

MAINSTREET BANKSHARES, INC.
Consolidated Statements of Operations
(Unaudited)

	Nine Months Ended Sept. 30, 2011	Nine Months Ended Sept. 30, 2010
Interest and Dividend Income:		
Interest and fees on loans	\$ 6,559,400	\$ 7,217,395
Interest on interest-bearing deposits	17,605	27,850
Interest on federal funds sold	7,082	6,549
Interest on securities available for sale	611,090	759,898
Dividends on restricted equity securities	<u>22,815</u>	<u>21,100</u>
Total Interest and Dividend Income	7,217,992	8,032,792
Interest Expense:		
Interest on deposits	1,571,469	2,377,569
Interest on short-term borrowings	5	34
Interest on repurchase agreements	<u>402,447</u>	<u>402,447</u>
Total Interest Expense	<u>1,973,921</u>	<u>2,780,050</u>
Net Interest Income	5,244,071	5,252,742
Provision for loan losses	<u>1,344,113</u>	<u>1,097,500</u>
Net Interest Income After Provision for Loan Losses	3,899,958	4,155,242
Noninterest Income:		
Service charges on deposit accounts	220,442	221,062
Mortgage brokerage income	100,991	190,831
Income on bank owned life insurance	82,336	80,895
Gain on sale of securities available for sale	-	650,626
Other fee income and miscellaneous income	<u>302,890</u>	<u>284,254</u>
Total Noninterest Income	706,659	1,427,668
Noninterest Expense:		
Salaries and employee benefits	2,122,587	2,226,338
Occupancy and equipment expense	635,128	647,929
Professional fees	187,563	200,068
Outside processing	317,024	343,928
FDIC assessment	288,624	411,415
Franchise tax	142,500	150,500
Other real estate and repossessions	890,237	258,092
Other expenses	<u>455,072</u>	<u>503,335</u>
Total Noninterest Expense	5,038,735	4,741,605
Net Income (Loss) Before Tax	(432,118)	\$ 841,305
Income Tax Expense (Benefit)	<u>(178,027)</u>	<u>265,242</u>
Net Income (Loss)	<u>\$ (254,091)</u>	<u>\$ 576,063</u>
Net Income (Loss) Per Share Basic	<u>\$ (.15)</u>	<u>\$.34</u>
Net Income (Loss) Per Share Diluted	<u>\$ (.15)</u>	<u>\$.34</u>

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



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MAINSTREET
BANKSHARES, INC.

2011

Third Quarter Report

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Martinsville, VA 24112
Telephone: 276-632-8054
www.msbsinc.com

Stock Symbol
OTCBB: MREE

November 10, 2011

To Fellow Shareholders,

Enclosed please find a copy of your third 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 September 30, 2011 with comparable information as of December 31, 2010 and for the period ending September 30, 2010. For the third quarter of 2011, MainStreet produced net income of \$74,312, or \$.04 per basic share, compared to \$149,671, or \$.09 per basic share, for the similar period in 2010. For the nine month period ending September 30, 2011, the Company's loss totaled (\$254,091), or (\$.15) per basic share, compared to profits of \$576,063, or \$.34 per basic share, for the same period last year. Both the Bank and the Company remain well capitalized as of September 30, 2011 under current regulatory requirements. Consolidated Tier I capital actual, Tier I risked based capital and Tier II risked based capital were 10.56%, 14.75%, and 16.01%, respectively. The book value of your investment was \$13.02 as of September 30, 2011.

A review of our balance sheet reflects gross loans at \$151.0 million and deposits totaling \$169.5 million at September 30, 2011. Noninterest bearing deposits continue to grow and our high cost certificates of deposit continue to decline as we adhere to our diligent deposit pricing strategy which resulted in an improvement in our overall cost of funds. Our non-performing loans inched up from the previous quarter; however, our other foreclosed properties were reduced by 56% due to our success in the sale of these assets.

While the national economy shows sign of modest stability, as represented by positive growth for the previous three quarters, sluggish real estate values and unemployment continue to hamper our local economy. As I have mentioned in our previous reports, high inventory levels coupled with soft consumer confidence results in very modest new home sales activities. We are continuing to see mortgage activity in the refinancing area and based on recently announced initiatives by the current administration in Washington, we would expect that to continue.

Our mortgage loan rates remain at or near historic lows and I would encourage you to investigate a refinance of your mortgage if you have not done so recently. Debbie Scott and Linda Blankenship will be happy to assist you. They can be reached at 540-489-3482.

For the period ending September 30, 2011, noninterest income, excluding securities gains, was down 9.1% largely due to the reduction in our mortgage loan brokerage income. As I reported to you in the second quarter report, the passage of the Dodd/Frank Regulatory Reform Act created additional regulation governing mortgage activities. Soft loan volume for new home financing has also contributed to reduced income levels.

