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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

[ ] TRANSITION REPORT PURSUANT TO 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

(Exact name of registrant as specified in its charter)

Virginia	**47-0914596**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

727 Elden Street, Herndon, VA 20170
(Address of principal executive offices) (Zip Code)

(703) 481-4567
(Registrant's telephone number, including area code)

n/a
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [x]

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

As of November 10, 2008, there were issued and outstanding 2,555,367 shares of the issuer's common stock.

MAINSTREET BANK
Quarterly Report on Form 10-Q
September 30, 2008

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

MainStreet Bank
Statements of Financial Condition

	September 30, 2008 *(Unaudited)*	December 31, 2007
ASSETS		
Assets:		
Cash and due from banks	$ 4,171,847	$ 2,075,295
Federal funds sold	9,587,335	2,509,413
Investment securities available for sale, at fair value	24,837,163	26,515,630
Loans, net of allowance for loan losses of $1,512,314 and $1,285,337, respectively	134,557,509	111,604,851
Premises and equipment, net	965,547	1,148,045
Accrued interest and other receivables	751,465	785,447
Restricted stock	1,922,300	1,119,900
Other assets	549,597	305,878
Total Assets	$ 177,342,763	$ 146,064,459
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Non-interest bearing deposits	$ 16,995,863	$ 16,150,504
Savings and NOW deposits	13,705,324	11,889,984
Money market deposits	16,542,844	13,394,062
Other time deposits	85,750,415	74,031,879
Total deposits	132,994,446	115,466,429
Securities sold under agreements to repurchase	2,030,650	2,997,190
Federal Home Loan Bank advances	20,604,167	5,641,667
Other liabilities	555,093	693,533
Total Liabilities	156,184,356	124,798,819
Commitments and Contingencies	—	—
Stockholders' Equity:		
Common stock, $4 par value (Authorized 5,000,000 shares; issued and outstanding 2,555,367 (including 128,356 in nonvested shares) shares and 2,434,673 shares, respectively)	9,708,045	9,738,692
Capital surplus	14,992,002	14,802,075
Accumulated deficit	(3,176,982)	(3,180,601)
Accumulated other comprehensive loss	(364,658)	(94,526)
Total Stockholders' Equity	21,158,407	21,265,640
Total Liabilities and Stockholders' Equity	$ 177,342,763	$ 146,064,459

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

MainStreet Bank
Statements of Operations
(Unaudited)

	For the three months ended September 30, 2008	For the three months ended September 30, 2007	For the nine months ended September 30, 2008	For the nine months ended September 30, 2007
INTEREST INCOME:				
Interest and fees on loans	$ 2,232,861	$ 2,264,342	$ 6,470,364	$ 6,088,304
Interest on investment securities	344,256	157,224	953,707	495,288
Interest on federal funds sold	45,962	193,606	210,240	433,496
Total interest income	2,623,079	2,615,172	7,634,311	7,017,088
INTEREST EXPENSE:				
Interest on savings and NOW deposits	60,231	90,028	195,427	283,011
Interest on money market deposits	92,998	114,547	305,465	296,986
Interest on other time deposits	839,491	933,129	2,565,821	2,328,843
Interest on federal funds purchased	—	—	254	1,522
Interest on securities sold under agreements to repurchase	5,092	22,116	21,260	44,108
Interest on Federal Home Loan Bank advances	182,447	67,973	454,867	202,187
Total interest expense	1,180,259	1,227,793	3,543,094	3,156,657
Net interest income	1,442,820	1,387,379	4,091,217	3,860,431
Provision for loan losses	105,000	112,000	276,000	312,000
Net interest income after provision for loan losses	1,337,820	1,275,379	3,815,217	3,548,431
OTHER INCOME:				
Deposit account service charges	53,308	40,132	146,713	104,785
Other operating income	63,547	19,269	102,491	36,909
Total other income	116,855	59,401	249,204	141,694
OTHER EXPENSES:				
Salaries and employee benefits	773,742	812,521	2,317,810	2,299,668
Occupancy expenses	112,001	108,849	334,725	304,936
Furniture and equipment expenses	102,869	87,205	309,384	268,065
Advertising and marketing	22,335	50,299	67,029	125,658
Outside services	86,541	116,872	215,228	271,015
Data processing	85,994	99,804	277,632	268,490
Franchise tax	51,320	52,222	155,463	161,485
Other operating expenses	132,540	128,377	383,531	404,207
Total other expenses	1,367,342	1,456,149	4,060,802	4,103,524
INCOME (LOSS) BEFORE INCOME TAXES	87,333	(121,369)	3,619	(413,399)
Benefit from income taxes	—	—	—	—
NET INCOME (LOSS)	$ 87,333	$ (121,369)	$ 3,619	$ (413,399)
Net income (loss) per common share – basic and diluted	$ 0.03	$ (0.05)	$ 0.00	$ (0.17)
Weighted average number of shares – basic and diluted	2,429,648	2,425,893	2,425,598	2,425,034

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

Statements of Changes in Stockholders’ Equity
(Unaudited)

For the nine months ended September 30, 2008

	Common Stock	Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders’ Equity
Balance at December 31, 2007	$ 9,738,692	$ 14,802,075	$ (3,180,601)	$ (94,526)	$21,265,640
Vesting of restricted stock grants	45,097	$ (45,097)	—	—	—
Restricted stock adjustment	(75,744)	140,941	—	—	65,197
Stock based compensation expense related to employee stock options	—	5,183	—	—	5,183
Amortization of unearned compensation, restricted stock awards	—	88,900	—	—	88,900
Comprehensive income (loss):					
Net Income	—	—	$ 3,619	—	3,619
Unrealized holding losses on securities	—	—	—	$ (270,132)	(270,132)
Balance at September 30, 2008	$ 9,708,045	$ 14,992,002	$ (3,176,982)	$ (364,658)	$21,158,407

