million during the nine month ended September 30, 2011 as compared to a tax benefit of 2.0 million in the same period in 2010 relating to the elimination of the valuation allowance on the Bank's deferred tax assets. The Bank 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 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, 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 September 30, 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 has issued options to purchase 456,037 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. The stock-based compensation costs associated with the issuance of options, during the nine months ended September 30, 2011, were \$262 thousand, compared to \$140 thousand for the nine months ended September 30, 2010. The remaining amount to be expensed over the remaining vesting period as of September 30, 2011 was \$985 thousand.

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 \$2.0 million for the nine-month period ended September 30, 2011 as compared to \$3.7 million during the nine-month period ended September 30, 2010, which included a \$2.3 million income tax benefit. Net interest income increased by \$3.0 million during the first nine months of 2011, as compared to the first nine 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.

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		Year Ended December 31, 2010
	Nine months Ended September 30, 2011	2010	
Return on Average Equity	6.85%	16.16%	13.74%
Return on Average Assets	0.75%	1.84%	1.54%
Ratio of Average Equity to Average Assets	11.00%	11.41%	11.19%

Nine months Ended September 30, 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 and investment securities. Interest-bearing liabilities consist primarily of savings accounts, money market accounts, certificates of deposit, Federal Home Loan Bank advances and repurchase agreements. 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 nine months of 2011 compared to the first nine 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 \$147 thousand for the first nine months of 2011 and \$117 thousand for the first nine months of 2010.

	Nine months Ended September 30, 2011			Nine months Ended September 30, 2010		
	Average Balance	Interest Income- Expense	Average Yields /Rates	Average Balance	Interest Income- Expense	Average Yields /Rates
(Dollars in thousands)						
Assets						
Securities	\$28,325	\$568	2.68%	\$24,313	\$575	3.15%
Loans, net of unearned income	303,569	14,105	6.21%	233,120	10,917	6.24%
Interest-bearing deposits in other banks	10,069	19	0.25%	4,928	10	0.27%
Federal funds sold	0	0	0.00%	147	0	0.00%
Total interest-earning assets	\$341,963	\$14,692	5.74%	\$262,508	\$11,502	5.84%
Other assets	9,326			6,924		
Total assets	\$351,289			\$269,432		
Liabilities & Stockholders' Equity						
Interest-bearing deposits						
NOW accounts	\$6,165	\$22	0.48%	\$3,594	\$13	0.48%
Money market accounts	92,097	813	1.18%	69,295	735	1.41%
Savings accounts	4,149	28	0.90%	6,929	42	0.81%
Time deposits	138,600	1,686	1.63%	116,051	1,611	1.85%
Total interest-bearing deposits	\$241,011	\$2,549	1.41%	\$195,869	\$2,401	1.64%
Securities sold under agreement to repurchase and federal funds purchased	8,774	45	0.69%	6,696	34	0.66%
Other borrowed funds	16,450	207	1.68%	8,669	138	2.14%
Total interest-bearing liabilities	\$266,235	\$2,801	1.41%	\$211,234	\$2,573	1.62%
Demand deposits and other liabilities	46,401			27,453		
Total liabilities	\$312,636			\$238,687		
Stockholders' equity	38,653			30,745		
Total liabilities and stockholders' equity	\$351,289			\$269,432		
Interest rate spread			4.33%			4.22%
Net interest income and margin		\$11,891	4.65%		\$8,929	4.54%

(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 was primarily driven by an increase in average loans and resulted in substantially higher interest income during the first nine months of 2011. Total interest income increased by \$3.2 million, or 27.8%, for the nine-month period ended September 30, 2011 as compared the same period in 2010.

Interest expense increased by \$228 thousand or 8.9% to \$2.8 million for the nine months ended September 30, 2011 as compared to \$2.6 million during the first nine 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 1.64% during the first nine months of 2010 to 1.41% during the first nine months of 2011. The substantial decrease in the Bank's cost of funds was due primarily to Federal Reserve monetary policy actions which have maintained a low interest rate environment and flattened yield curve.

