

BANK OF MCKENNEY

PRESS RELEASE

BANK OF MCKENNEY REPORTS SOLID FOURTH QUARTER AND YEAR-END RESULTS

January 20, 2009, McKenney, Virginia. Bank of McKenney (NASDAQ: BOMK) today announced solid fourth quarter earnings of \$334,000. This is a \$21,000 increase over 2007 fourth quarter earnings of \$313,000. Fourth quarter earnings per basic and diluted share for 2008 of \$0.17 were reported as compared to \$0.16 recorded during the 2007 fourth quarter. For the year ended December 31, 2008, net income amounted to \$1,252,000 compared to net income of \$1,293,000 for the same period in the prior year. Basic and diluted earnings per share were \$0.65 for the year ended December 31, 2008 compared to the prior year earnings per share of \$0.67 per common share. Weighted average shares outstanding for both periods equaled 1,926,656. The 3.17% decrease in earnings is primarily attributable to the current economic uncertainties within major sectors of the credit markets which have prompted significant buildups of loss reserves for potential borrower defaults. Return on average equity for the period ended December 31, 2008 was 6.88% compared to 7.29% in 2007. Return on average assets for the period ended December 31, 2008 was 0.76% compared to 0.83% in 2007.

Total assets amounted to \$165.5 million on December 31, 2008, an increase of 2.67% or \$4.3 million over the December 31, 2007 level of \$161.2 million. Total loans, as of December 31, 2008, grew to \$111.8 million compared to \$107.0 million as of December 31, 2007. The loan portfolio was up \$4.8 million or 4.49% over the December 31, 2007 level. At year-end 2008, the investment portfolio stood at \$30.7 million, which represents a 1.99% increase over the \$30.1 million prior year-end balance. On December 31, 2008, interest-bearing time deposits in other banks stood at \$1.5 million. There were no interest-bearing time deposit investments as of December 31, 2007. Overnight federal funds sold decreased \$6.7 million, or 88.16%, from \$7.6 million on December 31, 2007 to \$0.9 million on December 31, 2008. Cumulatively, these earning assets grew \$0.2 million or 0.14% during 2008 and represent 86.10% of total assets. Total deposits amounted to \$142.9 million as of December 31, 2008, which represents a \$15.4 million or 12.08% increase from the \$127.5 million level as of December 31, 2007. Total noninterest-bearing demand deposits were \$26.1 million as of December 31, 2008, an increase of \$1.8 million or 7.41% over the December 31, 2007 level. During this same period, interest-bearing deposits climbed \$13.2 million or 13.18% from \$103.2 million to \$116.8 million. Total borrowings from the Federal Home Loan Bank of Atlanta (the "FHLB") decreased \$10.4 million from \$13.7 million on December 31, 2007 to \$3.3 million as of December 30, 2008. The Bank utilized the strength experienced in core deposits to repay a \$10 million fixed rate debt prior to its 2015 maturity and reduce overall cost of funds. Volatile rate swings resulting from the freezing of credit markets presented opportunities to repay this debt with insignificant penalty. There was no additional borrowing through the FHLB during 2008.