For the nine months ended September 30, 2007

	Common Stock	Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders’ Equity
Balance at December 31, 2006	$ 9,689,460	$ 14,687,148	$ (2,684,312)	$ (200,436)	$ 21,491,860
Issuance of restricted stock grants	$ 37,600	$ (37,600)	—	—	—
Forfeiture of restricted stock grants	(13,328)	13,328	—	—	—
Vesting of restricted stock grants	—	75,258	—	—	$ 75,258
Stock based compensation expense related to employee stock options	—	24,885	—	—	24,885
Comprehensive income (loss):					
Net loss	—	—	$ (413,399)	—	(413,399)
Unrealized holding gains on securities	—	—	—	$ 81,367	81,367
Balance at September 30, 2007	$ 9,713,732	$ 14,763,019	$ (3,097,711)	$ (119,069)	$ 21,259,971

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

Statements of Cash Flows
(Unaudited)

	For the nine months ended September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 3,619	$ (413,399)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation, amortization, and accretion	271,384	237,888
Provision for loan losses	276,000	312,000
Stock based compensation expense	94,083	77,112
Changes in assets and liabilities:		
Decrease (increase) in accrued interest and other receivables	33,982	(152,539)
Increase in other assets	(104,560)	(60,163)
(Decrease) increase in other liabilities	(73,243)	116,410
Net cash provided by operating activities	501,265	117,309
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturity of investment securities available for sale	33,750,000	24,500,000
Purchase of investment securities available for sale	(34,894,752)	(30,479,717)
Payments on investment securities available for sale	2,381,031	2,316,085
Net increase in loan portfolio	(23,228,658)	(28,324,122)
Purchase of restricted stock	(802,400)	(24,300)
Redemption of restricted stock	—	1,400
Purchase of premises and equipment	(55,989)	(448,728)
Net cash used in investing activities	(22,850,768)	(32,459,382)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in non-interest bearing deposits	845,359	3,055,252
Net increase in interest bearing savings and time deposits	16,682,658	27,183,636
Net (decrease) increase in securities sold under agreements to repurchase	(966,540)	3,681,808
Net increase (decrease) in Federal Home Loan Bank advances	14,962,500	(37,500)
Vesting of restricted stock grants	—	23,031
Net cash provided by financing activities	31,523,977	33,906,227
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,174,474	1,564,154
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,584,708	4,104,416
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 13,759,182	$ 5,668,570
Supplemental Disclosure of Cash Flow Information		
Income taxes paid	—	—
Interest paid	$ 3,663,032	$ 3,043,682

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

Notes to Financial Statements
September 30, 2008 (Unaudited)

(1) General

The accompanying unaudited financial statements of MainStreet Bank (the "Bank") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and with applicable quarterly reporting regulations of the Securities and Exchange Commission (as adopted by the Board of Governors of the Federal Reserve System (the "Federal Reserve")) and general banking industry practices. They do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto for the period ended December 31, 2007 which were included in the Bank's annual report on Form 10-KSB filed with the Federal Reserve on March 31, 2008.

In the opinion of the Bank's management, the accompanying unaudited financial statements contain all adjustments of a normal recurring nature, necessary to present fairly the Bank's financial position as of September 30, 2008 and the results of its operations for the three and nine-month periods and cash flows for the nine-month periods ended September 30, 2008 and 2007.

The results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year ending December 31, 2008.

(2) Earnings Per Share

Earnings per share have been determined under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, *Earnings Per Share.* For the three months ended September 30, 2008 and 2007, basic earnings per share have been computed on the weighted average common shares outstanding of 2,429,648 and 2,425,893, respectively. For the nine months ended September 30, 2008 and 2007, basic earnings per share have been computed on the weighted average common shares outstanding of 2,425,598 and 2,425,034, respectively.

The only potential dilutive stock of the Bank as defined in SFAS No. 128 are stock options and restricted shares granted to various directors, officers, and employees of the Bank. The stock options and restricted shares granted during 2008 and 2007 were not considered in the calculation of earnings (loss) per share in that their effect was anti-dilutive.

(3) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold.

(4) Investment Securities

The amortized cost, unrealized holding gains and losses, and the fair value of investment securities at September 30, 2008 and December 31, 2007 are summarized as follows:

Classified as Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2008				
Collateralized Mortgage Obligations	$ 23,394,378	$ 6,812	$ (518,712)	$ 22,882,478
U.S. Government Agencies	1,995,296	—	(40,611)	1,954,685
Total	$ 25,389,674	$ 6,812	$ (559,323)	$ 24,837,163
December 31, 2007				
Collateralized Mortgage Obligations	$ 10,662,039	$ 1,133	$ (138,372)	$ 10,524,800
U.S. Government Agencies	15,996,812	—	(5,982)	15,990,830
Total	$ 26,658,851	$ 1,133	$ (144,354)	$ 26,515,630

The following table presents the fair value and unrealized losses for available-for-sale securities by aging category at September 30, 2008:

	Securities With Unrealized Losses					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
Securities available for sale:						
Collateralized Mortgage Obligations	$ 16,998,230	$ (269,475)	$5,672,355	$(249,237)	$ 22,670,585	$(518,712)
U.S. Government Agencies	1,954,685	(40,611)	—	—	1,954,685	(40,611)
Total securities available for sale	$ 18,952,915	$ (310,086)	$5,672,355	$(249,237)	$ 24,625,270	$(559,323)

The following table presents the fair value and unrealized losses for available-for-sale securities by aging category at December 31, 2007:

	Securities With Unrealized Losses					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
Securities available for sale:						
Collateralized Mortgage Obligations	$ 1,569,631	$(17,171)	$8,955,170	$(121,201)	$10,524,800	$(138,372)
U.S. Government Agencies	15,990,830	(5,982)	—	—	15,990,830	(5,982)
Total securities available for sale	$17,560,461	$ (23,153)	$8,955,170	$(121,201)	$ 26,515,630	$(144,354)

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 $249,237 in unrealized losses that have existed for 12 consecutive months or more at September 30, 2008 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 September 30, 2008. There was no sale of securities in 2008 and 2007.

