

**MainStreet BankShares, Inc.**  
**Board of Directors**

**Joel R. Shepherd**  
**Chairman of the Board**

**Larry A. Heaton**  
**President &**  
**Chief Executive Officer**

**Joseph F. Clark**  
**William L. Cooper, III**  
**Charles L. Dalton**  
**John M. Deekens**  
**Danny M. Perdue**  
**Michael A. Turner**

**Subsidiary Bank**



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Rocky Mount, Virginia 24151

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Union Hall, Virginia 24176

**MAINSTREET**  
**BANKSHARES, INC.**

**2011**

**First Quarter Report**

1075 Spruce Street  
Martinsville, VA 24112  
Telephone: 276-632-8054  
[www.msbsinc.com](http://www.msbsinc.com)

Stock Symbol  
OTCBB: MREE

May 12, 2011

To Fellow Shareholders,

Enclosed please find a copy of your first quarter 2011 financial results for MainStreet BankShares, Inc. Consolidated information for the balance sheet and income statement are shown as of and for the period ending March 31, 2011 with comparable information as of December 31, 2010 and for the period ending March 31, 2010. For the first quarter, MainStreet produced a net loss of \$(440,080) or \$(.26) per basic share compared to \$259,529 or \$.15 per basic share for the similar period in 2010. The book value of your investment was \$12.67 at March 31, 2011. Franklin Community Bank, N.A. and MainStreet BankShares, Inc. remain well capitalized under the standards of regulatory capital classification at March 31, 2011.

During the first quarter, we transferred approximately \$2.6 million from our loan portfolio into other real estate. Updated appraisals reflected current depressed values resulting in additional charges to the allowance for loan losses. Based on our allowance analysis and these additional charges, \$853,190 was expensed for the quarter. While we were successful in selling some of our existing other real estate properties, costs of ownership, write-downs and losses on sales resulted in expenses of \$389,356 in the first quarter of 2011. The loan loss provision and the other real estate expenses created a \$1.2 million pre-tax expense which led to our first quarter overall loss. Our nonperforming assets are slowly trending downward and we look forward to continued improvement as we move through this year.

As I indicated in my annual letter to shareholders, we have adopted a more aggressive approach to sell our properties as can be seen in the first quarter results. We do not anticipate a significantly better year for real estate values due to the continued auctions of distressed properties and inventory levels that continue to cloud our market. There has never been a better time to buy real estate and if you know of anyone looking for property, I encourage you to refer them to our website at fcbva.com to research our inventory.

Our local economic indicators remain choppy. While new home starts are up modestly, existing inventory levels remain high. Overall lending activity is seeing a modest pick up as rates remain favorable.

Our balance sheet continues to reflect the "new normal" of slower growth coupled with our ongoing focus of lowering our deposit costs. Loan volumes remain subdued based on our ongoing efforts to work through our troubled credits and continued consumer reluctance to borrow. Our balance sheet remains liquid with ample funds to loan when normal lending patterns resume. While our noninterest bearing deposits remain steady, the reduction in the interest bearing category is driven by our continued efforts to manage our deposit costs. We are seeing our efforts payoff as our net interest margin has improved 41 basis points since we began the initiative in November 2010.

In addition to the improvement in our net interest margin, we see improvement in our core noninterest areas as well. Our noninterest income at quarter end 2011, less our nonrecurring security gains taken last year, is up 21% at March 31, 2011 compared to the same quarter results last year. The increase is due to our efforts in the Investment Management area. Under the leadership of Chris Gibson, our assets under management have grown 52% in the previous twelve months and now total \$24.7 million. Likewise, our noninterest expenses, less expenses associated with our other real estate and repossessions, are down 3% for the same period comparison. These are largely controllable areas and bode well for future earnings as we slowly emerge from the post recessionary period.

We are beginning to see the early effects of the Dodd Frank regulatory reform bill. Adjustments have been made in our mortgage lending area to comply with the new mandates which include additional disclosures and revised compensation. I'll continue to keep you informed as to the costs, burdens and hopeful benefits as the regulations are unveiled.

