

Board of Governors of the Federal Reserve System
Washington, D.C. 20551

FORM 10-Q

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

For the quarterly period ended March 31, 2009

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934

For the transition period from _____ to _____

BANK OF MCKENNEY

(Exact name of registrant as specified in its charter)

Virginia

54-0132540

(State or other jurisdiction of incorporation or organization)

(IRS employer identification no.)

20718 First Street

McKenney, Virginia

23872

(Address of principal executive offices)

(Zip Code)

(804) 478-4434

(Registrant's telephone number, including area code)

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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such reports).

Yes 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

SEC 1296 (02-08) **Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practical date.

1,926,656 shares of Common Stock, par value \$2.00 per share (May 11, 2009)

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BANK OF MCKENNEY AND SUBSIDIARY

Consolidated Balance Sheets

March 31, 2009 (unaudited) and December 31, 2008

	March 31, 2009	December 31, 2008
ASSETS		
Cash and due from banks	\$ 10,915,224	\$ 6,847,451
Federal funds sold	3,923,000	858,000
Interest-bearing balances in other banks	-	1,540,252
Securities available for sale, at fair market value	22,566,620	28,998,239
Securities held to maturity, at current book value	3,919,532	956,448
Restricted investments	797,225	789,525
Loans:		
Commercial	8,742,725	7,922,920
Commercial Real Estate	49,667,088	48,625,651
Real Estate Construction	10,571,936	9,833,256
Residential Real Estate	43,885,593	43,046,066
Consumer	2,264,589	2,355,887
Loans, gross	\$ 115,131,931	\$ 111,783,780
Less allowance for loan losses	(1,302,628)	(1,135,000)
Loans, net	\$ 113,829,303	\$ 110,648,780
Land, premises and equipment, net	8,142,106	8,185,167
Accrued interest receivable	830,851	897,883
Bank owned life insurance	3,161,142	3,127,712
Other assets	2,626,312	2,612,367
Total Assets	\$ 170,711,315	\$ 165,461,824
LIABILITIES		
Deposits:		
Noninterest-bearing Deposits	\$ 27,751,211	\$ 26,141,215
Savings and interest bearing demand deposits	38,021,893	34,959,275
Time deposits	82,989,027	81,792,333
Total deposits	\$ 148,762,131	\$ 142,892,823
Federal Home Loan Bank advances	3,250,000	3,333,333
Accrued interest payable	309,936	324,396
Accrued expenses and other liabilities	1,181,274	1,543,650
Total Liabilities	\$ 153,503,341	\$ 148,094,202
Commitments and contingencies	\$ -	\$ -
SHAREHOLDERS' EQUITY		
Common stock, \$2 par value, authorized 2,250,000 shares issued and outstanding 1,926,656 shares	\$ 3,853,312	\$ 3,853,312
Surplus	5,893,958	5,893,958
Retained Earnings	9,250,561	8,972,226
Accumulated other comprehensive loss	(1,789,857)	(1,351,874)
Total shareholders' equity	\$ 17,207,974	\$ 17,367,622
Total Liabilities and Shareholders' Equity	\$ 170,711,315	\$ 165,461,824

See Notes to Unaudited Consolidated Financial Statements

BANK OF MCKENNEY AND SUBSIDIARY

Consolidated Statements of Income

(unaudited)

Three Months Ended

March 31,

	2009	2008
Interest and Dividend Income:		
Interest and fees on loans	\$ 2,016,604	\$ 2,124,729
Interest and dividends on securities - taxable	388,577	298,471
Interest on securities - nontaxable	38,917	33,864
Interest on federal funds sold	1,267	49,154
Interest on deposits with other institutions	5,050	13,742
Total interest and dividend income	<u>\$ 2,450,415</u>	<u>\$ 2,519,960</u>
Interest Expense:		
Money market and NOW accounts	\$ 59,259	\$ 52,400
Savings	13,778	17,944
Time	673,326	842,433
Federal funds purchased	109	--
Federal Home Loan Bank advances	38,954	160,116
Total interest expense	<u>\$ 785,426</u>	<u>\$ 1,072,893</u>
Net interest income	\$ 1,664,989	\$ 1,447,067
Provision for loan losses	160,000	30,000
Net interest income after provision for loan losses	<u>\$ 1,504,989</u>	<u>\$ 1,417,067</u>
Noninterest income:		
Service charges on deposit accounts	\$ 209,178	\$ 204,428
Secondary market origination fees	94,298	127,391
Net gain (loss) on sale of securities	(381)	23,806
Bank-owned life Insurance	33,430	31,407
Other operating income	59,687	47,876
Gain on sale of other real estate owned	--	9,579
Total noninterest income	<u>\$ 396,212</u>	<u>\$ 444,487</u>
Noninterest expense:		
Salaries and employee benefits	\$ 919,262	\$ 902,398
Occupancy expense	104,123	95,038
Furniture and equipment expense	112,342	111,277
Data processing	29,598	44,274
Telecommunications	36,559	33,208
Stationery and supplies	24,156	23,604
Audit and accounting fees	45,246	45,058
FDIC assessment fees	24,220	3,514
Corporate franchise tax	30,154	30,875
Other operating expenses	184,089	161,488
Total noninterest expense	<u>\$ 1,509,749</u>	<u>\$ 1,450,734</u>
Net income before taxes	\$ 391,452	\$ 410,820
Income taxes	113,117	116,616
Net income	<u><u>\$ 278,335</u></u>	<u><u>\$ 294,204</u></u>
Net income per common share, basic and diluted	<u><u>\$ 0.14</u></u>	<u><u>\$ 0.15</u></u>