(5) Loans

Loans are summarized as follows:

	September 30, 2008	December 31, 2007
Real Estate:		
Residential real estate	$ 26,398,166	$ 21,682,993
Commercial real estate	71,515,462	58,785,452
Construction	21,508,682	18,220,743
Total real estate	119,422,310	98,689,188
Commercial	15,436,127	12,431,364
Consumer	1,295,574	1,901,068
Gross Loans	136,154,011	113,021,620
Less: unearned discounts and fees	(84,188)	(131,432)
Less: allowance for loan losses	(1,512,314)	(1,285,337)
Net Loans	$ 134,557,509	$ 111,604,851

(6) Allowance for Loan Losses

Changes in the allowance for loan losses for the nine months ended September 30, 2008 are summarized as follows:

	2008
Balance, as of January 1, 2008	$ 1,285,337
Provision for loan losses	276,000
Charge-offs	(49,023)
Recoveries of loans charged off	—
Net charge-offs	(49,023)
Balance, as of September 30, 2008	$ 1,512,314

(7) 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. Total compensation expense on stock options and restricted stock recorded for the nine months ended September 30, 2008 was $94,083.

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, restricted stock, restricted stock units, and stock awards to employees and 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 MainStreet Bank 2004 Stock Option and Incentive Plan (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 19,359 restricted shares awarded under the 2004 Plan.

There have been 138,699 restricted shares awarded under the 2006 Plan. No stock options were awarded during the quarter ended September 30, 2008.

On November 20, 2007, the Bank granted 112,500 shares of restricted stock in connection with employment agreements entered into with two executive officers during December 2007. The restricted stock awards were made outside of the 2006 Plan and are governed by restricted stock agreements entered into by the Bank and each of the officers, dated November 20, 2007. The restricted stock vests in 5%, 10% or 15% increments over a period of 10 years if certain annual budget or earnings per share performance criteria are satisfied, subject to earlier vesting in the event of certain termination events or a change of control of the Bank. The first tranche of 5,625 shares vested during the second quarter of 2008.

A summary of the status of the Bank's nonvested restricted stock shares as of September 30, 2008 and changes during the nine months ended September 30, 2008 is presented below:

Nonvested Restricted Stock Shares	**Shares**	**Weighted Average Grant Date Fair Value**
Nonvested at January 1, 2008	18,936	$ 10.77
Granted	121,675	7.61
Vested	(11,274)	10.43
Forfeited	(981)	10.15
Nonvested at September 30, 2008	128,356	$ 9.31

As of September 30, 2008, stock options outstanding and exercisable were 147,440. There have been no stock options granted or exercised during the nine months ended September 30, 2008.

(8) Borrowed Funds

On April 7, 2005, the Bank entered into a five-year fixed rate credit agreement with the Federal Home Loan Bank of Atlanta ("FHLB") in the amount of $5.0 million. Interest accrues at the rate of 4.70% and the principal is due April 7, 2010.

On October 25, 2005, the Bank entered into a fifteen-year principal reducing credit agreement ("PRC") with the FHLB in the amount of $750,000. Interest accrues at the rate of 5.24% and the principal is due October 26, 2020. Principal reductions in the amount of $4,167 occur monthly and commenced on November 25, 2005. The balance on the PRC as of September 30, 2008 was $604,167.

On March 12, 2008, the Bank entered into a 2-year adjustable rate credit ("ARC") agreement in the amount of $5.0 million. Interest accrues at the rate of 2.70% and is paid quarterly, with the principal due March 12, 2010.

On March 12, 2008, the Bank entered into a 3-year ARC agreement in the amount of $5.0 million. Interest accrues at the rate of 3.01% and is paid quarterly, with the principal due March 14, 2011.

On March 12, 2008, the Bank entered into a 4-year ARC agreement in the amount of $5.0 million. Interest accrues at the rate of 3.31% and is paid quarterly, with the principal due March 12, 2012.

(9) Fair Value Measurements

SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset-backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of the Bank's securities are considered to be Level 2 securities.

Loans held for sale

The value of loans held for sale is required to be measured at the lower of cost or fair value. Under SFAS No. 157, market value is to represent fair value. Management obtains quotes or bids on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be

received on the quotes or bids are indicative of the fact that cost is lower than fair value. At September 30, 2008, the Bank did not have any loans held for sale.

Impaired loans

SFAS No. 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, as amended by SFAS No. 118, *Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures*, including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is collateral dependent, is determined by appraisals or independent valuation and then adjusted for the cost related to liquidation of the collateral.

Other Real Estate Owned

Certain assets such as other real estate owned ("OREO") are measured at fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of SFAS No. 157. We had no other real estate owned at September 30, 2008.

(10) New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations*. SFAS No. 141(R) will significantly change the financial accounting and reporting of business combination transactions. SFAS 141(R) establishes the criteria for how an acquiring entity in a business combination recognizes the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. Acquisition related costs including finder's fees, advisory, legal, accounting valuation and other professional and consulting fees are required to be expensed as incurred. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 and early implementation is not permitted. The Bank does not expect the implementation to have a material impact on its financial statements.

In December 2007, the FASB issued SFAS No.160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures to clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Bank does not expect the implementation of SFAS No. 160 to have a material impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial

position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Bank does not expect the implementation of SFAS No. 161 to have a material impact on its financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS No. 162 becomes effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411. The Bank does not expect the implementation of SFAS No. 162 to have a material impact on its financial statements.

In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157*. FSP No. 157-2 delays the effective date of SFAS 157, *Fair Value Measurements*, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay is intended to allow the FASB and constituents additional time to consider the effect of various implementation issues that have arisen, or that may arise, from the application of Statement 157. FSP No. 157-2 defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, for items within the scope of this FSP. Examples of items to which the deferral would and would not apply are listed in the FSP. The Bank does not expect the implementation of FSP No. 157-2 to have a material impact on its financial statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets*. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R), *Business Combinations*, and other U.S. generally accepted accounting principles. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Bank does not expect the implementation of FSP No. 142-3 to have a material impact on its financial statements.

