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William R. Benson
Harold G. Cushman, III
W. Jennings Duncan

William O. Marsh
George F. Sasser
Lynn G. Stevens

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L. Ford Sanders, II. Executive Vice President
William R. Benson Senior Vice President
Marion E. Freeman, Jr. Senior Vice President
Phillip H. Thomas Senior Vice President
M. Terry Hyman Senior Vice President
Raymond Meeks Vice President
A. Mitchell Godwin Vice President
Jackie C. Stevens Vice President
Betty M. Graham Vice President
F. Timothy Howell Vice President
E. Wayne Suggs Vice President
Janice C. Simmons Vice President
Patricia C. Catoe Vice President
W. Michael Altman Vice President
Boyd W. Gainey, Jr. Vice President
William Carl Purvis Vice President
Bryan T. Huggins Vice President
Virginia B. Hucks Vice President
W. Page Ambrose Vice President
L. Ray Wells Vice President
L. Kay Benton Vice President
Richard A. Cox Vice President
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Jeremy L. Hyman Banking Officer
Adam C. Rabon Banking Officer

TO OUR SHAREHOLDERS AND FRIENDS:

The U.S. national economic recovery continued through the third quarter of 2011, although at a less than desirable pace. The Bureau of Economic Analysis, a division of the U.S. Department of Commerce, has indicated in its Second Estimate that real gross domestic product (GDP) increased at an annual rate of 2.0% for the third quarter of 2011, up from an annual rate of 1.3% and .4% for the second and first quarters of 2011, respectively. Locally, the real estate sector improved for the third quarter of 2011 with the total number of real estate transactions increasing approximately 14% as compared to the third quarter of 2010. This is an improvement from the approximate 5% and 4% declines experienced for the second and first quarters of 2011, respectively. The banking industry continues to experience significant difficulties, with 74 bank failures occurring nationally in the first nine months of 2011. However, the number of bank failures declined 42% in the first nine months of 2011 from 127 for the same period in 2010.

The Company's net income for the nine months ended September 30, 2011 totaled \$792,000, up 283.8% from the net loss of \$(431,000) incurred for the nine months ended September 30, 2010, for a return on average assets of .14%. Although the Company continued to experience low profitability for the first nine months of 2011, the Bank performed well in comparison to the same period for 2010 and in comparison to the combined operating results of all South Carolina banks, which posted a combined return on average assets of (.14)% for the same period. On a per share basis, earnings increased 284.6% from \$(.26) for the first nine months of 2010 to \$.48 for the same period in 2011, representing a return on average assets of .09% and a return on average equity of 1.49% as compared to (.06)% and (.65)%, respectively, for the same period in 2010.

Total assets increased to \$945.5 million at September 30, 2011, an increase of .34% from September 30, 2010, and capital stood at \$89.1 million at September 30, 2011 compared to \$86.4 million at September 30, 2010. Total deposits were \$755.4 million at September 30, 2011, an increase of 1.9% from \$741.1 million at September 30, 2010. The Bank experienced a decrease in repurchase agreements, which decreased 8.2% from \$103.6 million at September 30, 2010 to \$95.1 million at September 30, 2011. This decrease is attributable to the implementation of a new wholesale funding policy during 2011. Loans totaled \$494.0 million at September 30, 2011, a decrease of 9.9% from September 30, 2010; and investment securities were \$319.4 million, an increase of 7.4% from September 30, 2010.

