

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

FORM 10-KSB

Annual Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2006

Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: N/A

MainStreet Bank

(Name of small business issuer in its charter)

Virginia

(State or other jurisdiction of
incorporation or organization)

47-0914596

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

727 Elden Street, Herndon, Virginia 20170

(Address of principal executive offices) (Zip Code)

(703) 481-4567

(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$4.00 par value

(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

Issuer's revenues for the fiscal year ended December 31, 2006 were \$7,413,461.

Aggregate market value of MainStreet Bank's common stock held by non-affiliates as of February 26, 2007 was \$30,367,778 based on the closing sale price of \$13.50 per common share.

The number of shares of common stock outstanding as of February 22, 2007 was 2,425,215.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the registrant's 2007 Annual Meeting of Shareholders to be held on April 17, 2007 (the "2007 Proxy Statement") are incorporated by reference into Part III of this Form 10-KSB.

Transitional Small Business Disclosure Format (Check one): Yes No

MAINSTREET BANK
2006 ANNUAL REPORT ON FORM 10-KSB
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PART I

ITEM 1. DESCRIPTION OF BUSINESS

General

MainStreet Bank (the “Bank”) is a state chartered commercial bank headquartered in Herndon, Virginia. The Bank was incorporated in the Commonwealth of Virginia on March 28, 2003. Thereafter, it conducted a subscription offering, applied for and received regulatory approval to operate as a bank, and opened for business on May 26, 2004. The Bank markets its financial services to individuals, small to medium sized businesses, entrepreneurs, professionals, consumers and high net worth clients. Our client base is generally located in the Northern Virginia market, although we do have clients in the surrounding greater Washington, D.C. metropolitan area. In 2006 the Bank established a loan production office in the Richmond, Virginia metropolitan area.

The Bank has had consistent growth since inception. As of December 31, 2006, the Bank had total assets of \$105.7 million, an increase of 27.5% over 2005 total assets of \$82.9 million; total investments of \$18.2 million, a decrease of 20.9% over 2005 total investments of \$23.0 million; total gross loans of \$82.7 million, an increase of 51.2% over 2005 total gross loans of \$54.7 million; total deposits of \$78.0 million, an increase of 40.3% over 2005 total deposits of \$55.6 million; and total stockholders’ equity of \$21.5 million, an increase of 0.9% over 2005 total stockholders’ equity of \$21.3 million. The Bank reported net income of \$46,850 for the year ended December 31, 2006, or \$0.02 per common share. The Bank reported a net loss for the year ended December 31, 2005 of \$804,725 or \$0.49 per common share compared to a net loss of \$1,189,882 or \$0.95 per common share for the seven month period from May 26, 2004 to December 31, 2004. Pre-opening organizational expenses, which are not a component of net loss during the seven months ended December 31, 2004, consisted of \$737,000.

The full financial performance of the Bank is detailed in Item 6. “Management’s Discussion and Analysis or Plan of Operation.” Our results indicate steady growth since inception, no credit losses to date and no non-performing assets as of the reporting periods indicated. The Bank’s focus has been to develop banking relationships with key customers in the community that can create business opportunities for the Bank. Additionally, the management team has a strong level of experience in the Bank’s market. This experience allows the Bank to deliver creative, innovative and customer-focused products and services. The Bank’s focus on customer service and relationship banking has been the key driver for solid market penetration in a short period of time.

The Bank’s primary source of revenue is interest income and fees generated by lending and investing. For the year ended December 31, 2006, the percentage of total revenue contributed by loan interest income, investment interest income, and interest on federal funds sold was 80.3%, 10.6%, and 7.7%, respectively, compared to 71.9%, 22.6%, and 3.7%, respectively, for the year ended December 31, 2005.

The Bank typically balances the loan and investment portfolio towards loans. As the Bank continues to grow through the opening of new deposit accounts, a portion of this money will be invested, but a large percentage will be loaned by the Bank to new loan customers. Generally speaking, loans earn more attractive returns than investments and are a key source of product cross sales and customer referrals. Certain economic conditions may favor investments over loans; these conditions may lead to weaker fundamental performance. The Bank’s loan and investment strategies balance the need to maintain adequate liquidity through excess cash or federal funds sold with opportunities to appropriately leverage its capital. The Bank’s revenue

stream is reduced by the cost of interest associated with deposits and other borrowed funds and other typical operating costs such as personnel, occupancy, furniture and equipment and other general operating expense.

The Bank's strategic plan is based on the premise of enhancing stockholder value and franchise value through internal growth as well as selective strategic and geographic expansion. Our short-term goals include creating an attractive distribution network utilizing the latest in internet banking technology. This technology includes the ability for our business customers to scan and capture checks at their place of business so that those checks can be electronically deposited via a secure internet connection (MainStreet Connect). MainStreet Connect technology provides our customers with faster access to funds along with full service business banking within the confines of their own office. The implementation of this strategy has eliminated the geographic restrictions of branch banking within our business banking network. We are recruiting experienced sales staff to establish new business deposit relationships. As of December 31, 2006 the Bank had 8 full-time sales staff. We will also continue to recruit experienced lenders, which will allow us to grow the loan portfolio. In an effort to expand our consumer footprint, the Bank is establishing a branch in Fairfax City, to be opened in early 2007.

Location and Market Area

The Bank is headquartered in Herndon, Virginia, a key area within the Northern Virginia market. The local area has seen significant growth over the past decade. The economy in the 1980s and 1990s focused on real estate development and the government sector. As economic weakness in the late 1980s and early 1990s persisted, the area experienced a transition towards other types of businesses. The area now is a center for the telecommunications industry, government contracting, professional services and other technology related businesses. The explosive growth in Northern Virginia is a by-product of the previous success of organizations in the telecommunications, internet and government service arena.

The Northern Virginia market we serve primarily consists of Fairfax County and Loudoun County. As of December 2005 the estimated population of Fairfax County was 1,006,529, which represents a 15% increase from 1994, and the estimated population of Loudoun County was 255,518, which represents a 135% increase from 1994. As of December 2006, the unemployment rate for Fairfax and Loudoun Counties was 1.9% and 1.6%, respectively. The unemployment rate for Northern Virginia at December 2006 was 1.9%, compared to a national unemployment rate of 4.3%.

The Bank's management experienced the contraction in the national and local economies in 2001 and 2002. The Bank's credit culture strongly reinforces strict underwriting as well as close monitoring. The Bank has yet to experience any adverse effects as a result of the volatility or contraction in our economy. The Bank recognizes that it is very difficult to predict the full impact of a slowing economy. Leading indicators forecast that economic activity in our region is expected to continue to slow in the months ahead but not drop dramatically. The Washington, D.C. greater metropolitan area and Northern Virginia may be adversely impacted if an appropriate balance between the telecommunications and internet industries is not offset by positive growth in government and other business sectors.

Our board and management believe the region provides a host of opportunities for a growing and vibrant community bank. The Bank offers competitive products and services while balancing the risk-reward premium required to be successful.

Lending Activities

The Bank's primary market focus is on making loans to small businesses, professionals and other consumers in its local market area, along with various aspects of real estate finance. Commercial loans represent the largest segment of the Bank's loan portfolio. At December 31, 2006, approximately 68.6% of the total loan portfolio was devoted to commercial and commercial real estate loans, compared to 68.2% at December 31, 2005. In addition, the Bank also provides a wide range of real estate finance services. The Bank's primary lending activities are principally directed to its defined market area in Fairfax County and Loudoun County, as well as the broader Washington, D.C. metropolitan area. In addition, this footprint has been expanded to include the Richmond, Virginia metropolitan market.

Commercial Business Lending. Commercial loans are written for a variety of business purposes, including government contract receivables, business acquisition, plant and equipment, general working capital, contract administration and acquisition lending. Our client base is diverse, and we do not have a concentration of commercial business loans in any specific industry segment. We also utilize and work with the Small Business Administration (SBA) to enhance credit quality as the situation may require.

Commercial Real Estate Lending. We finance owner occupied and investment commercial real estate. Our underwriting policies and processes focus on the client's ability to repay the loan as well as assessment of the underlying real estate. Risks inherent in managing a commercial real estate portfolio relate to sudden or gradual drops in property values as well as changes in the economic climate. We attempt to mitigate those risks by carefully underwriting loans of this type and by following appropriate loan-to-value standards. The Bank has a concentration in loans secured by commercial real estate.

Real Estate Construction Lending. This segment of our portfolio is predominately residential in nature and composed of loans with short durations. We offer real estate construction financing to customers that have in place a permanent loan "take-out", either by the Bank or another institution. Our approach to this type of lending reduces our credit risk yet offers a competitive product in the marketplace.

Residential Real Estate Lending. The Bank offers a variety of consumer-oriented residential real estate loans. The bulk of our residential portfolio is made up of home equity lines of credit to individuals. Our home equity portfolio gives the Bank a diverse client base. Although most of the loans are in the Northern Virginia area, the diversity of the individual loans in the portfolio reduces our potential risk. We engage in first trust lending on a small scale, and most loans are brokered into the secondary market.

Consumer Installment Lending. We offer a broad array of consumer loans including car loans, term loans, VISA® credit cards, and overdraft protection.

Credit Policies and Administration. The Bank has adopted a comprehensive lending policy, which includes stringent underwriting standards for all types of loans. The lending staff follows pricing guidelines established periodically by the management team. In an effort to manage risk, all credit decisions in excess of the officer's lending authority must be approved prior to funding by a management loan committee. Management believes that it employs experienced lending officers, maintains solid cash flow requirements, secures appropriate collateral and carefully monitors the financial conditions of its borrowers.

In addition to the normal repayment risks, all loans in the Bank's portfolio are subject to the state of the economy and the related effects on the borrower and/or the real estate market.

Generally, longer-term loans have periodic interest rate adjustments and/or call provisions. Senior management monitors the loan portfolio closely to ensure that past due loans are minimized and that potential problem loans are addressed swiftly. In addition to the internal business processes employed in the credit administration area, the Bank engages an independent credit review firm to review the loan portfolio. Results of the credit review are used to validate our internal underwriting process and ongoing loan administration efforts.

Lending Limit. As of December 31, 2006, our legal lending limit for loans to one borrower was \$3,397,000. We have operated with an in-house lending limit of \$3.0 million. Loans greater than the in-house or legal lending limit are generally participated to other banks in the area so that we may retain the customer relationship.

Investments and Funding

The Bank balances its liquidity needs based on loan and deposit growth through the investment portfolio and purchased funds. It is the Bank's goal to provide adequate liquidity to support the loan growth of the Bank. In the event the Bank has excess liquidity, investments are used to generate positive earnings. In the event deposit growth does not fully support the Bank's loan growth, a combination of sales of investment securities, federal funds and other purchased funds will be used to augment the Bank's funding position.

The investment portfolio is actively managed and is generally classified as "Available For Sale." Under such a classification, investment instruments may be sold as deemed appropriate by management. On a monthly basis, the investment portfolio is marked to market as required by Statement of Financial Accounting Standard ("SFAS") No. 115. Additionally, the investment portfolio is used to balance the Bank's asset and liability position. The Bank invests in fixed rate or floating rate instruments as necessary to reduce interest rate risk exposure.

Deposit Activities

Deposits are the major source of funding for the Bank. The Bank offers a broad array of deposit products that include non-interest bearing demand accounts, interest-bearing NOW accounts, interest-bearing money market and savings accounts as well as certificates of deposit. The Bank typically pays competitive interest rates. As a relationship-oriented organization, we seek generally to obtain deposit relationships with our loan clients.

As the Bank's overall balance sheet positions dictate, we may become more or less competitive in our interest rate structure as our liquidity position changes. The Bank also uses the wholesale deposit market to fund growth and match maturities when appropriate.

Competition

We are a community bank that offers many of the products and services found in larger financial institutions. We provide premier customer service balanced with local decision making. Relationship managers are experienced bankers and can offer creative customized banking solutions for our clients. The banking business is highly competitive. We compete with other commercial banks, savings associations, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds and other financial institutions operating in our primary service area and elsewhere.

The Bank is headquartered in Herndon, Virginia, in the heart of the Northern Virginia region. We have been able to effectively leverage our talents, contacts and location to achieve a strong financial position for a relatively new organization. However, our primary service area is

highly competitive and heavily branched. Competition in our primary service area for loans to small- and medium-sized businesses, individual and professional, is intense, and pricing is important. Our bank competitors have greater lending limits and offer established branch networks and other services that we do not expect to provide in the near future. Moreover, larger institutions operating in the primary service area have access to borrowed funds at a lower rate than is available to us. Deposit competition is also strong. As a result, it is possible that, to remain competitive, we may pay above-market rates for deposits. Despite strong competition, we are experiencing success in our primary service area because the area is reacting favorably to our community focus and our emphasis on service to the small and medium-sized business community, individuals and professionals.

Merger activity in the Northern Virginia market in recent years has increased the presence of large regional bank holding companies in the already competitive marketplace. We believe these mergers have created opportunities for community-focused, prudently managed, small and medium-sized business-oriented banks. However, our board of directors is aware of the competition that these institutions offer. Our board believes that our position as a community owned and operated bank interested exclusively in small and medium-sized businesses, individuals and professionals in the Northern Virginia market and the surrounding greater Washington, D.C. metropolitan area and adjacent counties, offers us an important competitive opportunity.

Expansion Strategy

Our headquarters is a leased full service branch and office facility located at 727 Elden Street in Herndon, Virginia. During 2006 the Bank established a loan production office in the Richmond, Virginia metropolitan area. The Bank is also in the process of establishing a branch in Fairfax City, located at 4029 Chain Bridge Road, Fairfax, Virginia. Our board and management believe the natural evolution of a community-focused bank involves expanding our delivery channels. We are using internet-based technology to drive business deposit growth. In 2005, we established MainStreet Connect, which is a division of MainStreet Bank. Through MainStreet Connect, we put our branch in our business customer's office. MainStreet Connect offers the following services at the customer's desktop using secure internet SSL technology:

1. Scan and deposit business and personal checks into any number of accounts held by the account holder;
2. Download scanned and captured information directly into business accounting systems;
3. Take payments via individual or recurring Automated Clearing House (ACH) debits/credits for customer payment convenience;
4. Take payments via the telephone for customer payment convenience;
5. Take payments via a web portal for customer payment convenience; and
6. Initiate wire transfers, payment of bills, transfer of funds, cash management, and automatic download to business accounting systems (e.g. Quickbooks®) for the business owner payment convenience.

The system offers maximum convenience to our business customers.

In June of 2006, the Bank hired Senior Vice President Michele Parker (Certified Cash Manager) to establish and lead the Commercial Treasury Services Division. Ms. Parker subsequently implemented the following products and services which are now offered by the Bank through traditional delivery and internet-based technology:

- Sweep accounts;
- Repurchase Agreement accounts;
- Zero balance accounts;
- Lock box Agreement accounts; and
- Certificate of Deposit Margin accounts.

Ms. Parker has a team of eight sales representatives who's primary objective is to develop and retain new business accounts. The sales approach established by the Bank has allowed us to go beyond the traditional branch footprint. Our ability to "Put a branch on your desktop," combined with the depth of products and services offered, provides a complete banking package for our business customers. The sales representatives work closely with the commercial lending team to generate and cross-sell new business opportunities.

We plan to continue to develop MainStreet Connect to offer other loan and deposit products and services on our website. We view the internet as a significant product delivery channel that meets the time and convenience needs of many of our current and future customers.

We also plan to take advantage of the strategic opportunities presented to the Bank as a result of mergers occurring in our marketplace. As noted, we are establishing a branch at 4029 Chain Bridge Road in Fairfax City. This will be a leased full service branch and office facility. Projected annual operating costs for this location are approximately \$450,000. Additionally, we will continue to pursue key market locations for new branch facilities.

Employees

As of December 31, 2006, the Bank had 37 full-time and two part-time employees, compared to 26 full-time and two part-time employees at December 31, 2005. None of our employees are represented by any collective bargaining unit, and we believe that relations with our employees are good.