In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. The FSP requires that issuers of such instruments should separately account for the liability (debt) and equity (conversion option) components in a manner that reflects the issuer's nonconvertible debt borrowing rate. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. The Bank does not expect the implementation of FSP APB 14-1 to have a material impact on its financial statements.

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. FSP No. 157-3 clarifies the application of SFAS 157, *Fair Value Measurements*, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective upon issuance, including prior periods for which financial

statements have not been issued.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion is intended to assist readers in understanding and evaluating the Bank's financial condition and results of operations. This discussion should be read in conjunction with the Bank's unaudited financial statements and accompanying notes included in "Part I, Item 1. Financial Statements" of this report.

Caution Regarding Forward-Looking Statements

Some of the matters discussed below 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 report 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;
- continuing 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;
- continuing changes in regulatory requirements and restrictive banking legislation; monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve, and the impact of any policies or programs implemented pursuant to the Emergency Economic Stabilization Act of 2008 ("EESA"); and
- continuing material changes in the real estate market in the greater Washington, D.C. metropolitan region or the Northern Virginia submarket, which could have an adverse impact on the Bank.

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 report, 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.

Recent Developments

While the Bank has not experienced significant losses during the current economic disruption a continuation of the recent turbulence in significant portions of the global financial markets, particularly if it

worsens, could impact the Bank's performance, both directly by affecting revenues and the value of the Bank's assets and liabilities, and indirectly by affecting the Bank's counterparties and the economy generally. Dramatic declines in the housing market in the past year have resulted in significant write-downs of asset values by financial institutions in the U.S. Concerns about the stability of the U.S. financial markets generally have reduced the availability of funding to certain financial institutions, leading to a tightening of credit, reduction of business activity, and increased market volatility. It is not clear at this time what impact the EESA or other liquidity and funding initiatives of the U.S. Treasury and other bank regulatory agencies that have been announced, or any additional programs that may be initiated in the future, will have on the financial markets and the financial services industry. The extreme levels of volatility and limited credit availability currently being experienced could continue to affect the U.S. banking industry and the broader U.S. and global economies, which would have an effect on all financial institutions, including the Bank.

As part of the EESA, the Department of the Treasury will purchase equity interests in a wide variety of eligible banks, thrifts and bank holding companies. Under this program, called the Troubled Asset Relief Program Capital Purchase Program, $250 billion of capital will be made available to U.S. financial institutions through the sale of preferred stock. The preferred stock would pay a 5% dividend for five years, which will increase to 9% after five years. In conjunction with its purchase of preferred stock, the Treasury will also receive warrants to purchase common stock with an aggregate market price equal to 15% of the amount invested in preferred stock. Participating institutions will be required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury continues to hold the institution's equity under TARP. Although the Bank meets all applicable regulatory capital requirements and remains well capitalized, we will nonetheless evaluate the program to determine if participation would be advantageous for the Bank and its common shareholders.

In addition, federal and state governments could pass additional legislation responsive to current credit conditions. As an example, the Bank could experience higher credit losses because of federal or state legislation or regulatory action that reduces the amount its borrowers are otherwise contractually required to pay under existing loan contracts. Also, the Bank could experience higher credit losses because of federal or state legislation or regulatory action that limits its ability to foreclose on property or other collateral or makes foreclosure less economically feasible.

The Federal Deposit Insurance Corporation ("FDIC") insures deposits at FDIC insured financial institutions up to certain limits. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund. Current economic conditions have increased expectations for bank failures, in which case the FDIC would take control of failed banks and ensure payment of deposits up to insured limits using the resources of the Deposit Insurance Fund. In such case, the FDIC may increase premium assessments to maintain adequate funding of the Deposit Insurance Fund, including requiring riskier institutions to pay a larger share of the premiums. An increase in premium assessments would increase the Bank's expenses. The EESA included a provision for an increase in the amount of deposits insured by FDIC to $250 thousand until December 2009. On October 14, 2008, the FDIC announced a new program — the Temporary Liquidity Guarantee Program — that provides unlimited deposit insurance on funds in non-interest bearing transaction deposit accounts not otherwise covered by the existing deposit insurance limit of $250 thousand. All eligible institutions will be covered under the program for the first 30 days without incurring any costs. After the initial period, participating institutions will be assessed a 10 basis point surcharge on the additional insured deposits. The behavior of depositors in regard to the level of FDIC insurance could cause the Bank's existing customers to reduce the amount of deposits held at the Bank, and/or could cause new customers to open deposit accounts at the Bank. The level and composition of the Bank's deposit portfolio directly impacts its funding cost and net interest margin.

Overview

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, and opened for business on May 26, 2004. The Bank's main office is located at 727 Elden Street in Herndon, and our second banking office located at 4029 Chain Bridge Road in Fairfax, Virginia opened on April 2, 2007.

We offer a full range of commercial and consumer banking services from our banking offices and from our comprehensive online banking, ACH, and remote deposit solutions. We target individuals, professionals and small businesses in the Washington, D.C. metropolitan area. The retail and commercial nature of the Bank's operations allows for diversification of depositors and borrowers, and we believe that the Bank is not dependent upon a single customer or a few customers. A significant portion of the Bank's commercial loan portfolio is concentrated in commercial real estate loans to services-oriented businesses. The predominance of government contracting within the Washington, D.C. metropolitan area has a stabilizing effect on the local economy, especially with regard to the services industry.

In addition to our existing two banking offices, we have technology which enables us to *Put our Bank in Your Office®*. This technology includes the ability for our business customers to transact all business banking activity from their offices, including the ability to manage funds, pay bills, initiate wire transfers, administer ACH automatic payment and debit plans, and deposit cash and checks. This complete banking solution allows us to compete well beyond the confines of a typical branch footprint.

