



MAINSTREET
BANKSHARES, INC.

2010 ANNUAL REPORT

MAIN STREET BANKSHARES, INC.

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Martinsville, Virginia 24112
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www.msbsinc.com

FRANKLIN COMMUNITY BANK, N.A. BANKING OFFICES • WWW.FCBVA.COM



Rocky Mount Main Office
400 Old Franklin Turnpike, Suite 100
Rocky Mount, Virginia 24151
540-489-3400



Westlake Towne Center Office
12930 Booker T. Washington Hwy.
Hardy, Virginia 24101
540-721-1600



Southlake Office
25 Southlake Drive
Union Hall, Virginia 24176
540-576-1218

March 31, 2011

From the desk of Larry A. Heaton,

*President & Chief Executive Officer,
MainStreet BankShares, Inc. and Franklin Community Bank, N.A.*

Fellow Shareholders,

While our financial results for 2010 showed improved performance, we continue to deal with the lingering effects of the recession. Stubborn levels of nonperforming loans and other real estate pose ongoing challenges as our Company and industry work through this period.

Your Company earned \$791,538 or \$.46 per share in 2010 compared to \$71,577 or \$.04 per share in the previous year. The book value of your investment grew from \$12.71 at December 31, 2009 to \$12.89 at December 31, 2010. Our Company remained well capitalized with actual tier one capital at 10.26%, tier one capital to risk based assets at 14.09%, and tier two capital to risk based assets at 15.35% at year-end 2010. All of these numbers exceed the well capitalized definition under regulatory guidelines.

Our balance sheet and income statement continue to reflect the “New Normal” in banking. Characteristics of the “New Normal” include slower growth opportunities

and higher levels of liquidity. For the year, the balance sheet contracted almost 5%. On the deposit side, we maintained a sharp focus on our deposit pricing which caused some run off of higher cost certificates of deposit in the fourth quarter. Our strategy was effective in lowering our overall costs of funds. In addition, I am pleased that we were able to grow our core relationships evidenced by an over 10% increase in demand deposits from year-end 2009. On the lending side, loans were down based upon continued consumer deleveraging and fewer new loan opportunities.

It appears that the overall economy is slowly gaining momentum fueled by the recent extension of the tax credits and improving consumer confidence. In our market, housing and real estate remain the key to a vital recovery. Unfortunately, it continues to lag the broader recovery based on a fundamental oversupply and continued price declines. Locally, the sales and absorption rate of existing housing and vacant lots did not measurably improve in 2010 and I believe we will

MAINSTREET BANKSHARES, INC. EXECUTIVE/ADMINISTRATION

Executive/Administration

(Standing L to R): Sonya Smith, Judy McNeely.

(Seated L to R): Brenda Smith, Lisa Correll.

Loan Review

(L to R): Chuck Reedy, Richard Prillaman.

Loan Operations

(Standing L to R): Michelle Lamm, Tammy Hensley, Lisa Haylette, Susan Hager, Dustin Carter. (Seated L to R): Freda Scott, Susan Hatchett, Elizabeth Kuykendall.

Deposit Operations

(Standing L to R): Tonya Pruitt, Erma Radford, Connie Gravely. (Seated L to R): Kathy Martin, Tiffanie Hairston.





see only modest gains in 2011. Despite the fact that mortgage rates remain near historic lows, consumers remain reluctant to spend on housing.

While I am pleased with the improvement in our net income, there is still work to do. Asset quality improvement, lower loan loss provisions, and sales of our other real estate remain keys to future earnings gains. Nonperforming assets (nonaccrual loans, loans past due 90 days or more, and other real estate) were 6% of assets at year-end 2010. This number remains stubbornly high. While we have had success in selling some of our other real estate, the market remains very soft and price conscious. All of our other real estate properties are listed with local realtors and on our website. We have been mindful of selling properties in a retail environment versus a wholesale or auction environment in an attempt to maximize value for our Company. Our Board of Directors discusses that strategy on a monthly basis weighing the potential benefits versus the cost of ownership. We are hopeful

that with continued low interest rates, along with an improving economy and increasing consumer confidence, we can continue to aggressively market these properties and reduce our levels.

Total non-interest income, excluding securities gains, improved \$402.5 thousand in 2010 over 2009 based on lowered losses and write-downs on other real estate, increased mortgage brokerage income and increased investment management program income. The losses and write-downs on other real estate improved \$193.9 thousand. Mortgage brokerage income increased \$73.8 thousand, or 39%. The investment management program began in the late third quarter of 2009. After a full year of services in 2010, we ended the year with \$22 million in assets under management.