Supervision and Regulation

General

We are a Virginia state chartered commercial bank and a member of the Federal Reserve System and our depositors are insured by the Federal Deposit Insurance Corporation. The Federal Reserve and the Virginia State Corporation Commission and its Bureau of Financial Institutions regulate and monitor the Bank's operations. The Bank is required to file with the Federal Reserve quarterly financial reports on its financial condition and performance. The Federal Reserve and the State conduct periodic onsite and offsite examinations of the Bank. We must comply with a wide variety of reporting requirements and banking regulations.

The Federal Reserve, State and FDIC have the authority and responsibility to ensure that financial institutions are managed in a safe and sound manner. They have the authority to prevent the continuation of unsound and unsafe activities. Additionally, they must generally approve significant business activities undertaken by financial institutions. Typical examples of transactions requiring approval include branch locations, mergers, capital transactions and major organizational structure changes.

FDIC Insurance

The FDIC insures our deposits for a maximum of \$100,000 per depositor based on specific regulations governing FDIC insurance. In order to offer FDIC insurance to depositors we must comply with various FDIC rules and regulations and pay periodic assessment fees to the FDIC insurance fund. The rates charged by the FDIC for deposit insurance vary based on the strength of the organization and the overall economic climate for insured institutions. Under the new FDIC insurance guidelines, our current assessed rate is approximately five basis points.

The FDIC is authorized to prohibit any FDIC-insured institution from engaging in any activity that the FDIC determines by regulation or order to pose a serious threat to the respective insurance fund. Also, the FDIC may initiate enforcement actions against banks, after first giving the institution's primary regulatory authority an opportunity to take such action. The FDIC may terminate the deposit insurance of any depository institution if it determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed in writing by the FDIC. The Bank is not aware of any existing circumstances that could result in termination of any of the Bank's deposit insurance. The FDIC may change the rates for insurance at their discretion to ensure fund solvency.

Bank Capital Adequacy Guidelines

The Federal Reserve has adopted a risk-based approach towards capital adequacy. The risk-based capital measurements are used to assess the adequacy of a bank's capital based upon the risk profile associated with assets, liabilities and off-balance sheet items.

The capital of an organization is grouped into two major categories, Tier I and Tier II. Tier I capital includes common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles and other adjustments. Tier II capital includes specific subordinated debt, some hybrid capital instruments and other qualifying preferred stock and a limited amount of the loan loss allowance.

All assets and off-balance sheet items, such as letters of credit, commitments, interest rate swaps and other derivative instruments, are assigned risk categories of 0%, 20%, 50% and 100%. The assets are multiplied by assigned risk to determine risk-weighted asset position of an organization to determine capital adequacy.

In addition to the risk-based capital ratios, the regulators have established a Tier I Leverage Ratio to monitor capital adequacy. The ratio compares Tier I Capital to quarterly average assets as adjusted for disallowed items such as goodwill and deferred tax assets.

Regulators have established minimum capital ratios for a bank. The Tier I Risk-Based Capital Ratio must meet a minimum standard of 4% and a Total Risk-Based Capital Ratio of 8% and a Tier I Leverage Ratio of 3% (for the most highly rated banks; other organizations will have a higher required Tier I Leverage Ratio). As a de novo institution, the Commonwealth of Virginia requires the Bank to maintain a leverage ratio of 9% during the first three years of operations. The Bank's Tier I Leverage Ratio was 20.99%, 28.04%, and 30.29% at December 31, 2006, December 31, 2005, and December 31, 2004, respectively.

Section 38 of the Federal Deposit Insurance Act requires each federal banking agency to implement a system of prompt corrective action for regulated institutions. Each of the federal banking agencies has promulgated regulations to monitor and enforce the capital adequacy standards. Under the regulations, a bank is deemed to be:

- “well capitalized” if it has a Total Risk-Based Capital Ratio of 10% or more, a Tier I Risk-Based Capital Ratio of 6% or more, a Tier I Leverage Capital Ratio of 5% or more and is not subject to any written capital order or directive;
- “adequately capitalized” if it has a Total Risk-Based Capital Ratio of 8% or more, a Tier I Risk-Based Capital Ratio of 4% or more, a Tier I Leverage Capital Ratio of 4% or more and is not subject to any written capital order or directive;
- “under-capitalized” if it has a Total Risk-Based Capital Ratio of less than 8%, a Tier I Risk-Based Capital Ratio of less than 4% or more, a Tier I Leverage Capital Ratio of less than 4%;
- “significantly under-capitalized” if it has a Total Risk-Based Capital Ratio of less than 6%, a Tier Risk-Based Capital Ratio of less than 3%, a Tier I Leverage Capital Ratio of less than 3%; or
- “critically under capitalized” if it has a ratio of tangible equity to total assets that is equal to or less than 2%.

Regulators have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of the action depends on the capital adequacy and other features of the organization in question.

Gramm-Leach-Bliley Act

The Bank is not affiliated with a bank holding company or financial holding company. The Gramm-Leach-Bliley Act (the “Act”) implemented major changes to the statutory framework for providing banking and other financial services in the United States. The Act, among other things, eliminated many of the restrictions on affiliations between banks and securities firms, insurance firms and other financial service providers. A bank holding company that qualifies as a financial holding company will be permitted to engage in activities that are financial in nature or incidental or complementary to financial activities. The activities that the Act expressly lists as financial in nature include insurance activities, providing financial and investment advisory services, underwriting services and limited merchant banking activities.

Although the Act is considered one of the most significant banking laws since Depression-era statutes were enacted, because of our small size and recent organization, we do not expect the Act to materially affect our products, services or other business activities. The Bank does not believe that the Act will have a material adverse impact on our operations. To the extent that it allows banks, securities firms and insurance firms to affiliate, the financial services industry may experience further consolidation. The Act may have the result of increasing competition that we face from larger institutions and other companies offering financial products and services, many of which have substantially greater financial resources.

Payment of Cash Dividends

The Bank is subject to regulatory restrictions regarding the payment of cash dividends. Under such restrictions, the Bank may not, without prior approval of our regulators, declare dividends in excess of the sum of the current year’s earnings plus the retained earning of the two prior years. The regulators generally have indicated that payment of cash dividends should be consistent with the organization’s growth plans, prospective rate of earnings, ongoing capital needs, asset quality and the overall financial condition of the organization. The Bank generated start-up losses in 2004 and incurred additional operating losses during 2005. As such the Bank

continues to have negative retained earnings at December 31, 2006, and is not able to pay cash dividends to the holders of its common stock.

Branching and Interstate Banking

The federal banking agencies are authorized to approve interstate bank merger transactions without regard to whether such a transaction is prohibited by the law of any state, unless the home state of one of the banks has opted out of the interstate bank merger provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, by enacting regulation which applies equally to all out of state banks and expressly prohibits merger transactions involving out of state banks. Although states could opt out of the Riegle-Neal Act by adopting a law after the date of enactment of the Riegle-Neal Act and prior to June 1, 1997, the Commonwealth of Virginia has enacted “opt in” laws, permitting interstate bank mergers. Once a bank has established branches in Virginia through an interstate bank merger transaction, the bank may establish and acquire additional branches at any location in the state where a bank headquartered in the state could have established or acquired branches under applicable federal or state law. Additionally, Virginia laws permit out of state banks to establish de novo branches in Virginia.

Monetary Policy

The Federal Reserve implements a national monetary policy by its open market activities. These activities include the purchase and sale of securities to expand or contract the general liquidity in the financial system. Additionally, the Board of Governors of the Federal Reserve establishes a target Federal Funds Rate and the Discount Rate. The actions taken by the Federal Reserve will significantly impact the general level of interest rates in the market place.

The Bank’s earnings are a function of differentials between interest rates. Depending on the Bank’s asset/liability strategy, actions taken by the Federal Reserve may have a positive or negative effect on the Bank’s profitability. We cannot predict the actions of the Federal Reserve nor can we guarantee that our asset/liability strategy will be appropriate in light of future action taken by the Federal Reserve.

Community Reinvestment Act

The Community Reinvestment Act (the “CRA”) requires that federal banking regulators evaluate the record of financial institutions in meeting the credit needs of their local communities, including low and moderate-income neighborhoods, consistent with safe and sound operation of the financial institution. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch. The Bank received a Satisfactory CRA rating as of September 30, 2005.

Regulatory Enforcement Action

Banking laws and regulations provide substantial enforcement powers to banking regulators. The enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties. In general, these enforcement actions may be initiated for violations of laws and regulations and for unsafe or unsound banking practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

Other Regulation

The Bank is subject to a variety of other regulations. State and federal laws restrict interest rates on loans, potentially affecting our income. The Truth in Lending Act and the Home Mortgage Disclosure Act impose information requirements on the Bank in making loans. The Equal Credit Opportunity Act prohibits discrimination in lending on the basis of race, creed, or other prohibited factors. The Fair Credit Reporting Act governs the use and release of information to credit reporting agencies. The Truth in Savings Act requires disclosure of yields and costs of deposits and deposit accounts. Other acts govern confidentiality of consumer financial records, automatic deposits and withdrawals, check settlement, endorsement and presentment, and reporting of cash transactions as required by the Internal Revenue Service.

USA Patriot Act of 2001

In October 2001, the USA Patriot Act of 2001 (the “Patriot Act”) was enacted in response to the terrorist attacks which occurred on September 11, 2001. The Patriot Act is intended to strengthen the ability of U.S. law enforcement agencies and the intelligence communities to work cohesively to combat terrorism on a variety of fronts. The potential impact of the Patriot Act on financial institutions of all kinds is significant and wide ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and imposes various regulations, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

The Bank Secrecy Act

Under the Bank Secrecy Act (the “BSA”), a financial institution is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report cash transactions involving more than \$10,000 to the United States Treasury. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than \$5,000 and which the financial institution knows, suspects or has reason to suspect, involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose.

Available Information

The Bank files annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K and proxy statements with the Board of Governors of the Federal Reserve System. The Bank also makes these filings available on the Bank's website at <http://mstreetbank.com> under “Investor Relations”. Copies of these documents also can be obtained free of charge by writing to the Bank's Secretary at 727 Elden Street, Herndon, Virginia 20170 or by calling 703-481-4567.

ITEM 2. DESCRIPTION OF PROPERTY

The Bank's headquarters space is a leased full-service banking branch and office facility of approximately 10,000 square feet, located at 727 Elden Street, Herndon, Virginia. In addition the bank leases a full-service banking branch and office facility of approximately 2,500 square feet, located at 4029 Chain Bridge Road, Fairfax, Virginia. Details of these lease commitments are noted in Notes 13 and 21 to the Notes to Financial Statements included in Item 7 of this

report. We believe the properties are maintained in good operating condition and are suitable and adequate for our current operating needs.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Bank may be involved in litigation relating to claims arising out of its normal course of business. In the opinion of management, final disposition of any pending legal matters will not have a material adverse effect on our financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

The Bank's common stock began trading on the Over The Counter Bulletin Board ("OTC") under the symbol "MNSB.OB" on September 6, 2005. Prior to September 6, 2005, although the Bank's common stock was traded from time to time on an individual basis, there was no established trading market. During 2004 and 2005 through September 6, 2005, management is aware of only two transactions totaling 600 shares, in both of which the Bank's common stock traded at \$10.00 per share. These are the only transactions that management is aware of having occurred prior to September 6, 2005.

The following table presents the high and low bid prices per share of the Bank's common stock, as reported on the OTC Bulletin Board for the third and fourth quarters of 2005 and for each quarter of 2006. The high and low bid prices of the common stock presented below reflect interdealer prices and do not include retail markups, markdowns or commissions, and may not represent actual transactions.

	<u>Trade Prices</u> ⁽¹⁾		<u>Cash Dividend</u>
	<u>High</u>	<u>Low</u>	
3 rd Quarter 2005	\$ 12.50	\$ 11.00	--
4 th Quarter 2005	11.00	10.70	--
1 st Quarter 2006	12.00	12.00	--
2 nd Quarter 2006	11.10	11.10	--
3 rd Quarter 2006	13.00	13.00	--
4 th Quarter 2006	13.25	13.25	--

(1) Note that this table may not reflect all transactions in the Bank's common stock between buyers and sellers.

Holders

As of January 31, 2007, there were 2,424,765 shares of common stock issued and outstanding, which were held by approximately 604 stockholders of record.

Dividends

The Virginia State Corporation Commission's Bureau of Financial Institutions restricts a bank's ability to pay cash dividends. The Bank is not eligible to pay cash dividends because of its status in the growth cycle and the accumulated deficit from the start-up phase. Our current plans indicate that capital retention is an important component of our overall growth strategy. Based on our plans, we do not anticipate declaring a cash dividend in the foreseeable future. See also "Description of Business -- Supervision and Regulation -- Payment of Cash Dividends."

Recent Sales of Unregistered Securities

The Bank formation commenced in 2003 and the Bank opened for business on May 26, 2004. The organizing directors of the Bank began the capital raising process in 2003 and raised approximately \$12.4 million of capital through a common stock offering which began with the sale of stock subscriptions. The subscription phase closed on October 31, 2003. Following receipt of regulatory approvals, the Bank collected the balance of the stock subscriptions, opening on May 26, 2004. The offering conducted by the organizing directors was exempt from registration under Section 3(2) of the Securities Act of 1933 because the offering involved securities of a bank.

The offering was for the purchase of shares of the Bank's common stock, par value per share, solely for cash. The offering resulted in the sale and issuance of 1,247,309 shares of common stock, at \$10.00 per share, resulting in \$12,473,090 in gross offering proceeds. Issuance costs amounted to \$137,298. This resulted in \$12,335,792 in net proceeds after deducting offering costs. No underwriter was involved in this offering.

On August 31, 2005, the Bank held the closing of its offering of 1,150,000 shares of common stock, par value \$4.00. The shares were sold at \$11.00 per share, for a total offering price of \$12,650,000. Milestone Advisors LLC served as the Bank's placement agent for the offering. After payment of the placement agent's commission of \$561,186 and estimated expenses of the offering of \$151,886, the Bank received net proceeds of \$11,936,928. The offering was not registered under the Securities Act of 1933, as amended (the "Act"). Because it is a bank, the Bank's common stock is exempt from registration pursuant to Section 3(a)(2) of the Act.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion is intended to assist readers in understanding and evaluating the Bank's financial condition and results of operations. This review should be read in conjunction with the Bank's financial statements and accompanying notes contained in Item 7 of this Form 10-KSB.

Forward-looking Statements

Some of the matters discussed in "Management's Discussion and Analysis or Plan of Operation" and elsewhere in this Form 10-KSB include forward-looking statements. Forward-

looking statements include statements regarding profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk and financial and other goals. Forward-looking statements often contain words such as “believes,” “expects,” “plans,” “may,” “will,” “should,” “projects,” “contemplates,” “anticipates,” “forecasts,” “intends,” or other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts. The forward-looking statements used in this Form 10-KSB are subject to significant risks, assumptions and uncertainties, including among other things, the following important factors that could affect the actual outcome of future events:

- fluctuation in market rates of interest and loan and deposit pricing, which could negatively affect our net interest margin, asset valuation and income and expense projections;
- adverse changes in the overall national economy as well as adverse economic conditions in our specific market areas within Northern Virginia and the greater Washington, D.C. metropolitan region;
- maintenance and development of well-established and valued client relationships and referral source relationships;
- acquisition or loss of key production personnel;
- competitive factors within the financial services industry; and
- changes in regulatory requirements and restrictive banking legislation.

Because of these and other uncertainties, our actual results and performance may be materially different from the results indicated by these forward-looking statements. In addition, our past results of operations are not necessarily indicative of future performance.

We caution readers that the list of factors above is not exclusive. These forward-looking statements are made as of the date of this Form 10-KSB, and we may not undertake steps to update these forward-looking statements to reflect the impact of any circumstances or events that arise after the date the forward-looking statements are made.

Critical Accounting Estimates

The Bank’s accounting and reporting policies are in accordance with U.S. generally accepted accounting principles (“GAAP”) and conform to general practices within the banking industry. The Bank’s financial position and results of operations are affected by management’s application of accounting policies, including estimates, assumptions and judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in the Bank’s financial position and/or results of operations. The accounting policy that requires management’s most difficult, subjective or complex judgments is the Bank’s Allowance for Loan Losses, which is described below.

