

# **BANK OF MCKENNEY**

## **PRESS RELEASE**

### **BANK OF MCKENNEY REPORTS RECORD YEAR-TO-DATE EARNINGS**

**July 14, 2010, McKenney, Virginia.** Bank of McKenney (OTCBB: BOMK.OB) today announced second quarter earnings of \$305,000, an increase of 16.86% over 2009 second quarter earnings of \$261,000. The growth in net income is primarily the result of loan portfolio growth coupled with a continued decline in the cost of funds for the Bank. Basic and diluted earnings per share of \$0.16 were reported for the three months ended June 30, 2010, \$0.02 greater than those of the prior year's results for the same period. For the six-month period ended June 30, 2010, the Bank reported earnings of \$754,000, a jump of 39.63% or \$214,000 when compared to the \$540,000 reported through the first six months of 2009. For the first two quarters of 2010 and 2009, earnings per basic and diluted share of \$0.39 and \$0.28, respectively, were recorded. Annualized returns on average assets and average equity for the first six months of 2010 were 0.83% and 7.97%, respectively, compared to 0.65% and 6.17%, respectively, for the same period in 2009. Margins have contracted during the last two quarters as the Bank implemented a plan to raise its loan-to-deposit ratio to a projected target of 85% to 90%. Certain investments have been liquidated in preparation thereof, and the short term placements of these funds temporarily has put pressure on the margin. This has been partially offset by the continued decline in the cost of funds for deposits. For the first half of 2010, the net interest margin stood at 4.18%, a 42 basis point decline in comparison with the same period of 2009.

At the end of the second quarter, total assets were \$183.3 million, representing a \$0.6 million or 0.33% decrease over the December 31, 2009 level of \$183.9 million. Total deposits amounted to \$159.7 million as of June 30, 2010, which represents a \$0.7 million or 0.44% decrease from the \$160.4 million level as of December 31, 2009. On an annualized basis, deposits shrank during the second quarter at a rate of 0.88%. During the same period, total loans expanded by 5.38% or \$6.6 million to the June 30, 2010 balance of \$129.3 million. Loans, on an annualized basis, grew at a rate of 10.76%. At June 30, 2010, the investment portfolio, including time deposits in other banks, was \$23.4 million, a \$7.6 million or 24.52% decrease in comparison to the December 31, 2009 \$31.0 million level. Overnight federal funds sold grew to \$11.0 million representing a \$0.6 million or 5.77% increase over the \$10.4 million December 31, 2009 level. Cumulatively, earning assets declined a modest \$0.4 million for the first two quarters or 0.48% on an annualized basis and represent 89.31% of total assets. The Bank continues to focus on delinquencies and nonperforming loans within the portfolio. While these ratios remain elevated, improvement was experienced during the second quarter as evidenced by June 30, 2010 delinquency and nonperforming ratios of 1.15% and 2.72%, respectively. These ratios, at December 31, 2009, stood at 1.25% and 3.01%, respectively. The severe economic conditions that resulted in increases in these categories seem to have begun moderating, and management continues to feel comfortable that losses will be minimized by collateral positions as well as the Bank's ability and willingness to work with the borrowers where possible.

The allowance for loan losses was \$1,851,000 as of June 30, 2010, or 1.43% of loans outstanding, compared to \$1,950,000 as of December 31, 2009 or 1.59% of outstanding loans. Charges to the Reserve account for loan losses amounted to \$362,000 as of June 30, 2010 or 0.28% of average outstanding loans for 2010. For the first six months of 2009, charges to the reserve of \$81,000 were taken representing 0.06% of average loans outstanding for the period. Allocations to the reserve account of \$260,000 were provisioned for the six months of 2010 compared to provision allocations of \$323,000 for the same period of 2009.

Net interest income increased \$84,000 or 5.05% to \$1,746,000 in the second quarter of 2010 from \$1,662,000 in the comparable period in 2009. Noninterest income, exclusive of securities transactions, dipped 6.29% or \$29,000 in the second quarter of 2010 to \$432,000 when compared to \$461,000 for the same period in 2009. Service charges posted slightly higher results with a \$2,000 or 0.88% increase when comparing the second quarter of 2010 to the second quarter of 2009. Lower revenue by the mortgage originations department was recorded resulting in an \$11,000 or 8.33% decline in the category for the second quarter of 2010 when compared to the same period of 2009. Other noninterest products and services, including those of the insurance and investment departments, were reported to be \$82,000 or lower by \$20,000 in comparison to the \$102,000 level recorded in the second quarter of 2009. Noninterest expense increased only \$11,000 or 0.67% to \$1,664,000 during the second quarter 2010 from \$1,653,000 for the same period in 2009. Salaries and benefits rose 3.50% or \$33,000 while occupancy and furniture & equipment expenses increased \$1,000 or 0.45%. Other operating expenses for the second quarter of 2010 fell \$23,000 or 4.74% to a level of \$462,000. This decrease is primarily the result of the special assessment by the FDIC during the second quarter of 2009 that inflated the prior year's second quarter overhead expenses.