The Bank's primary source of revenue is interest income and fees generated by lending and investing. The Bank has typically balanced the loan and investment portfolio towards loans. The Bank's results indicate consistent balance sheet growth since inception. The Bank's focus has been to develop banking relationships with customers in the community that can create business opportunities for the Bank.

For the three months ended September 30, 2008, the Bank had net income of $87 thousand, or $0.03 per common share (basic and diluted), compared to a net loss of $121 thousand, or $0.05 per common share (basic and diluted) for the three months ended September 30, 2007. For the nine months ended September 30, 2008, the Bank had net income of $4 thousand, or $0.00 per common share (basic and diluted), compared to a net loss of $413 thousand, or $0.17 per common share (basic and diluted) for the nine months ended September 30, 2007. The Board's objective in 2007 focused on growth, which impacted profitability in the short-term. The Board's objective in 2008 is to achieve sustainable profitability. The economy is providing challenges, but barring any unknown obstacles, we expect to achieve our 2008 objective.

Return on average equity during the three months ended September 30, 2008 was 0.41% compared to (0.57%) during the three months ended September 30, 2007. Return on average assets for the three months ended September 30, 2008 was 0.05% compared to (0.09%) during the three months ended September 30, 2007. The increase in return on average equity and return on average assets is primarily attributed to net income of $87 thousand for the three months ended September 30, 2008 compared to a net loss of $121 thousand for the three months ended September 30, 2007. The increase in return on average assets is impacted by the increase in average assets of $36.4 million from the quarter ended September 30, 2007 to the quarter ended September 30, 2008.

Return on average equity during the nine months ended September 30, 2008 was 0.02% compared to (1.92%) during the nine months ended September 30, 2007. Return on average assets for the nine months ended September 30, 2008 was 0.00% compared to (0.34%) during the nine months ended September 30, 2007. The increase in return on average equity and return on average assets is primarily attributed to net income of $4 thousand for the nine months ended September 30, 2008 compared to a net loss of $413 thousand for the nine months ended September 30, 2007. The increase in return on average assets is impacted

by the increase in the average assets of $41.7 million from the nine months ended September 30, 2007 to the nine months ended September 30, 2008.

As of September 30, 2008, the Bank had total assets of $177.3 million, an increase of $31.2 million, or 21.4%, from $146.1 million at December 31, 2007. The growth in assets from December 31, 2007 was primarily due to an increase in net loans of $23.0 million or 20.6%. As of September 30, 2008, gross loans were $136.2 million, an increase of 20.5% over $113.0 million as of December 31, 2007. The increase was primarily due to an increase in commercial real estate loans of approximately $12.7 million.

The allowance for loan losses was $1.5 million as of September 30, 2008, or 1.11% of outstanding loans, compared to $1.3 million as of December 31, 2007, or 1.14% of outstanding loans. As noted under "Critical Accounting Estimates" below, we use peer analysis and industry trends as additional tools to evaluate the adequacy of the allowance for loan losses given the lack of historical loss experience.

Total deposits were $133.0 million as of September 30, 2008, which represents a 15.2% increase from $115.5 million in total deposits as of December 31, 2007. At September 30, 2008, non-interest bearing deposits totaled $17.0 million or 12.8% of total deposits.

Total stockholders' equity was $21.1 million and $21.3 million as of September 30, 2008 and December 31, 2007, respectively. The accumulated other comprehensive loss was $365 thousand, net of tax, as of September 30, 2008, and $95 thousand, net of tax, as of December 31, 2007. Securities available for sale are reported at market value or fair value. Any unrealized gain or loss, net of tax, 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 and included in results of operations. As of September 30, 2008, there were no gains or losses recorded.

Net interest margin was 3.33% and 4.06% for the three months ended September 30, 2008 and September 30, 2007, respectively. Net interest margin was 3.36% and 4.27% for the nine months ended September 30, 2008 and September 30, 2007, respectively. Net interest margin for the year ended December 31, 2007 was 4.17%. The decrease in the net interest margin is primarily attributable to rate cuts implemented by the Federal Reserve during 2008. In addition, average assets increased $36.4 million and $41.7 million, respectively, for the three and nine months ended September 30, 2008 from the three and nine months ended September 30, 2007.

Results of Operations

Net Interest Income. Net interest income represents the principal source of revenue for the Bank. Net interest income before provision for loan losses was $1.4 million for the three months ended September 30, 2008 and 2007. Net interest income before provision for loan losses increased approximately $55 thousand due primarily to an increase in interest income on investment securities of $187 thousand and a decrease in total interest expense of approximately $48 thousand, offset by a decrease in interest on federal funds sold of approximately $148 thousand and a decrease in interest income and fees on loans in the amount of approximately $31 thousand. The Bank's continued growth in net interest income is directly attributable to asset growth, especially loan growth. Net interest margin for the three months ended September 30, 2008 was 3.33%.

The average balance of the gross loan portfolio was $134.2 million and $106.8 million for the three months ended September 30, 2008 and September 30, 2007, respectively. The related interest income and fees from loans was $2.2 million and $2.3 million for the three months ended September 30, 2008 and September 30, 2007, respectively. The average yield on loans was 6.62% and 8.41% for the three months

ended September 30, 2008 and September 30, 2007, respectively. The related decrease in the yield is primarily attributable to the decrease in the prime rate during 2008.

Net interest income before provision for loan losses was $4.1 million and $3.9 million for the nine months ended September 30, 2008 and 2007, respectively. Net interest income before provision for loan losses increased approximately $231 thousand due primarily to an increase in interest income and fees on loans in the amount of approximately $382 thousand and an increase in interest income on investment securities of $458 thousand, partially offset by a decrease in interest on federal funds sold of approximately $223 thousand and an increase in total interest expense of approximately $386 thousand. The Bank's continued growth in net interest income is directly attributable to asset growth, especially loan growth. Net interest margin for the nine months ended September 30, 2008 was 3.36%.