Allowance for Loan Losses. The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting: (1) SFAS No. 5, “Accounting for Contingencies”, which requires that losses be accrued when occurrence is probable and estimable and (2) SFAS No. 114, “Accounting by Creditors for Impairment of a Loan”, which requires that losses be accrued on loans that are deemed to be impaired based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The Bank's allowance for loan losses is the accumulation of various components that are calculated based on independent methodologies. All components of the allowance represent an estimation performed pursuant to either SFAS No. 5 or SFAS No. 114. Management's estimate of each SFAS No. 5 component is based on certain observable data that management believes are most reflective of the underlying credit losses being estimated. This evaluation includes credit quality trends; collateral values; loan volumes; borrower and industry concentrations; seasoning of the loan portfolio; the findings of internal credit quality assessments and results from external bank regulatory examinations. These factors, as well as historical losses and current economic and business conditions, are used in developing estimated loss factors used in the calculations.

The Bank adopted SFAS No. 114, which has been amended by SFAS No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." SFAS No. 114, as amended, requires that the impairment of loans that have been separately identified for evaluation is to be measured based on the present value of expected future cash flows or, alternatively, the observable market price of the loans or the fair value of the collateral. However, for those loans that are collateral dependent (that is, if repayment of those loans is expected to be provided solely by the underlying collateral) and for which management has determined foreclosure is probable, the measure of impairment is to be based on the net realizable value of the collateral. SFAS No. 114, as amended, also requires certain disclosures about investments in impaired loans and the allowance for loan losses and interest income recognized on loans.

The Allowance for Loan Losses is composed of specific reserves and general reserves. Specific reserves are determined monthly for each loan based upon the loan risk rating, average advance rate, collateral type, and in the case of installment loans – past due and other performance measures.

Reserves for commercial loans are determined by applying estimated loss factors to the portfolio based on management's evaluation and "risk grading" of the commercial loan portfolio. Reserves are provided for noncommercial loan categories using estimated loss factors applied to the total outstanding loan balance of each loan category. Specific reserves are determined on a loan-by-loan basis based on management's evaluation of the Company's exposure for each credit, given the current payment status of the loan and the net market value of any underlying collateral.

There are two primary components considered in determining an appropriate level for the general FAS 5 reserve. A portion of the general reserve is established to cover the elements of imprecision and estimation risk inherent in the calculations of the specific reserves described above. The remaining portion of the general reserve (inherent risk) is determined based upon management's evaluation of various conditions that are not directly measured by any other component of the Allowance for Loan Losses, including current general economic and business conditions affecting key lending areas, credit quality trends, collateral values, loan volumes and concentrations, and results from credit reviews or external bank regulatory reviews.

While management uses the best information available to establish the Allowance for Loan and Losses, future adjustment to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the valuations or, if required by regulators, based upon information available to them at the time of their examinations. Such adjustments to original estimates, as necessary, are made in the period in which these factors and other relevant considerations indicate that loss levels may vary from previous estimates.

Selected Financial Data

The following table sets forth selected historical financial data for the years ended and as of the dates indicated. The selected historical financial data as of December 31, 2006 and 2005, and for the years ended December 31, 2006 and 2005, and for the seven months ended December 31, 2004 are derived from our audited financial statements included in Item 7 of this Form 10-KSB. The selected historical financial data as of the seven months ended December 31, 2004 are derived from our audited financial statements that are not included in this Form 10-KSB. The information set forth below should be read in conjunction with the financial statements in Item 7 of this Form 10-KSB.

	(000's except share data)		
	Year ended December 31, 2006	Year ended December 31, 2005	Seven months ended December 31, 2004
Operating Results:			
Total interest income	\$ 7,304	\$ 3,678	\$ 564
Total interest expense	3,034	1,399	154
Net interest income	4,270	2,279	410
Provision for loan losses	264	409	285
Non-interest income	109	65	14
Non-interest expense	4,068	2,740	1,329
Income taxes (benefit)	—	—	—
Net income (loss)	\$ 47	\$ (805)	\$ (1,190)
Per Share Data and Shares			
Outstanding:			
Basic earnings (loss) per share	\$ 0.02	\$ (0.49)	\$ (0.95)
Diluted earnings (loss) per share	\$ 0.02	\$ (0.49)	\$ (0.95)
Weighted average shares outstanding	2,421,180	1,634,843	1,247,309
Cash dividends declared	—	—	—
Financial Position:			
Investments	\$ 18,231	\$ 22,961	\$ 20,804
Loans, net	81,534	53,841	20,432
Total assets	105,729	82,904	46,211
Deposits	78,000	55,558	35,674
Borrowings	5,742	5,742	—
Stockholders' equity	21,492	21,286	10,364
Performance Ratios:			
Return (loss) on average assets	0.05%	(1.27%)	(6.86%)
Return (loss) on average equity	0.22%	(5.78%)	(17.70%)
Net Interest Margin	4.33%	3.68%	2.84%
Asset Quality Ratios:			
Allowance for loan losses to loans	1.16%	1.27%	1.37%
Net charge-offs to average loans	—	—	—
Nonperforming assets to total assets	—	—	—
Capital Ratios:			
Tier I risk-based capital	23.82%	34.38%	35.33%
Total risk-based capital	24.83%	35.44%	36.30%
Leverage capital ratio	20.99%	28.04%	30.29%

Overview

The Bank opened for business on May 26, 2004, and as such, the reporting period ended December 31, 2004 is a short reporting period. All references to 2004 in the following discussion refer to the seven month period from May 26, 2004 to December 31, 2004.

For the year ended December 31, 2006 net income was \$46,850, compared to a net loss of \$804,725 for the year ended December 31, 2005 and a net loss of \$1.2 million for the seven months ended December 31, 2004. The basic and diluted income (loss) per share was \$0.02, (\$0.49) and (\$0.95) for the period ended December 31, 2006, 2005 and 2004, respectively. Organizational expenses of \$737,000 are not included in the net loss for the seven months ended December 31, 2004.

For the year ended December 31, 2006, the Bank experienced a return on average equity of 0.22%, compared to a loss on average equity of 5.78% for the year ended December 31, 2005, and a loss on an annualized basis of 29.11% during the seven months ended December 31, 2004.

Total assets grew to \$105.7 million at December 31, 2006, an increase of 27.5% over December 31, 2005 total assets of \$82.9 million. Total gross loans at December 31, 2006 were \$82.7 million, a 51.2% increase over total gross loans of \$54.7 million at December 31, 2005. The significant growth in the loan portfolio is due to strong relationships that management has created with its customer base.

The allowance for loan losses was \$957,337 at December 31, 2006, or 1.16% of total loans, compared to an allowance of \$694,000 or 1.27% of total loans at December 31, 2005. At December 31, 2006 and 2005, the Bank did not have any non-performing loans or loans past due 90 days or more.

Total deposits increased 40.3% to \$78.0 million at December 31, 2006 over total deposits of \$55.6 million at December 31, 2005. Non-interest bearing deposits were \$10.6 million and \$9.0 million at December 31, 2006 and December 31, 2005, respectively.

Total stockholders' equity increased to \$21.5 million at December 31, 2006 from \$21.3 million at December 31, 2005. Total equity raised during 2004 in the Bank's initial stock offering was \$12.5 million, with net offering proceeds of \$12.3 million after deducting offering costs. Additional equity of \$12.65 million was raised during 2005 through a secondary stock offering, with net offering proceeds of \$11.9 million after deducting offering costs.

The Bank is not aware of any current recommendations by any regulatory authorities, which, if implemented, would have a material effect on the Bank's liquidity, capital resources or operations.

Results of Operations

Net Interest Income. The Bank reported net interest income of \$4.3 million for the year ended December 31, 2006, an 87.0% increase over 2005. Net interest income was \$2.3 million for the year ended December 31, 2005, a significant increase over net interest income of \$410,320 recorded for the seven months ended December 31, 2004.

Average loans were \$70.4 million, \$36.4 million, and \$10.4 million for the year ended December 31, 2006, 2005, and 2004, respectively. The related fees and interest income on loans for the year ended December 31, 2006 was \$5.9 million, compared to \$2.7 million for the year ended December 31, 2005 and \$357,826 for the seven months ended December 31, 2004. The

average yield on loans was 8.46%, 7.40%, and 5.76% for 2006, 2005, and 2004, respectively. Interest on investment securities and federal funds sold totaled \$1.4 million, \$986,404 and \$206,222 in 2006, 2005 and 2004, respectively. The yield on earning assets was 7.41% in 2006 compared to 5.94% in 2005 and 3.90% in 2004.

Consistent with asset growth, interest-bearing funding sources (deposits, purchased funds, and other borrowings) grew to \$73.1 million at December 31, 2006, an increase of 39.8% over December 31, 2005. Interest-bearing funding sources were \$52.3 million at December 31, 2005, an increase of 86.1% over interest-bearing funding sources of \$28.1 million at December 31, 2004. During 2005, the Bank entered into a fixed rate credit (FRC) with the Federal Home Loan Bank (FHLB) in the amount of \$5.0 million and a principal reducing credit (PRC) with the FHLB in the amount of \$750,000.

Interest expense for all interest bearing liabilities was \$3.0 million, \$1.4 million, and \$153,728 for 2006, 2005 and 2004, respectively. The cost of interest bearing liabilities was 4.45%, 3.36% and 2.50% in 2006, 2005 and 2004, respectively.

At December 31, 2006, the Bank's variable and fixed rate loan portfolio represented 79.84% and 20.16% of total loans, respectively, compared to 85.90% and 14.10% of total loans, respectively, at December 31, 2005 and 82.06% and 17.94%, respectively, at December 31, 2004. The Bank positioned its portfolio to be asset sensitive for anticipated rate increases during 2005 and 2006.

Net interest margin for 2006 was 4.33%, compared to a net interest margin of 3.68% and 2.84% in 2005 and 2004, respectively.

The following table illustrates average balances of total interest earning assets and total interest bearing liabilities for the periods indicated, showing the average distribution of assets, liabilities, stockholders' equity and related income, expense and corresponding weighted average yield and rates. The average balances used in these tables and other statistical data were calculated using daily average balances. The Bank had no tax exempt assets for the periods presented.

Average Balances, Interest Income and Expense and Average Yield and Rates.

	(000's except percentages)								
	Year Ended December 31, 2006			Year Ended December 31, 2005			Seven Months Ended December 31, 2004		
	Average Balance ⁽¹⁾	Income/ Expense	Yield/ Rate	Average Balance ⁽¹⁾	Income/ Expense	Yield/ Rate	Average Balance ⁽¹⁾	Income/ Expense	Yield/ Rate
ASSETS:									
Interest earning assets:									
Loans ⁽²⁾	\$ 70,361	\$ 5,949	8.46%	\$ 36,356	\$ 2,692	7.40%	\$ 10,354	\$ 359	5.76%
Investment securities	16,834	783	4.65%	21,344	848	3.97%	6,828	148	3.58%
Federal Funds and repos sold	11,352	572	5.04%	4,222	138	3.28%	6,897	57	1.39%
Total interest earning assets	<u>98,547</u>	<u>7,304</u>	<u>7.41%</u>	<u>61,922</u>	<u>3,678</u>	<u>5.94%</u>	<u>24,079</u>	<u>564</u>	<u>3.90%</u>
Non-interest earning assets:									
Cash and due from banks	1,114			812			1,172		
Premises and equipment	793			824			650		
Other assets	789			385			81		
Less: allowance for loan losses	(846)			(444)			(109)		
Total non-interest earning assets	<u>1,850</u>			<u>1,577</u>			<u>1,794</u>		
Total Assets	<u>\$ 100,397</u>			<u>\$ 63,499</u>			<u>\$ 25,873</u>		
Liabilities and Stockholders' Equity:									
Interest bearing liabilities:									
Interest bearing demand deposits	\$ 7,916	\$ 256	3.24%	\$ 5,299	\$ 153	2.90%	\$ 2,445	\$ 33	2.21%
Money market deposit accounts	8,489	298	3.51%	11,839	349	2.95%	3,550	52	2.45%
Savings accounts	2,843	118	4.15%	241	6	2.44%	121	1	1.94%
Time deposits	43,195	2,089	4.84%	19,297	680	3.52%	4,133	68	2.72%
Total interest-bearing deposits	<u>62,443</u>	<u>2,761</u>	<u>4.42%</u>	<u>36,676</u>	<u>1,188</u>	<u>3.24%</u>	<u>10,249</u>	<u>154</u>	<u>2.50%</u>
Federal funds and repos purchased	8	1	5.56%	174	6	3.65%	4	--	2.26%
FHLB borrowings	5,718	272	4.77%	4,781	205	4.27%	--	--	--
Total interest bearing liabilities	<u>68,169</u>	<u>3,034</u>	<u>4.45%</u>	<u>41,631</u>	<u>1,399</u>	<u>3.36%</u>	<u>10,253</u>	<u>154</u>	<u>2.50%</u>
Non-interest bearing liabilities:									
Demand deposit accounts	10,299			7,695			4,493		
Other liabilities	408			257			112		
Total non-interest bearing liabilities	<u>10,707</u>			<u>7,952</u>			<u>4,605</u>		
Stockholders' Equity	<u>21,521</u>			<u>13,916</u>			<u>11,015</u>		
Total Liabilities and Stockholders' Equity	<u>\$ 100,397</u>			<u>\$ 63,499</u>			<u>\$ 25,873</u>		
Interest Rate Spread ⁽³⁾			2.96%			2.58%			1.41%
Net Interest Income ⁽⁴⁾		<u>\$ 4,270</u>			<u>\$ 2,279</u>			<u>\$ 410</u>	
Net Interest Margin ⁽⁵⁾			4.33%			3.68%			2.84%

(1) Average balances are computed on a daily basis.

(2) The Bank had no non-accruing loans for the period presented.

(3) Interest rate spread is the total interest income expressed as a percentage of average earning assets less total interest expense expressed as a percentage of average interest bearing liabilities.

(4) Net interest income is interest income less total interest expense.

(5) Net interest margin is net interest income, expressed as a percentage of average earning assets.

The following table sets forth the dollar amount of changes in interest income, interest expense and net interest income attributable to volume and rate between the years ended December 31, 2006 and 2005, and the year and seven months ended December 31, 2005 and 2004, respectively.

	(000's)					
	2006 Compared to 2005			2005 Compared to 2004		
	Increase (Decrease) Due to Change in			Increase (Decrease) Due to Change in		
	Volume	Rate	Total (1)	Volume	Rate	Total (1)
Interest income:						
Loans, net	\$ 2,825	\$ 432	\$ 3,257	\$ 2,096	\$ 238	\$ 2,334
Investment securities	(196)	131	(65)	664	35	699
Federal funds sold	234	200	434	(37)	118	81
Total interest income	<u>2,863</u>	<u>763</u>	<u>3,626</u>	<u>2,723</u>	<u>391</u>	<u>3,114</u>
Interest expense:						
Interest bearing demand deposits	83	20	103	95	26	121
Money market	(110)	59	(51)	273	24	297
Savings	105	7	112	3	2	5
Time deposits	1,081	328	1,409	568	44	612
Federal funds purchased	(7)	2	(5)	6	—	6
FHLB borrowings	42	25	67	204	—	204
Total interest expense	<u>1,194</u>	<u>441</u>	<u>1,635</u>	<u>1,149</u>	<u>96</u>	<u>1,245</u>
Increase (decrease) in interest differential	<u>\$ 1,669</u>	<u>\$ 322</u>	<u>\$ 1,991</u>	<u>\$ 1,574</u>	<u>\$ 295</u>	<u>\$ 1,869</u>

(1) The change in interest due to both volume and yield/rate has been allocated to change due to volume and change due to yield/rate in proportion to the absolute value of the change in each.

Interest Rate Sensitivity Analysis and Interest Rate Risk Management

Management evaluates interest rate sensitivity on a periodic basis. As part of the evaluation, management reviews the “static” gap position of the Bank. Business and pricing strategies are adjusted based upon management’s view of likely interest rate scenarios in conjunction with the current balance sheet structure.

The following table illustrates the interest sensitivity gap position of the Bank at December 31, 2006 and December 31, 2005. This table presents a position that existed at one particular day, that changes continually and that is not necessarily indicative of the Bank’s position at any other time.