See Notes to Unaudited Consolidated Financial Statements

BANK OF MCKENNEY AND SUBSIDIARY
Consolidated Statements of Changes in Shareholders' Equity
For the Three Months Ended March 31, 2009 and 2008
(unaudited)

	<u>Common</u> <u>Stock</u>	<u>Surplus</u>	<u>Retained</u> <u>Earnings</u>	<u>Accumulated</u> <u>Other</u> <u>Comprehensive</u> <u>Income (Loss)</u>	<u>Comprehensive</u> <u>Income</u>	<u>Total</u>
Balance at December 31, 2007	\$ 3,853,312	\$ 5,893,958	\$ 8,240,118	\$ 81,313		\$ 18,068,701
Comprehensive income:						
Net income	-	-	294,205	-	\$ 294,205	294,205
Other comprehensive income:						
Unrealized holding gains on securities available for sale arising during the period, net of tax of (\$197,775)	-	-	-	-	383,917	-
Less reclassification adjustment, net of tax of (\$8,094)	-	-	-	-	(15,712)	-
Other comprehensive income, net of tax				368,205	<u>\$ 368,205</u>	368,205
Total comprehensive income					<u>\$ 662,410</u>	
Balance at March 31, 2008	<u>\$ 3,853,312</u>	<u>\$ 5,893,958</u>	<u>\$ 8,534,323</u>	<u>\$ 449,518</u>		<u>\$ 18,731,111</u>
Balance at December 31, 2008	\$ 3,853,312	\$ 5,893,958	\$ 8,972,226	\$ (1,351,874)		\$ 17,367,622
Comprehensive loss:						
Net income	-	-	278,335	-	\$ 278,335	278,335
Other comprehensive loss:						
Unrealized holding losses on securities available for sale arising during the period, net of tax benefit of \$225,757	-	-	-	-	(438,234)	-
Reclassification adjustment, net of tax of (\$130)	-	-	-	-	251	-
Other comprehensive loss, net of tax				(437,983)	<u>\$ (437,983)</u>	(437,983)
Total comprehensive loss					<u>\$ (159,648)</u>	
Balance at March 31, 2009	<u>\$ 3,853,312</u>	<u>\$ 5,893,958</u>	<u>\$ 9,250,561</u>	<u>\$ (1,789,857)</u>		<u>\$ 17,207,974</u>

See Notes to Unaudited Consolidated Financial Statements

BANK OF MCKENNEY AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the Three Months Ended March 31, 2009 and 2008

(unaudited)

	2009	2008
Cash Flows from Operating Activities		
Net income	\$ 278,335	\$ 294,205
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	121,006	122,105
Provision for loan losses	160,000	30,000
Increase in cash surrender value of life insurance	(33,430)	(31,407)
Net (gain) loss on sales of securities available for sale	381	(23,806)
Net gain on sales of other real estate owned	-	(9,579)
Net amortization (accretion) of premiums (discounts) on securities	(16,880)	1,319
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	67,032	(49,007)
Increase in other assets	(124,533)	(336,201)
Decrease in accrued interest payable	(14,460)	(18,131)
Increase in accrued expenses and other liabilities	157,821	314,323
Net cash provided by operating activities	\$ 595,272	\$ 293,821
Cash flows from Investing Activities		
Net change in interest-bearing deposits in banks	\$ 1,540,252	\$ (1,500,000)
Activity in available for sale securities:		
Maturities, prepayments and calls	3,588,210	3,614,688
Purchases	(430,571)	(9,240,083)
(Purchase) of restricted securities (FHLB stock)	(7,700)	(16,800)
Net increase in loans	(3,340,523)	(1,383,643)
Purchase of land, premises and equipment	(77,945)	(61,253)
Proceeds from sale of other real estate owned	-	144,579
Net cash provided by (used in) investing activities	\$ 1,271,723	\$ (8,442,512)
Cash Flows from Financing Activities		
Net increase in deposits	\$ 5,869,308	\$ 9,711,320
Dividend distributions	(520,197)	(520,197)
Repayment of long-term debt	(83,333)	(83,334)
Net cash provided by financing activities	\$ 5,265,778	\$ 9,107,789
Net increase in cash and cash equivalents	\$ 7,132,773	\$ 959,098
Cash and Cash Equivalents		
Beginning of year	7,705,451	11,223,898
End of Year	\$ 14,838,224	\$ 12,182,996
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest	\$ 799,886	\$ 1,091,024
Income Taxes	\$ 22,201	\$ -
Supplemental Disclosures of Noncash Investing and Financing Activities		
Fair value adjustment for securities	\$ (663,610)	\$ 557,886
Available for sale securities transferred to held to maturity	\$ 2,957,087	\$ -
Transfer between loans and other real estate owned	\$ -	\$ 135,000