The average balance of the gross loan portfolio was $125.4 million and $95.7 million for the nine months ended September 30, 2008 and September 30, 2007, respectively. The related interest income and fees from loans was $6.5 million and $6.1 million for the nine months ended September 30, 2008 and September 30, 2007, respectively. The average yield on loans was 6.89% and 8.51% for the nine months ended September 30, 2008 and September 30, 2007, respectively. The related decrease in the yield is primarily attributable to the decrease in the prime rate during 2008.

Investment securities income was $344 thousand and $157 thousand for the three months ended September 30, 2008 and September 30, 2007, respectively, and the yield on investment securities was 4.89% and 4.66% for the same periods.

Investment securities income was $954 thousand and $495 thousand for the nine months ended September 30, 2008 and September 30, 2007, respectively, and the yield on investment securities was 5.03% and 4.75% for the same periods.

Excess liquidity results in federal funds sold for the Bank. The short term investments in federal funds sold contributed $46 thousand and $194 thousand to interest income during the three months ended September 30, 2008 and September 30, 2007, respectively. The short term investments in federal funds sold contributed $210 thousand and $433 thousand to interest income during the nine months ended September 30, 2008 and September 30, 2007, respectively.

Consistent with the Bank's asset growth, average interest bearing funding sources (deposits and purchased funds) were $136.6 million and $102.4 million for the three months ended September 30, 2008 and September 30, 2007, respectively. Interest expense for all interest bearing liabilities was $1.2 million for the third quarter of 2008 and 2007. The average cost of interest bearing liabilities for the three months ended September 30, 2008 and September 30, 2007 was 3.44% and 4.76%, respectively.

Average interest bearing funding sources (deposits and purchased funds) were $127.2 million and $89.3 million for the nine months ended September 30, 2008 and September 30, 2007, respectively. Interest expense for all interest bearing liabilities was $3.5 million and $3.2 million during the nine months ended September 30, 2008 and September 30, 2007, respectively. The average cost of interest bearing liabilities for the nine months ended September 30, 2008 and September 30, 2007 was 3.72% and 4.73%, respectively.

Provision for Loan Losses. The provision for loan losses was $105 thousand during the three months ended September 30, 2008, compared to a provision for loan losses of $112 thousand for the three months ended September 30, 2007. The provision for loan losses was $276 thousand during the nine months ended September 30, 2008, compared to a provision for loan losses of $312 thousand for the nine months ended September 30, 2007. The ratio of the allowance for loan losses to gross loans was 1.11% at September 30, 2008 and 1.14% at December 31, 2007. Management considers the current allowance for loan losses

appropriate based upon its analysis of the potential risk in the portfolio; however, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional provisions will not be required.

Non-interest Income. The Bank's primary source of non-interest income is from service charges on deposit accounts and loan processing fees. Non-interest income was $117 thousand for the three months ended September 30, 2008, compared to $59 thousand during the three months ended September 30, 2007. This increase is due in large part to an increase in other loan fees as a result of an increase in loan volume and loan preparation fees.

Non-interest income was $249 thousand for the nine months ended September 30, 2008, compared to $142 thousand during the nine months ended September 30, 2007. The increase in non-interest income from September 30, 2007 to September 30, 2008 is due in large part to an increase in deposit service charges of $42 thousand and an increase in other loan fees of $66 thousand due to an increase in loan volume and an increase in loan preparation fees.

Non-interest Expense. Non-interest expense for the three months ended September 30, 2008 was $1.4 million compared to $1.5 million during the same period in 2007. Non-interest expense for the three months ended September 30, 2008 consisted primarily of salary and benefits expenses of $774 thousand; occupancy and furniture and equipment costs of $215 thousand; outside services expenses, which consist primarily of legal and accounting fees and human resources payroll, of $87 thousand; data processing expenses of $86 thousand; franchise tax of $51 thousand; and advertising and marketing expenses of $22 thousand.

Non-interest expense decreased approximately $89 thousand from the three months ended September 30, 2007 to the three months ended September 30, 2008, due primarily to a decrease in salaries and employee benefits of $39 thousand, a decrease in data processing expenses of $14 thousand, a decrease in outside services expenses of $30 thousand, and a decrease in advertising and marketing expenses of $28 thousand.

Non-interest expense for the nine months ended September 30, 2008 and September 30, 2007 was $4.1 million. Non-interest expense for the nine months ended September 30, 2008 consisted primarily of salary and benefits expenses of $2.3 million; occupancy and furniture and equipment costs of $644 thousand; outside services expenses, which consist primarily of legal and accounting fees and human resources payroll, of $215 thousand; data processing expenses of $278 thousand; franchise tax of $155 thousand; and advertising and marketing expenses of $67 thousand.

Non-interest expense decreased approximately $43 thousand from the nine months ended September 30, 2007 to the nine months ended September 30, 2008, due primarily to a decrease in advertising and marketing expenses of $59 thousand and a decrease in outside services expenses of $56 thousand, partially offset by an increase in occupancy and furniture and equipment costs of $71 thousand.

Income Taxes. The Bank did not record any income tax expense or benefit for the three and nine months ended September 30, 2008 and 2007.

Analysis of Financial Condition

Investment Securities. Investment securities available for sale were $24.8 million as of September 30, 2008 compared to $26.5 million at December 31, 2007. No securities were sold during the quarter. There were no investments classified as held to maturity for any periods reported.

The Bank generally classifies investment securities as available for sale under the classifications required under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* The

investment portfolio is used to manage excess liquidity and general liquidity needs as well as other rebalancing needs as required by the overall asset/liability position.

The effects of accumulated other comprehensive losses were $365 thousand as of September 30, 2008 and $95 thousand as of December 31, 2007. Consistent with our investment and asset/liability strategies, we believe the investment portfolio is properly positioned for the current and projected near-term interest rate environment.