Net interest income for the nine-month period ended September 30, 2011 was \$11.9 million as compared to \$8.9 million for the same period in 2010, an increase of 33.2%. 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 4.54% during the first nine months of 2010 to 4.65% during the first nine months of 2011.

Provision for Loan Losses.

The provision for loan losses was \$1.3 million during the nine month period ended September 30, 2011 as compared to \$1.0 million during the nine months ended September 30, 2010. The increase in the provision for loan losses during the first nine months of 2011 reflects a net increase of \$20.9 million in new gross loan production during the first nine months of 2011 compared to the first nine months of 2010, and management's current assessment of portfolio loan mix and estimated loss factors for individual loan pools. Additional details regarding the provision for loan losses are provided below.

Non-Interest Income.

Non-interest income totaled \$368 thousand for the nine-months ended September 30, 2011 as compared to \$156 thousand during the nine months ended September 30, 2010. For the nine months ended September 30, 2011, the Bank realized a gain on the sale of investments securities of \$222 thousand as compared to a gain on the sale of an SBA-guaranteed loan of \$24 thousand for the same period in 2010. Deposit account service charges amounted to \$114 thousand during the nine months ended September 30, 2011 as compared to \$111 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 decreased by \$25 thousand during the first nine months of 2011, as compared to the first nine months of 2010.

Non-Interest Expense.

Non-interest expense totaled \$7.7 million for the nine-month period ended September 30, 2011 as compared to \$6.3 million for the same period in 2010, a 22.1% increase. Compensation and benefit expense increased \$842 thousand, a 24.1% increase, representing increased staffing required to support the increase in the Bank's loan and deposit portfolios and new offices, and the impact of \$217 thousand of compensation expense related to option grants, as compared to \$140 thousand during the same period in 2010. Occupancy expense increased \$140 thousand, a 24.6% increase, reflecting expenses associated with the new full service branch – a Reston, Virginia branch that opened in August 2011, a Rockville, Maryland branch that opened in October 2010 and a Washington, DC loan production office that opened in February 2010. For the nine months ended September 30, 2011, the Bank realized a \$90 thousand loss on the sale of other real estate owned as compared to a gain of \$20 thousand for the same period in 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 State franchise taxes due to higher capital levels resulting from the Bank's June 2011 stock offering. For the first nine months of 2011, the Bank's FDIC insurance assessments totaled \$246 thousand, as compared to \$323 thousand for the first nine months of 2010. Starting on April 1, 2011, the FDIC annualized assessment rate decreased to 6 basis points compared to 16 basis points during the same period in 2010. Additionally, the new base for deposit insurance assessment is computed by using the average consolidated total assets less Tier 1 capital during the assessment period, as compared to deposit levels.

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 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 nine months ended September 30, 2011, the Bank recognized a provision for federal income taxes of \$1.2 million.

FINANCIAL CONDITION.

General. The Bank's assets at September 30, 2011 were \$403.6 million, an increase of \$93.8 million or 30.3%, from December 31, 2010. Gross loans totaled \$355.6 million comprised primarily of mortgage loans on real estate of \$292.8 million, an increase of \$77.4 million, or 36.0%, from December 31, 2010 and commercial loans of \$62.1 million, an increase of \$4.4 million, or 7.6% from December 31, 2010. At September 30, 2011, deposits totaled \$328.8 million, an increase of \$75.4 million, or 29.8%, from December 31, 2010. Deposits at September 30, 2011 are comprised primarily of certificates of deposit of \$166.2 million, savings and money market accounts of \$104.4 million, and noninterest bearing deposits and NOW accounts of \$58.1 million.

Loan Portfolio. The loan portfolio is the largest component of earning assets and accounts for the greatest portion of total interest income. At September 30, 2011, net loans were \$351.0 million, a 29.8% 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 since 2008 who have been successful in moving long-time customer relationships to the Bank.

