

MAKING CENTS

An update to our investors and customers

WHERE DO WE GO FROM HERE?



*J. Bryant Neville,
Executive Vice
President, CFO*

After the conclusion of a year such as 2009 (on the heels of a year such as 2008), the title of the final episode of M*A*S*H, "Goodbye, Farewell and Amen" comes to mind. We may not have suffered massive

loss of human life during these two years, but there have been many casualties from the deep economic recession we've all witnessed. Falling real estate markets coupled with rising unemployment has created a financial blizzard out of which many borrowers are truly having trouble digging. Delinquencies, non-performing assets and foreclosures have risen to unprecedented levels as home equity, normally that which smoothes the waters during contraction of the economy, has all but evaporated with the collapse of the real estate market. Many have simply abandoned their property and walked away from their obligations leaving creditors to fend for themselves. This is the worst possible choice for all involved, and consumers are well advised to meet with creditors and/or seek credit counseling as alternative measures. Creditors are much more likely to work with anyone who is trying to work with them. Moreover, walking away from one's obligation in no way reduces or eliminates it.

The banking industry has certainly suffered its share of blows as well, as evidenced by 140 bank failures holding a combined total of \$170.9 billion in assets. The costs to the Federal Deposit Insurance

Corporation's Depository Institution Fund ("DIF") to manage these failures, auction off assets to other institutions and cover all losses amounted to a whopping \$36.43 billion. Many of the failed institutions were so highly leveraged with such risky and speculative investments that they could not have possibly survived even the mildest of bumps in the road. Some, however, have been the victims of events beyond their control. Congress's decision to declare the preferred stock of the country's major government sponsored agencies, Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA") virtually valueless, transformed many strong banks into companies struggling to survive. Congress called this an "unintended consequence." For those well run banks who watched significant portions of their capital erode overnight, I call it a travesty. One day these instruments carried the highest of ratings...the next day, without warning, worthless. Fortunately, we held none of these preferred shares only because the Bank is not under a holding company and therefore precluded from investing in equity securities.

I keep getting asked, "What does 2010 hold in store for us?" First of all, I wish I was smart enough to know the answer. Now that the disclaimer has been made, I will tell you what the experts forecast ("guess") for our future. You'll be happy to know that the recession is by definition officially over. What? Did you miss it too? Well, you see, recessions are defined by two consecutive quarters of negative gross domestic production ("GDP"). Two consecutive quarters of positive GDP marks its conclusion; therefore, it's

over! Now I find myself reminded of another famous quote all Dr. Seuss fans will recognize, "How could it be so? It came without ribbons. It came without tags. It came without packages, boxes or bags!" Obviously, we'd have to substitute terms like excitement, jobs, values, credit markets, etc., in place of all the Christmas connotations, but how could the recession have ended? Unfortunately, it is the deficit "that grew three times" in our story. The government has pumped enough new money into the system that it has no choice but to expand - like blowing air into a balloon.

Ronald Reagan was a great believer in deficit spending to jumpstart the economy, and his policies worked remarkably well in settling the soaring interest rates and land value collapses of the late 1970s. What he likely didn't foresee was that he'd opened Pandora's Box, and only fiscal responsibility will ever be able to close it. It was much easier, as a taxpayer, to swallow borrowing when we were the richest country in the world. Now that our nation has reached a point where it is soon borrowing more than it produces annually, I have serious concerns for our future and the futures of our children. Sooner or later we have to admit that we have made promises we cannot keep through entitlement programs we cannot possibly sustain and encourage our representatives to take measures to preserve what is possible AND in our best interest. Darn it, I digressed into opinion again when I promised you facts. The latest word is that the leading economists predict positive GDP over the next four years with gradual employment growth beginning this year. They should know better than I.

RIDE THE BULL MARKET



*Guy N. Adamson,
Vice President and
Investment Advisor
Representative*

The economy is showing signs of recovery and investors have increased confidence in the stock market. If you are seeking more return on your investment than traditional savings or need help converting existing investments, talk to Bank of McKenney's licensed Investment Advisor Representative, Guy Adamson.

Guy will explain investment options in easy-to-understand terms, discuss your comfort level, outline the risks and rewards and guide you in making sound investment decisions. He can also:

- Open investment accounts
- Rollover 401k plans
- Set up retirement plans for businesses

Bank of McKenney administers investments, including stocks, bonds, mutual funds, annuities, 529 plans, government securities or IRAs through a fully disclosed relationship.

Bank of McKenney offers a level of customer service that will exceed your expectations with an investment advisor representative that keeps your best interests in mind.

Contact Guy Adamson today to set up an appointment at the bank, your home or business. Guy's hours are always flexible, and he works with your schedule. He can be reached at 804.518.0526 or email guy.adamson@waterfordinvestors.com

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Introducing the new Intelli-ATM



Time is Money. Did you know we can help you save both?

The *Intelli-ATM* is a new self-service technology that is sweeping the nation, and Bank of McKenney is proud to offer the very first of its kind in our area.

- Deposit cash and checks directly into the machine.
- Receipts include a scanned copy of your check.
- Fast, state-of-the-art technology.
- Reduce stress and fraud.
- No envelope deposit ATM.

Bank of McKenney - solving your banking needs faster and smarter than the rest. That is what we practice *Every Day, Every Customer, Every Time.*

Visit the new *Intelli-ATM* at the Colonial Heights Branch and enter to win \$100 today*! We'll be happy to walk you through your first transaction!

* Must be 18 years or older to enter the drawing. Offer good from March 22 through April 30, 2010. Drawing to be held at 2:00pm, April 30, 2010.

COMMUNITY SPOTLIGHT

Bank of McKenney is a community bank, and we pride ourselves on our employees' continued involvement with raising money and volunteering for local charities. Every month we'll spotlight the continued efforts our employees make in our communities.

- *Commodities Distribution*
- *CARITAS at Shady Grove United Methodist Church*
- *Boy Scouts*
- *Homeownership class with Virginia Supportive Housing*
- *Health Fair*
- *Teach a weight loss/nutrition class*
- *How to Do Your Banking at Matoaca High School*
- *Junior Achievers After School Program at Dinwiddie Middle School*
- *Matoaca Tree Lighting*
- *Reading with the kids at Sunnyside Elementary*
- *Chamber lunch and networking events*
- *Boulevard revitalization meeting*
- *Colonial Heights Health Care Holiday Brunch*
- *Bankers Day VBA on the Hill Richmond*
- *Southside Virginia Bankers Dinner and Casino Night*
- *Active members in Board of Directors for Dinwiddie Petersburg Crime Solvers*
- *Masonic Lodge*
- *Active Members of Ruritan Clubs and Lions Clubs*
- *VHDA Homeownership Class*