

# BANK OF MCKENNEY

## PRESS RELEASE

### **BANK OF MCKENNEY REPORTS BANNER FOURTH QUARTER EARNINGS, STRONG YEAR OVER YEAR GROWTH AND CONTINUED YEARLY PROFITABILITY**

**January 25, 2010, McKenney, Virginia.** Bank of McKenney (OTCBB: BOMK) today announced banner fourth quarter earnings of \$392,000. This is a \$58,000 increase over 2008 fourth quarter earnings of \$334,000. Fourth quarter earnings per basic and diluted share for 2009 of \$0.20 were reported as compared to \$0.17 recorded during the 2008 fourth quarter. For the year ended December 31, 2009, net income amounted to \$514,000 compared to net income of \$1,252,000 for the same period in the prior year. Basic and diluted earnings per share were \$0.27 for the year ended December 31, 2009 compared to the prior year earnings per share of \$0.65 per common share. Weighted average shares outstanding for both periods equaled 1,926,656. The 58.97% decrease in earnings is primarily attributable to the current economic uncertainties within major sectors of the credit markets which have prompted the write off of certain impaired credits deemed uncollectable as well as a significant buildup of loss reserves for potential further borrower defaults. Return on average equity for the period ended December 31, 2009 was 2.82% compared to 6.88% in 2008. Return on average assets for the period ended December 31, 2009 was 0.30% compared to 0.76% in 2008.

Total assets amounted to \$183.9 million on December 31, 2009, an increase of 11.12% or \$18.4 million over the December 31, 2008 level of \$165.5 million. Total loans, as of December 31, 2009, grew to \$122.7 million compared to \$111.8 million as of December 31, 2008. The loan portfolio was up \$10.9 million or 9.75% over the December 31, 2008 level. At year-end 2009, the investment portfolio stood at \$29.0 million, which represents a 5.54% decrease when compared to the \$30.7 million prior year-end balance. On December 31, 2009, interest-bearing time deposits in other banks stood at \$2.0 million representing a 33.3% increase over the \$1.5 million interest-bearing time deposit investments as of December 31, 2008. Overnight federal funds sold jumped \$9.5 million from \$0.9 million on December 31, 2008 to \$10.4 million on December 31, 2009. Cumulatively, these earning assets grew \$19.2 million or 13.25% during 2009 and represent 89.23% of total assets. Total deposits amounted to \$160.4 million as of December 31, 2009, which represents a \$17.5 million or 12.25% increase from the \$142.9 million level as of December 31, 2008. Total noninterest-bearing demand deposits were \$29.1 million as of December 31, 2009, an increase of \$3.0 million or 11.49% over the December 31, 2008 \$26.1 million level. During this same period, interest-bearing deposits climbed \$14.5 million or 12.41% from \$116.8 million to \$131.3 million. Total borrowings from the Federal Home Loan Bank of Atlanta (the "FHLB") decreased \$0.3 million from \$3.3 million on December 31, 2008 to \$3.0 million as of December 31, 2009. There was no additional borrowing through the FHLB during 2009.

The Bank continues to focus on delinquencies and nonperforming loans within the portfolio; however, delinquency and nonperforming ratios have risen to 1.25% and 3.01%, respectively. These ratios, at December 31, 2008, stood at 0.61% and 1.58%, respectively. Current economic conditions have resulted in increases in these categories and are likely to continue through 2010; however, management has been very proactive in addressing impairments in the portfolio. Further, management feels comfortable that total losses will be minimized by collateral positions as well as the Bank's ability and willingness to work with the borrowers, where possible, until the economy improves. Nevertheless, there will likely be further credits that will need to be written down or off, and management has elected to increase loan reserves to a greater percentage of loans outstanding in preparation thereof. After these additional allocations to reserves, the allowance for loan losses as a percentage of loans outstanding had grown 57 basis points over the December 31, 2008 level.

The allowance for loan losses was \$1,950,000 as of December 31, 2009, or 1.59% of loans outstanding, compared to \$1,135,000 as of December 31, 2008 or 1.02% of outstanding loans. Net charges to the reserve account for loan losses amounted to \$1,049,000 as of December 31, 2009 or 0.89% of average outstanding loans for 2009. For the 2008 period, net charges to the reserve of \$148,000 were taken representing 0.13% of average loans outstanding for the period. Allocations to the reserve account of \$1,864,000 were provisioned for 2009 compared to provision allocations of \$358,000 for the same period of 2008.