The composition of the loan portfolio as of September 30, 2011 and December 31, 2010 is summarized as follows:

<i>Dollars in thousands</i>	September 30, 2011		December 31, 2010	
	Balance	% of Loans	Balance	% of Loans
Mortgage loans on real estate:				
Residential 1-4 family	\$12,233	3.4%	\$10,329	3.8%
Commercial	203,572	57.6%	147,666	53.8%
Construction	73,428	20.3%	53,922	19.7%
Second mortgages	778	0.2%	795	0.3%
Residential equity loans	2,836	0.8%	2,695	1.0%
Total mortgage loans on real estate	\$292,847	82.2%	\$215,407	78.6%
Commercial loans	62,056	17.4%	57,681	21.0%
Loans to individuals for household, family and other personal expenditures	1,190	0.3%	991	0.4%
Total loans	\$356,093	100.0%	274,079	100.0%
Less: Allowance for loan losses	(4,552)		(3,211)	
Net deferred loan fees	(531)		(395)	
Net loans	\$351,010		\$270,473	

As of September 30, 2011, commercial real estate loans consist of \$73.4 million in construction and land development loans and \$203.6 million in commercial mortgages, \$49.3 million of which were owner-occupied properties. Commercial loans consisted of \$41.4 million in commercial lines of credit to support working capital and \$20.7 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 September 30, 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
	\$110,076	\$206,079	\$39,938	\$356,093

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 September 30, 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: 1.00%; home equity loans: 2.28%; residential mortgages: 1.00%; and consumer loans: 1.50%. The weighted average loss ratio across all categories of loans was 1.03% as of September 30, 2011, compared to 1.08% as of December 31, 2010. The decrease in the weighted average loss ratio was due to a decline in historical peer group loan loss factors since the end of the prior year.

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 \$1.3 million during the nine months ended September 30, 2011 as compared to \$1.0 million for the nine months ended September 30, 2010 – an increase of 31.8%. The allowance for loan losses represents 1.28% and 1.17% of loans receivable at September 30, 2011 and December 31, 2010, respectively. The increase in the allowance for loan losses as a percentage of total loans from December 31, 2010 to September 30, 2011 reflects management's current assessment of inherent losses on criticized and classified loans, and qualitative factors related to portfolio composition. The Bank reported no charged off loans during the first nine months of 2011, compared to \$272 thousand reported during the first nine months of 2010. 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>	Nine months Ended September 30, 2011	Year Ended December 31, 2010
Allowance, beginning of period	\$ 3,211	\$ 2,291
Charge-Offs		
Real estate loans	\$ --	\$ 98
Commercial loans	--	174
Consumer loans	--	--
Total charge-offs	\$ --	\$ 271
Recoveries		
Real estate loans	\$ --	\$ 27
Commercial loans	19	20
Consumer loans	4	3
Total recoveries	23	\$ 50
Net (recoveries) charge-offs	\$ (23)	\$ 221
Provision for loan losses	1,318	1,141
Allowance, end of period	\$ 4,552	\$ 3,211
Ratio of net (recoveries) charge-offs to average total loans outstanding during period	(0.01)%	0.09%

Additionally, the Bank has established a reserve for unfunded commitments that is recorded by a provision charged to other expenses. At September 30, 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 at the dates indicated:

(Dollars in thousands)	Analysis of Non-performing Assets	
	September 30, 2011	December 31, 2010
Non-accrual loans ¹	\$ 2,365	\$ 1,972
Restructured loans (accruing interest)	1,910	909
Total non-performing loans	\$ 4,275	\$ 2,881
Other real estate owned	562	464
Total non-performing assets	\$ 4,837	\$ 3,345
Loans past due 90 days and still accruing	--	--
Total non-performing assets and past due loans	\$ 4,837	\$ 3,345
Allowance for loan losses to total loans	1.28%	1.17%
Allowance for loan losses to non-performing loans	106.48%	111.46%
Non-performing assets and past due loans to total loans	1.36%	1.22%
Non-performing assets and past due loans to total assets	1.20%	1.08%