See Notes to Unaudited Consolidated Financial Statements

Notes to Unaudited Consolidated Financial Statements

1. General

Bank of McKenney (the “Bank”) offers a full range of banking and financial services to individuals, professionals, and small and medium sized businesses through six full service banking offices in the counties of Dinwiddie, southern Chesterfield and Prince George and the city of Colonial Heights. The Bank is subject to competition from other financial institutions. The Bank is also subject to the regulations of the Board of Governors of the Federal Reserve System and the State Corporation Commission of Virginia, and it undergoes periodic examinations by these regulatory authorities.

McKenney Group, L.L.C. (the “Subsidiary”) is a wholly-owned subsidiary of the Bank. McKenney Group, L.L.C. was formed in December of 2000 to provide networking solutions to Virginia community banks. The Subsidiary maintains the partial ownership interests previously acquired by McKenney Title, Inc.

The accompanying consolidated financial statements of Bank of McKenney and its subsidiary collectively have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. 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 consolidated statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Bank of McKenney Annual Report on Form 10-K for the year ended December 31, 2008. All significant intercompany balances and transactions have been eliminated. In the opinion of management, the accompanying consolidated financial statements contain all adjustments and reclassifications of a normal and recurring nature considered necessary to present fairly the financial position as of March 31, 2009 and December 31, 2008 and the results of operations and cash flows for the three months ended March 31, 2009 and 2008. Operating results for the three-month periods ended March 31, 2009 and 2008 are not necessarily indicative of full year financial results.

Certain prior year amounts have been reclassified to conform to the current year’s method of presentation.

2. Investment Securities

The following table sets forth a summary of the amortized cost and fair market value of investment securities available for sale at March 31, 2009 and December 31, 2008:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized (Losses)</u>	<u>Fair Market Value</u>
March 31, 2009				
Available for sale				
U.S. government agencies	\$ 8,700,661	\$ 180,681	\$ -	\$ 8,881,342
Mortgage-backed securities	1,110,752	40,195	-	1,150,947
Obligations of state and political subdivisions	4,662,994	115,793	(16,325)	4,762,462
Corporate debt securities	10,467,901	58,633	(2,754,665)	7,771,869
	<u>\$ 24,942,308</u>	<u>\$ 395,302</u>	<u>\$ (2,770,990)</u>	<u>\$ 22,566,620</u>
Held to maturity				
Corporate securities	<u>\$ 3,919,532</u>	<u>\$ 1,646</u>	<u>\$ (258,936)</u>	<u>\$ 3,662,242</u>
December 31, 2008				
Available for sale				
U.S. government agencies	\$ 12,200,503	\$ 195,850	\$ -	\$ 12,396,353
Mortgage-backed securities	1,199,432	26,125	-	1,225,557
Obligations of state and political subdivisions	4,234,377	27,213	(58,438)	4,203,152
Corporate debt securities	13,412,221	69,250	(2,308,294)	11,173,177
	<u>\$ 31,046,533</u>	<u>\$ 318,438</u>	<u>\$ (2,366,732)</u>	<u>\$ 28,998,239</u>
Held to maturity				
Corporate securities	<u>\$ 956,448</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 956,448</u>

The contractual maturities of investment securities classified as available for sale (“AFS”) and held to maturity (“HTM”) at March 31, 2009 are shown below. Expected maturities may differ from contractual maturities because mortgages underlying the mortgage-backed securities may be called or prepaid without any penalties.

	Available for sale		Held to maturity	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Debt securities				
Maturing within one year	\$ 2,121,340	\$ 2,155,742	\$ -	\$ -
Maturing after one year, but within five years	7,090,743	6,949,734	3,919,532	3,662,242
Maturing after five years, but within ten years	14,188,913	11,879,646	-	-
Maturing after ten years	1,541,312	1,581,498	-	-
Total	<u>\$ 24,942,308</u>	<u>\$ 22,566,620</u>	<u>\$ 3,919,532</u>	<u>\$ 3,662,242</u>

Due to volatility in the prices of certain debt securities, future investments in non-government issued investment grade debt will likely be categorized as HTM and carried at amortized cost until maturity. The Bank has the ability and intent to hold all purchases to maturity; however, AFS has historically been chosen to provide for maximum liquidity. The Bank has numerous other means of liquidity and foresees no concern over this election during this low point in the economy. As of March 31, 2009, one issue had been so classified at the time of purchase, and two additional issues of investment grade corporate were transferred from AFS to HTM at the beginning of 2009. These two issues had slight unrealized gains at the point of transfer. One issue was so classified as HTM on December 31, 2008.

There were no securities pledged to secure public deposits or for other purposes required by law at March 31, 2009. The Bank utilizes letters of credit through the Federal Home Loan Bank for meeting the collateral requirements of such deposits.

