

BANK OF MCKENNEY

PRESS RELEASE

BANK OF MCKENNEY POSTS STRONG CORE GROWTH - REPORTS THIRD QUARTER LOSS ON CHARGES TO PROVISION FOR LOAN LOSSES

October 14, 2009, McKenney, Virginia. Bank of McKenney (NASDAQ: BOMK) today announced a third quarter loss of \$482,000 due primarily to a \$1.2 million provision charge to bolster the reserve for loan losses. This compares to 2008 third quarter earnings of \$305,000. A basic and diluted loss per share of \$0.25 was reported for the three months ended September 30, 2009, compared to basic and diluted earnings per share of \$0.16 for the prior year's results for the same period. For the nine-month period ended September 30, 2009, the Bank reported earnings of \$57,000, a decrease of 93.79% when compared to \$918,000 through the first nine months of 2008. Again, the reduced earnings are largely the result of provision charges to increase reserves. For the first three quarters of 2009 and 2008, earnings per basic and diluted share of \$0.03 and \$0.48, respectively, were recorded. Annualized returns on average assets and average equity for the first nine months of 2009 were 0.04% and 0.42%, respectively, compared to 0.74% and 6.63%, respectively, for the same period in 2008. Margins have significantly expanded during the last few quarters as the cost of funds for deposits has plummeted 97 basis points while yields on earning assets have only dropped 32 basis points.

At the end of the third quarter, total assets were \$179.2 million, representing a \$13.7 million or 8.28% increase over the December 31, 2008 level of \$165.5 million. Total deposits amounted to \$155.8 million as of September 30, 2009, which represents a \$12.9 million or 9.03% increase from the \$142.9 million level as of December 31, 2008. On an annualized basis, deposits grew during the third quarter at a rate of 12.04%. During the same period, total loans expanded by 8.14% or \$9.1 million to the September 30, 2009 balance of \$120.9 million. Loans, on an annualized basis, grew at a rate of 10.85%. At September 30, 2009, the investment portfolio, including time deposits in other banks, was \$35.6 million, a 10.22% increase in comparison to the December 31, 2008 \$32.3 million level. Overnight federal funds sold ramped up on growth to a September 30, 2009 level of \$3.1 million, a 244.44% increase over the \$0.9 million level reported on December 31, 2008. Cumulatively, earning assets grew \$14.6 million for the first three quarters or 13.43% on an annualized basis and represent 89.06% of total assets. The Bank continues to focus on delinquencies and nonperforming loans within the portfolio; however, delinquency and nonperforming ratios have risen to 0.71% and 3.85%, respectively. These ratios, at December 31, 2008, stood at 0.61% and 1.58%, respectively. While current economic conditions have resulted in increases in these categories, 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 during the current cycle where possible. Nevertheless, certain credits had deteriorated during the third quarter to levels where the full collectability of said debts became questionable if not doubtful. Management felt it prudent to charge the credits off, or down by impaired amounts, and to increase loan reserves to a greater percentage of loans outstanding. After these additional allocations to reserves, the allowance for loan losses stands at 1.69% of total loans, an increase of 67 basis points over that of December 31, 2008.

The allowance for loan losses was \$2,043,000 as of September 30, 2009, or 1.69% of loans outstanding, compared to \$1,135,000 as of December 31, 2008 or 1.02% of outstanding loans. Charges to the Reserve account for loan losses amounted to \$575,000 as of September 30, 2009 or 0.50% of average outstanding loans for 2009. For the first nine months of 2008, charges to the reserve of \$154,000 were taken representing 0.14% of average loans outstanding for the period. Allocations to the reserve account of \$1,473,000 were provisioned for the nine months of 2009 compared to provision allocations of \$210,000 for the same period of 2008.

Net interest income increased 7.21% to \$1,696,000 in the third quarter of 2009 from \$1,582,000 in the comparable period in 2008. Noninterest income, exclusive of securities transactions, grew 20.76% or \$87,000 in the third quarter of 2009 to \$506,000 when compared to \$419,000 for the same period in 2008. Service charges posted slightly higher results with a \$2,000 or 0.92% increase when comparing the third quarter of 2009 to the third quarter of 2008. The mortgage originations department experienced tremendous success reporting income for the 2009 third quarter of \$191,000. This represents a \$78,000 or 69.03% increase in revenues during the period when compared to the third quarter of 2008. Other noninterest products and services, including those of the insurance and investment departments, increased to \$96,000 for the third quarter of 2009, \$7,000 above the \$89,000 level recorded in the third quarter of 2008. Noninterest expense increased \$241,000 or 15.87% to \$1,760,000 during the third quarter 2009 from \$1,519,000 for the same period in 2008. Salaries and benefits rose 10.21% or \$93,000 while occupancy and furniture & equipment expenses decreased \$8,000 or 3.56%. Other operating expenses for the third quarter of 2009 grew \$156,000 or 40.73% to a level of \$539,000 due primarily to substantially higher FDIC assessments coupled with legal and professional fees incurred in conjunction with a proposal to the shareholders to return to a private status at a special meeting to be held in December.

For the first nine months of 2009, net interest income increased to \$5,023,000 from \$4,479,000 in the comparable period in 2008. Average loans through the third quarter of 2009, when compared to the same period in 2008, grew to \$116.0 million from \$109.3 million, an increase of 6.13%. The average investment portfolio declined from a 2008 nine-month average balance of \$32.0 million to a \$30.5 million average through the third quarter of 2009, or a decrease of 4.69%. Average deposit growth through the nine months of 2009 has increased 11.74% or \$12.9 million to \$122.8 million over the same prior year period's average of \$109.9 million. The Bank's prime based loan portfolio yields decreased 69 basis points when comparing the first nine months of 2009 to that period in 2008 while the investment portfolio in the same periods gained 72 basis points. Cumulatively, yields on earning assets decreased 32 basis points from a 2008 nine-month average of 6.86% to an average of 6.54% for the current year's same period. The cost of funds has plummeted for the nine months ended September 30, 2009 as a result of the current and prolonged low rate environment to a level of 2.42% or 97 basis points below the 3.39% level reported for the same period in 2008. With the cost of funds declining at a faster pace than earning assets, the net interest margin has expanded by 44 basis points to 4.52%.