¹Includes \$647 thousand in restructured loans on non-accrual status

Non-accrual loans as of September 30, 2011 consist of two commercial loans to the same borrower, totaling \$647 thousand, secured by the guarantors' primary residence that was restructured during the third quarter of 2011, and one commercial loan, secured by a general lien on business assets, with a balance of \$1.7 million. The restructured loans that are accruing interest include three residential mortgages, totaling \$894 thousand that carry 35% mortgage insurance coverage, and were restructured over the course of 2009 to provide payment relief to the borrowers and allow them to stay in their homes. Restructured loans that are accruing interest also include a \$1.0 million commercial real estate participation loan secured by a hotel property that was restructured during the third quarter of 2011. The other real estate owned consists of a single family residence foreclosed in June 2011. This property was under contract for sale as of September 30, 2011 and subsequently settled in October 2011 with a loss on sale of approximately \$5 thousand. The Bank sold a single family residence in June 2011 for \$205 thousand, realizing a gain on the sale of \$23 thousand. Specific reserves have been established for all non-performing assets 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 September 30, 2011, the Bank had three loans past due 30-89 days totaling \$2.6 million, compared to three loans past due 30-89 days totaling \$731 thousand as of December 31, 2010. The increase in loans past due 30-89 days during the first nine months of 2011 is due to two loans to related entities totaling \$2.6 million migrating to past due status during the third quarter of 2011. One of the loans, totaling \$1.7 million, was on non-accrual status as of September 30, 2011. The three loans totaling \$731 thousand that were past due as of December 31, 2010 were in compliance with repayment terms as of September 30, 2011.

The \$393 thousand increase in non-accrual loans since December 31, 2010 is attributed to the net effect of the payoff and collection of all past due interest of a commercial and industrial loan totaling \$100 thousand during the first quarter of 2011; 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; the transfer to other real estate owned, during the second quarter of 2011, of a loan on a single family residence with a balance of \$636 thousand; and the previously mentioned addition of a \$1.7 million commercial loan to non-accrual status during the third quarter of 2011.

The \$1.0 million increase in restructured loans since December 31, 2010 is attributed to the restructuring of a \$1.0 million commercial real estate participation loan secured by a hotel property that was modified during the third quarter of 2011.

Loans are added to the watch list when they are identified to be problem assets. Each watch list credit is reviewed individually and a specific reserve is established. During the period ended in September 30, 2011, a commercial and industrial loan, totaling \$1.7 million, and a related owner-occupied commercial mortgage, totaling \$878 thousand, was added to watch list credits due to declining cash flow from the underlying operating company. Both loans were past due 30-89 days at September 30, 2011. The commercial and industrial loan is under-collateralized and was placed on non-accrual status during the third quarter. The

commercial mortgage is well secured by the underlying real estate collateral and remains on accrual status as of September 30, 2011.

Investment Portfolio. At September 30, 2011 the carrying value of the investment securities portfolio was \$29.1 million, an increase of \$3.8 million from the carrying value of \$25.3 million at December 31, 2010. The increase in the securities portfolio during the first nine months of 2011 is primarily attributed to purchases of state and U.S. government agency securities net of regular pay-downs on mortgage backed securities. The Bank currently classifies \$22.3 million of its securities portfolio as available for sale and \$6.8 million as held to maturity. All mortgage backed securities in the Bank's portfolio consist of conventional mortgage loan pools packaged and sold guaranteed 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			
September 30, 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	\$14,600	65.5%	\$12,906
Mortgage backed debt securities	3,806	17.0%	4,100
Municipal securities	3,891	17.5%	509
	22,297	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	\$6,770	100.0%	\$7,770
	\$6,770	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 September 30, 2011, the Bank had a net unrealized gain on its securities portfolio of \$628 thousand. 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 September 30, 2011.