Due to certain banking relationships with the Federal Reserve Bank, the Federal Home Loan Bank and Community Bankers' Bank, the Bank has invested \$797,225 in restricted investments required by these entities. These investments are carried at cost, which approximates redemption value.

The Bank had securities in its portfolio at March 31, 2009 and December 31, 2008 that reflected an unrealized loss in value. These unrealized losses have been evaluated and are considered to be temporary impairments of the value of the issues. A summary of these securities as of March 31, 2009 and December 31, 2008 is as follows:

Description	March 31, 2009					
	Total		Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for sale						
Corporate securities	\$ 8,521,581	\$ (2,754,665)	\$ 8,521,581	\$ (2,754,665)	\$ -	\$ -
Tax exempt municipals	651,443	(16,325)	530,103	(15,447)	121,340	(878)
Unrealized Loss Positions	<u>\$ 9,173,024</u>	<u>\$ (2,770,990)</u>	<u>\$ 9,051,684</u>	<u>\$ (2,770,112)</u>	<u>\$ 121,340</u>	<u>\$ (878)</u>
Held to maturity						
Corporate securities	<u>\$ 2,960,181</u>	<u>\$ (258,936)</u>	<u>\$ 2,960,181</u>	<u>\$ (258,936)</u>	<u>\$ -</u>	<u>\$ -</u>
Description	December 31, 2008					
	Total		Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate securities	\$ 7,650,677	\$ (2,308,294)	\$ 7,650,677	\$ (2,308,294)	\$ -	\$ -
Tax exempt municipals	1,864,924	(58,438)	1,456,136	(49,577)	408,788	(8,861)
Unrealized Loss Positions	<u>\$ 9,515,601</u>	<u>\$ (2,366,732)</u>	<u>\$ 9,106,813</u>	<u>\$ (2,357,871)</u>	<u>\$ 408,788</u>	<u>\$ (8,861)</u>

Management evaluates securities for other-than-temporary impairments at least on a quarterly basis and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At March 31, 2009, the securities identified above with unrealized losses consisted of six corporate issues, and four issues of different municipalities. The corporate credits are all investment grade placements within the financial services industry which have been significantly affected by the freezing of the credit markets during the period. This market condition, resulting from concerns over the effects the housing bubble collapse is having on the creditworthiness in loan and investment portfolios of financials, has resulted in demand for such debt to fall significantly, leading to violent swings in market prices. In response, the federal government established the Troubled Asset Relief Program ("TARP") to support financial institutions, and all of the current holdings are eligible for participation in this program or have received other direct government support. With the corporate issuances being investment grade, eligible for government assistance and unrealized losses precipitated by a market circumstance rather than individual debt worthiness, these unrealized losses are currently believed temporary with no permanent impairment expected. All municipal bonds' unrealized losses reflect changes in the prevailing interest rate environments as well as the issues' maturities. No principal is expected to be lost, and the unrealized losses, primarily due to interest rates, are considered temporary in nature.

In analyzing an issuer's financial condition, management considers whether the federal government or its agencies issued the securities, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability and intent to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

3. Allowance for Loan Losses

The following represents an analysis of changes in the allowance for loan losses for the three months ended March 31, 2009 and 2008:

	March 31,	
	2009	2008
Balance, beginning of period	\$ 1,135,000	\$ 925,000
Provision for loan losses	160,000	30,000
Charge-offs	-	(1,204)
Recoveries of loans previously charged off	7,628	20,822
Balance, end of period	<u>\$ 1,302,628</u>	<u>\$ 974,618</u>
Allowance for loan losses to total loans	<u>1.13%</u>	<u>0.90%</u>

The following is a summary of information pertaining to impaired loans at March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
Impaired loans with a valuation allowance	\$ 2,584,553	\$ 1,570,055
Impaired loans without a valuation allowance	929,188	193,028
Total impaired loans	<u>\$ 3,513,741</u>	<u>\$ 1,763,083</u>
Valuation allowance related to impaired loans	<u>\$ 543,500</u>	<u>\$ 409,500</u>
Average investment in impaired loans	<u>\$ 3,374,151</u>	<u>\$ 1,448,309</u>
Interest income recognized	<u>\$ 51,789</u>	<u>\$ 27,247</u>

There were no non-accrual loans excluded from impaired loan disclosure under SFAS No. 114 at March 31, 2009 and December 31, 2008. At both March 31, 2009 and December 31, 2008 there were no loans past due in excess of ninety days and still accruing recorded.

4. Earnings Per Share

As the Bank does not currently offer stock options, there was no effect on income available to common shareholders. The following shows the weighted average number of shares used in computing earnings per share.

	Three Months Ended March 31,			
	2009		2008	
	Shares	Per Share	Shares	Per Share
Basic & Diluted earnings per share	1,926,656	\$ 0.14	1,926,656	\$ 0.15

5. Fair Value Measurements

SFAS No. 157, "Fair Value Measurements", specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. The three levels of the fair value hierarchy under SFAS 157 based on these two types of inputs are as follows:

Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 - Valuation is based on model-based techniques using one or more significant inputs or assumptions that are unobservable in the market.

