

# CNB CORPORATION BOARD OF DIRECTORS

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William R. Benson	George F. Sasser
Harold G. Cushman, III	Lynn G. Stevens
W. Jennings Duncan	John C. Thompson
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Marsha S. Jordan	Banking Officer
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## TO OUR SHAREHOLDERS AND FRIENDS:

The U.S. national economy emerged from a state of recession during the third quarter of 2009. The Advance Estimate of the Bureau of Economic Analysis, a division of the U.S. Department of Commerce, indicates that real gross domestic product (GDP) increased at an annual rate of 3.5% for the third quarter of 2009. This increase is an improvement from the .7% decline in real GDP experienced in the second quarter of 2009. The increase reflects increases in consumer spending, increased exports, increased inventory levels, increased spending by the Federal Government, and increased investment in residential real estate. Locally, the troubled real estate sector continued to decline as real estate closings were down approximately 11.0% for the third quarter of 2009 in comparison to the same period for 2008. This is an improvement from the approximate 21.0% decline experienced for the second quarter of 2009 and a 44.0% decline in the first quarter of 2009. The banking industry as well has continued to experience significant difficulties with 95 bank failures occurring in the first nine months of 2009 compared to 14 for the same period in 2008. Despite these difficulties, Conway National maintained a solid financial position and comparatively favorable operating results for the nine-month period ended September 30, 2009.

Net income for the nine months ended September 30, 2009 totaled \$4,071,000, down 42.4% from the \$7,062,000 earned for the same period in 2008. Although earnings declined for the first nine months of 2009, Conway National performed very well in comparison to our national peer and to the combined operating results of all South Carolina banks. On a per share basis, earnings declined 42.0% from \$4.21 in 2008 to \$2.44 in 2009, adjusted for the effect of a two-for-one stock split in 2009, representing an annualized return on average assets of .60% and an annualized return on average equity of 6.41% as compared to 1.09% and 11.29%, respectively, for the same period in 2008. The annualized return on average assets for the Bank's national peer group was .32% for the first nine months of 2009, while the combined operating results for all South Carolina banks was a net loss of (.48)% for the same period.

Total assets grew to \$912.3 million at September 30, 2009, an increase of 6.9% over September 30, 2008, and capital stood at \$88.9 million at September 30, 2009 compared to \$86.0 million at September 30, 2008. Total deposits were \$686.3 million at September 30, 2009, an increase of .1% from \$686.1 million for the previous year. The leveling in deposits primarily represents a shift in customer product preference as large depositors have sought to secure deposits through increased utilization of repurchase agreements, which increased 81.1% from \$60.8 million at September 30, 2008 to \$110.2 million at September 30, 2009. Loans totaled \$586.9 million at September 30, 2009, a decrease of .2% from 2008; and investment securities were \$234.7 million, an increase of 18.1% from the prior year.

Net income for the nine months ended September 30, 2009 of \$4,071,000 compares favorably to peer and industry performances but is significantly lower than historical returns experienced by the Bank. Bank earnings are primarily the result of the Bank's net interest income, which increased slightly, .6% to \$23,902,000 for the nine months ended September 30, 2009 from \$23,754,000 for the same period in 2008. Other factors which affect earnings include the provision for possible loan losses, noninterest expense, and noninterest income. The provision for possible loan losses increased significantly, 483.4%, from \$1,354,000 for 2008 to \$6,547,000 for 2009. The allowance for loan losses, as a percentage of net loans, was increased to 1.55% at September 30, 2009 as compared to 1.17% at September 30, 2008. Noninterest expense increased 1.9% from \$17,378,000 to \$17,703,000 for the first nine months of 2009 as compared to the first nine months of 2008; and noninterest income increased 11.7% from \$5,620,000 to \$6,278,000 for the same periods, respectively. Noninterest expense increased overall due primarily to increased FDIC insurance premiums, which increased 579.7% from \$128,000 for the first nine months of 2008 as compared to \$870,000 for the first nine months of 2009. Noninterest income increased due to increased gains on sales of investment securities, partially offset by a decline in service charge income on deposit accounts and decreased other operating income.

With the national and local economies expected to remain subdued through the end of 2009, we anticipate that profitability will remain below historical levels while, at the same time, expect that the Bank will continue to grow, further strengthen, and generally prosper. Although the Bank's credit concerns have been relatively minor in terms of the magnitude of non-performing assets in the industry and local markets, we have appropriately addressed the majority of credit concerns during the first nine months of 2009. Loan losses are expected to level in the fourth quarter of 2009 and begin to trend down sometime during the first half of 2010. However, the Bank will continue to incur significant FDIC insurance premiums through 2012, as the FDIC is now expected to assess the Bank three years of insurance premiums in the form of a prepayment in December 2009.

Although much uncertainty remains about the economic environment and a turnaround in economic activity is difficult to predict, we are confident that your bank will continue to thrive throughout this difficult period. We expect the Bank to perform in the same strong manner, consistent with our history and based in our conservative policies and procedures. At the same time, the Bank is being positioned and prepared to meet future demands and opportunities. In the third quarter of 2009 the Board of Directors considered the market price of CNB Corporation's common stock in light of the significant deterioration in the market prices of the common stock of comparable banks and bank holding companies. The Board's deliberations resulted in the determination of the need for a two-for-one split of CNB Corporation common stock, which was declared early in the fourth quarter and is presently being distributed.