The net interest income for the year ended December 31, 2008 was \$6.1 million, a 5.17% increase when compared to the December 31, 2007 level of \$5.8 million. The average loan portfolio increased \$5.3 million to \$109.9 million for the current fiscal year, representing a 5.07% hike over the average loan portfolio assets of \$104.6 million for the same period in 2007. The related interest income from loans was \$8.3 million in 2008 equaling the related income of 2007. The average yield on loans decreased from 7.91% in 2007 to 7.55% in 2008. Average investments climbed \$3.2 million to \$31.4 million for the current fiscal year, representing an 11.35% rise over the prior year's average investment portfolio of \$28.2 million in 2007. The investment securities and other earning assets (such as federal funds sold) contributed \$1.8 million to the interest income level of \$10.1 million in 2008. The yield on earning assets was 6.80% in 2008 and 7.08% in 2007. Average demand deposits increased during 2008 to \$24.8 million as compared to \$23.8 million for the same period in 2007. Average interest-bearing deposits were \$111.1 million through the year ended December 31, 2008, and represented an increase of \$12.5 million or 12.68% over the average 2007 level of \$98.6 million. Finally, average borrowed funds decreased \$4.1 million from the December 31, 2007 level of \$13.8 million to the December 31, 2008 level of \$9.7 million. Cumulatively, average interest bearing funding sources (deposit and purchased funds) grew to \$121.1 million in 2008, which was \$8.7 million, or 7.74% greater than the 2007 level of \$112.4 million. Interest expense for all interest bearing liabilities amounted to \$3.9 million in 2008, which was 2.50% or \$100,000 less than the 2007 level of \$4.0 million. Cost of interest bearing liabilities was 3.26% during 2008 or 32 basis points lower than the 2007 level of 3.58%, the decrease being attributable to the effects of extensive rate reductions by the Federal Reserve throughout the year. The interest spread modestly expanded for the twelve months of 2008 by 4 basis points to 3.54%. Nevertheless, the net interest margin decreased for the twelve months of 2008 to 4.14% from 4.19% for the same period in 2007. The decrease in the net interest margin has been primarily credited to the cyclical nature of the deposit sector which is adjusting steadily lower as issues mature and re-price. A large segment of the loan portfolio is prime based and, as such, adjusts immediately causing short-term margin pressure. The growth in interest spread, a more forward looking indicator, points to margin stabilization and expansion as the deposit cycle continues and further reduces cost of funds. This will be further fostered by the Bank's investment portfolio which was reorganized in the second quarter to include extremely attractive, investment grade corporate debt issues.

For the year ended December 31, 2008, noninterest income, exclusive of securities transactions, grew to \$1.61 million, representing a 3.21% increase over the 2007 level of \$1.56 million. Service charges on deposits grew 2.66% during the year and ended with a revenue increase of \$22,000 to \$850,000. Income generated by the Bank's fixed rate mortgage department rose \$77,000 or 21.51% from \$358,000 in 2007 to \$435,000 in 2008. Income generated on bank-owned life insurance increased \$6,000 to \$128,000 during 2008 while other income declined \$48,000 from \$248,000 on December 31, 2007 to \$200,000 on December 31, 2008. This 19.35% dip in other income stems primarily from differing gains and losses recognized on sales or donation of certain fixed assets and other real estate owned during the 2008 and 2007 periods. The Bank sold its Ettrick location during 2007, realizing a gain of \$57,000 on the transaction. In 2008, 1.078 acres of land adjoining its Dinwiddie location was donated to Southern Dominion Health Systems Inc (Lunenburg Medical Center), a 501(c)(3) corporation, for the purpose of erecting a new medical facility in the county seat. A book loss of \$26,000 was recognized on the donation. Noninterest expense in the 2008 fiscal year amounted to \$5.89 million compared to the 2007 level of \$5.51 million. The increase is directly related to expansionary activities occurring in the franchise. The largest component of noninterest expense is salaries and benefits. Salaries and benefits expense for the year ended December 31, 2008 grew \$140,000 or 4.13% to \$3.53 million. Personnel expenses increased with the addition of the full service office in Prince George, the addition of a full time financial services investment advisor and nominal annual increases in benefits costs. Occupancy and furniture and equipment costs grew \$102,000 over the 2007 level to \$865,000. Other overhead costs increased \$130,000 or 9.56% during 2008 to \$1.49 million. Other overhead costs grew in 2008 as a result of the opening of the permanent Prince George office, increases in federal deposit insurance costs and other expenses associated with growth of the company.

Richard M. Liles, President and Chief Executive Officer, stated, "Last year, my fourth quarter comments began with 'This year has been a difficult period for the banking industry'. Little did anyone foresee the turmoil yet to come in credit markets of the entire world. We have seen once goliaths of industry brought to their knees because of an inability to access needed short term liquidity. Never before have we witnessed a period when virtually no one would lend to anyone. Fortunately, our local community has been less impacted, and our lending philosophy has never been to invest in subprime loans. This is not to imply we do not feel the effects of the global credit crisis, and our level of impaired loans has risen as certain borrowers struggle through this period. We are a community bank – we work with those struggling in an effort to help each survive. Because of this and the continued faith of depositors and investors alike, we have been able to weather this storm during 2008. Our earnings are stable, our capital strong and our dividend intact. I am proud of our Bank and our team, and I am also very hopeful credit markets around the globe begin to improve at some point in 2009."