In 2011, we will continue to focus on sources of non-interest income and expense controls. The initiatives that we implemented in the third quarter of last year are now complete. We closed our 220 North location on

MAINSTREET BANKSHARES, INC. OPERATIONS



“Throughout this economic turndown, we have not lost sight of Franklin Community Bank’s role as the leading community Bank in Franklin County.”

November 13, 2010. We have completed consolidation of all of our corporate and operational areas including: Finance and Accounting, Administration, Loan Operations, Deposit Operations, Compliance and Information Technology at our new Spruce Street location in Martinsville. In addition, we completed the imaging of all of our loan files which provides us more timely online access. All of the above will result in operational efficiencies and better risk management.

An unknown dynamic for 2011 will be the gradual rollout of the Financial Regulatory Reform Act. I wrote about this in both the second and third quarter shareholder reports. The new Consumer Financial Protection Bureau is now in its early stages of formation and agency officials are already touting their enforcement mandate. This federal government initiative will result in additional oversight, reporting burden, and cost for our Company. I will keep you informed as we monitor the new regulations.

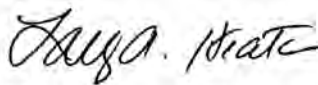
Throughout this economic turndown, we have not lost sight of Franklin Community Bank’s role as the leading community Bank in Franklin County. We continue to work with our clients who are experiencing financial challenges with the goal of a beneficial resolution for the client, our Company, and our shareholders. I would personally like to recognize three of our Bank directors for their community leadership. L. D. Arrington, Danny Perdue and Joel Shepherd provided the initial pledges and Franklin Community Bank provided the

first corporate contribution for the Lights for Life campaign. This is a community fund raising effort to equip all of the intersections in the county with traffic signal changing devices which will be used by responding emergency vehicles when answering calls. I am pleased to report that the goal has been reached and the installation of the devices will begin in the second quarter of 2011.

I would like to thank all of our employees and directors for their commitment to our Company. We are all working toward continued improvement in our financial results. I invite you to visit us on our websites at msbsinc.com and fcbva.com, or on Facebook. We also welcome your visit at one of our banking locations in order to take advantage of the products and services that we offer.

I invite you join me at the Annual Meeting of Shareholders which will be held on May 12, 2011 in Franklin Hall on the campus of Ferrum College in Ferrum, VA.

Sincerely,



Larry A. Heaton
*President and Chief
Executive Officer*



SHAREHOLDER INFORMATION

ANNUAL MEETING

The 2011 Annual Meeting of Shareholders will be held on Thursday, May 12, 2011 at Ferrum College, Franklin Hall, 445 Ferrum Mountain Road, Ferrum, Virginia, 24088 at 2:00 p.m.

REQUESTS FOR INFORMATION

Requests for information about the Company should be directed to Brenda H. Smith, Executive Vice President, Chief Financial Officer and Corporate Secretary, 1075 Spruce Street, Martinsville, Virginia 24112 or telephone (276) 632-7422. A copy of the Company's Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2010 is included in your package along with the 2011 Proxy Statement.

COMMON STOCK MARKET DATA

Our Company's Common Stock is quoted on the OTC Bulletin Board under the symbol MREE.

STOCK TRANSFER AGENT

Registrar and Transfer Company Investor Relations
10 Commerce Drive, Cranford, New Jersey 07016-3572
Telephone: 800-368-5948

INDEPENDENT AUDITORS

Yount, Hyde & Barbour, P.C.
P. O. Box 2560, Winchester, VA 22604

LEGAL COUNSEL

LeClair Ryan
10 S. Jefferson Street
Wachovia Tower
Roanoke, VA 24006

CORPORATE INFORMATION

MainStreet BankShares, Inc.
1075 Spruce Street
Martinsville, Virginia 24112
Telephone: (276) 632-8054

CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
ASSETS		
Cash and due from banks	\$ 2,238,381	\$ 2,304,962
Interest-bearing deposits in banks	8,866,966	20,185,683
Federal funds sold	7,660,000	605,000
Total Cash and Cash Equivalents	<u>18,765,347</u>	<u>23,095,645</u>
Securities available-for-sale, at fair value	27,054,527	23,978,339
Restricted equity securities	996,600	1,063,800
Loans:		
Total Gross Loans	158,745,645	167,211,918
Unearned deferred fees and costs, net	79,176	105,524
Loans, net of unearned deferred fees and costs	<u>158,824,821</u>	<u>167,317,442</u>
Less: Allowance for loan losses	(3,584,180)	(3,277,559)
Net Loans	<u>155,240,641</u>	<u>164,039,883</u>
Bank premises and equipment, net	1,811,673	1,960,706
Accrued interest receivable	725,261	814,931
Other real estate, net of valuation allowance	4,152,667	3,513,485
Other assets	2,849,099	3,905,131
Bank owned life insurance	2,939,590	2,831,493
Total Assets	<u>\$ 214,535,405</u>	<u>\$ 225,203,413</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing demand deposits	\$ 19,357,378	\$ 17,582,511
Interest bearing deposits	<u>158,516,586</u>	<u>171,334,269</u>
Total Deposits	177,873,964	188,916,780
Repurchase agreements	13,500,000	13,500,000
Accrued interest payable and other liabilities	<u>1,071,974</u>	<u>1,009,371</u>
Total Liabilities	<u>192,445,938</u>	<u>203,426,151</u>
Commitments and contingencies	---	---
Shareholders' Equity:		
Preferred stock, no par value, authorized 10,000,000 shares; none issued	---	---
Common stock, no par value, authorized 10,000,000 shares; issued and outstanding 1,713,375 shares in 2010 and 2009, respectively	17,866,890	17,843,650
Retained earnings	4,132,595	3,341,057
Accumulated other comprehensive income	<u>89,982</u>	<u>592,555</u>
Total Shareholders' Equity	<u>22,089,467</u>	<u>21,777,262</u>
Total Liabilities and Shareholders' Equity	<u>\$ 214,535,405</u>	<u>\$ 225,203,413</u>

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2010	Year Ended December 31, 2009
Interest and Dividend Income:		
Interest and fees on loans	\$ 9,588,767	\$ 10,582,260
Interest on interest-bearing deposits	34,501	19,596
Interest on federal funds sold	11,650	8,037
Interest on securities available-for-sale	963,875	1,127,812
Dividends on restricted equity securities	28,215	27,479
	10,627,008	11,765,184
Interest Expense:		
Interest on time deposits \$100,000 and over	1,230,463	1,749,608
Interest on other deposits	1,856,112	2,420,617
Interest on repurchase agreements	538,071	538,071
Interest on short-term borrowings	68	18,319
	3,624,714	4,726,615
Net Interest Income	7,002,294	7,038,569
Provision for loan losses	1,292,100	1,766,300
	5,710,194	5,272,269
Noninterest Income:		
Service charges on deposit accounts	306,532	304,543
Mortgage brokerage income	263,208	189,380
Income on bank owned life insurance	108,097	111,043
Gain on sale of securities available-for-sale	650,626	---
Loss and impairment of other real estate and repossessions	(216,200)	(410,121)
Other fee income and miscellaneous income	378,662	242,986
	1,490,925	437,831
Noninterest Expense:		
Salaries and employee benefits	2,958,062	2,776,062
Occupancy and equipment expense	862,376	817,788
Professional fees	239,221	267,520
Outside processing	457,759	443,849
FDIC Assessment	547,466	460,139
Franchise tax	160,500	167,500
Other real estate and repossessions	141,159	61,329
Other expenses	677,208	640,714
	6,043,751	5,634,901
Net Income Before Tax	\$ 1,157,368	\$ 75,199
Income Tax Expense	365,830	3,622
Net Income	\$ 791,538	\$ 71,577
Basic Net Income Per Share	\$.46	\$.04
Diluted Net Income Per Share	\$.46	\$.04

MAINSTREET BANKSHARES, INC.

FRANKLIN COMMUNITY BANK, N.A.