Conway National continues firm and strong, maintaining substantial financial position and profitability above the industry average. Conway National remains steadfast to its conservative and prudent banking practices; and, as always, we are very appreciative of your continued support. We look forward to the future and continuing to build your bank steeped in our traditions of exceptional customer service, trust, and dedication to all of the communities we serve.

W. Jennings Duncan, President  
CNB Corporation and The Conway National Bank

# CNB CORPORATION and THE CONWAY NATIONAL BANK



## FINANCIAL REPORT

SEPTEMBER 30, 2009

[www.conwaynationalbank.com](http://www.conwaynationalbank.com)

# CNB CORPORATION AND SUBSIDIARY

## Conway, South Carolina

### CONSOLIDATED BALANCE SHEET (Unaudited)

	Sept. 30, 2009	Sept. 30, 2008
<b>ASSETS:</b>		
Cash and due from banks .....	\$ 48,779,000	\$ 18,110,000
Investment securities:		
Obligations of United States government sponsored enterprises.....	196,062,000	169,181,000
Obligations of states and political subdivisions .....	34,876,000	26,766,000
Other securities .....	3,815,000	2,848,000
Total investment securities .....	<u>234,753,000</u>	<u>198,795,000</u>
Federal funds sold and securities purchased under agreement to resell .....	14,000,000	20,000,000
Loans .....	586,947,000	588,371,000
Less allowance for loan losses .....	(8,967,000)	(6,792,000)
Net loans .....	<u>577,980,000</u>	<u>581,579,000</u>
Bank premises and equipment.....	23,596,000	23,003,000
Other assets .....	13,227,000	12,003,000
Total assets .....	<u>\$ 912,335,000</u>	<u>\$ 853,490,000</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Liabilities:		
Deposits:		
Noninterest-bearing .....	\$ 107,026,000	\$ 111,473,000
Interest-bearing .....	579,308,000	574,543,000
Total deposits .....	<u>686,334,000</u>	<u>686,016,000</u>
Federal funds purchased and securities sold under agreement to repurchase.....	110,151,000	60,812,000
Other short-term borrowings .....	20,743,000	13,793,000
Other liabilities.....	6,192,000	6,899,000
Total Liabilities .....	<u>823,420,000</u>	<u>767,520,000</u>
Stockholders' Equity:		
*Common stock, par value \$5.00 per share:		
Authorized 3,000,000; issued 1,679,124 in 2009 and 1,664,740 in 2008 .....	8,396,000	8,323,000
Capital in excess of par value of stock.....	51,563,000	50,512,000
Retained earnings .....	27,721,000	26,110,000
Accumulated other comprehensive income .....	1,235,000	1,025,000
Total stockholders' equity .....	<u>\$ 88,915,000</u>	<u>\$ 85,970,000</u>
Total liabilities and stockholders' equity .....	<u>\$ 912,335,000</u>	<u>\$ 853,490,000</u>

\*Adjusted for the effect of a two-for-one stock split during 2009.

### CONSOLIDATED STATEMENT OF INCOME (Unaudited)

	Nine Months Ended	
	Sept. 30, 2009	Sept. 30, 2008
<b>INTEREST INCOME:</b>		
Interest and fees on loans .....	\$ 28,017,000	\$ 30,653,000
Interest on investment securities:		
Taxable investment securities .....	4,201,000	6,070,000
Nontaxable investment securities .....	897,000	815,000
Other securities .....	56,000	88,000
Interest on federal funds sold and securities purchased under agreement to resell .....	67,000	532,000
Total interest income .....	<u>33,238,000</u>	<u>38,158,000</u>
<b>INTEREST EXPENSE:</b>		
Interest on deposits .....	8,202,000	13,154,000
Interest on federal funds purchased and securities sold under agreement to repurchase .....	869,000	1,077,000
Interest on other short-term borrowings .....	265,000	173,000
Total interest expense .....	<u>9,336,000</u>	<u>14,404,000</u>
Net interest income .....	23,902,000	23,754,000
Provision for loan losses .....	6,547,000	1,354,000
Net interest income after provision for loan losses .....	<u>17,355,000</u>	<u>22,400,000</u>
Noninterest income:		
Service charges on deposit accounts.....	2,604,000	2,863,000
Gains on sale of securities .....	1,352,000	0
Other operating income.....	2,322,000	2,757,000
Total noninterest income .....	<u>6,278,000</u>	<u>5,620,000</u>
Noninterest expense:		
Salaries and employee benefits .....	10,565,000	11,152,000
Occupancy expense.....	2,426,000	2,354,000
FDIC Expenses .....	870,000	128,000
Other operating expense.....	3,842,000	3,744,000
Total noninterest expense .....	<u>17,703,000</u>	<u>17,378,000</u>
Income before income taxes .....	5,930,000	10,642,000
Income tax provision .....	1,859,000	3,580,000
Net Income.....	<u>\$ 4,071,000</u>	<u>\$ 7,062,000</u>

\*Per share:

Net income per weighted average shares outstanding .....	\$ 2.44	\$ 4.21
Cash dividend paid per share.....	\$ 0	\$ 0
Book value per actual number of shares outstanding .....	\$ 52.95	\$ 51.64
Weighted average number of shares outstanding.....	1,670,782	1,676,690
Actual number of shares outstanding.....	1,679,124	1,664,740

\*Adjusted for the effect of a two-for-one stock split during 2009.