Net income for the nine months ended September 30, 2011 of \$792,000 represents an improvement in comparison to the operating results for the same period in 2010. However, operating results remain significantly lower than historical returns experienced by the Bank. Bank earnings are primarily the result of the Bank's net interest income, which decreased slightly, .5%, to \$22,736,000 for the first nine months of 2011 from \$22,853,000 for the same period in 2010. Other factors which affect earnings include the provision for possible loan losses, noninterest expense, and noninterest income. The provision for possible loan losses decreased significantly, 37.5%, from \$11,948,000 for the first nine months of 2010 to \$7,473,000 for the first nine months of 2011. The allowance for loan losses, as a percentage of gross loans, was increased to 2.45% at September 30, 2011 as compared to 2.27% at September 30, 2010. Noninterest expense increased 9.2% from \$17,518,000 for the first nine months of 2010 to \$19,126,000 for the first nine months of 2011; and noninterest income decreased 16.3% from \$5,568,000 to \$4,662,000 for the same period, respectively. Noninterest expense increased primarily due to increased examination and professional fees, FDIC deposit insurance assessments, the net cost of holding other real estate owned, and other operating expenses. Noninterest income decreased primarily due to decreased gains on sales of investment securities and decreased service charges on deposit accounts.

With the national and local economies expected to remain subdued through the remainder of 2011, we anticipate that profitability will remain below historical levels, and, at the same time, we expect that the Bank will continue to grow, further strengthen, and generally prosper. Although the Bank's credit concerns have remained moderate in comparison to the magnitude of non-performing assets in the industry and local markets, we will continue to address credit concerns during the remainder of 2011 and 2012. Loan losses leveled in the third quarter of 2010 and began to decline in the fourth quarter of 2010. Loan losses are expected to remain above historical levels during 2011 and 2012, but at levels lower than those experienced during 2010.

The national and local economies continue to slowly strengthen. Still, much uncertainty remains about the sustainability and speed of the current recovery. However, we are confident that your bank will continue steadfast and strong through this difficult period. The Bank has been well positioned and prepared to meet future demands and opportunities.

Like most national banks headquartered in South Carolina, in June of this year, the Bank entered into a formal agreement with the Office of the Comptroller of the Currency. The actions outlined in the agreement are designed to strengthen the Bank's ability to deal with economic conditions of the sort that have recently been experienced. The Board of Directors and management continue to diligently work to develop and implement the required plans, policies, and associated procedures necessary to comply with the provisions of this agreement. To date, much has been accomplished; and it is the intention of the Board and management to continue to work with regulatory authorities to bring about full compliance with the provisions of this agreement.

Conway National continues to maintain a substantial financial position and profitability which compare favorably to local markets. Conway National remains dedicated 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, 2011

www.conwaynationalbank.com

CNB CORPORATION AND SUBSIDIARY

Conway, South Carolina

CONSOLIDATED BALANCE SHEETS (Unaudited)

	Sept. 30, 2011	Sept. 30, 2010
ASSETS:		
Cash and cash equivalents:		
Cash and due from banks	\$ 26,742,000	\$ 23,593,000
Due from Federal Reserve Bank, balance in excess of requirement	60,989,000	28,051,000
Federal funds sold	<u>13,000,000</u>	<u>14,000,000</u>
Total cash and cash equivalents	<u>100,731,000</u>	<u>65,644,000</u>
Investment securities available for sale	<u>306,324,000</u>	<u>259,811,000</u>
(amortized cost of \$302,883,000 in 2011 and \$257,773,000 in 2010)		
Investment securities held to maturity (fair value \$11,700,000 in 2011 and \$35,450,000 in 2010)	<u>11,019,000</u>	<u>34,915,000</u>
Other investments, at cost	<u>2,092,000</u>	<u>2,832,000</u>
Loans	<u>494,014,000</u>	<u>548,041,000</u>
Less allowance for loan losses.....	<u>(12,126,000)</u>	<u>(12,431,000)</u>
Net Loans	<u>481,888,000</u>	<u>535,610,000</u>
Premises and Equipment	<u>21,445,000</u>	<u>22,443,000</u>
Other real estate owned	<u>8,525,000</u>	<u>5,297,000</u>
Accrued interest receivable	<u>4,178,000</u>	<u>4,812,000</u>
Other assets	<u>9,341,000</u>	<u>10,978,000</u>
Total assets	<u>\$ 945,543,000</u>	<u>\$ 942,342,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Liabilities:		
Deposits:		
Noninterest-bearing.....	\$ 131,331,000	\$ 105,555,000
Interest-bearing	624,089,000	635,565,000
Total deposits	<u>755,420,000</u>	<u>741,120,000</u>
Securities sold under agreement to repurchase.....	<u>95,151,000</u>	<u>103,623,000</u>
United States Treasury demand notes.....	<u>1,561,000</u>	<u>741,000</u>
Federal Home Loan Bank advances	<u>-</u>	<u>5,000,000</u>
Other liabilities	<u>4,267,000</u>	<u>5,501,000</u>
Total Liabilities	<u>856,399,000</u>	<u>855,985,000</u>
Stockholders' Equity:		
Common stock, \$5 par value; authorized 3,000,000; outstanding 1,661,913 in 2011 and 1,666,449 in 2010	8,309,000	8,332,000
Capital in excess of par value of stock	50,343,000	50,613,000
Retained earnings	28,452,000	26,190,000
Accumulated other comprehensive income	<u>2,040,000</u>	<u>1,222,000</u>
Total stockholders' equity	<u>89,144,000</u>	<u>86,357,000</u>
Total liabilities and stockholders' equity	<u>\$ 945,543,000</u>	<u>\$ 942,342,000</u>