For the first six months of 2010, net interest income increased by \$19,000 or 0.57% to \$3,346,000 from \$3,327,000 in the comparable period in 2009. Average loans through the second quarter of 2010, when compared to the same period in 2009, grew to \$125.2 million from \$114.4 million, an increase of 9.34%. The average investment portfolio declined from a 2009 first half average balance of \$30.0 million to a \$23.1 million average through the second quarter of 2010, a decrease of 23.00%. Average deposit growth through June 30, 2010 has increased 9.52% or \$13.9 million to \$159.9 million over the same prior year period's average of \$146.0 million. The Bank's prime based loan portfolio yields decreased 42 basis points to 6.65% when comparing the first half of 2010 to that period in 2009. Likewise, the investment portfolio in comparing the same periods decreased 177 basis points to 4.21%. Cumulatively, yields on earning assets fell 97 basis points from the 2009 first-half average of 6.72% to the current year's first half average of 5.75%. A prolonged period of lower deposit rates has facilitated a near completion of the core deposit rate cycle. This has resulted in a 65 basis point fall in the cost of funds rate. As of June 30, 2010 the net interest margin had experienced a net contraction of 42 basis points to 4.18%, a 9.13% decrease over the 4.60% margin reported for the same period in 2009.

Noninterest income, exclusive of securities transactions, declined 2.45% or \$21,000 to \$837,000 for the first six months of 2010 when compared to \$858,000 for the same period in 2009. Service charges posted higher results with a \$4,000 or 0.92% increase when comparing the first half of 2010 to that of 2009. In comparing these same two periods, the mortgage originations department's revenue dipped \$5,000 or 2.20% to \$222,000. Other noninterest income decreased by 10.26% or \$20,000 from the \$195,000 level recorded in the first half 2009 to a 2010 level of \$175,000. Noninterest expense increased \$142,000 or 4.49% to \$3,304,000 during the first two quarters of 2010 from \$3,162,000 for the same period in 2009. Separately within this category, salaries and benefits rose 4.35% or \$81,000 while occupancy and furniture & equipment expenses increased \$11,000 or 2.49%. Other operating expenses through June 30, 2010 grew \$50,000 or 5.83% to a level of \$907,000 with FDIC costs as well as higher costs associated with complying with increasing regulatory burdens accounting for the majority of this increase.

Richard M. Liles, President and Chief Executive Officer, stated, "2010 is certainly a great improvement over 2009, and we are extremely pleased with the quarterly and year-to-date results outlined above. The local economy, while still soft, is beginning to find its footings on firmer ground. We continue to see improvement in our non-performing assets and are dealing with serious issues aggressively and proactively. Our commitments to quality service, great products at competitive prices and truly dedicated employees remain unchanged as the key business model elements that have made us a success for over one hundred years."

Bank of McKenney is a full-service community bank headquartered in McKenney, Virginia with six branches serving Southeastern Virginia.

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

June 30, 2010 (unaudited) and December 31, 2009

	June 30, 2010	December 31, 2009
<b>ASSETS</b>		
Cash and due from banks	\$ 6,053,620	\$ 5,942,984
Federal funds sold	11,012,000	10,418,000
Interest-bearing time deposits in banks	2,029,916	2,009,923
Securities available for sale, at fair market value	20,625,301	28,245,341
Restricted investments	794,725	794,725
Loans, net	127,486,285	120,753,227
Land, premises and equipment, net	7,874,098	8,006,392
Other real estate owned	320,000	375,000
Other assets	7,145,852	7,312,465
<b>Total Assets</b>	<b>\$ 183,341,797</b>	<b>\$ 183,858,057</b>
<b>LIABILITIES</b>		
Deposits	\$ 159,696,191	\$ 160,384,510
Borrowed Funds	2,833,333	3,000,000
Other liabilities	1,373,674	1,887,733
<b>Total Liabilities</b>	<b>\$ 163,903,198</b>	<b>\$ 165,272,243</b>
<b>SHAREHOLDERS' EQUITY</b>		
Total shareholders' equity	\$ 19,438,599	\$ 18,585,814
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 183,341,797</b>	<b>\$ 183,858,057</b>

## BANK OF MCKENNEY AND SUBSIDIARY

### Consolidated Statements of Income Summary Data

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Interest and dividend income	\$ 2,342,821	\$ 2,412,613	\$ 4,605,889	\$ 4,863,028
Interest expense	596,528	751,017	1,259,778	1,536,443
Net interest income	\$ 1,746,293	\$ 1,661,596	\$ 3,346,111	\$ 3,326,585
Provision for loan losses	155,000	163,000	260,000	323,000
Net interest income after provision for loan losses	\$ 1,591,293	\$ 1,498,596	\$ 3,086,111	\$ 3,003,585
Noninterest income	\$ 492,220	\$ 501,548	\$ 1,287,394	\$ 897,760
Noninterest expense	1,664,089	1,652,615	3,304,002	3,162,365
Net noninterest expense	1,171,869	1,151,067	2,016,608	2,264,605
Net income before taxes	\$ 419,424	\$ 347,529	\$ 1,069,503	\$ 738,980
Income taxes	114,006	86,319	315,930	199,436
<b>Net income</b>	<b>\$ 305,418</b>	<b>\$ 261,210</b>	<b>\$ 753,573</b>	<b>\$ 539,544</b>
Basic & diluted earnings per share	\$ 0.16	\$ 0.14	\$ 0.39	\$ 0.28
Weighted average shares outstanding	1,894,053	1,926,656	1,894,053	1,926,656