Interest Sensitivity Analysis

	(000's)				
	December 31, 2006				
	Maturing or Repricing				
	Within 3 Months	4 – 12 Months	1-5 Years	Over 5 Years	Total
Interest Earning Assets:					
Investment securities	\$ 4,544	\$ 868	\$ 7,244	\$ 5,575	\$ 18,231
Loans	49,141	3,127	19,143	11,267	82,678
Interest bearing deposits	2,397	—	—	—	2,397
Federal funds sold	388	—	—	—	388
Total interest earning assets	\$ 56,470	\$ 3,995	\$ 26,387	\$ 16,842	\$ 103,694
Interest-Bearing Liabilities:					
Interest-bearing demand deposits	\$ 8,597	—	—	—	\$ 8,597
Money market deposits accounts	9,183	—	—	—	9,183
Savings accounts	2,383	—	—	—	2,383
Time deposits	18,244	\$ 10,533	\$ 18,324	\$ 125	47,226
Total interest-bearing deposits	38,407	10,533	18,324	125	67,389
FHLB Advances	—	—	5,000	692	5,692
Securities sold under repurchase agreements and other borrowings	50	—	—	—	50
Total interest-bearing liabilities	\$ 38,457	\$ 10,533	\$ 23,324	\$ 817	\$ 73,131
Period Gap	\$ 18,013	\$ (6,538)	\$ 3,063	\$ 16,025	\$ 30,563
Cumulative Gap	\$ 18,013	\$ 11,475	\$ 14,538	\$ 30,563	\$ 30,563
Cumulative Gap/Total Assets	17.37%	11.07%	14.02%	29.47%	29.47%

	(000's)				
	December 31, 2005				
	Maturing or Repricing				
	Within 3 Months	4 – 12 Months	1-5 Years	Over 5 Years	Total
Interest Earning Assets:					
Investment securities	\$ 9,149	\$ 3,424	\$ 9,668	\$ 1,098	\$ 23,339
Loans	41,491	2,477	8,336	2,378	54,682
Interest bearing deposits	673	—	—	—	673
Federal funds sold	3,428	—	—	—	3,428
Total interest earning assets	\$ 54,741	\$ 5,901	\$ 18,004	\$ 3,476	\$ 82,122
Interest-Bearing Liabilities:					
Interest-bearing demand deposits	\$ 6,566	—	—	—	\$ 6,566
Money market deposits accounts	9,444	—	—	—	9,444
Savings accounts	283	—	—	—	283
Time deposits	7,580	\$ 10,224	\$ 12,497	—	30,301
Total interest-bearing deposits	23,873	10,224	12,497	—	46,594
FHLB Advances	—	—	5,000	\$ 742	5,742
Securities sold under repurchase agreements and other borrowings	—	—	—	—	—
Total interest-bearing liabilities	\$ 23,873	\$ 10,224	\$ 17,497	\$ 742	\$ 52,336
Period Gap	\$ 30,868	\$ (4,323)	\$ 507	\$ 2,734	\$ 29,786
Cumulative Gap	\$ 30,868	\$ 26,545	\$ 27,052	\$ 29,786	\$ 29,786
Cumulative Gap/Total Assets	37.59%	32.32%	32.94%	36.27%	36.27%

At December 31, 2006, the cumulative gap position within one year was \$11.5 million or 11.07% of total earning assets compared to a cumulative gap position within one year of \$26.5 million or 32.32% of total earning assets as of December 31, 2005. The positive gap suggests the Bank is more sensitive to increasing interest rates, as assets will reprice faster than liabilities. This measurement technique is common in the financial service industry; however, it has limitations and is not the sole tool for measuring interest rate sensitivity.

On a monthly basis, the Bank reviews the interest sensitivity of its balance sheet based upon a static interest sensitivity gap report which measures the cash flows and repricing opportunities for the Bank's earning assets and interest bearing liabilities. The Bank reviews any material mismatches and makes adjustments to balance sheet holdings in order to minimize the Bank's exposure to interest rate risk.

As part of the interest rate risk management, the Bank typically uses the investment portfolio to balance its interest rate exposure. The Bank purchases or sells fixed or floating rate investment products with longer or shorter durations, as necessary. Additionally the pricing of deposits is adjusted within the market area to favor money market or certificates of deposit depending on the need for floating or fixed rate liabilities. The pricing of loan products is a function of interest rate risk management strategies and the market conditions in the area. In many cases, the objectives for interest rate risk are not consistent with the general market. An example of this is in a rising rate environment, the loan customer typically prefers fixed rate loans and the bank typically desires floating rate loans. In this example, the Bank may need to sell similar maturity certificates of deposit to balance the interest rate risk for the fixed rate loan.

In 2004, the Federal Reserve Bank began to raise short-term interest rates to slow the overall economic conditions in the United States. The prime rate increased from 4.00% on January 1, 2004 to 7.25% as of December 31, 2005 and to 8.25% as of December 31, 2006. The magnitude of the interest rate increases has placed challenges on the interest rate risk management process.

During 2005 and 2006 the Bank focused its loan portfolio on floating rate loans. In addition, the Bank invested in short duration investments to balance out the impact of the increases in the prime rate and the federal funds rate. As a result, the interest rate increases have had a positive effect on the Bank's net interest margin.

Provision for Loan Losses. Management provided \$264,000; \$409,000; and \$285,000 in 2006, 2005 and 2004, respectively, as provision for loan losses. The Bank recognizes increases in the allowance for loan losses based upon management's reserve methodology and analysis of credit quality inherent in the loan portfolio and net realizable value of collateral underlying the loan.

Non-Interest Income. The Bank reported non-interest income of \$109,191 for the year ended December 31, 2006, a 67.7% increase over 2005. Non-interest income was \$65,094 for the year ended December 31, 2005, an increase of \$51,406 from \$13,688 for the seven months ended December 31, 2004. The increase in non-interest income is consistent with the growth in the customer base. Being a new bank, some concessions have been made on fees charged to new customers in an effort to bring in new customers. Our business strategy continues to focus on bringing in new customers.

Non-Interest Expense. The Bank reported non-interest expense of \$4.1 million for the year ended December 31, 2006, a 51.9% increase over 2005. Non-interest expense increased to \$2.7 million for the year ended December 31, 2005 from \$1.3 million for the seven months ended December 31, 2004. Organizational expenses of \$737,000 were excluded from non-interest

expense during 2004. The organizational expenses are one-time expenses incurred in the start-up of the Bank. Salaries and benefits, the largest component of non-interest expense, increased by \$705,002 in 2006 compared to 2005, and increased by \$776,743 from 2004 to 2005, due primarily to increased staffing levels. As a new organization, the Bank's expenses were a higher percentage of gross income in 2004; however, that percentage declined in 2005 and 2006 as the Bank continued to grow its earning assets.

Income Taxes. The Bank did not record any tax expense or benefit for the periods ended December 31, 2006, 2005 and 2004. Currently the Bank has a net operating loss. As and when appropriate the Bank will book a tax asset. The Bank has a net operating loss carryforward of approximately \$1.9 million, which expires at various times through 2024. See Note 11 of the Notes to Financial Statements for further discussion of income taxes.

Analysis of Financial Condition

Investment Securities. The securities portfolio consisted of securities available for sale totaling \$17.1 million and \$21.9 million and FHLB stock and Federal Reserve Bank stock totaling \$1.1 million and \$1.0 million at December 31, 2006 and 2005, respectively. Investment securities represent 17.4% and 34.5% of average interest earning assets in 2006 and 2005, respectively. The Bank currently has no investment securities held to maturity.

The Bank generally classifies investment securities as available-for-sale under the classifications required under SFAS No. 115. Available-for-sale securities are held for indefinite periods of time and are not intended to be held-to-maturity and may be sold in response to changes in interest rates, liquidity demands and other factors. The portfolio is used to manage excess liquidity and general liquidity needs as well as other rebalancing needs as required by the Bank's overall asset/liability position.

The investment portfolio had unrealized losses of \$200,436 and \$248,498, net of tax, as of December 31, 2006 and 2005, respectively.

The investment portfolio at December 31, 2006 contained US agency collateralized mortgage obligations ("CMO"), US agency mortgage backed securities ("MBS"), Federal Reserve Bank stock and FHLB stock. The Bank does not hold any derivative instruments. The Bank's investment strategy includes purchasing investment securities that provide good cash flow and an appropriate rate of return consistent with the objective of maintaining portfolio duration of less than four years. The Bank actively manages its portfolio duration and composition with the changing market conditions and changes in balance sheet risk management needs. Additionally, the securities can be used to pledge for certain borrowing transactions.

The following table sets forth a summary of the investment securities portfolio as of December 31, 2006 and 2005:

	(000's)	
	Investment Securities	
	December 31,	
	2006	2005
Available For Sale Securities		
US Government Agency Securities	\$ 3,997	\$ 4,998
US Government Agency CMOs	661	802
US Government Agency MBSs	3,561	4,762
Other MBS Securities	8,915	11,376
Total Available for Sale Securities ⁽¹⁾	<u>\$ 17,134</u>	<u>\$ 21,938</u>
Held to Maturity Securities	—	—
FHLB & FRB Common Stock	<u>\$ 1,097</u>	<u>\$ 1,023</u>
Total Investment Securities	<u>\$ 18,231</u>	<u>\$ 22,961</u>

(1) Available For Sale investments at market value.

The following table presents the amortized cost and estimated fair values of securities available for sale at December 31, 2006, distributed based on contractual maturity, and weighted average yields computed on a tax equivalent basis. Contractual maturities of CMOs and MBSs are not reliable indicators of their expected life because mortgage borrowers have the right to prepay mortgages at any time. Additionally, callable agency securities may be called by the issuer prior to the contractual maturity.

	(000's except percentages)									
	December 31, 2006									
	Within 1 Year		After 1 but Within 5 Years		After 5 but Within 10 Years		After 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Government Agencies	\$ 3,999	5.88%	—	—	—	—	—	—	\$ 3,999	5.88%
U.S. Government Agency CMOs	—	—	—	—	—	—	\$ 689	4.17%	689	4.17%
U.S. Government Agency MBSs	—	—	\$ 290	4.16%	—	—	\$ 3,340	4.03%	3,630	4.04%
Other securities	—	—	—	—	—	—	9,120	5.25%	9,120	5.25%
Total	<u>\$ 3,999</u>	<u>5.88%</u>	<u>\$ 290</u>	<u>4.16%</u>	<u>—</u>	<u>—</u>	<u>\$ 13,149</u>	<u>4.89%</u>	<u>\$ 17,438</u>	<u>5.10%</u>
Fair value	<u>\$ 3,997</u>		<u>\$ 284</u>		<u>—</u>		<u>\$ 12,853</u>		<u>\$ 17,134</u>	

The following table presents the amortized cost and estimated fair values of securities available for sale at December 31, 2005, distributed based on contractual maturity, and weighted average yields computed on a tax equivalent basis. Contractual maturities of CMOs and MBSs are not reliable indicators of their expected life because mortgage borrowers have the right to prepay mortgages at any time. Additionally, callable agency securities may be called by the issuer prior to the contractual maturity.

(000's except percentages)

	December 31, 2005									
	Within 1 Year		After 1 but Within 5 Years		After 5 but Within 10 Years		After 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Government Agencies	\$ 4,999	3.60%	—	—	—	—	—	—	\$ 4,999	3.60%
U.S. Government Agency CMOs	—	—	—	—	—	—	\$ 826	4.13%	826	4.13%
U.S. Government Agency MBSs	—	—	—	—	\$ 351	4.23%	4,490	3.89%	4,841	3.92%
Other securities	—	—	—	—	—	—	11,649	4.32%	11,649	4.32%
Total	\$ 4,999	3.60%	—	—	\$ 351	4.23%	\$ 16,965	4.20%	\$ 22,315	4.07%
Fair value	<u>\$ 4,998</u>		<u>—</u>		<u>\$ 345</u>		<u>\$ 16,595</u>		<u>\$ 21,938</u>	

Loan Portfolio. At December 31, 2006, total gross loans were \$82.7 million, a \$28.0 million increase over December 31, 2005, and \$54.7 million at December 31, 2005, as compared to \$20.8 million at December 31, 2004. Average gross loans increased \$34.0 million to \$70.4 million during 2006 as compared to \$36.4 million and \$10.4 million during 2005 and 2004, respectively. The growth in gross loans is largely a result of the Bank's continued lending emphasis on loans to small businesses, primarily in the form of commercial real estate loans, construction loans, and commercial loans. At December 31, 2006, commercial and commercial real estate loans represent 68.6% of the Bank's loan portfolio, compared to 68.2% at December 31, 2005. The mix of loans is evolving but will continue to have a concentration in investor held commercial real estate loans and owner-occupied commercial real estate loans. The Bank's loan customers are generally located in Fairfax, Virginia and the surrounding counties in the greater Washington, D.C. metropolitan area.

The composition of the loan portfolio at December 31 is as follows:

	2006	2005	2004
Real Estate Loans:			
Residential real estate	\$ 16,463,909	\$ 9,177,516	\$ 4,663,292
Commercial real estate	45,859,104	29,640,693	14,765,720
Construction	8,466,557	6,995,883	548,337
Total real estate	<u>\$ 70,789,570</u>	<u>\$ 45,814,092</u>	<u>\$ 19,977,349</u>
Commercial	10,819,817	7,649,015	469,838
Consumer	1,069,014	1,239,787	337,763
Total Loans	<u>\$ 82,678,401</u>	<u>\$ 54,702,894</u>	<u>\$ 20,784,950</u>
Less: unearned fees	(186,597)	(167,557)	(67,940)
Less: allowance for loan losses	(957,337)	(694,000)	(285,000)
Net Loans	<u>\$ 81,534,467</u>	<u>\$ 53,841,337</u>	<u>\$ 20,432,010</u>

The Bank intends to continue focusing on commercial real estate and commercial lending during 2007. Commercial loans represented 13.09% of the total loan portfolio or \$10.8 million at December 31, 2006, and 13.98% of the total loan portfolio or \$7.6 million at December 31, 2005. At December 31, 2006, commercial real estate loans (generally owner-occupied) were \$45.9 million or 55.47% of the total loan portfolio, as compared to \$29.6 million or 54.18% of the total loan portfolio at December 31, 2005. At December 31, 2006, residential real estate loans (home

equity and fixed rate trusts) were \$16.5 million or 19.91% of the total loan portfolio, as compared to \$9.2 million or 16.78% of the loan portfolio at December 31, 2005. Loans are made at both fixed and variable interest rates, generally based upon the prime rate as published in the Wall Street Journal. At December 31, 2006, the Bank had total gross loans with fixed interest rates of \$16.7 million or 20.2%, and total gross loans with variable interest rates of \$66.0 million or 79.8%, as compared to \$7.7 million or 14.1% fixed rate loans and \$47.0 million or 85.9% of variable rate loans at December 31, 2005.

At December 31, 2006 and 2005, the Bank had approximately \$5.5 million and \$8.0 million, respectively, of outstanding loan commitments, and standby letters of credit totaled \$326,976 and \$50,000, respectively. Unused lines of credit totaled \$20.2 million and \$13.4 million at December 31, 2006 and 2005, respectively.

The following table presents the maturities or repricing periods of selected loans outstanding at December 31, 2006:

(000's)					
Loan Maturity Distribution					
December 31, 2006					
	1 Year or Less	After 1 Year Through 5 Years	After 5 years	Total	Percent
Real Estate Loans:					
Residential real estate	\$ 14,595	\$ 1,869	—	\$ 16,464	19.91%
Commercial real estate	22,804	15,129	\$ 7,926	45,859	55.47%
Construction	6,874	1,592	—	8,466	10.24%
Commercial	7,074	405	3,341	10,820	13.09%
Consumer	921	148	—	1,069	1.29%
Total	\$ 52,268	\$ 19,143	\$ 11,267	\$ 82,678	100.00%
Loans with:					
Fixed Rates	\$ 1,362	\$ 4,081	\$ 11,267	\$ 16,710	20.21%
Variable Rates	\$ 50,906	15,062	—	65,968	79.79%
Total	\$ 52,268	\$ 19,143	\$ 11,267	\$ 82,678	100.00%
Percent	63.22%	23.15%	13.63%	100.00%	

Asset Quality. The loan portfolio has had no loans past due 90 days or more since the Bank's inception. At December 31, 2006 and 2005, the allowance for loan losses was \$957,337 or 1.16% of loans outstanding and \$694,000 or 1.27% of loans outstanding, respectively.

