

BANK OF MCKENNEY

PRESS RELEASE

AMIDST THE CURRENT ECONOMIC TURMOIL, BANK OF MCKENNEY POSTS CORE GROWTH AND SOLID EARNINGS IN THIRD QUARTER AND YEAR-TO-DATE RESULTS

October 10, 2008, McKenney, Virginia. Bank of McKenney (NASDAQ: BOMK) today announced third quarter earnings of \$305,000, only a slight decrease of 1.61% over 2007 third quarter earnings of \$310,000 and continuing to demonstrate a stabilizing earnings environment. Basic and diluted earnings per share of \$0.16 were reported for the three months ended September 30, 2008, equaling those of the prior year's results for the same period. For the nine-month period ended September 30, 2008, the Bank reported earnings of \$918,000, a decrease of 6.33% when compared to \$980,000 through the first nine months of 2007. For the first three quarters of 2008 and 2007, earnings per basic and diluted share of \$0.48 and \$0.51, respectively, were recorded. Annualized returns on average assets and average equity for the first nine months of 2008 were 0.74% and 6.63%, respectively, compared to 0.85% and 7.46%, respectively, for the same period in 2007. Margins remain pressured from drastic rate reductions by the Federal Reserve over the past twelve months. The cost of funds for deposits is dropping as this segment cycles through rate resets. Margins strengthened during the third quarter as anticipated, and further improvement is forecast for the last quarter of the year.

At the end of the third quarter, total assets were \$165.4 million, representing a 4.2 million or 2.61% increase over the December 31, 2007 level of \$161.2 million. Total deposits amounted to \$138.8 million as of September 30, 2008, which represents a \$11.3 million or 8.86% increase from the \$127.5 million level as of December 31, 2007. On an annualized basis, deposits grew during the first three quarters at a rate of 11.82%. During the same period, total loans expanded by 4.86% or \$5.2 million to the September 30, 2008 balance of \$112.2 million. At September 30, 2008, the investment portfolio, including time deposits in other banks, was \$32.6 million, an 8.31% increase in comparison to the December 31, 2007 \$30.1 million level. While corporate debt holdings have experienced negative fair value adjustments over recent quarters, the portfolio contains no holding of preferred government agency sponsored stocks or debt obligations of corporations in default. The corporate issues held are investment grade and fair value impairments are believed temporary at the present time. Overnight federal funds sold decreased 60.53% from \$7.6 million on December 31, 2007 to \$3.0 million on September 30, 2008 as the Bank elected to retire certain Federal Home Loan Bank borrowings and reduce the overall cost of funds. Cumulatively, earning assets grew \$3.1 million for the first three quarters of 2008, or 2.86% on an annualized basis, and represent 89.36% of total assets.

The allowance for loan losses was \$1,015,000 as of September 30, 2008, or 0.90% of loans outstanding, compared to \$925,000 as of December 31, 2007 or 0.86% of outstanding loans. Charges to the Reserve account for loan losses amounted to \$154,000 as of September 30, 2008 or 0.11% of average outstanding loans for 2008. For the first nine months of 2007, charges to the reserve of \$255,000 were taken representing 0.23% of average loans outstanding for the period. Allocations to the reserve account of \$210,000 were provisioned for the nine months of 2008 compared to provision allocations of \$50,000 for the same period of 2007.

The Bank works diligently to maintain quality in its loan portfolio and has historically maintained an average delinquency ratio well below 1%. Loans past due more than thirty days (excluding impaired and nonaccrual loans) measured \$967,000 or 0.86% of total loans at September 30, 2008 as compared to December 31, 2007 delinquencies of \$364,000, or 0.34% of total loans. 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 September 30, 2008, non-performing assets stood at \$2.2 million or 1.99% of quarter-end loans. This compared to non-performing assets of \$1.0 million, or 0.94%, of total loans outstanding for December 31, 2007.

Net interest income increased to \$1,582,000 in the third quarter of 2008 from \$1,476,000 in the comparable period in 2007. Noninterest income, exclusive of securities transactions, grew 7.44% or \$29,000 in the third quarter of 2008 to \$419,000 when compared to \$390,000 for the same period in 2007. Service charges posted higher results with a \$12,000 or 5.83% increase when comparing the third quarter of 2008 to the third quarter of 2007. The mortgage originations department experienced a \$1,000 or 1.01% decrease in the category for the third quarter of 2008 when compared to the same period of 2007. Other noninterest products and services, including those of the insurance and investment departments, increased by \$19,000 over the \$85,000 level recorded in the third quarter of 2007. Noninterest expense increased \$126,000 or 9.05% to \$1,519,000 during the third quarter 2008 from \$1,393,000 for the same period in 2007. Salaries and benefits rose 4.95% or \$43,000 while occupancy and furniture & equipment expenses increased \$32,000 or 16.58%. Other operating expenses for the third quarter of 2008 grew \$49,000 or 14.71% to a level of \$382,000.