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

Recurring basis:

Securities available for sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2009:

Description	Balance as of March 31, 2009	Fair Value Measurements at March 31, 2009 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities	\$ 22,566,620	\$ -	\$ 22,566,620	\$ -

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

Non-recurring basis:

Impaired Loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

The following table summarizes the Bank's financial assets that were measured at fair value on a nonrecurring basis during the period.

Description	Balance as of March 31, 2009	Carrying value at March 31, 2009		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired Loans	\$ 2,584,553	\$ -	\$ 1,818,597	\$ 765,956

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Bank's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

Item 2. Management's Discussion and Analysis or Plan of Operation

The following discussion is intended to assist readers in understanding and evaluating the Bank's financial condition and results of operations. In conjunction with reviewing the following discussion, you should also read and review the unaudited March 2009 and 2008 financial statements and accompanying notes presented previously in this document. This analysis provides an overview of the significant changes that occurred during the periods presented.

This report may contain, in addition to historical information, various "forward looking statements" that represent our judgment concerning the future and are subject to risks and uncertainties that could cause our actual operating results and financial position to differ materially from those projected in the forward looking statements. These forward looking statements can be identified by the use of forward looking terminology, such as "may," "will," "expect," "anticipate," "estimate" or "continue" or comparable words. We caution that any such forward looking statements are further qualified by important factors that could cause our actual operating results and financial position to differ materially from the forward looking statements, including, without limitation, considerations described in connection with specific forward looking statements and other cautionary statements set forth in this report.

Critical Accounting Policies

The Bank's financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The financial information contained within our statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. We use historical loss factors as one factor in determining the inherent loss that may be present in our loan portfolio. Actual losses could differ significantly from the historical factors that we use. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of our transactions would be the same, the timing of events that would impact our transactions could change.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependant.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank normally does not separately identify such loans for impairment disclosures.

In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

Comparison of Financial Condition at March 31, 2009 and December 31, 2008

At the end of the first quarter, total assets were \$170.7 million, representing a \$5.2 million or 3.14% increase over the December 31, 2008 level of \$165.5 million. Total deposits amounted to \$148.8 million as of March 31, 2009, which represents a \$5.9 million or 4.13% increase from the \$142.9 million level as of December 31, 2008. On an annualized basis, deposits grew during the first quarter at a rate of 16.52%. During the same period, total loans expanded by 2.95% or \$3.3 million to the March 31, 2009 balance of \$115.1 million. Loans, on an annualized basis, grew at a rate of 11.80%. At March 31, 2009, the investment portfolio, including time deposits in other banks, was \$27.3 million, an 11.36% decrease in comparison to the December 31, 2008 \$30.8 million level. Overnight federal funds sold increased 333.33% from \$0.9 million on December 31, 2008 to \$3.9 million on March 31, 2009. Cumulatively, earning assets grew \$2.8 million for the first quarter or 7.80% on an annualized basis and represent 85.71% of total assets.

The allowance for loan losses was \$1,303,000 as of March 31, 2009, or 1.13% of loans outstanding, compared to \$1,135,000 as of December 31, 2008 or 1.02% of outstanding loans. The Bank continues to focus on delinquencies within the portfolio; however, delinquent balances have risen to \$2,029,000 or 1.76% of total loans. These balances, at December 31, 2008, stood at \$683,000 or 0.61%. While current economic conditions have resulted in increases in these categories, management feels comfortable that losses will be minimized by collateral positions as well as the Bank's ability and willingness to work with the borrowers during the current cycle where possible.

Non-performing assets consist of impaired loans, non-accrual loans and real estate owned by the Bank resulting from a foreclosure proceeding. Normally, loans are placed on non-accrual when a loan is specifically determined to be impaired or when principal or interest is delinquent in excess of 90 days. On March 31, 2009, non-performing assets stood at \$3,514,000 or 3.05% of quarter-end loans. This compared to non-performing assets of \$1,763,000 million, or 1.58%, of total loans outstanding for December 31, 2008.

Comparison of Results of Operations for the Three Months Ended March 31, 2009 and 2008

For the three-month period ending March 31, 2009, net income amounted to \$278,000, a 5.44% decrease when compared to net income of \$294,000 for the same period in 2008. Basic and diluted earnings per share of \$0.14 were recorded for the three months ended March 31, 2009 representing a \$0.01 per share decline over the \$0.15 per share reported for the three months ended March 31, 2008. There were 1,926,656 weighted average shares outstanding during each of the two periods. Return on average equity on an annualized basis during the first quarter of 2009 was 6.36% as compared to 6.40% for the first quarter of 2008. Return on average assets during the first quarter of 2009, on an annualized basis, decreased 5 basis points to 0.67% from the prior year level of 0.72%.