Everyone in our company is focused on earnings improvement. I want to thank them for their commitment and dedication. I also thank you for your investment and continued support and encourage you to take advantage of the products and services that we offer.

Sincerely,



Larry A. Heaton  
President and Chief Executive Officer

**MAINSTREET BANKSHARES, INC.**  
**Consolidated Balance Sheets**

	(Unaudited) March 31, 2011	(Audited) Dec. 31, 2010
<b>ASSETS</b>		
Cash and due from banks	\$ 2,743,797	\$ 2,238,381
Interest-bearing deposits in banks	8,282,249	8,866,966
Federal funds sold	5,396,906	7,660,000
Total Cash and Cash Equivalents	16,422,952	18,765,347
Securities available for sale, at fair value	25,876,712	27,054,527
Restricted equity securities	996,600	996,600
Loans:		
Total Gross Loans	155,501,204	158,745,645
Unearned deferred fees and costs, net	68,577	79,176
Loans, net of unearned deferred fees and costs	155,569,781	158,824,821
Less: Allowance for loan losses	(3,279,977)	(3,584,180)
Net Loans	152,289,804	155,240,641
Bank premises and equipment, net	1,777,292	1,811,673
Accrued interest receivable	705,122	725,261
Bank owned life insurance	2,966,687	2,939,590
Other real estate owned, net of valuation allowance	6,122,786	4,152,667
Other assets	3,173,216	2,849,099
<b>TOTAL ASSETS</b>	<b>\$210,331,171</b>	<b>\$ 214,535,405</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Noninterest bearing demand deposits	\$ 19,958,693	\$ 19,357,378
Interest bearing deposits	154,058,072	158,516,586
Total Deposits	174,016,765	177,873,964
Repurchase agreements	13,500,000	13,500,000
Accrued interest payable and other liabilities	1,113,682	1,071,974
Total Liabilities	188,630,447	192,445,938
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 at March 31, 2011 and December 31, 2010, respectively	17,866,890	17,866,890
Retained earnings	3,692,515	4,132,595
Accumulated other comprehensive income	141,319	89,982
Total Shareholders' Equity	21,700,724	22,089,467
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$210,331,171</b>	<b>\$214,535,405</b>

**MAINSTREET BANKSHARES, INC.**  
**Consolidated Statements of Income (Loss)**  
**(Unaudited)**

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Interest and Dividend Income:		
Interest and fees on loans	\$ 2,261,149	\$ 2,418,643
Interest on interest-bearing deposits	4,221	9,995
Interest on federal funds sold	2,519	665
Interest on securities available for sale	212,192	275,278
Dividends on restricted equity securities	7,666	6,954
Total Interest and Dividend Income	2,487,747	2,711,535
Interest Expense:		
Interest on time deposits \$100,000 & over	236,605	327,553
Interest on other deposits	344,896	497,978
Interest on repurchase agreements	132,675	132,675
Total Interest Expense	714,176	958,206
Net Interest Income	1,773,571	1,753,329
Provision for loan losses	853,190	393,300
Net Interest Income After Provision for Loan Losses	920,381	1,360,029
Noninterest Income:		
Service charges on deposit accounts	77,342	62,772
Mortgage brokerage income	29,799	28,153
Income on bank owned life insurance	27,097	26,720
Gain on sale of securities available for sale	---	419,937
Other fee income and miscellaneous income	107,862	83,006
Total Noninterest Income	242,100	620,588
Noninterest Expense:		
Salaries and employee benefits	724,978	754,471
Occupancy and equipment expense	217,835	220,247
Professional fees	83,192	61,034
Outside processing	103,848	118,294
FDIC assessment	118,862	137,942
Franchise tax	52,500	45,500
Other real estate and repossessions	389,356	97,886
Other expenses	152,240	162,612
Total Noninterest Expense	1,842,811	1,597,986
Net Income (Loss) Before Tax	\$ (680,330)	\$ 382,631
Income Tax Expense (Benefit)	(240,250)	123,102
Net Income (Loss)	\$ (440,080)	\$ 259,529
Net Income (Loss) Per Share Basic	\$ (.26)	\$ .15
Net Income (Loss) Per Share Diluted	\$ (.26)	\$ .15