Nonperforming Assets. Loans are placed on nonaccrual when a loan is specifically determined to be impaired or when principal or interest is delinquent 90 days or more. The Bank had no nonaccrual loans, restricted loans, potential problem loans, or other real estate owned for all periods presented.

The Bank did not have any loans past due 90 days or more during any of the periods presented. The Bank's business processes closely monitor individual loans, and relationship officers work with customers to resolve potential credit issues in a timely manner with minimum exposure to the Bank. The Bank maintains a policy of adding an appropriate amount to the allowance for loan losses to ensure an adequate reserve based on the portfolio composition, specific credit extended by the Bank, and general conditions.

The following table represents an analysis of the allowance for loan losses for the years ended December 31, 2006 and 2005 and the seven months ended December 31, 2004:

	Allowance for Loan Losses		
	Year Ended December 31, 2006	Year Ended December 31, 2005	Seven Months Ended December 31, 2004
Balance, beginning of period	\$694,000	\$285,000	—
Provision for loan losses	264,000	409,000	\$285,000
Chargeoffs:			
Commercial	—	—	—
Real Estate	—	—	—
Consumer	(663)	—	—
Recoveries:			
Commercial	—	—	—
Real Estate	—	—	—
Consumer	—	—	—
Net Chargeoffs	(663)	—	—
Balance, end of period	<u>\$957,337</u>	<u>\$694,000</u>	<u>\$285,000</u>

There was a charge-off on a credit card loan during the third quarter of 2006 of \$663 due to a bankruptcy. The Bank experienced no charge-offs during 2005 or 2004. As of December 31, 2006, the Bank has no non-performing assets.

A breakdown of the allowance for loan losses is provided in the following table. However, the Bank's management does not believe that the allowance for loan losses can be fragmented by category with any precision that would be useful to investors. The breakdown of the allowance for loan losses is based primarily upon those factors discussed above in computing the allowance for loan losses as a whole. Because all of these factors are subject to change, the breakdown is not necessarily indicative of the category of future loan losses.

	(000's except percentages)					
	Year Ended December 31, 2006			Year Ended December 31, 2005		
	Amount of Loan Loss Allowance	Loan Amounts by Category	Percent of Loans in Each Category by Total Loans	Amount of Loan Loss Allowance	Loan Amounts by Category	Percent of Loans in Each Category by Total Loans
Real estate loans:						
Residential real estate	\$ 94	\$ 16,464	19.91%	\$ 53	\$ 9,177	16.78%
Commercial real estate	608	45,859	55.47%	525	29,641	54.18%
Construction	91	8,466	10.24%	48	6,996	12.79%
Commercial	156	10,820	13.09%	57	7,649	13.98%
Consumer	8	1,069	1.29%	11	1,240	2.27%
Total	<u>\$ 957</u>	<u>\$ 82,678</u>	<u>100.00%</u>	<u>\$ 694</u>	<u>\$ 54,703</u>	<u>100.00%</u>

(000's except percentages)

Seven Months Ended December 31, 2004			
	Amount of Loan Loss Allowance	Loan Amounts by Category	Percent of Loans in Each Category by Total Loans
Real estate loans:			
Residential real estate	\$ 30	\$ 4,663	22.44%
Commercial real estate	238	14,766	71.04%
Construction	3	548	2.64%
Commercial	11	470	2.26%
Consumer	3	338	1.62%
Total	\$ 285	\$ 20,785	100.00%

Deposits. The Bank seeks deposits within the market area by paying competitive interest rates, offering high quality customer service and using technology to deliver deposit services effectively. Total deposits at the end of 2006 had increased \$22.4 million to \$78.0 million from \$55.6 million at December 31, 2005, which was an increase of 55.7% from \$35.7 million at the end of 2004. The Bank has seen growth in several key categories over the periods compared. Demand deposits, NOW, money market and certificates of deposit have all grown in proportion to the overall Bank. The effects of several key deposit gathering initiatives have allowed the Bank's deposit and customer base to continually expand.

The following table presents a summary of deposits at December 31:

	(000's)		
	2006	2005	2004
Demand deposits			
Noninterest-bearing	\$ 10,610	\$ 8,964	\$ 7,629
Interest-bearing	8,597	6,566	4,457
Savings accounts	2,384	283	181
Money market accounts	9,183	9,444	10,484
Time deposits of \$100,000 or more	13,126	7,239	5,330
Time deposits of less than \$100,000	34,100	23,062	7,593
Total	\$ 78,000	\$ 55,558	\$ 35,674

The following is a summary of the maturity distribution of time deposits at December 31, 2006:

	(000's)					
	Greater than or equal to \$100,000		Less than \$100,000		Total	
	Balance	Interest Rate	Balance	Interest Rate	Balance	Interest Rate
3 months or less	\$ 2,146	4.93%	\$ 16,098	4.76%	\$ 18,244	4.78%
Over 3 through 6 months	875	4.99%	6,521	4.88%	7,396	4.89%
Over 6 through 12 months	5,712	4.62%	4,870	5.08%	10,582	4.83%
Over 12 months	4,393	4.92%	6,611	4.84%	11,004	4.87%
Total	\$ 13,126	4.79%	\$ 34,100	4.84%	\$ 47,226	4.83%

The Bank arranges for FDIC insurance for deposits up to \$30 million through the Certificate of Deposit Account Registry Service ("CDARS"), which provides for full FDIC

insurance on deposits up to \$30 million through a single banking relationship. Banks that offer CDARS are members of a special network (Promontory Interfinancial Network). When a customer places a large deposit with a network member, that bank places deposited funds into certificates of deposit issued by other banks in the network. This occurs in increments of less than \$100,000 to ensure that both principal and interest are eligible for complete FDIC protection. Then, through a sophisticated matching system, network members exchange deposits. These exchanges, which occur on a dollar-for-dollar basis, bring the full amount of our customer's original deposit back to the Bank. Promontory also offers member banks an opportunity to participate in one-way orders. Banks can either accept deposits as a surplus bank or place deposits in CDARS offered by banks seeking funding without matching funds. The Promontory Interfinancial Network provides the Bank an alternative source of funding or investment opportunities, while at the same time increasing the level of FDIC insurance available to deposit customers.

Brokered certificates of deposit allow the Bank to fund loan and investment growth with a minimal impact on overall sales efforts. At December 31, 2006, 2005 and 2004, the Bank had \$26.6 million, \$16.1 million and \$2.3 million, respectively, in such deposits. In the competitive environment in the Washington, D.C. metropolitan area, brokered deposits offer a reasonable funding alternative for the Bank. As market conditions warrant and the balance sheet needs dictate, we may participate in the wholesale certificates of deposit market.

Total deposits at the end of 2006 increased 40.3% to \$78.0 million, from \$55.6 million at December 31, 2005, which was an increase of 55.7% from \$35.7 million at the end of 2004. Deposit growth during 2006 was due primarily to an increase in time deposits, which include deposits through CDARS. At December 31, 2006 total CDARS deposits had increased \$10.8 million to \$23.0 million, from \$12.2 million at December 31, 2005, which was an increase of \$11.3 million from \$895,737 at December 31, 2004. Of the increase in CDARS deposits from 2005 to 2006, \$7.7 million is a result of the Bank acquiring excess funds to fund loan growth, compared to an increase in CDARS deposits of \$11.2 million from 2004 to 2005 to fund loan growth.

Average balances in interest-bearing demand deposits increased \$2.6 million or 49.4% during 2006 compared to an increase of \$2.9 million or 116.7% during 2005. During 2006, the average balance in money market accounts decreased \$3.3 million or 28.2% compared to an increase of \$8.3 million or 233.6% during 2005. Average savings account balances increased \$2.6 million in 2006 compared to an increase of \$119,406 in 2005. Due primarily to an increase in CDARS deposits, average time deposits increased \$23.9 million or 123.8% during 2006 compared to \$15.2 million or 366.9%. During 2007, the Bank expects to continue pricing products competitively.

Average balances in interest-bearing demand deposits increased \$2.9 million or 116.7% during 2005. During 2005, the average balance in money market accounts increased \$8.3 million or 233.6%. Average savings account balances increased \$119,406 or 98.4% in 2005. Average time deposits increased 366.9% or \$15.2 million for 2005 compared to 2004, primarily due to the increase in CDARS deposits.

The following table details the average amount of, and the average rate paid on, the following primary deposit categories for the periods indicated:

(000's except percentages)

	Year ended December 31, 2006		Year ended December 31, 2005		Seven months ended December 31, 2004	
	Average		Average		Average	
	Amount	Rate	Amount	Rate	Amount	Rate
Interest-bearing liabilities:						
Demand deposits	\$ 7,916	3.24%	\$ 5,299	2.90%	\$ 2,445	2.21%
Money market accounts	8,489	3.51%	11,839	2.95%	3,549	2.45%
Savings accounts	2,843	4.15%	241	2.44%	122	1.94%
Time deposits	43,195	4.84%	19,296	3.52%	4,133	2.72%
Total interest-bearing deposits	\$ 62,443	4.42%	\$ 36,675	3.24%	\$ 10,249	2.50%
Non-interest bearing liabilities	10,298		7,695		4,493	
Total deposits	\$ 72,741		\$ 44,370		\$ 14,742	

Purchased Funds. The Bank offers repurchase agreements (“repos”) to commercial customers and affluent individuals. The repos are offered for convenience and security to larger clients. There was one customer repo as of December 31, 2006, and none as of December 31, 2005 and 2004. The Bank does not have any open repos with broker dealers.

The Bank is a member of the FHLB. On April 7, 2005, the Bank entered into a five-year fixed rate credit agreement with the FHLB in the amount of \$5.0 million. Interest accrues at the rate of 4.70% and is due April 7, 2010. On October 25, 2005, the Bank entered into a fifteen-year principal reducing credit (“PRC”) agreement with the FHLB in the amount of \$750,000. Interest accrues at the rate of 5.24% and is due October 26, 2020. Principal reductions occur monthly commencing on November 25, 2005, in the amount of \$4,167. The balance on the PRC as of December 31, 2006 was \$691,667.

Interest expense on all borrowings totaled \$273,053, \$210,653, and \$58 in 2006, 2005 and 2004, respectively. An analysis of the purchased funds distribution is presented below for the periods indicated:

(000's except percentages)

	Year Ended December 31, 2006	Year Ended December 31, 2005	Seven Months Ended December 31, 2004
At Period End			
FHLB Advances	\$ 5,692	\$ 5,742	—
Securities sold under repurchase agreements	50	—	—
Other borrowed funds	—	—	\$ 36
Total at period end	<u>\$ 5,742</u>	<u>\$ 5,742</u>	<u>\$ 36</u>
Average Balances			
FHLB Advances	\$ 5,718	\$ 4,781	—
Securities sold under repurchase agreements	—	—	—
Other borrowed funds	\$ 7	\$ 174	\$ 4
Total average balance	<u>\$ 5,725</u>	<u>\$ 4,955</u>	<u>\$ 4</u>
Average rate paid on all borrowed funds, end of period	<u>4.75%</u>	<u>4.77%</u>	<u>2.26%</u>
Average rate paid on all borrowed funds, during the period	<u>4.77%</u>	<u>4.25%</u>	<u>2.26%</u>
Maximum outstanding during period	<u>\$ 5,742</u>	<u>\$ 5,750</u>	<u>\$ 179</u>

Liquidity. The Bank's overall asset/liability strategy takes into account the need for the Bank to maintain adequate liquidity to fund asset growth and deposit runoff. The Bank's management monitors the liquidity position daily in conjunction with the Federal Reserve position monitoring. The Bank has unsecured and secured credit lines available from the Community Banker's Bank, our primary correspondent bank. In addition the Bank has unsecured lines of credit from The Banker's Bank and Pacific Coast Bank. Additionally, the Bank may borrow funds from the Federal Home Loan Bank of Atlanta. The credit facilities are used in conjunction with the normal deposit strategies, which include pricing changes to increase deposits as necessary. The Bank can sell or pledge investment securities to create additional liquidity for the Bank. From time to time the Bank may sell or participate out loans to create additional liquidity as required.

Capital. The Bank's stockholders' equity increased to \$21.5 million at December 31, 2006, or 0.9% from \$21.3 million at December 31, 2005. This increase in stockholders' equity was due primarily to the vesting of restricted shares and the adoption of SFAS No. 123(R).

The Bank formation commenced in 2003, and the Bank opened for business on May 26, 2004. The organizers raised approximately \$12.5 million of capital through a common stock offering which began with the sale of stock subscriptions. The subscription phase closed on October 31, 2003. Following receipt of regulatory approvals, the Bank collected the balance of the stock subscriptions, opening on May 26, 2004. During 2005 additional equity of \$12.65 million was raised through a secondary common stock offering.

The Bank's ability to pay cash dividends is restricted by banking regulations. The Bank has not declared or paid cash dividends since inception. It is the Bank's general policy to retain earnings to support future growth.

All banks are subject to risk-based capital guidelines. These guidelines define capital as Tier 1 and Total capital. Tier 1 capital consists of common stockholders' equity less intangibles; and Total capital consists of Tier 1 capital plus the allowance for loan losses up to certain limits.

The guidelines require a minimum total risk-based capital ratio of 8%, and a minimum Tier 1 risk-based capital ratio of 4%.

The Bank's risk-based capital ratios at December 31 follow:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Tier 1 capital:	23.82%	34.38%	35.33%
Total capital:	24.83%	35.44%	36.30%

Banks must also maintain a minimum leverage ratio of 4%, which consists of Tier 1 capital based on risk-based capital guidelines, divided by average assets.

The Bank's leverage ratios were as follows at December 31:

<u>2006</u>	<u>2005</u>	<u>2004</u>
20.99%	28.04%	30.29%

To be considered "well-capitalized", an institution must have a leverage ratio of at least 5%, Tier 1 capital ratio of at least 6% and a Total risk-based capital ratio of at least 10%. At December 31, 2006, December 31, 2005 and December 31, 2004, the Bank was considered "well capitalized" under the risk-based capital guidelines adopted by the various regulatory agencies.

Off-Balance Sheet Activities

The Bank enters into certain off-balance sheet arrangements in the normal course of business to meet the financing needs of customers. These off-balance sheet arrangements include commitments to extend credit and standby letters of credit which would impact the overall liquidity and capital resources to the extent customer's accept and or use these commitments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. See Note 13 of the Notes to Financial Statements for further discussion of the nature, business purpose and elements of risk involved with these off-balance sheet arrangements. With the exception of these off-balance sheet arrangements, we have no off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Impact of Inflation, Changing Prices and Seasonality

The financial statement and related data presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not

necessarily move in the same direction or in the same magnitude as the price of goods and services, since such prices are affected by inflation.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements and their effect on us, see “Impact of Recently Issued Accounting Standards” in Note 20 of the Notes to Financial Statements contained herein.

ITEM 7. FINANCIAL STATEMENTS

MainStreet Bank

Financial Statements

For the Periods Ended December 31, 2006, 2005 and 2004

With Report of Independent Registered Public Accounting Firm

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
MainStreet Bank
Herndon, Virginia

We have audited the accompanying statements of financial condition of MainStreet Bank (the "Bank") as of December 31, 2006 and 2005, and the related statements of operations, changes in stockholders' equity, and cash flows for the years ended December 31, 2006 and 2005 and for the period from May 26, 2004 (inception) to December 31, 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MainStreet Bank as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years ended December 31, 2006 and 2005 and from May 26, 2004 (inception) to December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the Bank changed its method of accounting for stock-based compensation in 2006.

/s/Cherry, Bekaert & Holland, L.L.P.