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Nine Months Ended	
	Sept. 30, 2011	Sept. 30, 2010
INTEREST INCOME:		
Interest and fees on loans.....	\$ 23,615,000	\$ 26,080,000
Interest on investment securities:		
Taxable investment securities	2,506,000	3,320,000
Nontaxable investment securities	848,000	925,000
Other securities	18,000	11,000
Interest on federal funds sold and Federal Reserve Bank balances in excess of required balance	111,000	117,000
Total interest income	<u>27,098,000</u>	<u>30,453,000</u>
INTEREST EXPENSE:		
Interest on deposits.....	4,138,000	6,805,000
Interest on securities sold under agreement to repurchase.....	224,000	654,000
Interest on other short-term borrowings.....	-	141,000
Total interest expense	<u>4,362,000</u>	<u>7,600,000</u>
Net interest income	<u>22,736,000</u>	<u>22,853,000</u>
Provision for loan losses	<u>7,473,000</u>	<u>11,948,000</u>
Net interest income after provision for loan losses	<u>15,263,000</u>	<u>10,905,000</u>
Noninterest income:		
Service charges on deposit accounts.....	2,442,000	2,698,000
Gains on sales of securities	-	1,066,000
Other operating income	<u>2,220,000</u>	<u>1,804,000</u>
Total noninterest income	<u>4,662,000</u>	<u>5,568,000</u>
Noninterest expense:		
Salaries and employee benefits	10,189,000	10,149,000
Occupancy expense.....	2,475,000	2,475,000
Examination and professional fees	784,000	670,000
FDIC deposit insurance assessments.....	1,067,000	876,000
Net cost of operation of other real estate owned.....	1,466,000	416,000
Other operating expenses	<u>3,145,000</u>	<u>2,932,000</u>
Total noninterest expense	<u>19,126,000</u>	<u>17,518,000</u>
Income/(loss) before income taxes	799,000	(1,045,000)
Income tax provision/(benefit)	<u>7,000</u>	<u>(614,000)</u>
Net Income/(loss)	<u>\$ 792,000</u>	<u>\$ (431,000)</u>
Per share:		
Net income/(loss) per weighted average shares outstanding	<u>\$.48</u>	<u>\$ (.26)</u>
Book value per actual number of shares outstanding	<u>\$ 53.64</u>	<u>\$ 51.82</u>
Weighted average number of shares outstanding.....	<u>1,664,526</u>	<u>1,673,716</u>
Actual number of shares outstanding.....	<u>1,661,913</u>	<u>1,666,449</u>