BOARD OF DIRECTORS

Joseph F. Clark

President/Partial Owner of Clark Brothers Company, Inc.; Member/Partial Owner of CBC, LLC, Highland Park, LLC, Fairview Group, LLC, & Laurel Creek, LLC, Stuart, VA

William L. Cooper, III

Partial Owner & CEO of CWP, Inc.; Partial Owner & President of Cooper Classics, Inc.; Managing Partner of Grassy Hill Investment, Rocky Mount, VA

Charles Laine Dalton

Vice President/General Manager & Partial Owner of Dalton Insurance Agency, Inc., Stuart, VA

John Mac Deekens

Retired General Manager of Stuart Forest Products, Stuart, VA

Larry A. Heaton

President/CEO/Director of MainStreet BankShares, Inc., Martinsville, VA; President/CEO/Chairman of Franklin Community Bank, N.A., Rocky Mount, VA

Danny M. Perdue

Owner of Franklin Shopping Center, Redwood Petroleum Products, Ferrum Petroleum Products, 604 Petroleum Products, Franklin Petroleum Products & Penhook Petroleum Products; Partial Owner of Redwood Minute Markets, Inc. & First Minute Markets, LLC, FFH Investors, LLC, Vice President of Perdue Properties, Inc. Rocky Mount, VA

Joel R. Shepherd, Chairman

Partial Owner of Virginia Home Furnishings, Inc., Blue Ridge Antique Center, Inc., 220 Self Storage, Inc., FFH Investors, LLC & Franklin, LLC, Rocky Mount, VA

Michael A. Turner

President/Partial Owner Turner's Building, Inc. and Partner of T & J Property Associates, LLC & Pigg Riverville, LLC, Union Hall, VA

OFFICERS

Larry A. Heaton

President & Chief Executive Officer

Brenda H. Smith

Executive Vice President, CFO & Corporate Secretary

Lisa J. Correll

Vice President & Controller

Sonya B. Smith

Vice President/Compliance & Operations Officer

Richard A. Prillaman

Credit Administration Officer

Judy H. McNeely

Assistant Corporate Secretary

BOARD OF DIRECTORS

Dr. Al N. Angle, II

Owner of Drs. Saxon, Angle and Associates; Partial Owner of A & J Partnership and A & H Partners, Rocky Mount, VA

L.D. Arrington

Chairman/CEO of Arrington Enterprises, Inc.; Manager of Old Floyd Pike Associates, LLC; Arrington Properties East, LLC; Arrington Properties North, LLC, DD&D, LLC, DD&D II, LLC and Arrington Management Group, Rocky Mount, VA

W. Kelvin Bowles

President & Owner of Eastern Communications Associates, Inc.; Partial Owner of Westgate Shopping Center, LLC, Rocky Mount, VA

William L. Cooper, III

Partial Owner & CEO of CWP, Inc.; Partial Owner & President of Cooper Classics, Inc.; Managing Partner of Grassy Hill Investment, Rocky Mount, VA

Larry A. Heaton

President/CEO/Director of MainStreet BankShares, Inc., Martinsville, VA; President/CEO/Chairman of Franklin Community Bank, N.A., Rocky Mount, VA

Wesley W. Naff, III

Owner of Meadow Spring Land Company, Callaway, VA; Partial Owner of FFH Investors, LLC, Callaway, VA

Danny M. Perdue

Owner of Franklin Shopping Center, Redwood Petroleum Products, Ferrum Petroleum Products, 604 Petroleum Products, Franklin Petroleum Products & Penhook Petroleum Products; Partial Owner of Redwood Minute Markets, Inc. & First Minute Markets, LLC, FFH Investors, LLC, Vice President of Perdue Properties, Inc. Rocky Mount, VA

Joel R. Shepherd, Chairman

Partial Owner of Virginia Home Furnishings, Inc., Blue Ridge Antique Center, Inc., 220 Self Storage, Inc., FFH Investors, LLC & Franklin, LLC, Rocky Mount, VA

Richard L. Shively

President & Owner of Shively Electric & Lighthouse Productions; Secretary & Partial Owner of Gabriel Communications, Rocky Mount, VA

Michael A. Turner

President/Partial Owner Turner's Building, Inc. and Partner of T & J Property Associates, LLC & Pigg Riverville, LLC, Union Hall, VA

OFFICERS

Larry A. Heaton

President, CEO & Chairman

Brenda H. Smith

Executive Vice President & CFO

Larry J. Hurt

Chief Credit Officer

Robert W. Shorter

Vice President - Branch Administration

Linda P. Barbour

Vice President & Managing Officer Rocky Mount

Debra B. Scott

Vice President - Mortgage Lending

Keith A. Grindstaff

Assistant Vice President & Business Lending Officer

Michael W. English

Business Lending Officer

S. Kelly Riggan

Customer Service Manager & Security Officer

Lisa D. Spangler

Managing Officer - Westlake

Julie D. David

Managing Officer - Southlake

Sonya B. Smith

Operations, Compliance & BSA Officer

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