Vienna, Virginia
February 28, 2007

MainStreet Bank
Statements of Financial Condition

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
ASSETS		
Cash and cash equivalents		
Cash and due from banks	\$ 1,319,160	\$ 427,635
Federal funds sold	<u>2,785,256</u>	<u>4,101,059</u>
Total cash and cash equivalents	4,104,416	4,528,694
Investment securities available for sale, at fair value	17,134,141	21,938,004
Loans, net	81,534,467	53,841,337
Premises and equipment, net	826,919	802,820
Accrued interest	661,818	392,983
Restricted stock	1,097,000	1,023,100
Other assets	<u>370,117</u>	<u>377,094</u>
Total Assets	<u>\$ 105,728,878</u>	<u>\$ 82,904,032</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Non-Interest bearing deposits	\$ 10,609,583	\$ 8,964,571
Saving and NOW deposits	10,980,317	6,849,161
Money market deposits	9,183,285	9,443,655
Other time deposits	<u>47,226,367</u>	<u>30,301,031</u>
Total Deposits	77,999,552	55,558,418
Federal funds purchased and other borrowings	50,013	—
Federal Home Loan Bank advances	5,691,667	5,741,667
Other liabilities	<u>495,786</u>	<u>317,523</u>
Total Liabilities	84,237,018	61,617,608
Stockholders' Equity:		
Common stock, \$4 par value. (Authorized 5,000,000 shares; issued and outstanding 2,422,365 shares for December 31, 2006 and 2,414,209 shares for December 31, 2005)	9,689,460	9,656,836
Capital surplus	14,894,174	14,778,248
Accumulated deficit	(2,684,312)	(2,731,162)
Unearned restricted stock grants	(207,026)	(169,000)
Accumulated other comprehensive income:		
Net unrealized loss on available for sale securities	<u>(200,436)</u>	<u>(248,498)</u>
Total Stockholders' Equity	<u>21,491,860</u>	<u>21,286,424</u>
Total Liabilities and Stockholders' Equity	<u>\$ 105,728,878</u>	<u>\$ 82,904,032</u>

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

MainStreet Bank
Statements of Operations

	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005	For the Seven Months Ended December 31, 2004
INTEREST INCOME:			
Interest and fees on loans	\$ 5,949,412	\$ 2,691,811	\$ 357,826
Interest on investment securities	783,095	847,758	148,657
Interest on federal funds sold	571,763	138,646	57,565
Total interest income	<u>7,304,270</u>	<u>3,678,215</u>	<u>564,048</u>
INTEREST EXPENSE:			
Interest on savings and NOW deposits	373,973	159,332	33,857
Interest on money market deposits	297,945	348,853	52,246
Interest on other time deposits	2,088,827	680,106	67,567
Interest on federal funds purchased and other borrowings	273,053	210,653	58
Total interest expense	<u>3,033,798</u>	<u>1,398,944</u>	<u>153,728</u>
Net interest income	4,270,472	2,279,271	410,320
Provisions for loan losses	264,000	409,000	285,000
Net interest income after provision for loan losses	<u>4,006,472</u>	<u>1,870,271</u>	<u>125,320</u>
OTHER INCOME:			
Gain on sale of securities	—	1,155	—
Deposit account service charges	39,070	31,272	7,128
Other operating income	70,121	32,667	6,560
Total other income	<u>109,191</u>	<u>65,094</u>	<u>13,688</u>
OTHER EXPENSES:			
Salaries and employee benefits	2,220,357	1,515,355	738,612
Occupancy expenses	265,197	245,453	112,632
Equipment expenses	290,801	231,812	108,955
Advertising and marketing	184,838	72,687	33,232
Outside services	333,739	192,956	74,022
Telecommunications	36,151	19,551	21,096
Stationery, printing and supplies	45,785	40,285	48,692
Franchise Tax	152,092	27,254	—
Data processing	250,163	169,841	84,315
Other operating expenses	289,690	224,896	107,334
Total other expenses	<u>4,068,813</u>	<u>2,740,090</u>	<u>1,328,890</u>
INCOME (LOSS) BEFORE INCOME TAXES	46,850	(804,725)	(1,189,882)
Benefit from income taxes	—	—	—
NET INCOME (LOSS)	<u>\$ 46,850</u>	<u>\$ (804,725)</u>	<u>\$ (1,189,882)</u>
Net Income (Loss) per common share	\$ 0.02	\$ (0.49)	\$ (0.95)
Weighted average number of shares	2,421,180	1,634,843	1,247,309

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

MainStreet Bank
Statements of Changes in Stockholders' Equity

Year Ended December 31, 2006 and 2005 and Seven Months Ended December 31, 2004

	Common Stock		Capital Surplus	Unearned Restricted Stock Grants	Accumulated Deficit	Unrealized Holding Loss on Securities Available for Sale	Total Stockholders' Equity
	Shares	Amount					
Proceeds from sale of common stock	1,247,309	\$ 4,989,236	\$ 7,346,556	—	—	—	\$ 12,335,792
Preopening expenses, net	—	—	—	—	\$ (736,555)	—	(736,555)
Comprehensive results:							
Net loss	—	—	—	—	(1,189,882)	—	(1,189,882)
Other comprehensive loss , net of deferred tax benefit of \$23.523	—	—	—	—	—	\$ (45,720)	(45,720)
Balance at December 31, 2004	1,247,309	\$ 4,989,236	\$ 7,346,556	—	\$ (1,926,437)	\$ (45,720)	\$ 10,363,635
Proceeds from sale of common stock	1,150,000	\$ 4,600,000	\$ 7,330,292	—	—	—	\$11,930,292
Issuance of restricted stock grants	17,050	68,200	102,300	\$ (170,500)	—	—	—
Forfeiture of restricted stock grants	(150)	(600)	(900)	1,500	—	—	—
Comprehensive results:							
Net loss	—	—	—	—	\$ (804,725)	—	(804,725)
Other comprehensive loss , net of deferred tax benefit of \$128.014	—	—	—	—	—	\$ (202,778)	(202,778)
Balance at December 31, 2005	2,414,209	\$ 9,656,836	\$ 14,778,248	\$ (169,000)	\$ (2,731,162)	\$ (248,498)	\$21,286,424
Issuance of restricted stock grants	9,956	\$ 39,824	\$ 74,942	\$ (114,766)	—	—	—
Forfeiture of restricted stock grants	(1,800)	(7,200)	(12,600)	19,800	—	—	—
Vesting of restricted stock grants	—	—	—	56,940	—	—	\$ 56,940
Stock based compensation expense related to employee stock options	—	—	53,584	—	—	—	53,584
Comprehensive results:							
Net income	—	—	—	—	\$ 46,850	—	46,850
Other comprehensive gain , net of deferred tax expense of \$24.759	—	—	—	—	—	\$ 48,062	48,062
Balance at December 31, 2006	2,422,365	\$ 9,689,460	\$ 14,894,174	\$ (207,026)	\$ (2,684,312)	\$ (200,436)	\$21,491,860

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

MainStreet Bank
Statements of Cash Flows

	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005	For the Seven Months Ended December 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 46,850	\$ (804,725)	\$ (1,189,882)
Preopening expenses, net			(736,555)
Adjustments to reconcile net income(loss) to net cash provided by (used in) operating activities:			
Depreciation, amortization, and accretion	284,876	382,973	104,241
Gain on sale of investment securities available for sale	—	(1,155)	—
Provision for loan loss	264,000	409,000	285,000
Vesting of restricted stock grants	56,940	—	—
Compensation related to stock options	53,584	—	—
Changes in assets and liabilities			
Increase in accrued interest receivable	(268,835)	(249,698)	(143,285)
Increase in other assets	(17,782)	(192,579)	(80,054)
Increase in other liabilities	178,263	180,139	137,384
Net cash provided by (used in) operating activities	597,896	(276,045)	(1,623,151)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Maturity of investment securities available for sale	29,000,000	7,500,000	12,700,000
Purchase of investment securities available for sale	(27,983,269)	(16,890,410)	(37,301,098)
Payments on investment securities available for sale	3,814,784	7,877,569	806,335
Sale of investment securities available for sale	—	2,520,990	—
Net increase in loan portfolio	(27,957,129)	(33,818,328)	(20,784,950)
Purchase of Federal Home Loan Bank/Federal Reserve stock	(73,900)	(655,450)	—
Purchase of premises and equipment	(263,808)	(223,952)	(868,985)
Net cash used in investing activities	(23,463,322)	(33,689,581)	(45,448,698)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in cash realized from:			
Net increase in non-interest bearing deposits	1,645,011	1,335,351	7,629,220
Net increase in interest bearing savings and time deposits	20,796,124	18,548,935	28,044,912
Net proceeds from sale of common stock	—	11,930,292	12,335,792
Federal funds purchased and other borrowings	13	5,705,667	36,000
Net cash provided by financing activities	22,441,148	37,520,245	48,045,924
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(424,278)	3,554,619	974,075
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,528,694	974,075	—
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,104,416	\$ 4,528,694	\$ 974,075
Supplemental Disclosure of Cash Flow Information			
Income taxes paid	—	—	—
Interest paid	\$ 2,862,789	\$ 1,325,563	\$ 111,483

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

MainStreet Bank
Notes to Financial Statements
For the Periods Ended December 31, 2006, 2005 and 2004

Note 1 - ORGANIZATION

MainStreet Bank (the “Bank”) is headquartered in Herndon, Virginia where it also operates a branch. During the period of March 28, 2003, the date of incorporation, to March 16, 2004, the date the Bank received the charter from the Bureau of Financial Institutions of the Commonwealth of Virginia, the Bank devoted its efforts to activities necessary to commence operations as a bank. The Bank commenced regular operations on May 26, 2004 and is supervised by the Bureau of Financial Institutions of the Commonwealth of Virginia and The Federal Reserve Bank of Richmond. The period from March 28, 2003 to May 25, 2004 is referred to herein as the formation stage. During the formation stage, the Bank’s activities included, among other things, raising capital, obtaining a bank charter, arranging the Bank’s facilities, and developing the Bank’s clientele. The Bank is a member of the Federal Reserve System and the Federal Deposit Insurance Corporation. The Bank places special emphasis on serving the needs of individuals, small and medium size business and professional concerns in the Washington, D.C. metropolitan area.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting – The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

Cash and cash equivalents – For the purpose of presentation in the Statements of Cash Flows, the Bank has defined cash and cash equivalents as those amounts included in the balance sheet captions “Cash and due from banks” and “Federal funds sold.”

Investment securities – The Bank’s investment securities are classified as either held-to-maturity, available-for-sale or trading. At December 31, 2006, 2005 and 2004, the Bank held no securities classified as held-to-maturity or trading.

Securities which are not classified as held-to-maturity are included as securities available-for-sale. Securities available-for-sale are reported at fair market value. Any unrealized gain or loss, net of applicable income taxes, is reported as a separate addition to or reduction from stockholders’ equity. Gains and losses arising from the sale of securities available-for-sale are recognized based on the specific identification method on a trade-date basis and included in results of operations.

Securities held-to-maturity includes securities purchased with the ability and positive intent to hold to maturity. Debt securities are stated at historical cost adjusted for amortization of premiums and accretion of discount. Any investment security, for which there has been a value impairment deemed by management to be other than temporary, is written down to its estimated market value or fair value with a charge to current operations.

Restricted equity securities consist of the Federal Reserve Bank and Federal Home Loan Bank of Atlanta stock in the amount of \$670,500 and \$426,500, respectively, as of December 31, 2006, compared to \$670,500 and \$352,600, respectively, as of December 31, 2005. This restricted stock is recorded at cost because its ownership is restricted and it lacks a market for resale. The Bank is required to maintain Federal Reserve Bank stock at a level of 6% of capital and surplus. The Federal Home Loan Bank requires the Bank to maintain stock in an amount equal to 4.5% of outstanding borrowings and .20% of total assets.

Several securities with an amortized cost of \$5.6 million and \$6.1 million and a fair value of \$5.5 million and \$6.0 million were pledged as collateral to secure Federal Home Loan Bank advances at December 31, 2006 and 2005, respectively. There were no FHLB advances outstanding at December 31, 2004, and therefore, no securities were pledged as collateral to secure borrowings. At December 31, 2006, several securities with an amortized cost of \$5.5 million and a fair value of \$5.4 million were pledged as collateral to secure customer repurchase agreements. There were no securities pledged as collateral at December 31, 2006, 2005 and 2004 to secure purchases of federal funds or to secure public deposits.

Loans – Loans are stated at unpaid principal balances, less the allowance for loan losses, net of deferred loan fees and unearned income. All loans which are 30 or more days past due at the end of each month will be reported to the Board of Directors. Non-accrual loans are loans that are on cash basis accounting because of (a) deterioration in the financial condition of the borrower, (b) payment in full of principal or interest is not expected, or (c) principal or interest has been in default for 90 days or more (unless the loan is well secured and in the process of collection), and collection of all principal or interest is deemed unlikely. A loan will automatically be placed on non-accrual when principal or interest is past-due 90 days or more unless the Management Loan Committee determines the loan is both well secured and in the process of being collected. In this case, the loan will continue to accrue interest in spite of its past-due status. A loan will be returned to accrual status if all principal and interest has been brought current and the borrower has resumed paying the full amount of scheduled contractual principal and interest and continued ability to repay is apparent. It is Bank policy to charge-off loans whose collectibility is sufficiently questionable and can no longer be justified as an asset on the balance sheet. To determine if a loan should be charged-off, all possible sources of repayment are analyzed, including: (1) the potential for future cash flow, (2) the value of the Bank's collateral, and (3) the strength of co-makers or guarantors. All principal and previously accrued interest is charged to the allowance for loan losses. All future payments received on the loan are credited to the allowance for loan loss as a recovery.

Impairment of a loan – A loan is impaired when it is probable that the Bank will be unable to collect all amounts due according to contractual terms of the loan agreement, including contractual interest payments. Impairment is measured as the difference between the recorded investment in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate or the loan's observable market price. If repayment of the loan is expected to be provided by the underlying collateral, impairment is based on the fair value of the collateral. Impairments are charged to the allowance for loan losses.

Allowance for loan losses – The allowance for loan losses is maintained at a level which, in management's view, is adequate to absorb credit losses inherent in the loan portfolio. Management determines the adequacy of the allowance based on reviews of individual credits, recent loan loss experience, current economic conditions, the volume, growth, and composition of the loan portfolio, and relevant factors. When appropriate, the provisions are based on management's estimate of net realizable value or fair value of the collateral underlying the loans. The allowance is increased by a provision for loan losses, and reduced by charge-offs, net of recoveries.

Interest income on loans – Interest on loans is accrued and credited to income using the simple-interest method on daily balances of the principal amount outstanding. The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed.

Loan origination and commitment fees and certain related direct costs - Loan origination and commitment fees charged by the Bank and certain direct loan origination costs are deferred and the net amount is amortized as an adjustment of the related loan's yield. The Bank is amortizing these net amounts over the estimated life of the related loans or, in the case of demand loans, over the estimated life. Net fees related to standby letters of credit are recognized over the commitment period. The Bank has adopted FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107

and rescission of FASB Interpretation No. 34. The adoption of FIN 45 does not have a material effect on the Bank's financial statements.

Premises and Equipment – Premises and equipment are stated at cost, less accumulated depreciation and amortization computed principally on the straight-line basis over the estimated useful life of each asset, which range from three to seven years. Leasehold improvements are amortized over the shorter of the related lease term or the estimated useful lives of the improvements. Construction in progress includes assets, which will be reclassified and depreciated once placed into service.

Repurchase agreements – The Bank routinely enters into repurchase agreements with customers, which are included in the balance sheet line item “federal funds purchased and other borrowings”. As part of the repurchase agreements, the Bank uses marketable investment securities from its investments portfolio as collateral for the customer repurchase agreements. As of December 31, 2006, the Bank had one outstanding repurchase agreement and none at December 31, 2005 and 2004. The rate of interest incurred under these borrowings fluctuates in response to market conditions.

Income taxes – The Bank uses an asset and liability approach in financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually and reviewed quarterly for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The principal items relate primarily to differences between the allowance for loan losses, net operating loss carryforwards, deferred loan fees, and accumulated depreciation and amortization. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Comprehensive income – Statement of Financial Accounting Standards (“SFAS”) No. 130, Reporting Comprehensive Income, establishes standards for reporting and presentation of comprehensive income and its components in a full set of general purpose financial statements. The Bank is required to classify items of other comprehensive income (such as net unrealized gains (losses) on securities available for sale) by their nature in a financial statement and present the accumulated balance of other comprehensive income separately from retained earnings and additional paid in capital in the equity section of a statement of financial position.