The net interest income for the year ended December 31, 2009 was \$6.8 million, an 11.48% increase when compared to the December 31, 2008 level of \$6.1 million. The average loan portfolio increased \$7.7 million to \$117.6 million for the current fiscal year, representing a 7.01% hike over the average loan portfolio assets of \$109.9 million for the same period in 2008. The related interest income from loans was \$8.1 million in 2009, down 2.41% from the related interest income of \$8.3 million in 2008. The average yield on loans decreased from 7.55% in 2008 to 6.91% in 2009. Average investments dipped \$0.6 million to \$30.8 million for the current fiscal year, representing an 1.91% decrease below the average investment portfolio of \$31.4 million in 2008. The investment securities and other earning assets (such as federal funds sold) contributed \$1.8 million to the interest income level of \$9.9 million in 2009. The yield on earning assets was 6.44% in 2009 and 6.80% in 2008. Average demand deposits increased during 2009 to \$25.9 million as compared to \$24.8 million for the same period in 2008. Average interest-bearing deposits were \$125.1 million through the year ended December 31, 2009, and represented an increase of \$14.0 million or

12.60% over the average 2008 level of \$111.1 million. Finally, average borrowed funds decreased \$6.5 million from the December 31, 2008 level of \$9.7 million to the December 31, 2009 level of \$3.2 million. Cumulatively, average interest bearing funding sources (deposit and purchased funds) grew to \$128.2 million in 2009 which was \$7.1 million or 5.86% greater than the 2008 level of \$121.1 million. Interest expense for all interest bearing liabilities totaled \$3.0 million in 2009 which was 23.08% or \$900,000 less than the 2008 level of \$3.9 million. Cost of interest bearing liabilities was 2.34% during 2009 or 92 basis points lower than the 2008 level of 3.26%, the decrease being attributable to the effects of a prolonged period of historically low interest rates. The interest spread significantly expanded for the twelve months of 2009 by 56 basis points to 4.10%. Likewise, the net interest margin increased for the twelve months of 2009 to 4.49% from 4.14% for the same period in 2008. The increase in the net interest margin has been primarily credited to the cyclical nature of the deposit sector which continues to march steadily lower as issues mature and re-price. Though a large segment of the loan portfolio is prime based, the Bank has prudently structured most of its loan relationships to include floors. This has protected the spread and margin from collapsing during the abnormally low and lengthy rate cycle. The margin has been further fostered by the Bank's investment portfolio which was reorganized in the second quarter of 2008 to include extremely attractive, investment grade corporate debt issues.

For the year ended December 31, 2009, noninterest income, exclusive of securities transactions, grew to \$1.8 million, representing a 12.50% increase over the 2008 level of \$1.6 million. Service charges on deposits grew 3.88% during the year and ended with a revenue increase of \$33,000 to \$883,000. Income generated by the Bank's fixed rate mortgage department rose \$71,000 or 16.32% from \$435,000 in 2008 to \$506,000 in 2009. Income generated on bank-owned life insurance held steady at \$128,000 during 2009 while other income increased \$62,000 from \$200,000 on December 31, 2008 to \$262,000 on December 31, 2009. This 31.33% jump in other income stems primarily from growth in revenues experienced by the investment subsidiary as well as differing gains and losses recognized on sales or donation of certain fixed assets and other real estate owned during the 2009 and 2008 periods. Noninterest expense in the 2009 fiscal year amounted to \$6.50 million compared to the 2008 level of \$5.89 million. The increase is directly related to certain major expenses including deposit insurance assessments by the FDIC, legal and professional fees associated with the Bank's successful bid to return to a private status, and routine 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, 2009 grew \$200,000 or 5.71% to \$3.7 million. Personnel expenses increased with the addition of a full time credit analyst and nominal annual increases in benefits costs. The management of the company has, during this credit crises and economic recession, received no salary increases or bonuses during either of the last two years. Occupancy and furniture and equipment costs grew only \$5,000 over the 2008 level to \$870,000. Other overhead costs increased \$460,000 or 30.87% during 2009 to \$1.95 million. Other overhead expense growth includes a \$175,000 increase FDIC insurance assessments, \$114,000 in legal and professional fees incurred to return to a private company status and \$120,000 associated with the write down of other real estate as well as a small stake in a financial subsidiary holding deemed impaired. Excluding these specific expenses, other expenses associated with growth of the company grew only 3.42%.