Net interest income. Net interest income jumped to \$1,665,000 or 15.07% in the first quarter of 2009 from \$1,447,000 in the comparable period in 2008. Average loans during the first quarter of 2009, when compared to the same period in 2008, grew to \$113.0 million from \$108.9 million, an increase of 3.76%. The average investment portfolio increased slightly from a first quarter 2008 average balance of \$29.9 million to a \$30.1 million average during the first quarter of 2009, or an increase of 0.67%. Average deposit balances have increased 10.88% or \$14.2 million from the first quarter 2008 level of \$130.5 million to an average 2009 first quarter level of \$144.7 million. Time deposits experienced solid growth climbing 8.80% or \$6.7 million when comparing the two periods. Other interest bearing deposits experienced the strongest expansion with an increase of \$6.8 million or 37.57% while non-interest bearing deposits grew 6.20% or \$1.5 million when comparing March 31, 2009 to March 31, 2008. The Bank's prime based loan portfolio yields decreased 61 basis points when comparing the first quarter of 2009 to that period in 2008 while the investment portfolio in the same periods gained 132 basis points. Cumulatively, yields on earning assets decreased only 13 basis points from a 2008 first-quarter average of 6.99% to an average of 6.86% for the current year's first quarter. On the liability side of the balance sheet, the cost of funds plummeted to 2.60% for the first quarter of 2009 representing a decrease of 103 basis points below the first quarter 2008 level of 3.63%. Despite strong volume growth in the Bank's interest bearing deposit products during the first quarter of 2009, the substantially lower funding costs boosted the net interest margin by 65 basis points to 4.68% when comparing it to the 4.03% margin recorded for the first three months of 2008.

Noninterest income. Noninterest income, exclusive of securities transactions, declined 5.92% from \$421,000 in the first quarter of 2008 to \$396,000 for the same period in 2009. Service charges grew \$5,000 or 2.45% when comparing the first quarter of 2009 to the first quarter of 2008. Lower mortgage demand in the first quarter of 2009 resulted in a decline in the fees generated by the mortgage originations department of \$33,000 or 25.98% below the revenue of \$127,000 recognized during the first quarter in 2008. Other non-interest products and services, including those of the insurance and investment departments, increased by \$4,000 over the \$89,000 level recorded in the first quarter 2008.

Noninterest expense. Noninterest expense increased \$59,000 or 4.07% to \$1,510,000 during the first quarter 2009 from \$1,451,000 for the same period in 2008. Salaries and benefits rose only 1.88% or \$17,000 while occupancy and furniture equipment expenses increased \$10,000 or 4.85%. Numerous projects were begun in 2007 aimed at improved efficiencies and accelerated growth, and these continue to demonstrate positive results going forward. Despite strong growth during the first quarter, our culture for both better service and improved efficiency has resulted in a containment of other operating expenses which increased only \$32,000. The major contributing factor in this increase is assessments by the Federal Deposit Insurance Corporation which jumped \$20,000.

Provision for loan losses. Provisions for loan losses amounted to \$160,000 through March 31, 2009 as growth in delinquencies and nonperforming assets have risen above normal levels. Provisions for loan losses of \$30,000 were made during the first quarter of 2008.

The following table illustrates average balances of total interest earning assets and total interest bearing liabilities for the periods indicated, showing the average distribution of assets, liabilities, shareholders' equity and related income, expense and corresponding weighted average yields and rates. The average balances used in these tables and other statistical data were calculated using daily average balances.

Average Balances, Interest Income and Expense and Average Yields and Rates

	Period Ended March 31,					
	2009			2008		
	Average Balance	Income / Expense	Yield / ⁽⁴⁾ Rate	Average Balance	Income / Expense	Yield / ⁽⁴⁾ Rate
(Dollars in Thousands)						
Assets:						
Interest earning assets:						
Investment securities ⁽¹⁾	\$ 30,113	\$ 447	5.94%	\$ 29,940	\$ 346	4.62%
Interest-bearing balances with banks	548	5	3.70%	1,600	14	3.52%
Loans	112,998	2,017	7.24%	108,932	2,125	7.85%
Federal funds sold	2,359	1	0.17%	6,497	49	3.03%
Total interest earning assets	<u>146,018</u>	<u>2,470</u>	<u>6.86%</u>	<u>146,969</u>	<u>2,534</u>	<u>6.99%</u>
Non-interest earning assets:						
Cash and due from banks	7,646			4,319		
Premises and equipment	8,155			8,315		
Other assets	6,706			5,544		
Less: Allowance for loan losses	(1,213)			(947)		
	<u>21,294</u>			<u>17,231</u>		
	<u>\$ 167,312</u>			<u>\$ 164,200</u>		
Liabilities and Stockholders' Equity						
Interest bearing liabilities:						
Interest-bearing demand deposits	\$ 16,990	\$ 40	0.95%	\$ 11,879	\$ 27	0.92%
Money market deposit accounts	7,953	19	0.97%	6,223	26	1.69%
Savings accounts	11,217	14	0.51%	12,053	18	0.61%
Time deposits	82,802	673	3.30%	76,090	842	4.49%
Total interest-bearing deposits	<u>118,962</u>	<u>746</u>	<u>2.54%</u>	<u>106,245</u>	<u>913</u>	<u>3.49%</u>
Federal funds purchased	69	-	0.00%	-	-	0.00%
FHLB Advances	3,299	39	4.79%	13,635	160	4.76%
Total interest-bearing liabilities	<u>122,330</u>	<u>785</u>	<u>2.60%</u>	<u>119,880</u>	<u>1,073</u>	<u>3.63%</u>
Non-interest bearing liabilities:						
Demand deposits	25,723			24,215		
Other liabilities	1,525			1,617		
Total liabilities	<u>149,578</u>			<u>145,712</u>		
Shareholders' Equity	17,734			18,488		
Total Liabilities & Shareholders' Equity	<u>\$ 167,312</u>			<u>\$ 164,200</u>		
Interest Spread ⁽²⁾			4.26%			3.36%
Net Interest Margin ⁽³⁾		<u>\$ 1,685</u>	4.68%		<u>\$ 1,461</u>	4.03%