Our noninterest expense was up 6.3% for the period due to expenses associated with our other real estate. All other controllable expenses are down as we continue to monitor all expense categories. Through September, our year has been defined by resolution of problem assets including the sale of our other real estate properties. This has caused significant pressure on our bottom line as we have expensed \$1.3 million year-to-date into our loan loss reserve and incurred \$890,237 in related expenses, write-downs, and losses associated with our other real estate properties.

We continue to stay highly focused on working with our troubled borrowers as appropriate and executing action plans for the resolution of their problem loans. Encouragement is noted as overall asset quality indicators are showing slow but steady improvement.

I appreciate your continued support and welcome any questions you may have concerning your investment. I also encourage you to visit with us at one of our banking locations or online at our Bank's Facebook page, fcbva.com or msbsinc.com.

Sincerely,



Larry A. Heaton
President and Chief Executive Officer

MAINSTREET BANKSHARES, INC.
Consolidated Balance Sheets

	(Unaudited) Sept. 30, 2011	(Audited) Dec. 31, 2010
ASSETS		
Cash and due from banks	\$ 2,624,043	\$ 2,238,381
Interest-bearing deposits in banks	14,266,794	8,866,966
Federal funds sold	8,529,641	7,660,000
Total Cash and Cash Equivalents	25,420,478	18,765,347
Securities available for sale, at fair value	22,294,999	27,054,527
Restricted equity securities	873,700	996,600
Loans:		
Total Gross Loans	151,032,233	158,745,645
Unearned deferred fees and costs, net	84,038	79,176
Loans, net of unearned deferred fees and costs	151,116,271	158,824,821
Less: Allowance for loan losses	(3,294,014)	(3,584,180)
Net Loans	147,822,257	155,240,641
Bank premises and equipment, net	1,704,219	1,811,673
Accrued interest receivable	588,742	725,261
Bank owned life insurance	3,021,925	2,939,590
Other real estate owned, net of valuation allowance	2,048,717	4,152,667
Other assets	2,606,438	2,849,099
TOTAL ASSETS	\$206,381,475	\$214,535,405
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing demand deposits	\$ 22,072,772	\$ 19,357,378
Interest bearing deposits	147,420,017	158,516,586
Total Deposits	169,492,789	177,873,964
Repurchase agreements	13,500,000	13,500,000
Accrued interest payable and other liabilities	1,073,873	1,071,974
Total Liabilities	184,066,662	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 September 30, 2011 and December 31, 2010, respectively	17,866,890	17,866,890
Retained earnings	3,878,504	4,132,595
Accumulated other comprehensive income	569,419	89,982
Total Shareholders' Equity	22,314,813	22,089,467
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$206,381,475	\$214,535,405

MAINSTREET BANKSHARES, INC.
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended Sept. 30, 2011	Three Months Ended Sept. 30, 2010
Interest and Dividend Income:		
Interest and fees on loans	\$ 2,128,874	\$ 2,420,468
Interest on interest-bearing deposits	7,586	8,303
Interest on federal funds sold	3,062	3,224
Interest on securities available for sale	187,054	246,861
Dividends on restricted equity securities	7,501	7,216
Total Interest and Dividend Income	2,334,077	2,686,072
Interest Expense:		
Interest on deposits	472,588	749,098
Interest on repurchase agreements	135,623	135,623
Total Interest Expense	608,211	884,721
Net Interest Income	1,725,866	1,801,351
Provision for loan losses	435,000	505,600
Net Interest Income After Provision for Loan Losses	1,290,866	1,295,751
Noninterest Income:		
Service charges on deposit accounts	66,873	86,582
Mortgage brokerage income	42,569	69,063
Income on bank owned life insurance	27,771	27,247
Gain on sale of securities available for sale	---	230,689
Other fee income and miscellaneous income	101,827	105,400
Total Noninterest Income	239,040	518,981
Noninterest Expense:		
Salaries and employee benefits	696,539	747,274
Occupancy and equipment expense	208,882	214,692
Professional fees	60,895	67,885
Outside processing	107,214	110,317
FDIC assessment	70,555	137,926
Franchise tax	37,500	52,500
Other real estate and repossessions	102,683	95,423
Other expenses	149,959	172,235
Total Noninterest Expense	1,434,227	1,598,252
Net Income Before Tax	\$ 95,679	\$ 216,480
Income Tax Expense	21,367	66,809
Net Income	\$ 74,312	\$ 149,671
Net Income Per Share Basic	\$.04	\$.09
Net Income Per Share Diluted	\$.04	\$.09