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For the first nine months of 2008, net interest income increased to \$4,479,000 from \$4,352,000 in the comparable period in 2007. Average loans through the third quarter of 2008, when compared to the same period in 2007, grew to \$109.3 million from \$103.8 million, an increase of 5.30%. The average investment portfolio climbed from a 2007 nine-month average balance of \$27.6 million to a \$32.0 million average through the third quarter of 2008, or an increase of 15.94%. Average deposit growth has increased 12.37% or \$12.1 million to \$109.9 million over the same prior year period's average of \$97.8 million. The Bank's prime based loan portfolio yields decreased 23 basis points when comparing the first nine months of 2008 to that period in 2007 while the investment portfolio in the same periods gained 49 basis points. Cumulatively, yields on earning assets decreased 21 basis points from a 2007 nine-month average of 7.07% to an average of 6.86% for the current year's same period. Volume growth in the bank's interest bearing deposit products coupled with the negative short-term effects resulting from the recent and rapid monetary policy changes have pressured the net interest margin downward by 14 basis points to 4.08%. This growth in liquidity prompted a \$6.0 million or 44.44% reduction in Federal Home Loan Bank borrowings during the second quarter. These once extremely attractive rates had begun adversely affecting margins due to the aforementioned rate cuts, and this move should help boost margins going forward. Moreover, the shorter-lived deposit rate cycle continues re-pricing at substantially lower rates and is already adding margin expansion as evidenced by a 20 basis point improvement over the prior quarter's level of 3.94%.

Noninterest income, exclusive of securities transactions, rose 4.71% or \$56,000 during the first nine months of 2008 to \$1,246,000 when compared to \$1,190,000 for the same period in 2007. Service charges posted higher results with a \$25,000 or 4.07% increase when comparing the first nine months of 2008 to that of 2007. In comparing these same two periods, the mortgage originations department climbed \$54,000 or 18.75%. Other noninterest income decreased by \$24,000 from the \$288,000 level recorded through the third quarter on 2007; however, the prior year's level included gains of \$52,000 posted from the sale of a former branch office after its consolidation with newer offices nearby. Noninterest expense increased \$317,000 or 7.62% to \$4,479,000 during the first three quarters of 2008 from \$4,162,000 for the same period in 2007. Separately within this category, salaries and benefits rose 5.70% or \$147,000 while occupancy and furniture & equipment expenses increased \$74,000 or 13.12%. Other operating expenses through September 30, 2008 grew \$96,000 or 9.43% to a level of \$1,114,000.

Richard M. Liles, President and Chief Executive Officer, stated, "We are very pleased with the quarterly and year-to-date results outlined above. Margin pressures are moderating with time as the cost of funds drifts lower. The current economic turmoil is a trying time to say the least for the financial community; however, we have been fortunate thus far to escape exposure to the losses resulting from the government takeover of the primary mortgage agencies as well as corporate bankruptcies. Our asset quality and capital position remains strong, and we hold no sub-prime loans or associated derivative investments. We will continue to follow our time-tested philosophy during this period of financial industry crisis with the intent of emerging unscathed when the credit crunch ceases."

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, 2008 (unaudited) and December 31, 2007

	September 30, 2008	December 31, 2007
ASSETS		
Cash and due from banks	\$ 3,520,586	\$ 3,666,898
Federal funds sold	3,041,000	7,557,000
Interest-bearing time deposits in banks	1,526,667	-
Securities available for sale, at fair market value	30,144,532	28,807,961
Restricted investments	974,525	1,274,025
Loans, net	111,221,843	106,102,635
Land, premises and equipment, net	8,267,673	8,361,377
Other real estate owned	197,817	
Other assets	<u>6,470,755</u>	<u>5,421,557</u>
Total Assets	<u>\$ 165,365,398</u>	<u>\$ 161,191,453</u>
LIABILITIES		
Deposits	\$ 138,843,468	\$ 127,519,072
Borrowed Funds	7,416,666	13,666,667
Other liabilities	<u>1,479,013</u>	<u>1,937,013</u>
Total Liabilities	<u>\$ 147,739,147</u>	<u>\$ 143,122,752</u>
SHAREHOLDERS' EQUITY		
Total shareholders' equity	<u>\$ 17,626,251</u>	<u>\$ 18,068,701</u>
Total Liabilities and Shareholders' Equity	<u>\$ 165,365,398</u>	<u>\$ 161,191,453</u>

BANK OF MCKENNEY AND SUBSIDIARY
Consolidated Statements of Income Summary Data

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Interest and dividend income	\$ 2,543,513	\$ 2,511,080	\$ 7,564,813	\$ 7,321,240
Interest expense	<u>961,292</u>	<u>1,034,767</u>	<u>3,085,895</u>	<u>2,968,903</u>
Net interest income	\$ 1,582,221	\$ 1,476,313	\$ 4,478,918	\$ 4,352,337
Provision for loan losses	<u>50,000</u>	<u>30,000</u>	<u>210,000</u>	<u>50,000</u>
Net interest income after provision for loan losses	<u>\$ 1,532,221</u>	<u>\$ 1,446,313</u>	<u>\$ 4,268,918</u>	<u>\$ 4,302,337</u>
Noninterest income	\$ 418,944	\$ 389,459	\$ 1,495,923	\$ 1,257,862
Noninterest expense	<u>1,518,560</u>	<u>1,393,440</u>	<u>4,479,304</u>	<u>4,161,816</u>
Net noninterest expense	<u>1,099,616</u>	<u>1,003,981</u>	<u>2,983,381</u>	<u>2,903,954</u>
Net income before taxes	\$ 432,605	\$ 442,332	\$ 1,285,537	\$ 1,398,383
Income taxes	<u>128,032</u>	<u>132,542</u>	<u>367,062</u>	<u>417,956</u>
Net income	<u>\$ 304,573</u>	<u>\$ 309,790</u>	<u>\$ 918,475</u>	<u>\$ 980,427</u>
Basic & diluted earnings per share	<u>\$ 0.16</u>	<u>\$ 0.16</u>	<u>\$ 0.48</u>	<u>\$ 0.51</u>