Bank of McKenney is a full-service community bank headquartered in McKenney, Virginia with six branches serving Southeastern Virginia and assets totaling \$165 million.

Certain statements in this document are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors. More information about these factors is contained in Bank of McKenney's filings with the Board of Governors of the Federal Reserve.

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BANK OF MCKENNEY AND SUBSIDIARY**Consolidated Balance Sheets Summary Data**

December 31, 2008 (unaudited) and December 31, 2007

	December 31, 2008	December 31, 2007
ASSETS		
Cash and due from banks	\$ 6,847,451	\$ 3,666,898
Federal funds sold	858,000	7,557,000
Interest-bearing time deposits in banks	1,540,252	-
Securities available for sale, at fair market value	28,998,239	28,807,961
Securities held to maturity, at current book value	956,448	-
Restricted investments	789,525	1,274,025
Loans, net	110,648,780	106,102,635
Land, premises and equipment, net	8,185,167	8,361,377
Other assets	<u>6,637,962</u>	<u>5,421,557</u>
Total Assets	<u>\$ 165,461,824</u>	<u>\$ 161,191,453</u>
LIABILITIES		
Deposits	\$ 142,892,823	\$ 127,519,072
Borrowed Funds	3,333,333	13,666,667
Other liabilities	<u>1,868,046</u>	<u>1,937,013</u>
Total Liabilities	<u>\$ 148,094,202</u>	<u>\$ 143,122,752</u>
SHAREHOLDERS' EQUITY		
Total shareholders' equity	<u>\$ 17,367,622</u>	<u>\$ 18,068,701</u>
Total Liabilities and Shareholders' Equity	<u>\$ 165,461,824</u>	<u>\$ 161,191,453</u>

BANK OF MCKENNEY AND SUBSIDIARY
Consolidated Statements of Income Summary Data

(unaudited)

	Three Months Ended December 31,		Years Ended December 31,	
	2008	2007	2008	2007
Interest and dividend income	\$ 2,460,136	\$ 2,532,140	\$ 10,024,950	\$ 9,853,380
Interest expense	<u>862,764</u>	<u>1,061,123</u>	<u>3,948,659</u>	<u>4,030,026</u>
Net interest income	\$ 1,597,372	\$ 1,471,017	\$ 6,076,291	\$ 5,823,354
Provision for loan losses	<u>148,078</u>	<u>31,819</u>	<u>358,078</u>	<u>81,819</u>
Net interest income after provision for loan losses	\$ 1,449,294	\$ 1,439,198	\$ 5,718,213	\$ 5,741,535
Non interest income	\$ 366,857	\$ 365,264	\$ 1,862,781	\$ 1,623,126
Non interest expense	<u>1,406,555</u>	<u>1,352,152</u>	<u>5,885,861</u>	<u>5,513,968</u>
Net non interest expense	\$ 1,039,698	\$ 986,888	\$ 4,023,080	\$ 3,890,842
Net income before taxes	\$ 409,596	\$ 452,310	\$ 1,695,133	\$ 1,850,693
Income taxes	<u>75,766</u>	<u>139,637</u>	<u>442,828</u>	<u>557,593</u>
Net income	<u>\$ 333,830</u>	<u>\$ 312,673</u>	<u>\$ 1,252,305</u>	<u>\$ 1,293,100</u>
Basic & diluted earnings per share	<u>\$ 0.17</u>	<u>\$ 0.16</u>	<u>\$ 0.65</u>	<u>\$ 0.67</u>
Weighted average shares outstanding	<u>1,926,656</u>	<u>1,926,656</u>	<u>1,926,656</u>	<u>1,926,656</u>