The investment portfolio as of September 30, 2008 contained U.S. government agency securities, collateralized mortgage obligations ("CMOs"), and U.S. government agency mortgage backed securities ("MBSs"). The Bank's current investment strategy includes investments that provide stable cash flows. As part of the overall asset/liability strategy, the Bank tries to maintain a portfolio duration in the 3 to 5 year range. Contractual maturities of CMOs and MBSs are not reliable indicators of their expected lives because mortgage borrowers have the right to prepay mortgages at any time. The Bank actively manages its portfolio duration and composition with the changing market conditions and changes in balance sheet and risk management needs. In addition, the securities are used to pledge for certain borrowing transactions.

The investment portfolio did not contain any corporate debt securities for any periods presented.

Loan Portfolio. Gross loans were $136.2 million as of September 30, 2008, compared to $113.0 million as of December 31, 2007. As of September 30, 2008, the loan portfolio consists of commercial loans of $15.5 million or 11.3% of the loan portfolio; commercial real estate loans (generally owner-occupied) of $71.5 million or 52.5% of the loan portfolio; residential real estate loans (home equity and fixed rate trusts) of $26.4 million or 19.4% of the loan portfolio; real estate construction loans of $21.5 million or 15.8% of the loan portfolio; and consumer loans which make up the remaining $1.3 million or 1.0% of the loan portfolio.

Asset Quality. As of September 30, 2008 the Bank had one non-accrual loan in the amount of $173 thousand and as of December 31, 2007 one non-accrual loan in the amount of $244 thousand. Loans past due 30-89 days as of September 30, 2008 were $168 thousand or 0.12% of total loans. There were no loans past due in excess of 90 days. The allowance for loan losses was $1.5 million as of September 30, 2008, or 1.11% of loans outstanding compared to $1.3 million as of December 31, 2007, or 1.14% of loans outstanding. There was one charge-off in the amount of $49 thousand during the third quarter 2008. The Bank did not have any loans held for sale. The Bank does not originate or hold subprime residential mortgage loans in its loan portfolio or securities portfolio.

Non-performing Assets. A loan is placed on non-accrual status when it is specifically determined to be impaired or when principal or interest is delinquent by 90 days or more. The Bank had one non-performing asset as of September 30, 2008 and one non-performing asset as of December 31, 2007, both of which were also classified as non-accrual.

As part of our routine credit administration process, we have engaged an outside consultant to review our loan portfolio at least annually. We use the information from these reviews to monitor individual loans as well as to evaluate the overall adequacy of the allowance for loan losses.

The Bank closely monitors individual loans, and the loan officers are responsible for working with customers to resolve potential credit issues in a timely manner to minimize the loss exposure. 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 economic conditions.

Deposits. The Bank seeks deposits within its market area by paying competitive interest rates, offering high quality customer service and using technology to deliver deposit services effectively. As of September 30, 2008, the deposit portfolio increased to $133.0 million, a $17.5 million increase from the December 31, 2007 level of $115.5 million. The increase in deposits is primarily a result of an increase in CDARS deposits of approximately $9.8 million and in jumbo certificates of deposit of approximately $7.2 million.

The Bank may obtain time deposits from the wholesale marketplace. Wholesale certificates of deposit allow the Bank to fund loan and investment growth with a minimal impact on overall sales efforts. As of September 30, 2008 and December 31, 2007, the Bank had $28.8 million and $22.6 million, respectively, in such deposits. The certificates issued as part of the wholesale deposit program have maturities ranging from four weeks to three years from issuance. As market conditions warrant and balance sheet needs dictate, we may continue to participate in the wholesale certificates of deposit market. As with any deposit product, we have potential risk for non-renewal by the customer and/or broker.

Purchased Funds. The Bank offers repurchase agreements ("repos") to commercial customers and affluent individuals. The repos are offered for convenience and security to these larger clients. As of September 30, 2008 and December 31, 2007, customer repos totaled $2.0 million and $3.0 million, respectively. The Bank does not have any open repos with broker dealers.

As of September 30, 2008 we had five advances outstanding with the FHLB that totaled $20.6 million, compared to two advances outstanding that totaled $5.6 million at December 31, 2007. 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 paid monthly, with the principal 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 thousand. Interest accrues at the rate of 5.24% and the principal is due October 26, 2020. Monthly principal reductions of $4,167 commenced in November 2005. The balance on the PRC as of September 30, 2008 is $604,167. On March 12, 2008, the Bank entered into a 2-year adjustable rate credit ("ARC") agreement in the amount of $5.0 million. Interest accrues at the rate of 2.70% and is paid quarterly, with the principal due March 12, 2010. On March 12, 2008, the Bank entered into a 3-year ARC agreement in the amount of $5.0 million. Interest accrues at the rate of 3.01% and is paid quarterly, with the principal due March 14, 2011. On March 12, 2008, the Bank entered into a 4-year ARC agreement in the amount of $5.0 million. Interest accrues at the rate of 3.31% and is paid quarterly, with the principal due March 12, 2012.

Liquidity. Liquidity represents an institution's ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds from alternative funding sources. The Bank's liquidity is provided by cash and due from banks, federal funds sold, investments available for sale, managing investment maturities, interest-earning deposits in other financial institutions and loan repayments. The overall asset/liability strategy of the Bank takes into account the need 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. We have unsecured and secured credit lines available from our correspondent bank. Additionally, the Bank may borrow funds from the FHLB. 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. From time to time, the Bank may sell or participate out loans to create additional liquidity as required.

Interest Sensitivity. The cumulative positive gap position within one year was $11.2 million or 6.43% of assets as of September 30, 2008 compared to a positive gap of $23.7 million, or 16.55% of total assets, at December 31, 2007. The positive gap suggests that the net interest margin will increase in a market of rising

interest rates as assets reprice faster than liabilities. This measurement technique is common in the financial services industry; however, it has limitations and is not our sole tool for measuring interest rate sensitivity. A significant limitation is the use of contractual maturities for investment securities. Many investment securities in our portfolio are expected to prepay or be called prior to contractual maturity.