Stock-based compensation – Effective January 1, 2006, the Bank adopted the provisions of SFAS No. 123(R), Share-Based Payment, which requires the Bank to recognize expense related to the fair value of share-based compensation awards in net income.

Prior to January 1, 2006, the Bank accounted for its share-based compensation plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. Accordingly, stock compensation expense was not recognized in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. However, prior period financial statements included pro forma disclosures of the effect on net income and earnings per share if the Bank had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to share-based compensation.

The Bank has elected to follow the modified prospective transition method allowed by SFAS No. 123(R) and, therefore, will apply the provisions of SFAS No. 123(R) to awards modified or granted after January 1, 2006. Options that were issued prior to January 1, 2006 resulted in additional compensation expense of \$33,175 in 2006. The adoption of SFAS No. 123(R) resulted in an additional expense in 2006 of \$20,409, net of tax, relating to the expensing of stock options. Future levels of compensation cost recognized related to share-based compensation awards may be impacted by new awards and/or modification, repurchases and cancellations of existing awards after the adoption of this standard.

Net income (loss) per share – Net income (loss) per common per common share has been determined under the provisions of SFAS No. 128, Earnings Per Share, and has been computed based on the weighted average common shares outstanding during the year (2,421,180 for 2006, 1,634,843 for 2005, and 1,247,309 for 2004).

The only potential dilutive stock of the Bank as defined in SFAS No. 128 is stock options granted to various directors, officers, and employees of the Bank. The stock options granted during 2006, 2005 and 2004 had no dilutive effect in the calculation of income (loss) per share.

Off-balance-sheet instruments – In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received

Advertising and marketing expense – Advertising and marketing costs are expensed as incurred.

Use of estimates – 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 reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from the estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans, management obtains independent appraisals for significant properties.

Note 3 – RESTRICTIONS ON CASH

To comply with Federal Reserve regulations, the Bank is required to maintain certain average cash reserve balances. The daily average cash reserve requirements were approximately \$325,000, \$72,000 and \$25,000 for the weeks including December 31, 2006, December 31, 2005, and December 31, 2004, respectively.

Note 4 - INVESTMENT SECURITIES

The amortized cost, unrealized holding gains and losses, and the fair value of investment securities at December 31, 2006 and 2005, are summarized as follows:

Classified as Available for Sale	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<i>December 31, 2006</i>				
Collateralized Mortgage Backed	\$ 13,439,138	\$ —	\$(302,386)	\$13,136,752
U.S. Government Agencies	3,998,694	—	(1,305)	3,997,389
Total	\$ 17,437,832	\$ —	\$(303,691)	\$17,134,141

Classified as Available for Sale <i>December 31, 2005</i>	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Collateralized Mortgage Backed	\$ 17,315,516	\$ —	\$(375,012)	\$16,940,504
U.S. Government Agencies	4,999,000	—	(1,500)	4,997,500
Total	\$ 22,314,516	\$ —	\$(376,512)	\$21,938,004

The scheduled maturities of investment securities at December 31, 2006 were as follows:

	Available-for-sale securities	
	Amortized Cost	Fair Value
Due in one year or less	\$ 3,998,694	\$ 3,997,389
Due after one year through five years	289,820	283,938
Due after five years through ten years	—	—
Due after ten years	13,149,318	12,852,814
Total	\$ 17,437,832	\$ 17,134,141

The following table presents the fair value and unrealized losses for available-for-sale securities by aging category at December 31, 2006:

	Securities With Unrealized Losses					
	Less than 12 months		12 months or more		Total Fair Value	Gross Unrealized Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses		
Securities available for sale:						
Collateralized Mortgage Backed	—	—	\$13,136,752	\$(302,386)	\$13,136,752	\$(302,386)
U.S. Government Agencies	\$3,997,389	(1,305)	—	—	3,997,389	(1,305)
Total securities available for sale	\$3,997,389	\$(1,305)	\$13,136,752	\$(302,386)	\$ 17,134,141	\$(303,691)

The following table presents the fair value and unrealized losses for available-for-sale securities by aging category at December 31, 2005:

	Securities With Unrealized Losses					
	Less than 12 months		12 months or more		Total Fair Value	Gross Unrealized Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses		
Securities available for sale:						
Collateralized Mortgage Backed	\$10,279,732	\$(224,606)	\$6,660,772	\$(150,406)	\$16,940,504	\$(375,012)
U.S. Government Agencies	\$4,997,500	(1,500)	—	—	4,997,500	(1,500)
Total securities available for sale	\$15,277,232	\$(226,106)	\$6,660,772	\$(150,406)	\$ 21,938,004	\$(376,512)

The factors considered in evaluating for impairment include the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in fair value. The \$302,386 in unrealized losses that have existed for 12 consecutive months are due to increases in market

interest rates and not due to underlying credit concerns of the issuers and therefore the Bank has concluded that none of the securities in the available for sale portfolio are other-than-temporarily impaired at December 31, 2006 and 2005. Realized gains on the sale of securities were \$1,155 in 2005. There was no sale of securities in 2006 and 2004.

Note 5 - LOANS

Loans are summarized as follows at December 31,

	<u>2006</u>	<u>2005</u>
Real Estate Loans:		
Residential real estate	\$ 16,463,909	\$ 9,177,516
Commercial real estate	45,859,104	29,640,693
Construction	8,466,557	6,995,883
Total real estate	<u>\$ 70,789,570</u>	<u>\$ 45,814,092</u>
Commercial	10,819,817	7,649,015
Consumer	<u>1,069,014</u>	<u>1,239,787</u>
Total Loans	\$ 82,678,401	\$ 54,702,894
Less: unearned fees	(186,597)	(167,557)
Less: allowance for loan losses	<u>(957,337)</u>	<u>(694,000)</u>
Net Loans	<u>\$ 81,534,467</u>	<u>\$ 53,841,337</u>

The consumer loans above include \$4,834 and \$22,181 of overdrafts reclassified as loans for the years ended December 31, 2006 and 2005, respectively.

The Bank held no loans for sale at December 31, 2006 and 2005.

Note 6 - ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses are summarized as follows for the year ended December 31, 2006 and 2005 and seven months ended December 31, 2004:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ 694,000	\$ 285,000	—
Provisions for loan losses	264,000	409,000	\$ 285,000
Loans charged off	(663)	—	—
Recoveries of loans charged off	—	—	—
Net charge-offs	<u>(663)</u>	<u>—</u>	<u>—</u>
Balance, end of year	<u>\$ 957,337</u>	<u>\$ 694,000</u>	<u>\$ 285,000</u>

There was a charge-off on a credit card loan during the third quarter of 2006 of \$663 due to a bankruptcy. The Bank experienced no charge-offs during 2005 or 2004. There were no impaired loans at December 31, 2006, 2005 and 2004.

Note 7 - RELATED PARTY TRANSACTIONS

The Bank grants loans and letters of credit to its executive officers, directors and their affiliated entities. Such loans are made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated persons, and, in the opinion of management, do not involve more than normal risk or present other unfavorable features.

The aggregate amount of such loans outstanding at December 31, 2006 was approximately \$5,398,000, compared to approximately \$2,005,000 at December 31, 2005. During 2006, new loans and line of credit advances to such related parties amounted to \$4,718,000 compared to \$340,000 during 2005. Repayments on loans to directors and officers were approximately \$4.7 million and \$44 thousand during 2006 and 2005, respectively.

The Bank maintains deposit accounts with some of its executive officers, directors and their affiliated entities. Such deposit accounts at December 31, 2006 amounted to \$1,607,309 compared to \$2,317,550 at December 31, 2005.

Note 8 - PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows at December 31:

	<u>2006</u>	<u>2005</u>
Cost		
Leasehold improvements	\$ 256,476	\$ 247,411
Furniture, fixtures and equipment	438,062	375,897
Computer software and equipment	538,957	469,630
	<u>1,233,495</u>	<u>1,092,938</u>
Less accumulated depreciation		
Leasehold improvements	(67,629)	(38,815)
Furniture, fixtures and equipment	(158,190)	(84,595)
Computer software and equipment	(304,007)	(166,708)
	<u>(529,826)</u>	<u>(290,118)</u>
Construction in progress	<u>123,250</u>	<u>—</u>
Premises and equipment, net	<u>\$ 826,919</u>	<u>\$ 802,820</u>

Depreciation and amortization charged to operations was \$239,708, \$198,580, and \$91,538 during the period ended December 31, 2006, December 31, 2005, and May 26, 2004 (inception) to December 31, 2004, respectively.

Note 9 - DEPOSITS

Time deposits in denominations of \$100,000 or more totaled approximately \$13,100,000, \$7,200,000 million, and \$6,200,000 million at December 31, 2006, 2005 and 2004, respectively. Interest expense on

time deposits of \$100,000 or more totaled \$471,686 and \$198,893 for the year ended December 31, 2006 and December 31, 2005, respectively. Interest expense on time deposits of \$100,000 or more totaled \$28,515 for the seven months ended December 31, 2004

At December 31, 2006, maturities of time deposits are approximately as follows:

Year ended December 31,	
2007	\$ 36,223,000
2008	4,126,000
2009	1,110,000
2010	4,203,000
2011	1,564,000
Total	\$ 47,226,000

Note 10 – BORROWED FUNDS

On April 7, 2005, the Bank entered into a five-year fixed rate credit agreement with the FHLB in the amount of \$5.0 million. Interest accrues at the rate of 4.70% and is due April 7, 2010.

On October 25, 2005, the Bank entered into a fifteen-year principal reducing credit (“PRC”) agreement with the FHLB in the amount of \$750,000. Interest accrues at the rate of 5.24% and is due October 26, 2020. Principal reductions occur monthly commencing on November 25, 2005, in the amount of \$4,167. The balance on the PRC as of December 31, 2006 was \$691,667.

The Bank also has a credit availability agreement with the FHLB based on a percentage of total assets. This credit availability agreement provides the Bank with access to a myriad of advance products offered by the FHLB. The rate of interest charged is based on market conditions. All borrowings from the FHLB are secured by certain investment securities.

The following summarizes long-term Federal Home Loan Bank advances at December 31, 2006:

	2006
Due within 1 year	\$ 50,000
Due after 1 year through 5 years	5,200,000
Due after 5 years through 10 years	250,000
Due after 10 years	192,000
	\$ 5,692,000

The average balance on FHLB advances at December 31, 2006 and 2005 was approximately \$5.7 million and \$4.8 million, respectively. The weighted average interest rate paid at December 31, 2006 and 2005 was 4.77%.

Note 11 - INCOME TAXES

As a result of its operating losses, the Bank did not have federal taxable income in 2006, 2005 or 2004 and, therefore, there was no current income tax expense. The Bank has federal net operating loss carryovers of approximately \$1,911,475, available to offset future taxable income. These carryovers expire at various times through 2024.

Income tax expense differed from amounts computed by applying the U.S. Federal income tax rate of 34% to income before income tax expense as a result of the following:

	December 31,		
	2006	2005	2004
Computed "expected" income tax benefit	\$ 15,929	\$ 273,607	\$ 404,560
Reduction in income tax benefit resulting from			
valuation allowance	(46,020)	(315,224)	(404,560)
Non-deductible items	12,919	(4,326)	—
Other	17,172	45,943	—
Total	\$ —	\$ —	\$ —

The tax effects of temporary differences and the tax benefit from the net operating loss carryover result in deferred tax assets and liabilities as presented below:

	December 31,	
	2006	2005
Deferred tax assets:		
Allowance for loan losses	\$ 290,360	\$ 202,179
Organizational and start-up expenses	126,565	178,440
Unrecognized losses on securities available for sale	103,255	128,014
Operating loss carryover	649,902	709,859
Charitable contributions	2,060	2,060
Restricted stock	5,052	—
AMT credit carryforward	4,000	—
Prepays	1,429	—
Gross deferred tax assets	1,182,623	1,220,552
Deferred tax liability:		
Depreciation	102,300	131,374
Loan costs	67,429	28,798
Stock compensation	8,631	10,097
Gross deferred tax liabilities	178,360	170,269
Net deferred tax asset	1,004,263	1,050,283
Less: valuation allowance	(1,004,263)	(1,050,283)
Total	\$ —	\$ —

Presented on Balance Sheet as follows:

Deferred tax asset	—	—
Deferred tax liability	—	—
Total	—	—

The change in the valuation allowance was \$46,020 and \$419,685 during 2006 and 2005, respectively.

Note 12 – EARNINGS PER SHARE

Basic earnings per share excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or resulted in the issuance of common stock then shared in the earnings of the entity.

The following shows the weighted average number of shares used in computing earnings per share and the effect on weighted average number of shares of diluted potential common stock. Potential dilutive common stock has no effect on income available to common shareholders.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net income (loss)	\$ 46,850	\$ (804,725)	\$ (1,189,882)
Weighted average number of shares	2,421,180	1,634,843	1,247,309
Options affect of incremental shares	—	—	—
Weighted average diluted shares	<u>2,421,180</u>	<u>1,634,843</u>	<u>1,247,309</u>
Basic EPS (weighted average shares)	<u>\$ 0.02</u>	<u>\$ (0.49)</u>	<u>\$ (0.95)</u>
Diluted EPS (including option shares)	<u>\$ 0.02</u>	<u>\$ (0.49)</u>	<u>\$ (0.95)</u>

Note 13 - COMMITMENTS AND CONTINGENCIES

The Bank is obligated under a non-cancelable operating lease, which expires in 2014, for its office facility located at 727 Elden Street and is liable for payment of taxes and operating expenses of the leased property. Total rent expense for the occupancy lease for the years ended December 31, 2006, 2005 and 2004 was \$206,373, \$210,159 and \$101,285, respectively.

Minimum annual rental commitments under this lease are as follows for the years ended December 31:

2007	\$ 197,831
2008	197,831
2009	197,831
2010	197,831
2011	197,831
2012 and thereafter	<u>461,605</u>

The Bank's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit.

Outstanding loan commitments and standby letters of credit were \$5.5 million and \$326,976, respectively, as of December 31, 2006. As of December 31, 2005, outstanding loan commitments and standby letters of credit were \$8.0 million and \$50,000, respectively. Unused lines of credit totaled \$20.2 million and \$13.4 million at December 31, 2006 and December 31, 2005, respectively.

Commitments to extend credit and standby letters of credit all include exposure to some credit loss in the event of nonperformance of the customer. The Bank's credit policies and procedures for credit commitments and financial guarantees are the same as those for extensions of credit that are recorded on the Statement of Condition. Because these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Bank. The Bank has not incurred any losses on commitments in 2006 or 2005.

Note 14 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest paid during 2006, 2005 and 2004 was \$2,862,789, \$1,325,563 and \$111,483, respectively.

Note 15 - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Substantially all the Bank's loans, commitments and standby letters of credit have been granted to customers located in the Washington, D.C. metropolitan area. The concentrations of credit by type of loan are set forth in Note 5.

The Bank maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Bank has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks.

Note 16 - REGULATORY MATTERS

The Bank, as a state bank, is subject to the dividend restrictions set forth by the Bureau of Financial Institutions of the Commonwealth of Virginia (the "Bureau"). Under such restrictions, the Bank may not, without the prior approval of the Bureau, declare dividends in excess of the sum of the current year's earnings plus the retained earnings from the prior two years. As of December 31, 2006, the Bank did not declare dividends.

As a member of the Federal Reserve Bank system, the Bank is required to subscribe to shares of \$100 par value Federal Reserve Bank Stock equal to 6% of the Bank's capital and surplus. The Bank is only required to pay for one-half of the subscription. The remaining amount is subject to call when deemed necessary by the Board of Governors of the Federal Reserve.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting

practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulating to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2006, the Bank meets all adequacy requirements to which it is subject.

As of December 31, 2006 and 2005, the most recent notification from the Federal Reserve Bank of Richmond categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual regulatory capital amounts and ratios as of December 31, 2006 and 2005 are also presented in the table below.