Richard M. Liles, President and Chief Executive Officer, stated, "In Bank of McKenney's long history, 2009 will certainly rank among the most difficult to navigate. The economic turmoil which began in 2007 and reached its worst in 2008 has begun to abate nationally. However, during 2009, the prolonged nature of this collapse in the real estate market reached our market area creating historically high levels in non-performing assets and charged off credits. Even with this impact, we have exceeded budgeted expectations in core balance sheet growth, remained profitable despite excessive allocations to loan reserves, preserved a strong capital position and maintained a dividend commensurate with those paid in prior years. I am proud of our Bank and our team, and I am also very hopeful that local real estate markets will begin to thaw in 2010 as the national economy continues to improve. We, as a community bank, pledge to do our part to work with those struggling in an effort to help each survive."

Bank of McKenney is a full-service community bank headquartered in McKenney, Virginia with six branches serving Southeastern Virginia and assets totaling \$184 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, 2009 (unaudited) and December 31, 2008

	December 31, 2009	December 31, 2008
<b>ASSETS</b>		
Cash and due from banks	\$ 5,942,984	\$ 6,847,451
Federal funds sold	10,418,000	858,000
Interest-bearing time deposits in banks	2,009,923	1,540,252
Securities available for sale, at fair market value	28,245,341	28,998,239
Securities held to maturity, at current book value	-	956,448
Restricted investments	794,725	789,525
Loans, net	120,753,227	110,648,780
Land, premises and equipment, net	8,006,392	8,185,167
Other real estate owned	375,000	-
Other assets	7,394,006	6,637,962
<b>Total Assets</b>	<b>\$ 183,939,598</b>	<b>\$ 165,461,824</b>
<b>LIABILITIES</b>		
Deposits	\$ 160,384,510	\$ 142,892,823
Borrowed Funds	3,000,000	3,333,333
Other liabilities	1,887,733	1,868,046
<b>Total Liabilities</b>	<b>\$ 165,272,243</b>	<b>\$ 148,094,202</b>
<b>SHAREHOLDERS' EQUITY</b>		
Total shareholders' equity	\$ 18,667,355	\$ 17,367,622
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 183,939,598</b>	<b>\$ 165,461,824</b>

**BANK OF MCKENNEY AND SUBSIDIARY**  
**Consolidated Statements of Income Summary Data**

(unaudited)

	Three Months Ended December 31,		Years Ended December 31,	
	2009	2008	2009	2008
Interest and dividend income	\$ 2,446,938	\$ 2,460,136	\$ 9,752,461	\$ 10,024,950
Interest expense	718,513	862,764	3,001,205	3,948,659
Net interest income	\$ 1,728,425	\$ 1,597,372	\$ 6,751,256	\$ 6,076,291
Provision for loan losses	390,578	148,078	1,863,578	358,078
Net interest income after provision for loan losses	\$ 1,337,847	\$ 1,449,294	\$ 4,887,678	\$ 5,718,213
Non interest income	\$ 789,581	\$ 366,857	\$ 2,223,796	\$ 1,862,781
Non interest expense	1,576,037	1,406,555	6,498,650	5,885,861
Net non interest expense	\$ 786,456	\$ 1,039,698	\$ 4,274,854	\$ 4,023,080
Net income before taxes	\$ 551,391	\$ 409,596	\$ 612,824	\$ 1,695,133
Income taxes	159,812	75,766	99,051	442,828
<b>Net income</b>	<b>\$ 391,579</b>	<b>\$ 333,830</b>	<b>\$ 513,773</b>	<b>\$ 1,252,305</b>
Basic & diluted earnings per share	\$ 0.20	\$ 0.17	\$ 0.27	\$ 0.65
Weighted average shares outstanding	1,926,656	1,926,656	1,926,656	1,926,656