The interest sensitivity position does not measure the impact of interest rate changes on the market value of our investment securities portfolio. Rising interest rates will cause a decline in the market value of our investment securities. A decline in the market value of the investment portfolio could make managing the net interest income exposure more difficult.

As part of our interest rate risk management, we typically use the investment portfolio to balance our interest rate exposure. We purchase or sell 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, interest rate risk pricing desires are not consistent with the general market, which requires us to balance our interest rate risk through other products. An example of this is that in a declining rate environment, the loan customer typically prefers floating rate loans and banks typically desire fixed rate loans. In this situation, we would add fixed rate securities or price money market deposits aggressively to balance the interest rate risk.

There is no guarantee that the risk management and balance sheet management strategies we employ will be effective in periods of rapid rate movements. We believe our strategies are reasonable in the base case of our modeling efforts.

Capital. The Bank is considered "well capitalized" under the risk-based capital guidelines adopted by the various regulatory agencies. Stockholders' equity was $21.1 million and $21.3 million at September 30, 2008 and December 31, 2007, respectively. Book value per common share was $8.72, exclusive of nonvested shares, as of September 30, 2008, compared to $8.73 as of December 31, 2007.

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

Concentrations. The Bank operates in the greater Washington, D.C. metropolitan region, primarily in the Northern Virginia submarket. The Bank's overall business includes a significant focus on real estate activities. At September 30, 2008 and December 31, 2007, residential real estate, commercial real estate and construction loans accounted for 87.7% and 87.3%, respectively, of the Bank's gross loans, with approximately 60% of the total real estate loans in commercial real estate. Given the concentration of the Bank's loan portfolio in real estate related loans, an adverse change in the economy affecting values of real estate in the greater Washington, D.C. metropolitan region or Northern Virginia submarket could impair the value of the Bank's collateral and its ability to sell the collateral upon foreclosure, which could have an adverse impact on the Bank. During 2007 and the first nine months of 2008, there has been a significant increase in mortgage loan foreclosures throughout the United States, due primarily to increasing market rates of interest and declining property values. The vast majority of these foreclosures appear to involve "exotic" or adjustable rate mortgage products associated with subprime borrowers. The Bank does not originate or hold subprime residential mortgage loans in its loan portfolio or securities portfolio. However, there is no assurance that these market conditions will not have a broader impact on prevailing market rates of interest or economic conditions that could adversely affect the Bank's operating results in the future.

Off-Balance Sheet Activities

As of September 30, 2008, there have been no material changes to the off-balance sheet arrangements disclosed in "Management's Discussion and Analysis or Plan of Operation" in the Bank's annual report on Form 10-KSB for the period ended December 31, 2007 filed with the Federal Reserve on March 31, 2008.

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 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 has adopted SFAS No. 114, as 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 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 Bank'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 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 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.

Internet Access to Corporate Documents

Information about the Bank can be found on the Bank's website at www.mstreetbank.com. Under "Corporate Information/Federal Filings" in the Investor Relations section of the website, the Bank posts its annual reports on Form 10-KSB or 10-K, quarterly reports on Form 10-QSB or 10-Q, current reports on Form 8-K, definitive proxy materials and any amendments to those documents as soon as reasonably practicable after they are filed with or furnished to the Federal Reserve. All such filings are available free of charge. The information available on the Bank's website is not part of this Form 10-Q or any other report filed by the Bank with the Federal Reserve.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4T. Controls and Procedures.

The Bank maintains a system of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Our management evaluated, with the participation of the Bank's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Bank's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Bank's Chief Executive Officer and Chief Financial Officer concluded that the Bank's disclosure controls and procedures are effective as of the end of the period covered by this report to ensure that information required to be disclosed in the reports that the Bank files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's and the Federal Reserve's rules and forms, and that such information is accumulated and communicated to management, including the Bank's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Bank's 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 the Bank's periodic reports.

The Bank's 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 GAAP. There were no changes in the Bank's internal control over financial reporting during the quarter ended September 30, 2008 that materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

There are no material pending legal proceedings to which the Bank is a party or to which the Bank's property is subject.

Item 1A. Risk Factors.

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. 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 Amended and Restated Bylaws of MainStreet Bank (effective October 15, 2008) (incorporated by reference to Exhibit 3.2 to Form 8-K filed with the Board of Governors of the Federal Reserve System on October 20, 2008)

31.1 Certification of principal executive officer pursuant to Rule 13a-14(a)

31.2 Certification of 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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MAINSTREET BANK
(Registrant)

Date: November 12, 2008

/S/
Jeff W. Dick
Chief Executive Officer and President
(Principal executive officer)

Date: November 12, 2008

/S/
Thomas J. Chmelik
Chief Financial Officer
(Principal financial and accounting officer)

Exhibit 31.1

CERTIFICATIONS

I, Jeff W. Dick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MainStreet Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2008

/S/____________________________
Jeff W. Dick
Chief Executive Officer and President

Exhibit 31.2

CERTIFICATIONS

I, Thomas J. Chmelik, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MainStreet Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2008

/S/_________________________
Thomas J. Chmelik
Chief Financial Officer

Exhibit 32

CERTIFICATION OF
PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER

Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350)

The undersigned, as the Chief Executive Officer and Chief Financial Officer of MainStreet Bank, respectively, certify that, to the best of their knowledge and belief, the Quarterly Report on Form 10-Q for the period ended September 30, 2008, which accompanies this certification, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of MainStreet Bank at the dates and for the periods indicated. The foregoing certification is made pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and shall not be relied upon for any other purpose. The undersigned expressly disclaim any obligation to update the foregoing certification except as required by law.

Date: November 12, 2008

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

Date: November 12, 2008

/S/
Thomas J. Chmelik
Chief Financial Officer