⁽¹⁾ Income and yields are reported on tax equivalent basis assuming a federal tax rate of 34%.

⁽²⁾ Interest Spread is the average yield earned on earning assets, less the average rate incurred on interest bearing liabilities.

⁽³⁾ Net interest margin is net interest income, expressed as a percentage of average earning assets.

⁽⁴⁾ Yields and rates are annualized.

Liquidity and Capital

The liquidity ratio at March 31, 2009 grew to 27.71% compared to 27.35% reported as of December 31, 2008. The overall Asset/Liability strategy of the organization takes into account the need for the Bank to maintain adequate liquidity to fund asset growth and deposit runoff. The management of the Bank monitors the liquidity position daily in conjunction with the Federal Reserve position monitoring. The Bank has credit lines both secured and unsecured available from several correspondent banks. Additionally, the Bank may borrow funds from the Federal Home Loan Bank of Atlanta. The credit facilities are used in conjunction with the normal deposit strategies, which include pricing changes to increase deposits as necessary. The organization can sell or pledge investment securities to create additional liquidity for the Bank. From time to time the organization may sell or participate out loans to create additional liquidity as required.

The Bank's capital ratios exceed regulatory requirements. The following table presents these ratios for the periods ending March 31, 2009 and December 31, 2008:

	Risk Based Capital Analysis		
	March 31, 2009	December 31, 2008	
	(Dollars in Thousands)		
Tier 1 Capital:			
Common stock	\$ 3,853	\$ 3,853	
Capital surplus	5,894	5,894	
Retained earnings	7,461	7,621	
Reverse: Unrealized (Gains)/Losses	1,790	1,351	
Total tier 1 capital	<u>18,998</u>	<u>18,719</u>	
Tier 2 Capital:			
Allowance for loan losses	<u>1,303</u>	<u>1,135</u>	
Tier 3 Capital:			
Deductions for investments in banking and finance subsidiaries	<u>(180)</u>	<u>(180)</u>	
Total Risk Based Capital	<u>\$ 20,121</u>	<u>\$ 19,674</u>	
Risk weighted assets	<u>\$ 134,655</u>	<u>\$ 130,354</u>	
Quarterly average assets	<u>\$ 167,312</u>	<u>\$ 165,210</u>	
	March 31, 2009	December 31, 2008	Regulatory Minimum
Capital Ratios:			
Tier 1 risk based capital ratio	14.11%	14.36%	4.00%
Total risk based capital ratio	14.94%	15.09%	8.00%
Leverage ratio	11.35%	11.33%	4.00%

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but rather, provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. The Bank adopted SFAS 157 on January 1, 2008. The FASB approved a one-year deferral for the implementation of the Statement for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Bank adopted the provisions of SFAS 157 for nonfinancial assets and liabilities as of January 1, 2009 without a material impact on the consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations" (SFAS 141(R)). The Standard significantly changed the financial accounting and reporting of business combination transactions. SFAS 141(R) establishes principles for how an acquirer recognizes and measures the identifiable assets acquired, liabilities assumed, and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for acquisition dates on or after the beginning of an entity's first year that begins after December 15, 2008. The Bank does not expect the implementation of SFAS 141(R) to have a material impact on its consolidated financial statements, at this time.

In April 2009, the FASB issued FSP FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies." FSP FAS 141(R)-1 amends and clarifies SFAS 141(R) to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The FSP is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Bank does not expect the adoption of FSP FAS 141(R)-1 to have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. The FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, and shall be applied prospectively. Earlier adoption is permitted for periods ending after March 15, 2009. The Bank does not expect the adoption of FSP FAS 157-4 to have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. In addition, the FSP amends APB Opinion No. 28, "Interim Financial Reporting," to require those disclosures in summarized financial information at interim reporting periods. The FSP is effective for interim periods ending after June 15, 2009, with earlier adoption permitted for periods ending after March 15, 2009. The Bank does not expect the adoption of FSP FAS 107-1 and APB 28-1 to have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 115-1 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments." FSP FAS 115-1 and FAS 124-2 amend other-than-temporary impairment guidance for debt securities to make guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. The FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-1 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009, with earlier adoption permitted for periods ending after March 15, 2009. The Bank does not expect the adoption of FSP FAS 115-1 and FAS 124-2 to have a material impact on its consolidated financial statements.