Deposits. Deposits are the major source of funds for lending and investment activities. Deposits increased \$75.4 million, or 29.8%, to \$328.8 million at September 30, 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:

September 30, 2011		December 31, 2010	
Balance	% of Total Deposits	Balance	% of Total Deposits
<i>(Dollars in thousands)</i>			
Noninterest-bearing demand deposits	\$ 48,640	14.9%	\$ 30,464
Interest-bearing demand deposits:			
NOW accounts	9,464	2.9%	5,633
Money market accounts	100,072	30.4%	81,911
Savings accounts	4,346	1.3%	4,104
Certificates of deposit:			
\$100,000 or more	80,113	24.4%	61,701
Less than \$100,000	23,719	7.2%	17,655
QwickRate Certificates of Deposit (1)	14,719	4.5%	24,071
CDARS(2)	40,742	12.4%	24,013
Brokered Deposits(3)	6,941	2.1%	3,808
Total deposits	\$328,756	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 September 30, 2011, QwickRate® CD's in denominations of less than \$100,000 totaled \$500 thousand and QwickRate® CD's of \$100,000 or more totaled \$14.2 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 September 30, 2011, CDARS® in denominations of less than \$100,000 totaled \$1.5 million and CDARS® of \$100,000 or more totaled \$39.2 million.
- (3) Brokered deposits represent deposits purchased from deposit brokers that facilitate the placement of deposits with insured institutions for third parties. The Bank uses brokered deposits, along with wholesale borrowings, as a supplemental source to fund loan growth.

As a result of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”), banks are no longer prohibited from paying interest on demand deposit accounts, including those from businesses, effective in July 2011. To date, the Bank has not elected to pay interest on business customer demand deposits, and payment of interest on such deposits has not become prevalent in the Bank’s market area. 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>	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Securities sold under agreement to repurchase	\$6,219	\$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)	18,000	12,000
Total	<u>\$27,219</u>	<u>\$22,337</u>
Weighted interest rate at period end	1.34%	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 September 30, 2011, the Bank’s cash and cash equivalents totaled \$4.3 million, an increase of \$3.3 million from December 31, 2010. Interest bearing deposits maintained at correspondent banks totaled \$10.0 million at September 30, 2011, an increase of \$4.4 million from December 31, 2010. As of September 30, 2011 the Bank maintained \$9.4 million of interest bearing deposits 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 September 30, 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 September 30, 2011. In addition, at September 30, 2011, the Bank had \$32.6 million available borrowing capacity from the FHLB, secured by the Bank’s commercial and residential real estate loan portfolios; and \$37.0 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 September 30, 2011 totaled \$2.9 million (\$2.2 million at December 31, 2010), \$777 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 September 30, 2011 totaled \$62.8 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 September 30, 2011, the Bank was in full compliance with these guidelines, as follows:

	<u>Minimum Ratios</u>			
	<u>September 30, 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):	13.3%	12.1%	8.0%	10.0%
Tier 1 Capital (to Risk Weighted Assets):	12.1%	11.0%	4.0%	6.0%
Tier 1 Capital (to Average Assets):	12.1%	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, land development and commercial real estate loans.

In June 2011, the Bank completed a capital offering which raised \$10.6 million net of offering costs. The Bank sold an aggregate of 1.0 million shares of common stock, 760,881 shares in a rights offering to existing shareholders and Bank employees at a price of \$10.50 per share and 239,119 shares in a public offering at \$11.00 per share. The proceeds of the offering will be used to support loan growth and for general corporate purposes.

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 September 30, 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.* In June 2011, the Bank issued an aggregate of 1.0 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. Of the total shares sold, 708,763 shares were sold on a rights offering basis to existing shareholders at a price of \$10.50 per share and 291,237 shares in a general public offering at \$11.00 per share, resulting in net proceeds, after expenses, of approximately \$10.6 million. 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.

(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: November 14, 2011

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

Date: November 14, 2011

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