Noninterest income, exclusive of securities transactions, rose 9.47% or \$118,000 during the first nine months of 2009 to \$1,364,000 when compared to \$1,246,000 for the same period in 2008. Service charges posted higher results with a \$17,000 or 2.66% increase when comparing the first nine months of 2009 to that of 2008. In comparing these same two periods, the mortgage originations department climbed \$88,000 or 25.73%. Other noninterest income increased by \$13,000 from the level recorded through the third quarter on 2008. Noninterest expense increased \$444,000 or 9.91% to \$4,923,000 during the first three quarters of 2009 from \$4,479,000 for the same period in 2008. Separately within this category, salaries and benefits rose 5.13% or \$140,000 while occupancy and furniture & equipment expenses increased \$20,000 or 3.13%. Other operating expenses through September 30, 2009 grew \$284,000 or 25.49% to a level of \$1,398,000, again a result of FDIC increases and legal expenses associated with the pending proposal to return to a private company status.

Richard M. Liles, President and Chief Executive Officer, stated, "We continue to see strong core growth in our market area over which we are very pleased. The local economy has been spared the most devastating effects of the severe economic downturn of the last two years; however, certain credit relationships had become distressed during the third quarter. As a result, certain charges were taken against the reserve for debts that had impairments and doubtful collectability. Current indications are that the economy has reached, or is very near to, the bottom of the current recessionary period, and, as such, we felt it prudent to replenish and bolster the reserve for loan losses to a heightened level. While we certainly dislike reporting our first quarterly loss in over twenty years, we remain profitable for the year and move forward much more prepared to better manage and maintain a strong level of asset quality."

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

September 30, 2009 (unaudited) and December 31, 2008

ASSETS	September 30, 2009	December 31, 2008
Cash and due from banks	\$ 6,523,004	\$ 6,847,451
Federal funds sold	3,126,000	858,000
Interest-bearing time deposits in banks	2,000,000	1,540,252
Securities available for sale, at fair market value	28,877,800	28,998,239
Securities held to maturity, at book value	3,931,527	956,448
Restricted investments	794,725	789,525
Loans, net	118,814,971	110,648,780
Land, premises and equipment, net	7,999,546	8,185,167
Other real estate owned	495,206	--
Other assets	<u>6,622,023</u>	<u>6,637,962</u>
Total Assets	<u><u>\$ 179,184,802</u></u>	<u><u>\$ 165,461,824</u></u>
 LIABILITIES		
Deposits	\$ 155,757,646	\$ 142,892,823
Borrowed Funds	3,083,333	3,333,333
Other liabilities	<u>1,608,974</u>	<u>1,868,046</u>
Total Liabilities	<u><u>\$ 160,449,953</u></u>	<u><u>\$ 148,094,202</u></u>
 SHAREHOLDERS' EQUITY		
Total shareholders' equity	<u><u>\$ 18,734,849</u></u>	<u><u>\$ 17,367,622</u></u>
Total Liabilities and Shareholders' Equity	<u><u>\$ 179,184,802</u></u>	<u><u>\$ 165,461,824</u></u>

BANK OF MCKENNEY AND SUBSIDIARY

Consolidated Statements of Income Summary Data

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2009	2008	September 30, 2009	2008
Interest and dividend income	\$ 2,442,495	\$ 2,543,513	\$ 7,305,523	\$ 7,564,813
Interest expense	<u>746,249</u>	<u>961,292</u>	<u>2,282,692</u>	<u>3,085,895</u>
Net interest income	\$ 1,696,246	\$ 1,582,221	\$ 5,022,831	\$ 4,478,918
Provision for loan losses	<u>1,150,000</u>	<u>50,000</u>	<u>1,473,000</u>	<u>210,000</u>
Net interest income after provision for loan losses	<u>\$ 546,246</u>	<u>\$ 1,532,221</u>	<u>\$ 3,549,831</u>	<u>\$ 4,268,918</u>
Noninterest income	\$ 536,455	\$ 418,944	\$ 1,434,215	\$ 1,495,923
Noninterest expense	<u>1,760,248</u>	<u>1,518,560</u>	<u>4,922,613</u>	<u>4,479,304</u>
Net noninterest expense	<u>1,223,793</u>	<u>1,099,616</u>	<u>3,488,398</u>	<u>2,983,381</u>
Net income before taxes	\$ (677,547)	\$ 432,605	\$ 61,433	\$ 1,285,537
Income taxes	<u>(195,097)</u>	<u>128,032</u>	<u>4,339</u>	<u>367,052</u>
Net income	<u><u>\$ (482,450)</u></u>	<u><u>\$ 304,573</u></u>	<u><u>\$ 57,094</u></u>	<u><u>\$ 918,485</u></u>
Basic & diluted earnings per share	<u><u>\$ (0.25)</u></u>	<u><u>\$ 0.16</u></u>	<u><u>\$ 0.03</u></u>	<u><u>\$ 0.48</u></u>
Weighted average shares outstanding	<u><u>1,926,656</u></u>	<u><u>1,926,656</u></u>	<u><u>1,926,656</u></u>	<u><u>1,926,656</u></u>