In April 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 111 (SAB 111). SAB 111 amends and replaces SAB Topic 5.M. in the SAB Series entitled "Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities." SAB 111 maintains the SEC Staff's previous views related to equity securities and amends Topic 5.M. to exclude debt securities from its scope. The Bank does not expect the implementation of SAB 111 to have a material impact on its consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not Required for Small Reporting Companies

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Bank's management, with the participation of the Bank's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Bank's disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Bank's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Bank's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Bank in the reports that it files or furnishes under the Securities Exchange Act of 1934.

Management reviews and evaluates the design and effectiveness of the Bank's disclosure controls and procedures on an ongoing basis, which may result in the discovery of deficiencies, and improves its controls and procedures over time, correcting any deficiencies, as needed, that may have been discovered.

Changes in Internal Control Over Financial Reporting

Management reviews and evaluates the design and effectiveness of the Bank's internal control over financial reporting on an ongoing basis, which may result in the discovery of deficiencies, some of which may be significant. Management changes its internal control over financial reporting as needed to maintain its effectiveness, correcting any deficiencies, as needed, in order to ensure the continued effectiveness of the Bank's internal control over financial reporting. There have not been any changes in the Bank's internal control over financial reporting during the first quarter of 2009 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

For management's assessment of the Bank's internal control over financial reporting, refer to the Bank's 2008 Annual Report on Form 10-K, "Management's Report on Internal Control over Financial Reporting."

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

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

None

Item 3. Defaults Upon Senior Securities

Not applicable

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

None

Item 5. Other Information

(a) Required 8-K Disclosures

None

(b) Changes in Procedures for Director Nominations by Security Holders

None

Item 6. Exhibits

The following exhibits are filed as part of this Form 10-Q and this list includes the Exhibit Index:

<u>Exhibit Number</u>	<u>Description</u>	<u>Page</u>
3.1	Articles of Incorporation of Bank of McKenney	*
3.2	Amended and Restated Bylaws of Bank of McKenney	**
10.1	Employment Agreement, dated December 8, 1992, by and between Bank of McKenney and Richard M. Liles	*
10.2	Split-Dollar Life Insurance Agreement (as amended), dated February 1, 1989, by and between Bank of McKenney and Richard M. Liles	*
10.3	Deferred Compensation Agreement, dated February 1, 1989, between Bank of McKenney and Richard M. Liles	*
10.4	Deferred Compensation Agreement, dated February 1, 1993, between Bank of McKenney and Richard M. Liles	*
10.5	Form of Change in Control Employment Agreement, as amended, between Bank of McKenney and each of the following officers: James B. Neville, Jr., Lynda P. Cunningham, Mark H. Stevens.	***
10.6	Form of Change in Control Employment Agreement between Bank of McKenney and Michelle S. Fitch	***
21.1	Subsidiary - McKenney Group, LLC (a Virginia corporation)	*
31.1	CEO Section 302 Certification	†
31.2	CFO Section 302 Certification	†
32	Section 906 Certification	†
*	Incorporated herein by reference from the Bank's Registration Statement on Form 10-SB, filed with the Board of Governors of the Federal Reserve System on September 9, 2002.	
**	Incorporated herein by reference from the Bank's report on Form 8-K filed with the Board of Governors of the Federal Reserve System on August 15, 2007.	
***	Incorporated herein by reference from the Bank's Annual Report on Form 10-KSB for the year ended December 31, 2008, filed with the Board of Governors of the Federal Reserve System on March 10, 2009.	
†	Filed herewith.	

SIGNATURES

In accordance with the requirements of the Exchange Act, the Bank has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BANK OF MCKENNEY

Date: May 12, 2009

Richard M. Liles
President and Chief Executive Officer

Date: May 12, 2009

James B. Neville, Jr.
Executive Vice President and Chief Financial Officer

SECTION 302 CERTIFICATION

I, Richard M. Liles, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank of McKenney;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit any 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 small business issuer of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) 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)) for the small business issuer 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 small business issuer, 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 small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: May 12, 2009

Richard M. Liles
President and Chief Executive Officer

SECTION 302 CERTIFICATION

I, James B. Neville, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank of McKenney;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit any 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 small business issuer of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) 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)) for the small business issuer 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 small business issuer, 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 small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: May 12, 2009

James B. Neville, Jr.
Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Bank of McKenney (the “Bank”) on Form 10-Q for the period ending March 31, 2009 as filed with the Board of Governors of the Federal Reserve System on the date hereof (the “Report”), the undersigned Chief Executive Officer and Chief Financial officer of the Bank hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that based on their knowledge and belief: 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank as of and for the periods covered in the Report.

Richard M. Liles
President and Chief Executive Officer

James B. Neville, Jr.
Executive Vice President and Chief Financial Officer

Dated: May 12, 2009