(000's)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006						
Total Capital (to Risk-Weighted Assets)	\$ 23,562	24.83%	\$ 7,593	>8.0%	\$ 9,491	>10.0%
Tier I Capital (to Risk-Weighted Assets)	\$ 22,605	23.82%	\$ 3,796	>4.0%	\$ 5,695	>6.0%
Tier I Capital (to Average Assets)	\$ 22,605	20.99%	\$ 4,308	>4.0%	\$ 5,385	>5.0%
As of December 31, 2005						
Total Capital (to Risk-Weighted Assets)	\$ 23,156	35.44%	\$ 5,227	>8.0%	\$ 6,533	>10.0%
Tier I Capital (to Risk-Weighted Assets)	\$ 22,462	34.38%	\$ 2,613	>4.0%	\$ 3,920	>6.0%
Tier I Capital (to Average Assets)	\$ 22,462	28.04%	\$ 3,205	>4.0%	\$ 4,006	>5.0%

Note 17 – DEFINED CONTRIBUTION BENEFIT PLAN

The Bank adopted a 401(k) defined contribution plan on October 1, 2004, which is administered by UBS Securities. Participants have the right to contribute up to a maximum of 15% of pretax annual compensation or the maximum allowed under Section 401(g) of the Internal Revenue Code, whichever is less. The Bank does not make a matching contribution to the plan.

Note 18 - STOCK OPTION PLAN

Effective July 22, 2004 the Bank established the MainStreet Bank 2004 Stock Option and Incentive Plan (the "2004 Plan"). The 2004 Plan is administered by the Board of Directors of the Bank acting upon recommendations made by the Compensation Committee appointed by the Board. The 2004 Plan is currently authorized to grant a maximum of 187,096 shares to directors, key employees and organizing shareholders. The options are granted at the fair market value of the Bank's Common Stock at the date of grant. The term of the options shall not exceed ten years from the date of grant. The options granted under the 2004 Plan as of December 31, 2006 vest on a schedule determined by the Compensation Committee based on time and service with the Bank.

On May 17, 2006, the Bank's shareholders approved the MainStreet Bank 2006 Incentive Stock Plan (the "2006 Plan"), which authorizes the granting of stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units, and stock awards to employees, and stock options, SARs, restricted stock, restricted stock units, and stock awards to non-employee directors. Under the 2006 Plan, subject to capital adjustments, the maximum number of shares of the Bank's common stock that may be issued is 186,638 plus the number of shares of common stock represented by awards previously made under the 2004 Plan that were outstanding on, and that expire or are otherwise terminated or forfeited after May 17, 2006. As a result of the shareholders' approval of the new 2006 Plan, no additional awards have been or will be made under the Bank's 2004 Plan on or after May 17, 2006, although all awards that were outstanding under the 2004 Plan as of May 17, 2006 remained outstanding in accordance with their terms.

There have been 3,850 restricted shares awarded under the 2006 Plan. During the year ended December 31, 2006, the Bank awarded 9,956 shares of restricted stock of which 1,800 were forfeited in 2006. During the year ended December 31, 2005, the Bank awarded 17,050 shares of restricted stock of which 150 were forfeited in 2005. These shares vest over three years. These are reflected as a contra-equity account in the statements of financial condition, are accrued, and will be recognized as expense over the periods during which they vest. Shares are not considered issued until fully vested and are not included in basic earnings per share.

The following table summarizes the stock option activity:

	Options Available To Grant	Unexercised or Outstanding Options	Weighted Average Option Price per Common Share
Authorized under the 2004 Plan	187,096	—	\$10.00
Granted in 2004	(109,500)	109,500	\$10.00
Forfeited /Expired	—	—	—
Exercised	—	—	—
Balance, December 31, 2004	77,596	109,500	\$10.00
Granted in 2005	(46,720)	46,720	\$10.00
Forfeited /Expired	9,000	(9,000)	\$10.00
Exercised	—	—	—
Balance, December 31, 2005	39,876	147,220	\$10.00
Granted in 2006	(7,720)	7,720	\$11.00
Forfeited /Expired	—	—	—
Exercised	—	—	—
Balance, December 31, 2006	32,156	154,940	\$10.05

The Compensation Committee of the Board of Directors approved and issued during the first quarter of 2006, 7,720 non-qualified stock options (“NQSOs”) pursuant to the Bank’s 2004 Plan. Each option was granted with a 10-year term and an exercise price of \$11.00 per share and vests in four equal installments on March 31, 2006, June 30, 2006, September 30, 2006 and December 31, 2006.

On March 16, 2005, the following awards of stock options were made under the 2004 Stock Option Plan: Non-statutory options of 7,720 shares at \$10.00 to a Director, vesting over a 1 year period, in equal installments at the end of each calendar quarter. In addition a Director was awarded 4,500 shares at \$10.00 vesting of 3 years, in equal installments. During 2005, there were 34,500 incentive stock options granted at \$10.00 to employees, vesting over a 3 year period, commencing on the date of the grant. No options were exercised and 9,000 options were forfeited.

On December 15, 2004, the Board granted 109,500 non-qualified options, with an award date of July 22, 2004, to organizing directors and organizing shareholders. The options were vested immediately. The term of each option is ten years expiring in 2014 at a price of \$10.00.

As of December 31, 2006, no options have been exercised. At December 31, 2006 there were 136,440 options exercisable at a weighted average exercise price of \$10.06 per option. Additionally, the weighted average remaining contractual life of the options outstanding was 7.79 years and exercisable was 7.73 years, respectively, at December 31, 2006.

A summary of the status of the Bank’s unvested stock options as of December 31, 2006 and changes during the year then ended is presented below:

Unvested Stock Options	Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2006	28,500	\$ 3.32
Granted	7,720	2.67
Vested	(17,720)	3.04
Unvested at December 31, 2006	<u>18,500</u>	<u>\$ 3.32</u>

As of December 31, 2006, there was \$61,375 of total unrecognized compensation costs related to unvested stock options. This cost is expected to be recognized over a weighted average period of 1.46 years.

The aggregate intrinsic value of options outstanding was approximately \$485,000, options exercisable was approximately \$436,000, and options unvested and expected to vest was approximately \$60,000 at December 31, 2006.

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

<i>Years ended December 31,</i>	<u>2006</u>	<u>2005</u>
Dividend yield	0.00%	0.00%
Expected Life	5 years	7 years
Expected volatility	22.16%	19.24%
Risk-free interest rate	<u>4.29%</u>	<u>4.29%</u>

The fair market value of the options granted for the year ended December 31, 2004 is undeterminable. The 2004 options were issued to organizers for their initial investment during the Bank's organization phase. Therefore, these options were not expensed as compensation.

Note 19 – DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS No. 107, Disclosures about Fair Value of Financial Instruments, requires the Bank to disclose estimated fair values of its financial instruments.

The following methods and assumptions were used to estimate the approximate fair value of each class of financial instrument for which it is practicable to estimate fair value.

Cash and due from banks and federal funds sold

The carrying amount is a reasonable estimate of fair value.

Interest bearing deposits

The carrying amount is a reasonable estimate of fair value.

Securities

The fair value of securities is estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type, such as commercial, real estate - residential, real estate - other, loans to individuals and other loans. Each loan category is further segmented into fixed and adjustable rate interest terms.

The fair value of fixed rate loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan, as well as estimates for prepayments. The estimate of maturity is based on the Bank's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions.

Deposits

The fair values of non-interest-bearing demand deposits, interest-bearing demand deposits and savings deposits are equal to their carrying amounts since the amounts are payable on demand. The fair value of fixed maturity time deposits and certificates of deposit is estimated by discounting scheduled cash flows through maturity using interest rates currently offered for deposits of similar remaining maturities.

Commitments to extend credit and standby letters of credit

The only amounts recorded for commitments to extend credit and standby letters of credit are the deferred fees arising from these unrecognized financial instruments. These deferred fees are not material at December 31, 2006 and 2005, and as such, the related fair values have not been estimated.

The carrying amounts and approximate fair values of the Bank's financial instruments are summarized as follows:

	(000's)			
	December 31, 2006		December 31, 2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	\$ 1,319	\$ 1,319	\$ 428	\$ 428
Federal funds sold	2,785	2,785	4,101	4,101
Restricted Stock	1,097	1,097	1,023	1,023
Securities				
Available for sale	17,134	17,134	21,938	21,938
Loans, net	81,534	85,949	53,841	55,083
Total financial assets	\$ 103,869	\$ 108,284	\$ 81,331	\$ 82,573
Financial liabilities:				
Deposits	\$ 78,000	\$ 76,425	\$ 55,558	\$ 54,337
Federal funds purchased and other borrowings	50	50	—	—
Federal Home Loan Bank	5,692	5,544	5,742	5,574
Total financial liabilities	\$ 83,742	\$ 82,019	\$ 61,300	\$ 59,911

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on-balance-sheet and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets that are not considered financial assets include deferred income taxes and bank premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Note 20 - IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140. This statement amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and resolves issues in Statement No. 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. The provisions of this statement are effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 is not expected to have a material impact on the financial statements of the Bank.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140, which establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities by requiring that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. SFAS No. 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of this new standard is not expected to have a material impact on our results of operations or our financial position.

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, which establishes that the financial statement effects of a tax position taken or expected to be taken in a tax return are to be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this new standard is not expected to have a material impact on our results of operations or our financial position.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of this new standard is not expected to have a material impact on our results of operations or our financial position.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R), which requires a business entity to recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. SFAS No. 158 also requires a business entity to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The provisions of this statement are effective as of the end of the first fiscal year ending after December 15, 2006. The adoption of this new standard is not expected to have a material impact on our results of operations or our financial position.

Note 21 – SUBSEQUENT EVENT

The Bank entered into a lease for a new branch in Fairfax City, Virginia. The lease commenced on January 1, 2007 and expires on December 31, 2016. The lease provides for two and a half months rent abatement, then monthly payments of \$10,417 that increase 3% annually over the lease term. The lease also includes two renewal option periods of five years each.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. CONTROLS AND PROCEDURES

We maintain a system of disclosure controls and procedures that is designed to ensure that material information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As required, management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were operating effectively to ensure that information required to be disclosed by us in reports that we file or submit pursuant to the rules and regulations of the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that our disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Bank to disclose material information otherwise required to be set forth in our periodic reports.

Our management is also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. No changes in our internal control over financial reporting occurred during the quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 8B. OTHER INFORMATION

The Bank's Board of Directors has set Tuesday, April 17, 2007 as the date for the Bank's 2007 Annual Meeting of Shareholders. The record date for determining shareholders entitled to receive notice of the 2007 Annual Meeting and to vote at the meeting is February 21, 2007. In accordance with the Bank's bylaws, the deadline for any shareholder to notify the Bank of an intention to present a proposal (including a director nomination) to be considered for action at the 2007 Annual Meeting of Shareholders or for inclusion in the Bank's proxy materials in connection with the 2007 Annual Meeting, was January 17, 2007.

PART III

Except as otherwise indicated, information called for by the following items under Part III is contained in the Proxy Statement for the Bank's 2007 Annual Meeting of Shareholders ("2007 Proxy Statement") to be held on April 17, 2007.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The information required by this item with respect to the directors and executive officers of the Bank and beneficial ownership reporting with respect to the Bank's securities contained under the captions "Proposal 1 - Election of Directors", "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2007 Proxy Statement is incorporated herein by reference. The information required by this item regarding the Bank's Audit Committee and the procedures by which shareholders can recommend nominees to the Board of Directors under the caption "Board and Committee Meetings - Committees" in the 2007 Proxy Statement is incorporated herein by reference.

The Bank has adopted a Code of Ethics that applies to the directors, executives and employees of the Bank, including the Bank's principal executive officer, principal financial officer, principal accounting officer, controller and other persons performing similar functions. A copy of this Code of Ethics was attached as Exhibit 14 to the Bank's Form 10-KSB for the year ended December 31, 2005.

ITEM 10. EXECUTIVE COMPENSATION

The information required by this item regarding executive compensation contained in the 2007 Proxy Statement under the caption “Executive Compensation” is incorporated herein by reference. The information required by this item regarding director compensation contained in the 2007 Proxy Statement under the caption “Director Compensation” is incorporated herein by reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance Under Equity Compensation Plans” in the 2007 Proxy Statement is incorporated herein by reference.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item under the captions “Interest of Management in Certain Transactions” and “Board and Committee Meetings” in the 2007 Proxy Statement is incorporated herein by reference.

ITEM 13. EXHIBITS

Exhibits.

- 3.1 Amended and Restated Articles of Incorporation of MainStreet Bank (effective September 17, 2004), incorporated by reference to Exhibit 2.1 to Form 10-SB filed with the Board of Governors of the Federal Reserve System on May 2, 2005
- 3.2 Bylaws of MainStreet Bank (as amended and restated December 14, 2005), incorporated by reference to Exhibit 2.2 to Form 8-K filed with the Board of Governors of the Federal Reserve System on December 15, 2005
- 10.1* MainStreet Bank 2004 Stock Option and Incentive Plan, incorporated by reference to Exhibit 6.1 to Form 10-SB filed with the Board of Governors of the Federal Reserve System on May 2, 2005
- 10.2* Form of Incentive Stock Option Agreement under MainStreet Bank 2004 Stock Option and Incentive Plan, incorporated by reference to Exhibit 6.2 to Form 10-SB filed with the Board of Governors of the Federal Reserve System on May 2, 2005
- 10.3* Form of Non-Qualified Stock Option Agreement under MainStreet Bank 2004 Stock Option and Incentive Plan, incorporated by reference to Exhibit 6.3 to Form 10-SB filed with the Board of Governors of the Federal Reserve System on May 2, 2005
- 10.4* Form of Restricted Share Agreement under MainStreet Bank 2004 Stock Option and Incentive Plan, incorporated by reference to Exhibit 6.4 to Form 10-SB filed with the Board of Governors of the Federal Reserve System on May 2, 2005
- 10.5* Base Salaries for Named Executive Officers, incorporated by reference to Exhibit 10.5 to Form 10-KSB filed with the Board of Governors of the Federal Reserve System on March 15, 2006
- 10.6* Directors’ Compensation

- 10.7* MainStreet Bank 2006 Incentive Stock Plan, incorporated by reference to Appendix B to proxy statement on Schedule 14A filed with the Board of Governors of the Federal Reserve System on April 4, 2006
- 14 Code of Ethics, incorporated by reference to Exhibit 14 to Form 10-KSB filed with the Board of Governors of the Federal Reserve System on March 15, 2006
- 24 Powers of Attorney
- 31.1 Certification by principal executive officer pursuant to Rule 13a-14(a)
- 31.2 Certification by principal financial officer pursuant to Rule 13a-14(a)
- 32 Certification of principal executive officer and principal financial officer pursuant to 18 U.S.C. § 1350

* Denotes management contract or compensatory plan or arrangement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item regarding principal accountant fees and services and pre-approval policies contained under the captions “Principal Accountant Fees and Services” and “Pre-Approval Policies” in the 2007 Proxy Statement is incorporated herein by reference.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MAINSTREET BANK (Registrant)

Date: February 28, 2007

/s/ Jeff W. Dick
Jeff W. Dick
Chief Executive Officer and President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Barbara Davis Blum</u> Barbara Davis Blum	Chairman of the Board	February 28, 2007
<u>/s/ Jeff W. Dick</u> Jeff W. Dick	Chief Executive Officer, President and Director (principal executive officer)	February 28, 2007
<u>/s/ Thomas J. Chmelik</u> Thomas J. Chmelik	Chief Financial Officer and Director (principal financial and accounting officer)	February 28, 2007
<u>William A. Gatz</u>	Director	February 28, 2007
<u>/s/ Paul Thomas Haddock</u> Paul Thomas Haddock	Director	February 28, 2007
<u>/s/ Kevin T. Keyes</u> Kevin T. Keyes	Director	February 28, 2007
<u>/s/ Edward W. Merrow</u> Edward W. Merrow	Director	February 28, 2007
<u>/s/ Donna Miller</u> Donna Miller	Director	February 28, 2007

*By: /s/ Jeff W. Dick

(Jeff W. Dick, as Attorney-in-Fact)